



**Lakefront  
Utilities  
Inc.**

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January 19, 2009

Ontario Energy Board  
Ms. Kristen Walli – Board Secretary  
P.O. Box 2319, 2300 Yonge St.  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**RE: Lakefront Utilities Inc – EB-2008-0193 – 2009 Incentive Regulation  
Mechanism Rate Application**

In response to your correspondence dated December 30, 2008, please find attached Lakefront Utilities Inc. response to Ontario Energy Board Staff Interrogatories listed in your letter.

We have enclosed two paper copies along with a CD in the mail as well.

Should you have any questions regarding the above, please call me at (905) 372-2193, ext 5226.

Yours truly,

*Original signed*

Dereck C. Paul  
Lakefront Utilities Inc.

Cc: Bruce Craig; President - LUI  
John Vrantzidis – Regulatory Policy and Compliance - OEB

**Lakefront Utilities Inc. (LUI) Response  
2009 Incentive Regulation Mechanism Rate Application**

**Board File: EB-2008-0193**

**LUI's Response to Board Staff Interrogatories**

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

AND IN THE MATTER OF an Application by Lakefront Utilities Inc.  
("LUI"), Licence # ED-2002-0545, EB-2008-0193 pursuant to section  
78 of the *Ontario Energy Board Act* for an Order or Orders approving  
just and reasonable rates and other service charges for the  
distribution of electricity as of May 1, 2009.

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**Board Staff Interrogatories and LUI's reply submission:**

**Revenue to Cost Ratios**

***Ref.: 2009 3rd Gen. IRM Supplementary Filing Model, Sheet C2.1***

1. The Board directed, in EB-2007-0761, that increased revenues be collected from the street lighting and sentinel lights. The Board also directed, at page 21 of that decision, that "to the extent additional revenue is forecasted to be collected from the Street Lights and Sentinel Lights classes, the rates for the GS<50 kW and GS 50-2,999 kW classes shall be adjusted downward".

According to the EB-2007-0761 decision, the adjusted revenue to cost ratio for the GS 50-2,999 kW rate class amounted to 146.8%, in accordance with the Vulnerable Energy Consumers Coalition's ("VECC") submission. The 3<sup>rd</sup> Generation IRM Supplementary Filing Model indicates (Sheet C2.1, cell K24) that the actual 2008 revenue to cost ratio for GS 50-2,999 increased to 169.4%.

- a) Please explain why this increase occurred.
- b) Please explain how this result is consistent with the Board's directions in EB-2007-0761.

## LUI's response:

- a) It appears that the 3<sup>rd</sup> Generation IRM Supplementary Sheet C2.1 was developed assuming the revenues-to-cost ratios produced by the Cost Allocation Informational Filing (and VECC's submission of 146.8% for the GS 50-2,999 kW), as the starting point for the **2009** 3GIRM, when in fact the 2008 approved revenue-to-cost ratios should be the starting point.

Nevertheless, the increase in the revenue-to-cost ratio for the GS 50-2,999 kW from 146.8% in the EB-2007-0761 to 169.4% in the 3<sup>rd</sup> Generation IRM is due to the 3<sup>rd</sup> Generation IRM Supplementary Sheet C2.1 being developed to calculate the revenue-to-cost ratios based on a revenue requirement of **\$4,508,395** inclusive of Transformer Allowance and Low Voltage charges. Whereas in the EB-2007-0761 decision, the 146.8% revenue-to-cost ratio for GS 50-2,999 kW was calculated on a base revenue requirement of **\$3,985,246** exclusive of Transformer Allowance and Low Voltage charges.

The figure of \$4,508,395 in the model is linked from the projection of billed customers and load per customer class from Sheet C4.1 and B1.1 and B3.1.

- b) If the Transformer Allowance of \$178,080 and Low Voltage charges of \$346,196 were added to the base revenue requirement figures of \$3,985,246 in the EB-2007-0761 to be consistent with the 3<sup>rd</sup> Generation IRM Supplementary model, the result would be constant and the starting point for the GS 50-2,999 kW class would be 169%. The below two tables demonstrate this.

### Without Transformer Allowance and Low Voltage Charges in EB-2007-0761

#### Lakefront Utilities Inc.

	VECC Rev/Cost Ratio	Revenue in Cost Allocation Excluding \$296,166 incorrect Misc rev \$	Proportion of Revenue	Rev/Cost Ratio at 100%	100% Alloc on New Rev	Proposed Rev/Cost Ratio	Proposed Revenue Allocation
Residential	94.90%	\$ 1,672,296	46.94%	\$ 1,757,190	\$ 1,965,462	97.51%	\$ 1,916,428
GS <50 kW	124.40%	\$ 621,988	17.46%	\$ 498,578	\$ 557,673	118.00%	\$ 658,054
GS >50-2999 kW	146.80%	\$ 1,128,237	31.67%	\$ 766,383	\$ 857,220	140.95%	\$ 1,208,251
GS 3000-4999 kW	35.10%	\$ 87,078	2.44%	\$ 247,385	\$ 276,706	35.10%	\$ 97,124
Street Lights	9.30%	\$ 24,469	0.69%	\$ 262,365	\$ 293,461	25.00%	\$ 73,365
Sentinel Lights	39.40%	\$ 2,119	0.06%	\$ 5,363	\$ 5,999	55.00%	\$ 3,299
Unmetered Scatered Load	103.90%	\$ 26,758	0.75%	\$ 25,681	\$ 28,725	100.00%	\$ 28,725
		<b>\$ 3,562,945</b>	<b>100.00%</b>	<b>\$ 3,562,945</b>	<b>\$ 3,985,246</b>		<b>\$ 3,985,246</b>

**If Transformer Allowance and LV Charges were added in EB-2007-0761**

**Lakefront Utilities Inc.**

	VECC Rev/Cost Ratio	Revenue in Cost Allocation Excluding \$296,166 incorrect Misc rev \$		Proportion of Revenue	Rev/Cost Ratio at 100%	100% Alloc on New Rev	Proposed Rev/Cost Ratio	Revenue Allocation including TA & LV	TA & LV Chrgs figures included in \$4,509,522						
		Transformer Allow	Low Voltage												
Residential	94.90%	\$	1,672,296	46.94%	\$	1,757,190	\$	1,965,462	102.66%	\$	2,017,712		\$	101,285	
GS <50 kW	124.40%	\$	621,988	17.46%	\$	498,578	\$	557,673	125.91%	\$	702,163		\$	44,109	
GS >50-2999 kW	146.80%	\$	1,128,237	31.67%	\$	766,383	\$	857,220	168.56%	\$	1,444,904	\$	106,625	\$	130,026
GS 3000-4999 kW	35.10%	\$	87,078	2.44%	\$	247,385	\$	276,706	85.46%	\$	236,476	\$	71,455	\$	67,897
Street Lights	9.30%	\$	24,469	0.69%	\$	262,365	\$	293,461	25.67%	\$	75,323		\$	1,955	
Sentinel Lights	39.40%	\$	2,119	0.06%	\$	5,363	\$	5,999	55.50%	\$	3,329		\$	37	
Unmetered Scatered Load	103.90%	\$	26,758	0.75%	\$	25,681	\$	28,725	103.10%	\$	29,615		\$	887	
		\$	3,562,945	100.00%	\$	3,562,945	\$	3,985,246		\$	4,509,522				

**Ref.: 2009 3rd Gen. IRM Supplementary Filing Model, Sheet C3.1**

2. Sheet C3.1 of the 3<sup>rd</sup> generation IRM Supplementary Filing Model indicates a decrease in the expected 2009 revenue to cost ratio for the GS 50-2,999 kW rate class from 169.4% to 164.3% while the ratio will remain the same for the GS<50 kW rate class.

- a) Please explain why the revenue to cost ratios will not decrease for both of these rate classes
- b) Please explain how these results are consistent with the Board's directions in EB-2007-0761.

**LUI's response:**

- a) By increasing the revenue-to-cost ration for Street Lighting and Sentinel Lighting classes, LUI chose to apply the corresponding decrease to the GS>50-2,999KW class in recognition that this class is much further from the unity (100%) than all the other classes as demonstrated in the table below per sheet C3.1.

Rate Class	Resultant Revenue/Cost Ratio %
Residential	97.6%
General Service Less Than 50 kW	118.4%
General Service 50 to 2,999 kW	164.3%
General Service 3,000 to 4,999 kW	35.5%
Unmetered Scattered Load	100.0%
Sentinel Lighting	70.1%
Street Lighting	39.9%

- b) LUI believe the Board's decision and goal is to over time, move all customer classes to the unity, mitigating rate shock and maintaining reasonable rates within a distributor's territory. With the GS 50 – 2,999 kW class being the furthest from unity, LUI believes the reduction to this class is consistent with the Board's decision. The GS > 50-2,999 kW is 64.3% over unity whereas the GS < 50 Kw is 18.4% over unity.

## Tax Savings

**Ref.: 2009 3rd Gen. IRM Supplementary Filing Module, Sheet F1.1**

3. The 3<sup>rd</sup> Generation IRM Supplementary Filing Model (Sheet F1.1) assumes the applicable corporate tax rate for Lakefront Utilities Inc. ("Lakefront") will decrease from 28.9% in 2008, to 28.4% in 2009. The model calculates that 50% of the expected tax savings in 2009 amounts to \$3,518. However, Lakefront has not included a tax sharing rate rider in its application.

- a) Does Lakefront agree or disagree that any reduction in taxes from 2008 to 2009 should be shared 50%/50% between the distributor and its customers? If not, please provide a clear explanation on how this is consistent with Board's policy for 3<sup>rd</sup> Generation IRM.

### LUI's response:

- a) LUI agrees that any reduction in taxes from 2008 to 2009 should be shared 50/50 between the distributor and its customer and has updated our application to reflect the tax sharing rate rider for the \$3,518 although LUI disagrees with the calculation in the model the Board provided. LUI has recalculated the figures in question 4 below and the difference is only \$171.50 which is an immaterial amount.

The results are as per below:

Rate Rider	Tax Change Rate Rider
Sunset Date	April 30, 2010 DD/MM/YYYY
Metric Applied To	All Customers
Method of Application	Both Distinct

Rate Class	Applied to Class	Fixed Amount	Fixed Metric	Vol Amount	Vol Metric
Residential	Yes	0.000000	NA	-0.000020	kWh
General Service Less Than 50 kW	Yes	0.000000	Customer - 12 per year	-0.000015	kWh
General Service 50 to 2,999 kW	Yes	0.000000	Customer - 12 per year	-0.004042	kW
General Service 3,000 to 4,999 kW	Yes	0.000000	Customer - 12 per year	-0.001496	kW
Unmetered Scattered Load	Yes	0.000000	Customer - 12 per year	-0.000037	kWh
Sentinel Lighting	Yes	0.000000	Connection - 12 per year	-0.033671	kW
Street Lighting	Yes	0.000000	Connection - 12 per year	-0.017258	kW

A copy of the OEB 2009 3GIRM Rate Generator (**revised as of Jan/19/09 to include the reduction in taxes change**) is included with these responses and filed electronically on the Ontario Energy Board's RESS Filing System.

**Ref.: 2009 3rd Gen. IRM Supplementary Filing Module, Sheet F1.1**

4. The 3<sup>rd</sup> Generation IRM Supplementary Filing Model (Sheet F1.1) assumes the applicable corporate tax rate was 28.9% in 2008. Lakefront's Manager Summary states on page 7 that "a tax rate of 30.82% was used" in its 2008 cost of service application.

- a) Please provide the reference and basis of the 30.82% figure.
- a) What does the applicant consider to be the applicable corporate tax rate for 2009?
- b) Does the applicant agree with the calculated \$7,036 in tax savings for 2009 (cell G148 of Sheet F1.1)? If not, please provide the total amount and a detailed calculation of what Lakefront considers to be the total amount of tax reduction from 2008 to 2009.

**LUI's response:**

- a) In the Board's decision regarding EB -2007-0761, the Board directs Lakefront to reflect in its Draft Rate Order the new maximum federal income tax rate (reduced to 19.5%, yielding a combined **maximum** federal and Ontario income tax rate for 2008 of 33.5%).

In LUI's EB-2007-0761 Draft Rate Order, below are the tax calculations used and approved by the Board:

**PILS RATE AND CALCULATION**

Item	Description	Reference	Rates	\$	PILs
1	Taxable Income	Page 12		\$ 717,129	
2	Ontario				
3	Income tax payable		14.00%	\$ 100,398	
4	Small business credit	400,000	8.50%	-\$ 34,000	
5	Surtax on (1-4)	317,129	4.67%	\$ 14,800	
6	Income tax			<b>\$ 81,198</b>	
7	Effective Ontario Rate (6/1)				11.32%
8	Federal rate				19.50%
9	Combined tax rate				<b>30.82%</b>
10	Income tax PILs	(1) X (9)		\$ 221,039	
11	Grossed-up PILs	(10) / (1-30.82%)		\$ 319,484	

- b) LUI considers 30.32% as the applicable tax rate for 2009.

- c) LUI does not agree with the calculated \$7,036 in tax savings for 2009 (cell G148 of Sheet F1.1 in the 3<sup>rd</sup> Generation Supplementary Filing Model). In LUI's 2008 rate application (EB-2007-0761), the combined tax rate used was 30.82%. The Ontario Income Tax rate for 2009 is unchanged at 14%. The Federal Income Tax rate for 2009 is changed a half percentage point from 19.5% in 2008 to 19% in 2009. Therefore, below is the same principle and detailed calculation LUI used in EB-2007-0761 to calculate the reduction from 2008 to 2009. The calculated tax savings result is \$7,379. (\$319,484 - \$312,105).

Item	Description	Reference	Rates	\$	PILS
1	Taxable Income			\$ 717,129	
2	Ontario				
3	Income tax payable		14%	\$ 100,398	
4	Small business credit	400,000	8.50%	-\$ 34,000	
5	Surtax on (1-4)	317,129	4.67%	\$ 14,810	
6	Income tax			<u>\$ 81,208</u>	
7	Effective Ontario Rate (6/1)				11.32%
8	Federal rate				<u>19.00%</u>
9	Combined tax rate				<u><b>30.32%</b></u>
10	Income tax PILS	(1) X (9)		\$ 217,462	
11	Grossed-up PILS	(10) / (1-30.82%)		\$ 312,105	



### **Rural or Remote Electricity Rate Protection (“RRRP”)**

5. By letter dated December 17, 2008, the Board informed the electricity distributors of the approval it has given to the IESO regarding the level of charge the IESO may apply to its Market Participants for the Rural or Remote Electricity Rate Protection (RRRP) program. In that letter, the Board stated: “Distributors that currently have a rate application before the Board shall file this letter as an update to their evidence along with a request that the RRRP charge in their tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.”

If Lakefront has not done so, please file the required addition to the evidence as outlined in the December 17<sup>th</sup> letter.

### **LUI's response:**

Please find LUI's letter of direction below.



**Lakefront  
Utilities  
Inc.**

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January 19, 2009

Ontario Energy Board  
Ms. Kristen Walli – Board Secretary  
P.O. Box 2319, 2300 Yonge St.  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**RE: Lakefront Utilities Inc – Rural or Remote Electricity Rate Protection**

On December 17, 2008 the Board issued a letter to all distributors in regard to changes in the amounts to be charged by the IESO with respect to Rural or Remote Electricity Rate Protection (RRRP).

The letter of December 17, 2008 included directions for distributors who currently have a rate application before the Board to specifically file an update to their evidence along with a request that the RRRP charge in their tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.

Pursuant to this direction, Lakefront Utilities Inc. ("LUI") submits this request to the Board that the RRRP charge in the respective tariff sheets be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.

Yours truly,

Dereck C. Paul  
Lakefront Utilities Inc.

Cc: Bruce Craig; President - LUI