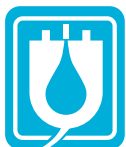


TOWN OF COBOURG HOLDINGS INC.

ANNUAL REPORT 2016



**Lakefront
Utility
Services
Inc.**



**Lakefront
Utilities
Inc.**

TABLE OF CONTENTS

2016 in Review	4
A Letter to Our Customers	5
Lakefront Utilities Inc.'s 2016 in Numbers	6
Company Profile	7
Town of Cobourg Holdings Inc.	8
Lakefront Utility Services Inc.	9
Lakefront Utilities Inc.	9
Health & Safety	11
Human Resources	15
Electrical Distribution & Design	16
Conservation & Demand Management	19
Customer Service	20
Finance & Regulatory	22
Staying Current	24
Community Pride	26
Notes	27

Corporate Mission

We are a community based corporation dedicated to the responsible management and delivery of safe, reliable integrated services.

Corporate Vision

To be recognized as a company committed to innovation, prosperity, and service excellence, valued by our customers, and reinvesting in our community's future.

Values

We are a team that is recognized for being; honest, motivated, respectful, and reliable.



2016 YEAR IN REVIEW

JANUARY

LUI launches into Conservation First Framework
Ontario Electricity Support Program in Effect

FEBRUARY

LUSI sponsors Cobourg Business Achievement Awards
LUI conducts Public Awareness of Electrical Safety Survey

MARCH

LUSI donates \$4,300 to GRCA from eBilling Campaign
LUI hosts Customer Focus Groups

APRIL

Province-wide Save on Energy Spring Coupon Event
LUI submits Cost of Service Application to OEB
LUSI sponsors Cobourg Civic Awards

MAY

LUSI awards five \$1,000 Scholarships to Local Youth
LUI participates in ESA's Powerline Safety Week

JUNE

Holdco hosts Charity Golf Tournament
Release of Holdco's first Annual Report
LUI activates Solar Installation at Ewart Street Garage

JULY

LUI starts capital work on Division Street, Cobourg

AUGUST

LUI attends OEB Settlement Conference

SEPTEMBER

LUI launches Small Business Lighting Program
LUI's 2015 Scorecard Released

OCTOBER

Holdco hosts Day of Sharing Event
Province-wide Save on Energy Fall Coupon Event

NOVEMBER

Capital work begins on Durham Street, Colborne Substation

DECEMBER

Holdco hosts Holiday Customer Appreciation Event
LUI receives Rate Approval from OEB
LUI launches Home Assistance Program

LUI = LAKEFRONT UTILITIES INC.

LUSI = LAKEFRONT UTILITY SERVICES INC.


WEBSITE HITS

 26,467

TWEETS

 150+

FACEBOOK POSTS

 260+



A LETTER TO OUR CUSTOMERS

We are pleased to announce that 2016 was another great year for the financial and operative results at Holdco. This success is indicative of the emphasis on finding efficiencies that Holdco applies to all aspects of its business operations. We prudently and incrementally built and replaced infrastructure to maximize initial and long-term ratepayer value, and are pleased that our dedication to providing excellent service has been reflected in the reliability of our systems.

At Holdco, we recognize the importance of pursuing opportunities to reduce greenhouse gas emissions and using the power of renewable generation. Holdco plans to expand upon our investment in new renewable generation, and explore more flexible options such as storage technologies by applying balanced planning principles in a measured and sustainable way. Smart meters and consumer demand response programs are allowing our customers to better understand, control, and reduce their electricity consumption. Smart grid technologies will play a large part in Lakefront Utilities Inc.'s future as we build and operate an advanced, more efficient and modern grid. Holdco is pursuing a micro grid project that will allow the electricity grid and new customer devices to work together for the maximum benefit of the customer, the utility, and the environment.

In recent years, Holdco has faced aging infrastructure and increasing costs. Our quest to better service our customers by constantly considering, evaluating, and implementing new approaches and technologies has resulted in Lakefront being one of the most efficient utilities in Ontario.

Internal changes such as paperless billing and a commitment to running a lean utility have helped to make electricity more affordable for our customers, along with external opportunities like offering programs and assistance to low-income households as well as conservation programs to all classes of customers. These commitments have resulted in Lakefront's delivery charges remaining stable at the 4th lowest in the province.

We understand that the high cost of energy in Ontario is affecting our customers and their families. We continue to work hard to deliver safe and reliable electricity to homes and local businesses at an affordable price. This balancing act was at the forefront this year as we developed our Cost of Service application for the Ontario Energy Board and sought feedback from our customers on the reliability of the local distribution system and the spending decisions that Lakefront needs to make over the next five years.

These decisions keep the costs of providing our services as low as possible and are reflected in the distribution charges on our customers' bills. Lakefront Utilities collects the fees for the entire bill but is allocated only the distribution charge to provide its services. 14% of every dollar you pay on your electricity bill is used to deliver electricity to customers spread across 142 square km. The bulk of the fees cover the cost of electricity, transmission, regulatory charges, and HST.

As revenue growth in the electricity distribution business is not expected to keep pace with cost increases arising from customer growth, contractual, and inflationary pressures, as well as changing regulatory requirements, productivity improvement is a priority for Lakefront Utilities Inc. in order to partially offset rising costs.



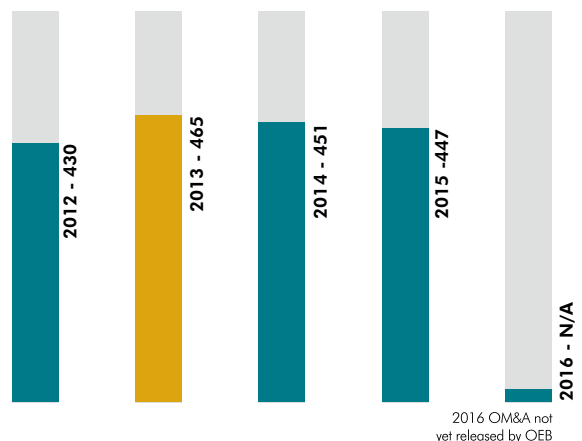
Derek C. Paul
President, Lakefront Group of Companies

Gil Brocanier
Mayor of the Town of Cobourg
Chair of Town of Cobourg Holdings Inc.

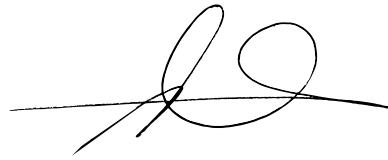
In 2016, we renewed our commitment to listening and engaging with our customers. From focus groups, to online workbooks, participation in community events, and a better online presence, Holdco made engagement a priority. We believe that the community must be allowed to take a more central role when implementing provincial policy objectives, however the opportunity for the community to participate must be balanced with the responsibility to take ownership of local decisions. As a result, we're being more transparent in response to our customers becoming more invested and proactive in their local utility.

We're also renewing our commitment to customer service: returning calls within one business day, no missed appointments, and completing new connections within 5 business days. Relationships are forged with our customers by our employees, suppliers, contractors, landowners, local communities, and regulators and these relationships are essential to delivering our customer centric approach. Holdco is fortunate to have cultivated strong relationships that have been integral to our successes.

OPERATIONS MAINTENANCE & ADMINISTRATION COSTS PER YEAR & CUSTOMER



We are fortunate to have a community of dedicated employees that have grown in the level of expertise they bring to their work every day. Holdco is made up of a small team of 31 people who are dedicated to making sure our customers have safe, reliable, and affordable power at the flick of a switch. Sometimes that means working around the clock in hazardous conditions and harsh weather, but that demonstrates our commitment to making things better for our customers - because our customers are also our neighbours, friends, and family. We are deeply grateful for our employees' passion, integrity, and commitment to our vision. We also extend a sincere note of appreciation to our Board of Directors who continue to provide a prudently balanced view of our growth. Finally, we offer our thanks to our shareholders for the trust they have placed in our company. We are eager to ensure we fulfill our goals to the benefit of our stakeholders.



Dereck C. Paul
President, Lakefront Group of Companies



Gil Brocanier
Mayor of the Town of Cobourg
Chair of Town of Cobourg Holdings Inc.

LAKEFRONT UTILITIES INC. 2016 BY THE NUMBERS

NET INCOME

\$502,141

ADJUSTED RETURN ON EQUITY

7.72%

EMPLOYEES

17

HOURS WITHOUT A LOST-TIME INJURY

222,706

BILLING ACCURACY RATE

99.89%

PEAK DEMAND

48,782 MW

DIVIDENDS & INTEREST

\$507,500

SHAREHOLDERS EQUITY

\$4,248,641

CUSTOMERS

10,319

CUSTOMER SATISFACTION SCORE

76.1%

CONTRIBUTIONS TO WORTHY CAUSES

\$32,910

LOWEST OM&A IN PROVINCE

4TH

INSTALLED CAPACITY OF EMBEDDED
GENERATION OPERATED BY LUI

10 KW

INSTALLED CAPACITY OF EMBEDDED GENERATORS
CONNECTED TO LUI DISTRIBUTION

3,185 KW

OUR COMPANY PROFILE

Town of Cobourg Holdings Inc. ("Holdco") was incorporated under the Business Corporation Act (Ontario) on April 12, 2000 and through its affiliates, is engaged in the distribution of electricity and associated business activities.

The company serves over 10,300 residential and commercial customers across the Town of Cobourg and the Village of Colborne.

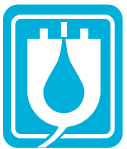
The Corporation of the Town of Cobourg is the majority shareholder of Holdco with the Township of Cramahe (Colborne) owning one share.



Lakefront Utilities Inc.

LAKEFRONT UTILITIES INC. (LUI)

A regulated utility through which it distributes electricity and promotes energy conservation.



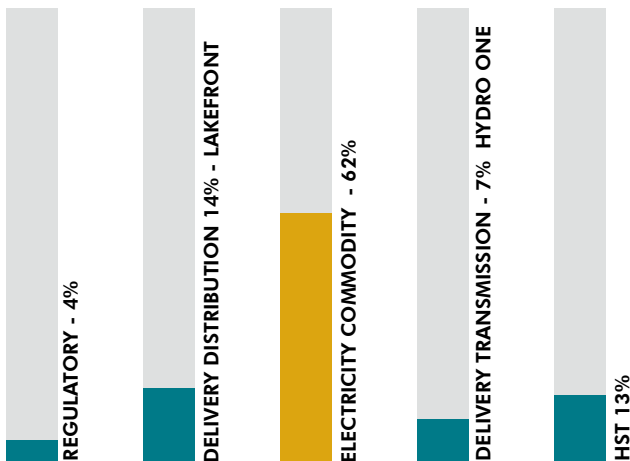
Lakefront Utility Services Inc.

LAKEFRONT UTILITY SERVICES INC. (LUSI)

A non-regulated services company which provides services to Municipalities related to the design, operation and maintenance of water systems and high speed dedicated data systems.

YOUR ELECTRICITY BILL BREAKDOWN

The chart below shows the 14 percent that LUI receives from a typical residential electricity bill as of January 1, 2017.



TOWN OF COBOURG HOLDINGS INC.

BOARD OF DIRECTORS



The Board of Directors of Holdco provide leadership by overseeing the companies' operations, approving business practices, policies and strategic goals, and helping to guide management decisions. Holdco and its affiliates, its Board of Directors and its management are committed to the highest standards of corporate governance and business ethics.

Although not publicly traded, the Board and management team target compliance with the corporate governance guidelines of the Canadian Securities Act and the requirements of the Ontario Energy Board's Affiliate Relationship Code. The Board of Directors is made up of members fully independent of management.

TOWN OF COBOURG HOLDINGS INC. BOARD OF DIRECTORS & EXECUTIVES

Photo from Left to Right:

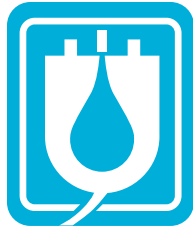
FRONT ROW

Vice Chair, Peter Chilibeck, Chairman, Mayor Gil Brocanier, President, Dereck Paul, Corporate Secretary, Susan Spicer, Cramahe Mayor, Marc Coombs

BACK ROW

John Farrell, Barry Gutteridge, Tony Farren, Adam Giddings, Manager of Regulatory Compliance & Finance

OUR COMPANIES



Lakefront Utility Services Inc.

Lakefront Utility Services Inc. (LUSI) provides the human resources, administrative, financial, and operational services to Holdco and its subsidiaries in compliance with applicable regulations.

LUSI provides customer-focused and cost-effective multi-utility services so that customers benefit from service advantages and economies of scope, scale, and cost savings.

LUSI also operates the Water Systems for the Town of Cobourg, Village of Colborne and the Hamlet of Grafton, as well as offering Fibre-Optic high-speed dedicated data systems.



LAKEFRONT UTILITY SERVICES INC. BOARD OF DIRECTORS

Photo from Left to Right:

Director, Bill Pyatt, Chairman, Peter Chilibeck, Director, Marc Coombs



Lakefront Utilities Inc.

Lakefront Utilities Inc. (LUI) holds the Ontario Energy Board license to own and operate an electricity distribution system which delivers electricity to customers in the Town of Cobourg and Village of Colborne.

While LUI owns the wires, poles, transformers and meters that bring electricity from the provincial electricity transmission grid to the doors of over 10,000 homes and businesses, the electrical system is operated by the employees of Lakefront Utility Services Inc.



LAKEFRONT UTILITIES INC. BOARD OF DIRECTORS

Photo from Left to Right:

Director, Gil Brocanier, Chairman, Barry Gutteridge, Director, Stanley Stewart

LAKEFRONT UTILITIES INC. IN NUMBERS

TOTAL REVENUE

\$4,324,610

OTHER INCOME

\$369,895

PEAK LOAD

39,356 KWH

ENERGY DISTRIBUTION

240,875,049 KWH

SERVICE AREA POPULATION

24,300

TOTAL NUMBER OF ELECTRIC METERS

10,343

TOTAL KILOMETERS OF OVERHEAD LINE

142 KM

TOTAL KILOMETERS OF UNDERGROUND LINE

50 KM

SERVICE TERRITORY (URBAN)

28 SQ. KM.

NUMBER OF DISTRIBUTION STATION TRANSFORMERS

7

SAIDI¹

0.67

SAIFI²

0.37

¹Number of minutes average customer's power is off yearly

²Number of power interruptions average customer's experiences yearly



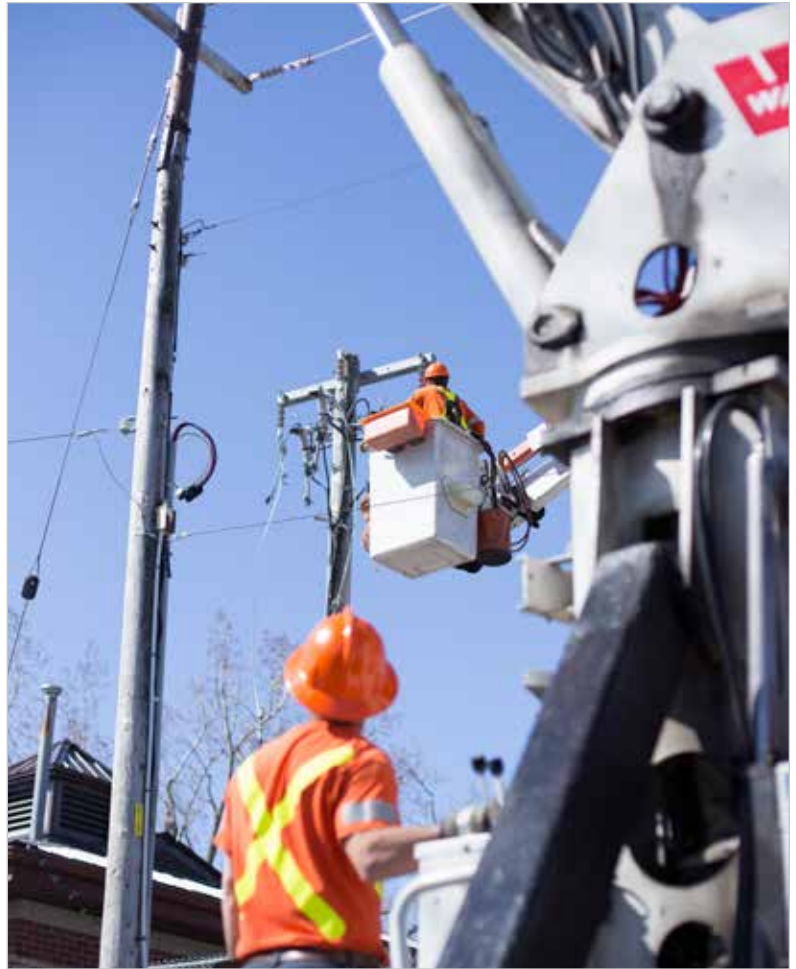
HEALTH & SAFETY

Workplace health and safety is a core value for Holdco. The company believes that all injuries and work related illness can and must be prevented and that the best way to protect the safety of employees is through vigilance, training and awareness.

Activities to promote employee health and wellness, and initiatives that encourage teamwork and innovative thinking, contributed to creating a positive and safe workplace in 2016. Holdco continues to develop and execute programs that support a preventative approach to safety where employees are empowered, accountabilities are clear, and outcomes are tied to measurable performance objectives and goals.

PUBLIC SAFETY AWARENESS INDEX

79%



NO LOST TIME INCIDENT (LTI HOURS)

222,706

SAFETY CAMPAIGN - HOLIDAY SAFETY



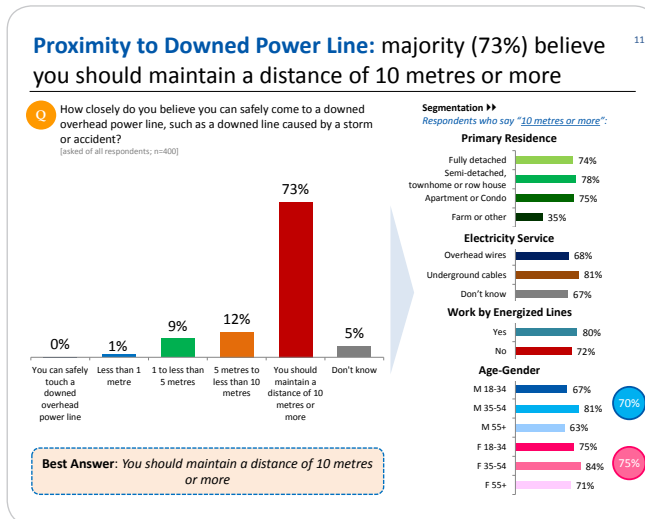
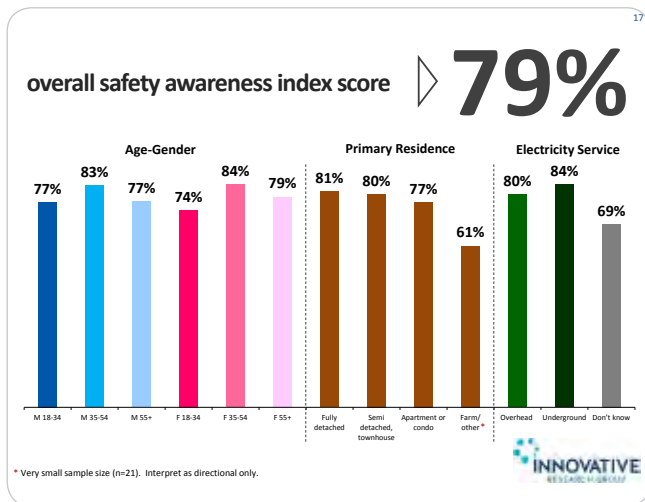
Lakefront Utilities continued promoting electrical safety over the holiday season by collaborating with the Electrical Safety Authority to deliver key safety messages through radio, social media, and print.

ESA SAFETY SURVEY RESULTS

Innovative Research Group was commissioned by Lakefront Utilities to conduct its 2016 Public Awareness of Electrical Safety Survey, as mandated by the OEB. This survey was administered by telephone among 400 randomly-selected Ontario residents, 18 years or older, currently residing in Cobourg or Colborne, in February 2016.

Lakefront Utilities received an overall score of 79% on the Public Safety Awareness Index.

- Highest at risk groups: Women ages 18-34 (74% score) and those who aren't aware of their home's primary source of electricity (69% score) have the lowest overall Safety Awareness Index score.
- Lowest at risk groups: Women and men ages 35-54 (83-84% score) and those whose primary electricity source is from underground cables (84% score) have the highest Safety Awareness Index score.



SAFETY CAMPAIGN #RespectThePower

Every year, people are killed or critically injured by an unsuspected yet devastating force. Lakefront Utilities partnered with the Electrical Safety Authority to deliver the Respect the Power Campaign to their service territory during Powerline Safety Week.



The local portion of the campaign featured radio commercials and an extensive social media campaign to demonstrate Lakefront's commitment to helping Ontarians #RespectThePower and stay safe around powerlines when working, doing household chores or playing outside.



JOINT HEALTH & SAFETY COMMITTEE



JOINT HEALTH & SAFETY COMMITTEE

Photo from Left to Right:
John Nowee, Sue O'Neil, Cole Lemette-Johnston
MISSING FROM PHOTO: Kevin Bray, Darren Hanbidge,

TOTAL ISSUES RESOLVED

100%

There were 14 issues identified and all 14 were resolved.

TOTAL NUMBER DOCUMENTED WORKSITE INSPECTIONS

97

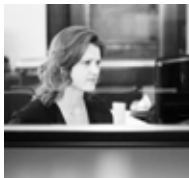
TOTAL NUMBER SAFETY MEETING SESSIONS

33

TOTAL NUMBER WORKPLACE INSPECTIONS CONDUCTED BY THE JHSC

60

WORKING SAFE BENEFITS US ALL



EMPLOYEE TRAINING



“The company celebrated 222,706 hours worked between May 17, 2013 to January 13, 2017 without a lost time injury. This accomplishment is a significant achievement for a small utility and demonstrates the commitment to health and safety of all employees.”

John Nowee

TRAINING DEPARTMENT SESSIONS

Safety Orientation	11	Employees, Students, Part-time, etc
Contractor Safety Orientation	3	Outside Electrical Contractors
Utility Work Protection Code	1	Electric
Electrical Utility Safety Rules	1	Electric
Pole-Top / Bucket Rescue	1	Electric
Traffic Control Person	1	Summer Students
First Aid / CPR Recertification	1	Outside Staff Office
First Aid / CPR Renewal	1	Outside Staff Office

SAFETY MILESTONES

NO LOST TIME INCIDENT (LTI) HOURS

May 17, 2013 to	Jan 13, 2017	=222,706 Hours
Nov 22, 2011 to	May 16, 2013	=108,000 Hours
Feb 15, 2005 to	Nov 21, 2011	= 405,215 Hours

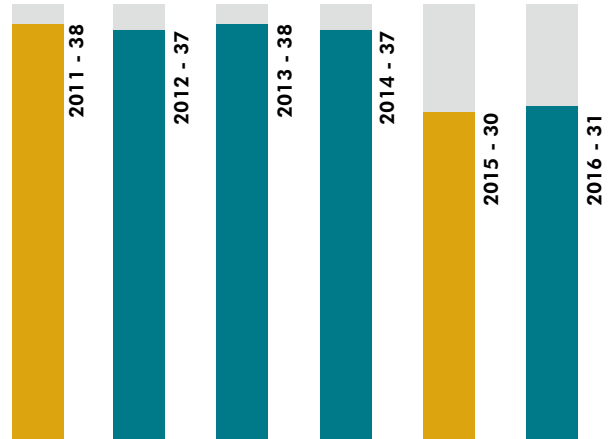
INCIDENT TYPE	REPORTED
Lost Time	0
No Lost Time Injury	2
Property Damage	1
Near Miss	1



HUMAN RESOURCES



FULL TIME EQUIVALENCY - 2011 TO 2017



A dedicated and engaged workforce fuels the success of Holdco, enhances customer relations, and ensures a level of quality customers have come to expect.

Engaged employees bring their best effort to work every day, demonstrating positive impact on business outcomes such as: improving profitability, productivity, customer satisfaction and shareholder value and decreasing safety incidents and absenteeism. Employee engagement is a key management priority, and its strategic importance is reflected in how well integrated engagement oversight is at all levels of the organization.

Holdco has 29 regular full-time employees, of which 18 are unionized. There are also 2 contracted employees. Holdco's Full Time Equivalency for the 2016 year is 1 employee more than 2015. Holdco is committed to having an appropriately sized workforce to maintain superior performance levels while also remaining mindful of efficiency objectives.

In 2016, the total sick days decreased by 3.86 days or 5% from 2015. Furthermore, the sick days decreased by 0.21 days per employee from 2015.

2016 SICK DAYS DECREASED 5%

3.86 DAYS

PER EMPLOYEE SICK DAYS DECREASED BY

0.21 DAYS

A NEW GENERATION OF WORKERS

Attracting new talent to be part of an engaged employee community is a key component of Holdco's talent management strategy. Co-op and Internship placements are designed to utilize the skills, talents, and versatility of students, while exposing them to potential career opportunities.



In 2016, student placements included:

- 4th year Electric Engineering Student - Technical Services Department
- 2 Post-Secondary Summer Placements - Customer Service Department
- 2 Post-Secondary Summer Placements - Water Department
- 2 Post-Secondary Summer Placements - Electric Department
- High School Co-Op Placement - Customer Service Department

ELECTRICAL DISTRIBUTION & DESIGN

INCREASING CAPACITY AND RELIABILITY

Lakefront Utilities works hard to provide reliable and cost-effective electricity to its 10,000 electricity customers. Its recent system upgrades have been focused on that objective, with their innovation and flexibility resulting in a significant reduction in the cost of the upgrades and a higher capacity in the system.

“Maintenance of our electrical distribution system is critical for ensuring a reliable, robust electricity supply for our customers. It doesn’t happen overnight and we have made a concerted effort over several years to reduce the number of outages and ensure a reliable service.”

Dereck Paul

NEW TRANSFORMER AT BROOK ROAD

Cobourg Substation

The replacement of the new Brook Road transformer resulted in a more reliable, consistent supply of electricity throughout the system. The use of second stage cooling fans has also substantially increased the capacity of the Brook Road transformer resulting in better security of supply in the event of an outage at another station.

UPGRADES AT VICTORIA STREET

Cobourg Substation

Lakefront crews installed all new breakers at the Victoria Street station and replaced the bus bars which required that the station be re-engineered and re-designed. Two stage fans were also installed so that the Victoria station will have the same increased capacity as the Brook Road station.

INVESTING IN COLBORNE’S ELECTRICAL INFRASTRUCTURE

As part of its Cost of Service application Lakefront Utilities Inc. has developed a distribution system plan which includes a large investments in Colborne’s electrical infrastructure over the next 5 years. The utility began to rebuild Colborne’s two substations in 2016. These types of projects are aimed at maintaining the safety and reliability of the distribution system while mitigating the cost impact to customers.

The new station transformers at Durham Street and Victoria Street in Colborne have larger capacity that will accommodate future load growth as the completion of this project will provide more flexibility for load shifting and switching operations during outages.

The \$4 million investment into substation rebuilds and the replacement of distribution assets in Colborne will reduce operations and maintenance costs simply based on the installation of new assets constructed to current standards, which will also help to reduce the frequency and duration of outages, and improve system reliability.



SCOTT WRIGHT & MARC MOREAU

Electric Department Managers

“The increased capacity at the Brook and Victoria substations allowed us to postpone the building of a new substation and permits room for an additional feeder, resulting in extra capacity available now and in the future.”

Scott Wright

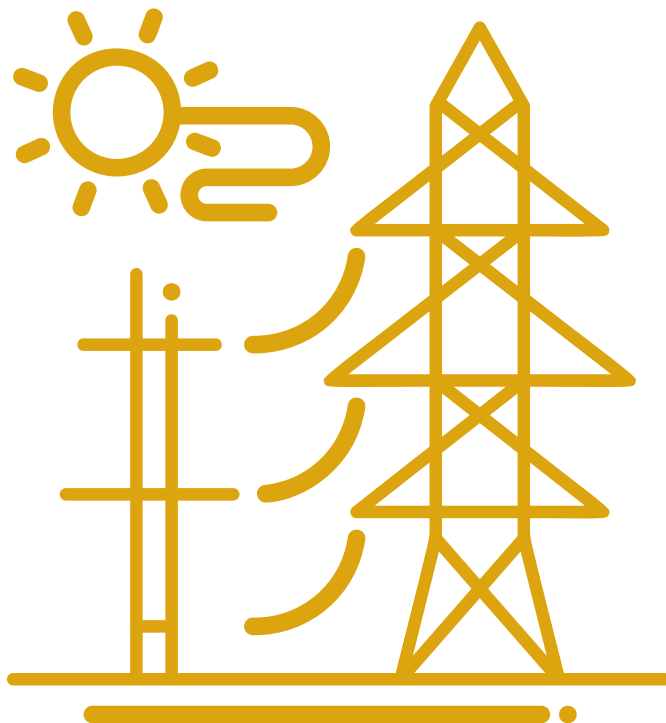
DISTRIBUTION SYSTEM PLAN

On April 29, 2016, the Distribution System Plan (DSP) was filed by Lakefront Utilities in accordance with Chapter 5 of the Ontario Energy Board's Filing Requirements.

KEY AREAS OF FOCUS IN LUI'S 5 YEAR DSP INCLUDE;

1. Performance Measurement for Continuous Improvement;
2. Asset Management and Capital Investment Process;
3. Overview of Assets Managed;
4. Asset Lifecycle Optimization Policies and Practices;
5. Capital Expenditure Plan and Process Overview

LUI's DSP helps the utility transition from a traditional and intuitive style of management dependent on the knowledge and experience of its staff, to a more planned and strategic program that is documented with fiscal accountability. The DSP recognizes LUI's responsibilities and commitments to provide customers with reliable service by ensuring that its asset management activities focus on customer preferences, operational effectiveness, public policy responsiveness, and financial performance.



MONITORING THE SYSTEM

During 2016 Lakefront Utilities introduced significant technologies and processes to improve situational awareness during power interruptions. This translated into faster power restoration and improved information and communication for customers. One of the benefits of the newly upgraded stations and switches throughout 2016 is the communication with Lakefront's Supervisory Control and Data Acquisition (SCADA) system that monitors the entire distribution system. Information on the status of each substation, breaker, recloser, and wholesale meter is relayed back to the central control room so that the crew has a real-time picture of how the system is operating.



TECHNOLOGY DRIVING CHANGE

As smart grid technology spreads across the distribution system, LUI is able to further advance protection and control functions to minimize the number of customers affected by an outage, improve the speed of alternate supply to an affected area, and more quickly identify the location of the problem for line crews to respond. LUI's Geographic Information System (GIS) is the foundation on which the company is building outage management applications to enhance the reliability and performance of its distribution system. It also means that the engineering team is now able to utilize powerful analytical tools for distribution system design and optimization of protection schemes.

CAPITAL EXPENDITURES

Lakefront Utilities Inc.'s distribution system is predominantly overhead and as a result is susceptible to weather and storm events as well as tree and wildlife contact. Lakefront has an aggressive vegetation management program in place. However, complete elimination of tree contact with the distribution system is not possible given community standards and aesthetics with regards to trimming trees.

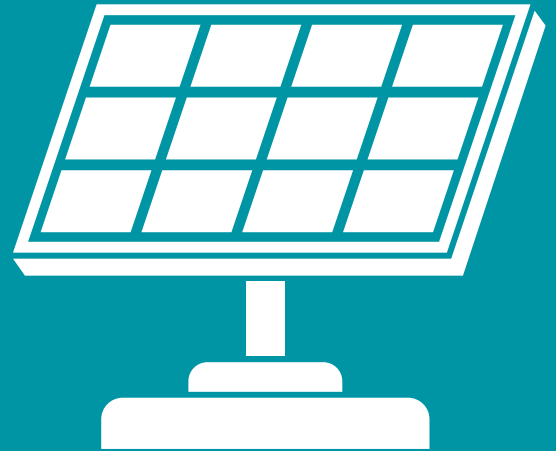
Included in the 2016 Distribution System Plan was the rebuild, wholesale metering, and the primary feeder cable for the Victoria St. Substation in Colborne. The existing oil circuit breakers have had issues over the past few years and have contributed to some extended outages due to equipment failure and difficulty in finding replacement parts. The oil circuit breakers will be replaced with new solid-dielectric reclosers with electronic relaying as well as SCADA monitoring and control. The station transformer, manufactured in 1974, will be replaced as part of this upgrade as well as the wholesale metering.

Capital work associated with Albert St. (from Division St. to Third St.) and Queen St. (from McGill St. to Division St.) is related to the replacement of existing overhead infrastructure which has reached its end of life and the requirement to reduce loading on Orr Street station.

Additional capital work is related to voltage conversion and 4kV station loading relief:

- Division St. (University St. to CP Rail)
- Park St.
- John St./Spencer St. East.

The main drivers for the rebuilding of various areas of the electric distribution system in LUI's service area is related to voltage conversion (4kV to 28kV). LUI's voltage conversion program in Cobourg addresses the three 4kV stations that are near end of life and are proving very difficult to maintain due to limited availability of replacement parts. Loading concerns are also a factor as one of the 4kV stations can no longer be backed up by the other two stations at peak times.



VENTURING INTO GENERATION

In June 2016, Lakefront Utilities put into service a solar installation on the south wall of their garage on Ewart Street in Cobourg. During the first month of installation, the microFit generated enough electricity to power an average household for two months. The project is expected to generate up to 10 kilowatts of power which will be fed back into the local distribution system.

While there are 34 microFIT projects in Lakefront Utilities' territory, the Ewart Street solar installation is LUI's first endeavor into renewable resources and generation.

“The installation complements Lakefront’s current operating portfolio and corporate vision. We are in the preliminary stages of investigating additional locations for generation projects in an effort to increase our generation portfolio.”

Dereck Paul

Lakefront looks forward to continuing this positive momentum and bringing value to the businesses and residents of Cobourg and Colborne through collaboration on further projects.

CONSERVATION & DEMAND MANAGEMENT



“Save on Energy’s Conservation programs have provided ideal opportunities for Lakefront to connect with residential, commercial and industrial customers to offer them concrete strategies, incentives and tools for better managing their electricity bills.”

Alexis Smith

In 2016, Lakefront Utilities launched into the province’s Conservation First Framework, tasked with reducing 12,170 Megawatt Hours (MWh) of electricity consumption within LUI’s service territory by 2020. In order to achieve this lofty target, Lakefront offered the suite of Save On Energy programs to their residential, commercial, industrial, and low income customers.

Residential and low-income customers took advantage of incentives for lighting upgrades, purchasing energy-efficient products and replacing inefficient equipment. Businesses of all sizes accessed program funding that aided in improving production efficiency and installing upgraded equipment, which in turn has resulted in improved productivity, better work environments and lower operating costs. The Save On Energy programs, offered by the Independent Electricity System Operator and delivered by Lakefront Utilities, are helping customers better understand what energy-efficient options are available for them through the range of energy conservation tools, resources and incentives.

Through its membership in Cornerstone Hydro Electric Concepts Inc.’s association, LUI shares a Roving Energy Manager with 12 other utilities in Ontario, a feature that was made possible by the IESO’s Collaboration Fund. In 2016, the Roving Energy performed no-cost energy audits with large customers to identify potential projects where the customer can reduce energy consumption and receive funding through Save On Energy programs.

SAVE ON ENERGY

SAVE ON ENERGY PROGRAMS FOR HOME

Save on Energy Programs for Home

- Heating & Cooling Program
- Coupon Program
- Residential New Construction Program
- Home Assistance Program

SAVE ON ENERGY PROGRAMS FOR BUSINESS

- Retrofit
- Small Business Lighting
- High Performance New Construction
- Audit Funding
- Process & Systems Upgrade Initiative

CUSTOMER SERVICE



As part of a rapidly evolving industry, communicating and implementing change is a constant in the Customer Service Department. During 2016, Holdco focused on building an engaged workforce through new and innovative approaches to training, development, and collaborative decision making in order to facilitate the changes necessary to thrive in a dynamic sector.

INCREASING VALUE FOR CUSTOMERS

Lakefront is committed to creating value for customers through helping them increase their energy efficiency. Partnerships with the Northumberland Manufacturers Association and Northumberland Central Chamber of Commerce, participation in community events, and meetings with customers are just some of the ways that Lakefront gains exposure for conservation initiatives and expands its relationship with its customers.

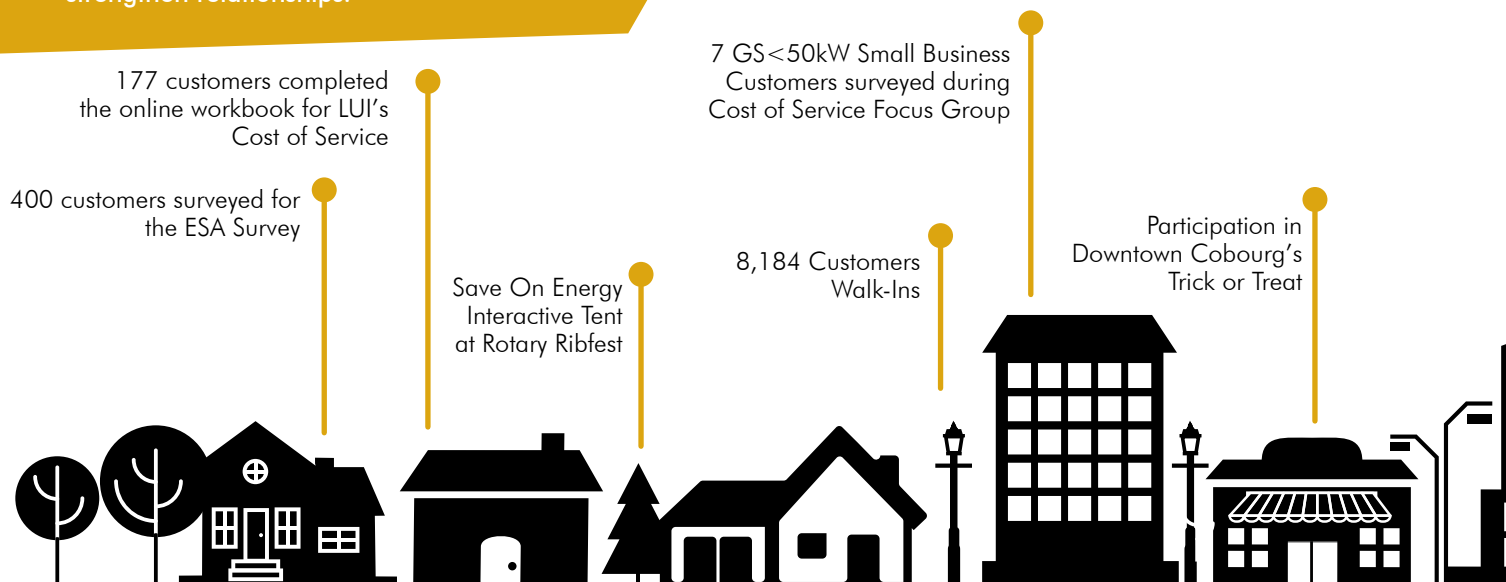
COMPETITIVE CUSTOMER RATES

Holdco, with its performance focus on customer value, is proud to be very competitive on customer rates and investing in the renewal of its system for future reliability and security. When setting out to establish rates for customers, Holdco has two purposes; maintaining favourable rates and ensuring the current and future reliability of the distribution system.

While most customers know that electricity rates are set by the OEB, many are surprised to learn that the distribution portion of their rates vary widely from one utility to another. In 2016, a Lakefront Utilities customer consuming 750 kWh would have paid \$122.58 per month. Lakefront Utilities is proud to have the 6th lowest residential delivery rates in the Province.

ENGAGING OUR CUSTOMERS

Customer engagement is about dialogue, transparency, and follow-through. Here is what Holdco did in 2016 to involve stakeholders and strengthen relationships.



HIGH ACCURACY BILLING SUCCESS

LAKEFRONT UTILITIES RECEIVES HIGH SCORES

The scorecard, designed by the Ontario Energy Board, encourages electricity distributors to operate effectively, continually seek ways to improve productivity and focus on improvements that customers value by evaluating distributors based on a series of standard metrics.

Lakefront's 99.89% billing accuracy rating and high customer satisfaction scores are two strong indicators that Lakefront Utilities is reaping the rewards of years of sustained investment in customer service systems, as well as employee's ongoing commitment to achieving top-level performance.

Below is a snapshot of a selection of the 2016 results.



LUI 2016 RESULTS

Billing Accuracy	99.89%
First Contact Resolution	99.96%
Appointment Scheduling	96.20%
Appointment Met	98.00%
Telephone Accessibility	91.20%
Telephone Call Abandon Rate	.60%
Written Response Enquiries	87.80%
Reconnection Performance Standard	95.70%

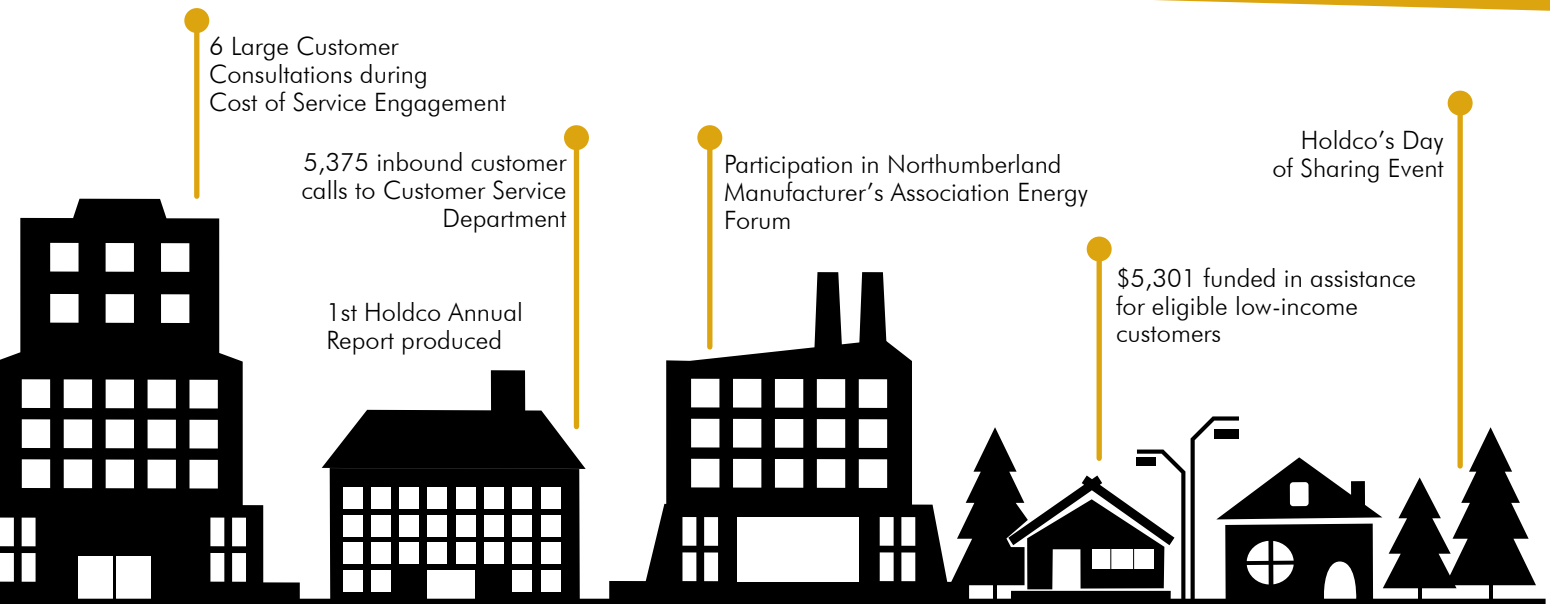
OEB APPROVED STANDARD (on a yearly basis)

98%
*
90%
90%
65%
0% or Less
80%
85%

**The OEB believes it is too early to set a target for this new measure.*

BILLING ACCURACY RATE

99.89%



FINANCE & REGULATORY



Lakefront Utilities’ revenue is from charges to its customers for delivery of electricity through its low-voltage distribution system. Distribution charges have two components: a fixed monthly service charge and a volumetric charged based on electricity consumption or demand. LUI’s rates are regulated and approved by the Ontario Energy Board.

Distribution revenues in 2016 remained steady and Holdco has had a long term trend of strong growth in shareholder’s equity while maintaining interest payments. LUI continued its focus on operational efficiency in 2016, maintaining the 4th lowest cost per customer. LUI remains focussed on continual improvement in its core business processes and adoption of new technologies to obtain operational efficiencies and reduce costs. Long term reductions in operation costs benefit distribution customers through lower distribution rates in the regulated cost of service process.

Lakefront Utility Services Inc. continues to leverage the company’s fibre assets to sell fibre-optic capacity to other large corporations, government agencies, and healthcare and educational institutions. LUSI’s strategic focus associated with

fibre services has evolved to meet the changing needs of the business and to continuously improve their service offering. LUSI has actively engaged with the communities where they operate, gaining insight from customers and stakeholders.

In particular LUSI has prioritized improvements to customers’ experience during the connection process, and appreciate there is still more to be done. LUSI continues to be highly motivated by the opportunities and potential for innovation that fibre technology brings. Looking ahead to the new financial year, LUSI is excited to continue to push the boundaries and introduce new initiatives to advance the fibre business.

Holdco remains committed to its strategic objectives of growth and improvement in its core distribution business, financial strength and solid returns, delivering excellent customer service.

COST OF SERVICE APPLICATION

In December 2016, Lakefront Utilities received approval from the Ontario Energy Board for its 2017 electric distribution rates, effective January 1, 2017. The Cost of Service application reflected a five-year plan to keep rate increases moderate while increasing both investment infrastructure and the long-term value of the utility.

The average Cost of Service for a small utility similar to LUI costs \$325,000 including legal and consulting fees and consumes approximately 2,000 staff hours to complete. In an effort to reduce costs, LUI prepared most of its application internally, at a cost of approximately \$150,000.

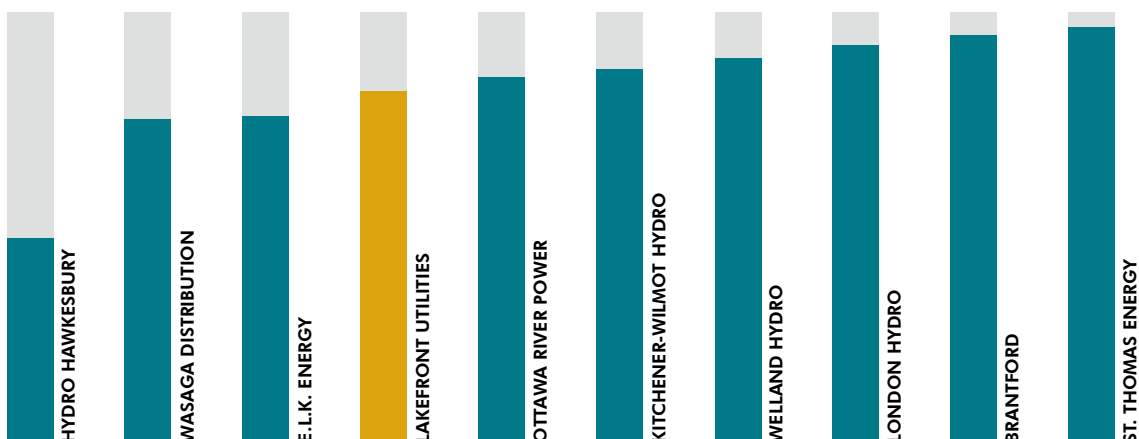
LUI is proud to be the 4th lowest cost per customer utility in the province and received praise for the quality of its application and commendations for its performance by the OEB. LUI’s low costs are the result of ensuring that the most appropriate, cost effective solutions are used to contain costs while providing a high level of service and reliability.

REGULATORY DEVELOPMENTS

In its report, A New Distribution Rate Design for Residential Electricity Customers issued on April 2, 2015, the OEB confirmed that distribution rates for residential customers are to move to a fixed monthly distribution charge over a transition period starting in 2016.

As of January 1, 2016, the Debt Retirement Charge and the Clean Energy Benefit have been eliminated for residential customers. Concurrent with the elimination of these programs for residential customers, the OEB has implemented the Ontario Electricity Support Program which provides ongoing rate assistance to low-income customers.

OM&A PER YEAR & CUSTOMER



INCOME STATEMENT

	2016	2015
Revenue		
Service revenue	4,742,695	4,562,045
Cost of power revenue	31,937,655	28,754,747
Contributions in aid of construction	114,209	110,563
	36,794,559	33,427,355
Cost of sales		
Cost of power purchased	31,937,655	28,754,747
Gross profit	4,856,904	4,672,608
Other operating revenue	906,629	884,767
Gross income from operations	5,763,533	5,557,375
Expenses		
Gain on sale of PP&E	0	(693,239)
Amortization	1,219,665	1,159,412
Community initiatives	60,900	60,971
Customer billing and collecting	473,005	512,706
Interest	614,523	582,789
General and administration	1,451,927	1,480,421
Distribution	840,862	733,966
	4,660,882	3,837,026
Income before income taxes	1,102,651	1,720,349
Provision for income taxes	281,076	61,984
Net income	821,575	1,658,365

STAYING CURRENT

ENGAGING WITH STAKEHOLDERS

Being an active member of industry associations allows Holdco to stay current with industry stakeholders, listen to their issues and understand the context for their concerns. Engaging with stakeholders in this way is an important part of Holdco's decision-making and planning process.

INDUSTRY MEMBERSHIPS

LUI is a proud member of Cornerstone Hydro Electric Concepts (CHEC), Electricity Distributors Association and Utilities Standard Forum. As a paid member of these associations, LUI is able to further seek opportunities for efficiencies, collaboration, streamlined costs and to provide value to our customers and to shareholders. Cornerstone Hydro Electric Concepts

Lakefront is a member of Cornerstone Hydro Electric Concepts, a collaborative organization of 15 small utilities that share resources and expertise to provide cost efficiencies and best practices to all members of the association. LUI benefits from the support available through CHEC in Finance, Regulatory, Operations and Conservation and Demand Management by gaining access to economies of scale and ensuring all areas of its operations are as efficient and cost effective as possible.

ELECTRICITY DISTRIBUTORS ASSOCIATION

The Electricity Distributors Association (EDA) provides analysis, networking opportunities, and a collective voice on issues vital to its members' business success. It represents Ontario's local electricity distribution sector, which safely and reliably delivers power to millions of homes, businesses and public institutions. The EDA is unique among energy-related associations in that it focuses exclusively on the issues and needs of the local electricity utilities, such as LUI, who are the consumer-facing companies responsible for the actual delivery of electricity to homes, businesses and public institutions.

UTILITIES STANDARDS FORUM

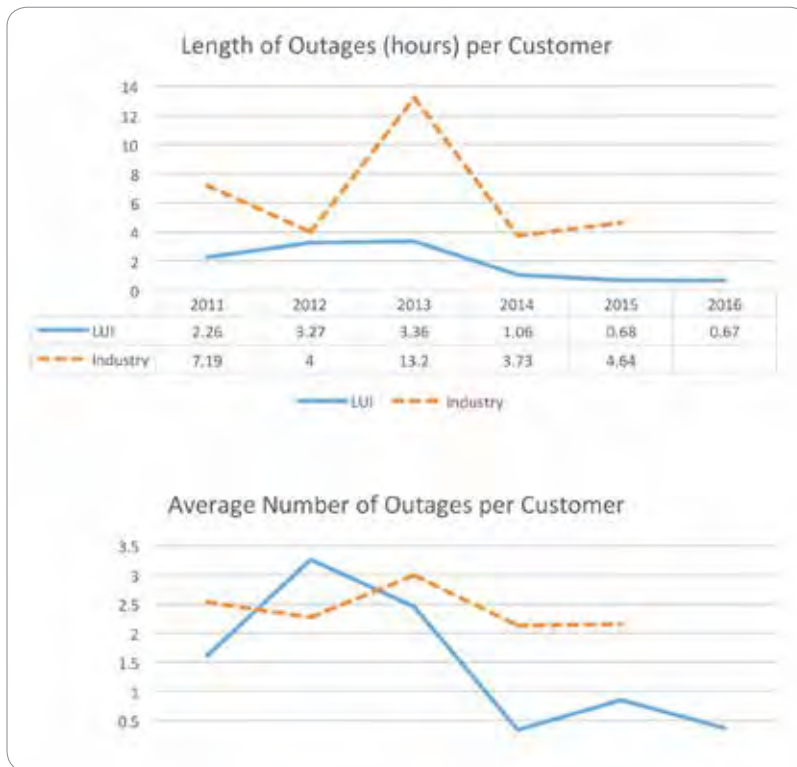
Utilities Standards Forum (USF) is a non-profit, volunteer based corporation owned by 50 Ontario electricity distributor members that service over 1.9 million customers. Its primary purpose is to develop and maintain system design standards approved to Regulatory 22/04. The USF standards are maintained, with continuous updates and improvements and to meet current engineering practices, tools, and requirements. USF also offers member representatives a mechanism for collaboration and networking on other common technical challenges and regulatory requirements. USF hosts a schedule of events providing technical training, networking opportunities, and support to one another on common technical issues.



POWER OUTAGES

Providing reliable electricity services to customers is of the upmost importance to Lakefront Utilities. When the power goes out unexpectedly, crews work to restore power as safely and efficiently as possible.

OUTAGES



2016 INBOUND CUSTOMER CALLS

5,375

TOTAL OUTAGES 2016 VS 2015

-3.0

A NEW PROGRAM TO HELP LOW INCOME CUSTOMERS

Lakefront is a dedicated partner that is committed to participating in the communities it services. In January 2016, The Ontario Energy Board (OEB) began delivering the new provincial low income program Ontario Electricity Support Program (OESP), designed to lower electricity bills through on-bill credits of between \$30 and \$50 per month for eligible low-income households.

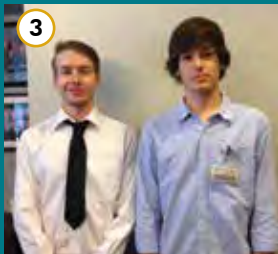
Lakefront's Regulatory and Billing teams worked together to accommodate the technical bill changes and to perform testing of the new billing format. Customer Service training and supporting communications were also undertaken to support the new program.

Lakefront Utilities has 467 OESP contracts as of December 31, 2016



COMMUNITY PRIDE

Giving back to the communities Holdco operates in is an integral part of Holdco's Corporate Vision, and it has led to a long history of charitable involvement and investment.



NOTES

A large section of the page is reserved for notes, featuring a vertical red margin line on the left and horizontal blue lines for writing.

- 1. Local Soccer Sponsorship
- 2. MOvember in support of Northumberland Hills Hospital
- 3. Lakefront's Scholarship Program
- 4. Northumberland RibFest
- 5. Business Achievement Awards
- 6. Take Your Kids to Work Day
- 7. Holdco's Charity Golf Tournament
- 8. Downtown Cobourg's Trick or Treat
- 9. Cobourg Civic Awards
- 10. Holdco's Day of Sharing
- 11. Holdco's Day of Sharing

TOWN OF COBOURG HOLDINGS INC.

207 Division Street, PO Box 577

Cobourg, Ontario K9A 4L3

Tel. 905-372-2193

Fax. 905-372-2581

lakefrontutilities.on.ca

