

 <p>Lakefront Utilities Inc.</p>	<p>ELECTRIC POLICIES & PROCEDURES</p>	<p>PRACTICE: ELEC -10 APPROVED: Jun 7, 2021 EFFECTIVE: Jun 7, 2021 SUPERSEDES: Feb 25, 2021</p>
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Note: Developer to be made aware of information available in the Lakefront Utilities Inc. Subdivision Development Guide and Conditions of Service with respect to Subdivision Agreements.

1. Developer submits drawing package to the Town of Cobourg (TOC) for plan of subdivision approval
2. TOC establishes meetings with Development Review Team (DRT) members (Lakefront Utilities is a member of DRT) to review / discuss submitted plans and the ability of each DRT member to provide service
3. Finalized plan of subdivision is approved for construction by TOC
4. Lakefront Utilities engages developer in system expansion process and provides a copy of its Subdivision Development Guide for reference during design
5. Developer enters into Subdivision Servicing Agreement with Lakefront Utilities (Subdivision Servicing Agreement outlines deposit / letter of credit requirements and provides an economic evaluation cost estimate)
6. Developer submits subdivision servicing design to Lakefront Utilities for approval
7. Subdivision servicing (contestable) is executed by developer and inspected periodically by Lakefront Utilities
8. Non-contestable expansion work performed by Lakefront Utilities
9. Developer submits final costs of construction and, together with Lakefront Utility costs, a total final cost economic evaluation is performed and settlement with the developer is executed for the economic portion of the expansion
10. Lakefront Utilities assumes ownership of distribution system and developer warranty period starts

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Under the “**Distribution System Code**” guidelines, an Economic Evaluation is required for all **developments** that meet the requirements of an “**Expansion**”.

If you are planning on building a Subdivision, the process of connecting to the Local Distribution Infrastructure will require coordination with Lakefront Utilities. Contact with Lakefront Utilities should occur in conjunction with your initial submission to the Municipality.

As part of the connection process, an Economic Evaluation is conducted by Lakefront Utilities for all expansion projects.

The following package provides details on the Economic Evaluation model, the Distribution Connection process, as well as the related resources and forms.

Definitions

The definitions provided below describe concepts outlined in **Section 3.2 & Appendix B** of the “**Distribution System Code**”, which relate to the Economic Evaluation Process.

“Capital Contribution” The maximum capital contribution that a distributor may charge a customer to construct an expansion is the difference between the present value of projected capital costs and on-going maintenance for the facilities and the present value of the projected revenue for the distribution services provided by those facilities.

“Connection Horizon” The Connection Horizon for the Expansion specified by Lakefront Utilities in writing, failing which it shall be a five (5) year period, starting from the energization date of the expansion.

“Customer” means a generator or consumer whose facilities are connected to or are intended to be connected to a distributor’s distribution system. This includes developers of residential or commercial sub-divisions. *(OEB, 2020)*

“Distribution System” means a system for distributing electricity, and includes any structures, equipment or other things used for that purpose. A distribution system is comprised of the main system capable of distributing electricity to many customers and the connection assets used to connect a customer to the main distribution system. *(OEB, 2020)*

“Distribution System Code” (DSC) means the code, approved by the Board, and in effect at the relevant time, which, among other things, establishes the obligations of a distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum technical operating standards of distribution systems; *(OEB, 2020)*

“Distributor” means a person who owns or operates a distribution system; *(OEB, 2020)*

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“Electrical Distribution System or EDS” means Lakefront Utilities’ system for Distributing electricity, and includes any structures, equipment or other things used for that purpose;

“Enhancement” means a modification to the main distribution system that is made to improve system operating characteristics such as reliability or power quality or to relieve system capacity constraints resulting, for example, from general load growth, but does not include a renewable enabling improvement; *(OEB, 2020)*

“Expansion” means a modification or addition to the main distribution system in response to one or more requests for one or more additional customer connections that otherwise could not be made, for example, by increasing the length of the main distribution system, and includes the modifications or additions to the main distribution system identified in section 3.2.30 but in respect of a renewable energy generation facility excludes a renewable enabling improvement; *(OEB, 2020)*

“Expansion Deposit” The deposit the Developer is required to pay to Lakefront Utilities in respect of the Expansion, as determined by Lakefront Utilities in accordance with the terms of the DSC.

“Non-contestable costs” The costs that are not eligible for alternative bid as the work is required to be completed by the LDC. Costs such as inspection, termination, basic and system connection, legal, surveying and engineering charges are included.

“Option A” The Developer’s decision to have Lakefront Utilities complete any contestable work. For clarity, Lakefront Utilities will also complete the non-contestable work.

“Option B” The Developer’s decision to complete the contestable work itself using a qualified contractor in accordance with Lakefront Utilities’ requirements, standards and specifications.

“Transfer Price” The transfer price is the capital costs and non-contestable costs incurred by the developer in the expansion project.

Economic Evaluation Overview

The concepts outlined provide reference to Section 3.2 & Appendix B of the “Distribution System Code”, as well as Lakefront Utilities’ Offer to Connect Agreement, which relate to the Economic Evaluation Process

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When is an Economic Evaluation required?

Section 3.2.1

“If a distributor must construct new facilities to its main distribution system or increase the capacity of existing distribution system facilities in order to be able to connect a specific customer or group of customers, the distributor shall perform an initial economic evaluation.” (OEB, 2020)

What is an Economic Evaluation?

Section 3.2.1

An Economic Evaluation is a **financial model** “based on estimated costs and forecasted revenues, as described in Appendix B, of the expansion project to determine if the future revenue from the customer(s) will pay for the capital cost and on-going maintenance costs of the expansion project.” (OEB, 2020)

When is an Economic Evaluation performed?

Initial Economic Evaluation

An initial economic evaluation (based on **estimated** costs and **forecasted** revenues) is drafted in conjunction with the preliminary Subdivision Agreement.

Subsequent Economic Evaluations

Upon energization, an updated economic evaluation is performed, with determination of transfer price, contribution and amount payable/receivable to the customer using actual costs and number of forecasted connections within the five-year connection horizon. Payment due to/from Developer will be made. Following energization, an annual review will be conducted over the five-year connection horizon. The Expansion Deposit will be returned based on the proportion of the actual Connections over the five-year Connection Horizon.

Final Economic Evaluation

Once the five-year horizon is complete, Lakefront Utilities shall carry out a final economic evaluation. The final economic evaluation shall be based on **forecasted** revenues and **actual** costs incurred as described in Appendix B. (OEB, 2020)

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What is the methodology behind an Economic Evaluation?

The Economic Evaluation model considers several common elements of an expansion, related to the **Revenue Forecast, Expense Forecast** and **Capital Costs**. The elements described in Appendix B are inputs used in the Economic Evaluation model to calculate the difference between the Future Revenue (due to customer) and the Capital / Maintenance Costs (shortfall due to Lakefront Utilities)

What parameters are used in the Economic Evaluation model?

DSC - Appendix B

- (a) A maximum customer connection horizon of five (5) years, calculated from the energization date of the facilities
- (b) A maximum customer revenue horizon of twenty-five (25) years, calculated from the in service date of the new customers
- (c) A discounted rate equal to the incremental after-tax cost of capital, based on the prospective capital mix, debt and preference share cost rates, and the latest approved rate of return on common equity
- (d) Discounting to reflect the true timing of expenditures. Up-front capital expenditures will be discounted at the beginning of the project year and capital expended throughout the year will be mid-year discounted. The same approach to discounting will be used for revenues and operating and maintenance expenditures (OEB 2009)

What happens when there is a difference in the Capital Contribution amount in the Initial, Subsequent and Final Economic Evaluation?

Section 3.2.7

If the capital contribution amount resulting from the final economic evaluation provided for in section 3.2.2 or 3.2.3 differs from the capital contribution amount resulting from the initial economic evaluation calculation, the distributor shall obtain from the customer, or credit the customer for, any difference between the two calculations. (OEB, 2020)

Lakefront Utilities will settle the balance once the five year connection horizon is complete. A final economic evaluation will be conducted to determine if the forecasted connections used in

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the initial Economic Evaluation have been energized within the five year connection horizon. As a result, any difference in the Capital Contribution amount will be settled using the balance of the Expansion Deposit.

Does the Economic Evaluation consider which party will perform the Contestable work (i.e. Lakefront Utilities or the Developer)?

“Option A” means the Developer’s decision to have Lakefront Utilities complete any Contestable Work.

“Option B” means the Developer’s decision to complete the Contestable Work itself using a Qualified Contractor in accordance with Lakefront Utilities’ requirements, standards and specifications.

The Economic Evaluation model considers the capital outlays of each party, under both options.

In Option “A”, the amount due to/from the Developer is calculated based on the difference between Lakefront Utilities’ expenditures for Contestable Work and the Capital Contribution.

In Option “B”, the amount due to/from the Developer is calculated based on the difference between the Transfer Price (Contestable Work installed at Developer’s expense) and the Capital Contribution.

For both options, the amount **due to** the Developer represents revenue exceeding cost of capital over the 25 year horizon. The amount **due from** the Developer will represents a shortfall of revenue to cover capital costs over the 25 year horizon.

Is there a cost to the customer for the Economic Evaluation?

Section 3.2.12

The distributor shall provide the customer with the calculation used to determine the final capital contribution amount including all of the assumptions and inputs used to produce the final economic evaluation as provided for in sections 3.2.2 and 3.2.3. The distributor shall provide the final economic evaluation and final capital contribution amount to the customer at no cost to the customer. (OEB, 2020)

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Is there an initial capital outlay required from the Developer?

The developer shall be responsible for the following if Option A is selected:

- Capital Contribution (Economic Evaluation)
- Expansion Deposit
- A design review deposit

The developer shall be responsible for the following if Option B is selected:

- Capital Contribution for ancillary cost (Non-Contestable Work)
- Expansion Deposit
- A design review deposit
- Warranty Deposit
- Costs associated with the performing contestable work

What are the requirements of the Capital Contribution?

As stated in the previous sections, the Capital Contribution is an amount calculated within the Economic Evaluation model. It would represent an amount payable to Lakefront Utilities **due to a shortfall** of revenue to cover capital costs over the 25 year horizon **(if applicable)**.

Under Option A:

The Capital Contribution is the difference between the present value of the revenue of the Expansion less the cost of the Supply and Installation of the EDS, both Contestable Works and Non-Contestable Works, administration, operation and maintenance costs including capital cost allowance (CCA) and applicable taxes.

Under Option B:

The Developer's responsibility, in addition to paying the Qualified Contractor for the installation of the EDS under Option B, shall also include, but not limited to, payment of Ancillary costs of the following:

- (1) Other connection charges that are not otherwise included in the Economic Evaluation.
- (2) Non-Contestable costs for Lakefront Utilities' inspection, approval and extra administration and project management of the work performed.
- (3) Developer's own costs and Lakefront Utilities' costs, not contemplated in the agreement.
- (4) Legal and surveying costs incurred by Lakefront Utilities.
- (5) Costs associated with the repair of the EDS during the term of the agreement.

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What is the purpose of the Expansion and Warranty Deposit?

- Provide financial security to mitigate Lakefront Utilities exposure to any forecast and asset risk in accordance with the terms of the DSC (Section 3.2.21); and
- Ensure that forecasted Connections for the Connection Horizon are realized along with associated revenue.

What form of security is the Developer required to provide?

- The Expansion Deposit shall be in the form of cash, letter of credit from a bank as defined in the Bank Act, S.C. 1991, c.46 or surety bonds.

Section 3.2.26

Where any expansion deposit is in the form of cash, the distributor shall return the expansion deposit to the customer together with interest in accordance with the following conditions:

- interest shall accrue monthly on the expansion deposit commencing on receipt of the total deposit required by the distributor; and
- the interest rate shall be at the Prime Business Rate set by the Bank of Canada less 2 percent

Will Lakefront Utilities draw funds from the Expansion Deposit?

- Lakefront Utilities will not draw upon the Security to do any of the Expansion work contemplated by the Plans and Specification of this Agreement until it has given fourteen (14) days' notice to the Developer that it intends to do so and the purpose or purposes for which it intends to do so and the Developer has failed to take steps that Lakefront Utilities deems are reasonable to rectify the problem or problems that have given rise to the giving of such notice.

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When will the Expansion Deposit be released?

Once the facilities are energized and subject to Sections 7(c)(iv) (regarding the collection of Expansion Deposit) and 16(c) (regarding the collection of Warranty Deposit), Lakefront Utilities shall:

- Return the **percentage** of the Expansion Deposit (less the Warranty Deposit) in **proportion** to the **actual Connections** (for residential developments) or **actual demand** (for commercial and industrial developments) that materialized in that year
- For instance, if twenty (20%) percent of the forecasted Connections or demand materialized in that year, then Lakefront Utilities shall return to the Developer twenty (20%) percent of the available Expansion Deposit
- This annual calculation shall only be done for the duration of the Connection Horizon.
- If at the end of Connection Horizon the forecasted Connections (for residential developments) or forecasted demand (for commercial and industrial developments) have not materialized, Lakefront Utilities shall be allowed to retain the remaining portion of the Expansion Deposit

What are the requirements of the Design Deposit?

- A Design Review deposit will be required in an amount determined by Lakefront Utilities. At the completion of the Expansion, the Developer shall be invoiced for the actual Lakefront Utilities costs for the review and approval of the EDS design drawings and associated administration costs.

How is the Transfer Price determined and paid to Developer?

- Upon completion and energization of the EDS under Option B and the commencement of the Warranty Period, the Developer shall submit a statement capitalizing the cost of the contestable portion of the EDS (less the street lighting) by the Qualified Contractor.
- Such statement capitalizing the cost of the contestable portion of the EDS shall be certified by an officer of the Developer's electrical consulting engineer and shall be provided **within sixty (60) calendar days** of energization of the EDS.
- If the final costs are **not** received from the Developer within the sixty (60) calendar days of energization of the EDS, **the initial estimate** will be used to confirm the Developer's Capital Contribution amount.

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- The statement capitalizing the cost of the contestable portion of the EDS shall be supported **with copies of all invoices, payment certificates and a copy of a statutory declaration of payment** from the Developer.
- Upon Energization of the EDS and receipt of the final costs from the Developer’s consultant, Lakefront Utilities will use the **lesser** of the **Developer’s cost** under Option B or the **cost provided** Lakefront Utilities **under Option A** (the “Transfer Price”). The lesser of the cost shall be used to determine the transfer price and final Capital Contribution of the Expansion used in the Economic Evaluation model.
- Payment by Lakefront Utilities to the Developer shall **only occur** upon submission by all Parties involved in the design, supply and installation of the Expansion, providing Lakefront Utilities satisfactory **proof that all invoices** related to the Expansion have been **paid** and all **holdbacks** have been **released**.

Distribution Connection Steps

STEP 1

Initial Meeting

Customer and Lakefront Utilities meet to review proposed new development and connection requirements

- Initial meeting will provide both parties with an opportunity:
 - Developer submits drawing package to the Town of Cobourg (TOU) for plan of subdivision approval
 - TOC with Development Review Team (DRT) members review / discuss submitted plans to confirm ability to provide service
 - To gain a better understanding of the proposed development
 - To identify any issues related to the timing and connection to the Distribution System
- Based on the information provided by the Customer prior to the meeting, Lakefront Utilities will be able to provide at a high level:
 - An estimate of the type of work that may be required to facilitate a connection
 - An understanding of what works are the responsibility of the customer
 - An understanding of what works must be managed by the LDC

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- An understanding of what works could be contracted by the customer
- An estimated timeline required to provide connection facilities
- A package outlining the Economic Evaluation Process

STEP 2

Request for Connection

- In conjunction with the initial meeting, the customer fills out the request for connection form
- Initial request should at a minimum include the following information:
 - Contact information for development
 - Location of proposed development
 - Proposed construction date
 - General description of development (type and number of connections)

STEP 3

Customer Decision-Making

- Based on the results of the initial meeting, the customer decides on whether to proceed with the process or withdraw their Request for Connection

STEP 4

Customer Provides Information

If customer decides to proceed with the process for acquiring a connection, the customer notifies Lakefront Utilities and provides the relevant detailed information as noted below:

- Statement noting customer intends on managing the contestable work noted during the consultation
- Electrically engineered and stamped site service drawings
- Required Transformation based on estimated building loads
- Number of Residential Connections
- Residential – Type, number and size of units
- Number of Commercial / Industrial Connections
- Estimated annual facility connections over five years from date of Lakefront Utilities system connection

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- Estimated capital costs of facilities which would be assumed by Lakefront Utilities following energization

STEP 5

Preliminary Economic Evaluation

- Upon receipt of the required information from the customer, Lakefront Utilities will perform a preliminary Economic Evaluation abiding by the methods outlined in the Distribution System Code
- The Preliminary Economic Evaluation will assist Lakefront Utilities in calculating the portion (if any) of the Capital Costs Lakefront Utilities will invest
- The Preliminary Economic Evaluation will be used in the preparation of the Subdivision Agreement

STEP 6

Subdivision Agreement

Once the Preliminary Economic Evaluation (EE) is complete, Lakefront Utilities will prepare a Subdivision Agreement based on the EE results, as well as information provided by the customer. The Agreement will contain the following information:

- An estimate of non-contestable costs
- An estimate of contestable costs
- The required expansion deposit
- Warranty holdback (if applicable)
- Capital Contribution required from the customer
- Reconciliation of amount payable to Lakefront Utilities upon execution of the offer to connect
- A description of the deliverables required from the customer before connection
- An estimated connection date

STEP 7

Customer Decision-Making

- Customer reviews the agreement and decides if they would like to continue with the project
- Three options are available to the Customer:

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- Customer elects to drop the project, a notice of withdrawal of the Request for Connection shall be provided to Lakefront Utilities
- Customer would like to revise their Connection request, a notice informing Lakefront Utilities of the requested changes shall be provided to Lakefront Utilities (go back to Step 4)
- Customer agrees with the Offer and executes

STEP 8

Execution and Payment

- The Customer and Lakefront Utilities sign the agreement
- The Customer provides the financial deposit and / or guarantee if required
- The agreement is executed

STEP 9

Construction Begins

- The customer shall fulfill all requirements set out in section 4.0 of the construction agreement
- Following receipt of signed construction agreement and the required financial deposit and / or guarantees from the customer, both parties shall begin ordering materials and initiating the construction process

STEP 10

Exchange Updated Information

- The customer and Lakefront Utilities shall exchange any required updated information on the project including, but not limited to:
 - All applicable connection authorizations
 - All applicable warranties relating to the two-year maintenance period
 - Any new information that was provided as an estimate in Step 4. Primarily actual cost of construction, broken down as prescribed by Lakefront Utilities, and updated connections in horizon period

STEP 11

Lakefront Utilities connection authorization

- The customer shall fulfill all requirements set out in sections 7.0 -9.0 of the construction agreement pertaining to time limits, stop of work orders and defaults

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- Once construction is completed, both parties will ensure that inspections are completed, and all required connection authorizations are in place

STEP 12

Energization of Subdivision

- The developer shall fulfill the requirements set out in section 17.1 of the subdivision agreement pertaining to preliminary acceptance
- Lakefront Utilities will authorize and energize the facility
- Lakefront Utilities will issue certificate of preliminary acceptance

STEP 13

Updated Economic Evaluation

- As required, Lakefront Utilities shall recalculate the Preliminary Economic Evaluation using actual information acquired during and following the construction process
- Developer provides copies of invoices, payment certificates and declaration of payment
- Payment due to/from Developer will be determined and executed

STEP 14

Release of deposits

- The balance of the deposit is released for the **Ancillary Costs** once:
 - No further expenditures are identified, the capital infrastructure is deemed to be complete and inspections have been conducted
- The **Expansion Deposit** will be returned based on the proportion of actual connections over the five (5) year Connection Horizon (i.e. 20% of actual connections in the first year results in 20% of the Expansion less the Warranty Deposit being released)
- The balance of the **Warranty Deposit** will be released two (2) years following:
 - When the last forecasted Connection in the Expansion materializes; or
 - At the end of the Connection Horizon, whichever is first