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BY EMAIL

February 18, 2009

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli

Dear Ms. Walli:

Re: Lakefront Utilities Inc.
Motion to Review and Vary
Board File Number EB-2008-0277

Dear Ms. Walli:

Please see the attached Board staff's submission for the above proceeding. Please forward the attached to Lakefront Utilities Inc. and all intervenors in this proceeding.

Yours truly,

Original signed

Christie Clark
Case Manager

ONTARIO ENERGY BOARD

STAFF SUBMISSION

Motion to Review and Vary

Lakefront Utilities Inc.

EB-2008-0277

February 18, 2009

Ontario Energy Board
Staff Submission
EB-2008-0277
Lakefront Utilities Inc.

On August 6, 2008 Lakefront Utilities Inc. (“Lakefront”) filed a Motion to Review and Vary its 2008 Cost of Service Decision (EB-2007-0761). That Motion included the following items for review:

1. Increasing Lakefront's 2008 revenue requirement by $83,333, to allow it to recover its expenses related to the re-sealing of its existing conventional meters to bring them into compliance with the Electricity and Gas Inspection Act (the "Inspection Act"), or alternatively to approve the use of a deferral account to allow for the recording of the expenses; items 1 to 3, but would not review item 4.
2. Approving the inclusion of an additional $325,000 in capital spending in the 2008 test year on Lakefront’s voltage conversion program and reflecting that expenditure in Lakefront’s rates; and
3. Increasing Lakefront’s 2008 revenue requirement by $55,271 to correct an erroneous revenue requirement offset related to interest on retained earnings.
4. Change the effective date of the Order from July 17, 2008 to May 1, 2008.

In its Decision and Procedural Order No. 1. issued October 31, 2008, the Board decided that it would hear the motion on items 1 to 3, but would not review item 4.

Lakefront, by way of a letter dated February 3, 2009, withdrew item 1, expenses related to resealing meters, and item 3, the proposed correction related to interest on retained earnings.

On February 11, 2009, Lakefront filed its submission with respect to the remaining item; namely, the inclusion of an additional $325,000 in 2008 capital spending for the voltage conversion program.

The Motion now is to review the proposed inclusion in 2008 of $325,000 of capital expenditure for Lakefront’s long term voltage conversion. This capital project was deferred by one year into 2009 in order to permit capital expenditures on smart meters in 2008. If this expenditure is allowed in 2008, the rates will be affected because the revenue requirement flowing from the addition would have to be adjusted for depreciation and PILs.

The matter of including the $325,000 in 2008 affects the rates going forward and whether Lakefront has sufficient capital from its distribution revenues to allow the necessary capital programmes in the future.

Included in the Lakefront's submission is a proposal to recover, through the use of a rate rider, the lost revenues from the existing rates for 2008 which did not include the rate effect of this capital expenditure. The proposal also determines the future lost revenues up to the time of Lakefront's proposed rate rebasing in May, 2012 and includes them in the determination of the rider.

Board staff submits that, given the above, the following considerations should be addressed in the review of the proposal in Lakefront's submission:

- Should Lakefront's 2008 revenue requirement be adjusted to reflect the inclusion of the $325,000 into rate base reflecting the expenditure on its voltage conversion program in 2008;
- Are the levels of the currently approved 2008 rates sufficient as the basis for the IRM based rate adjustments in subsequent years in order to meet necessary future capital spending;
- Is the proposed methodology to recover the incremental amount of the revised revenue requirement the appropriate means if the Decision is made to adjust the Rate Base (i.e. using a rate rider to collect the revenues associated with the addition $325.000 annual capital expenditure);
- Should the recovery of any interest over the period be incorporated into the calculation proposed by Lakefront; and
- Is the impact on revenue requirement appropriately calculated?

Whether Lakefront's 2008 revenue requirement should be adjusted to reflect the inclusion of the $325,000 into rate base:

Board staff would point out that in Lakefront's EB-2007-0761 Reply Submission, March 10, 2008 on Page 16; it addressed the matter of moving into 2008 the $325,000 of capital expenditures for voltage conversion. These expenditures had originally been planned for 2008, but were diverted to 2009 to leave room for capital expenditures for smart meter. The request by Lakefront is to include these costs in rate base for 2008. Board Staff note that in Lakefront's Submission it is stated that this voltage conversion must continue in order to improve reliability and efficiency. Staff further notes that Lakefront state in their Submission that they did spend the $325,000 in 2008 for voltage conversion. Board staff submits that Lakefront's final position on when the money would be spent may have caused some confusion as to what the final request was in the EB-2007-0761 case. Nevertheless, staff submits that Lakefront should be permitted to reflect this expenditure in their 2008 revenue requirement.

Is the levels of the currently approved 2008 rates are sufficient as the basis for the IRM based rate adjustments in subsequent years:

Lakefront points out in its submission that its historical capital expenditure levels were at $1.6 million and $1.7 million for 2006 and 2007 respectively.

In response to Board Staff Interrogatory 13, Lakefront disclosed that its capital expenditure was significantly lower prior to 2006, ranging from $700,000 to $95,000. The interrogatory response also has a different capital expense indicated for 2007 than the $1.7 million stated in Lakefront's submission.

In Board Staff's Submission in the EB-2007-0761 proceeding, it pointed out that that the record was not clear if the 2008 capital expenditure level would be consistent with Lakefront's assertion of a need for infrastructure "catch-up" without the smart meters capital expenditures included.

Lakefront in Their Submission, state that the $900,000 of total capital expenditures currently in their 2008 rates is insufficient for capital investments required on Lakefront's system. In order to assess the reasonableness of including the $325,000 of capital expenditures going forward, Board staff submit that Lakefront should address in its final submission the appropriateness of a capital expenditure level of approximately $1,225,000 going forward if the effect on rates of the $325,000 capital expenditure are allowed in some way. Lakefront should also address the apparent discrepancy on the record concerning the 2007 capital expenditure.

Is the proposed methodology to recover the incremental amount of the revised revenue requirement appropriate:

It appears that Lakefront is proposing to not change the levels of its 2008 distribution rates. Rather, Lakefront appears to be waiting until the next rebasing to increase the base rates. In the interim, they are proposing to put in place a lost revenue rate rider until April 30, 2012, and have provided tables to that effect. Board staff submits that in its final submission, Lakefront should address whether they in fact are proposing this approach or should correct Board Staff's impression and provide a rationale for their proposal. Addressing the alternative to increase rates rather than use a lost revenue rider should be part of that rationale.

Should the recovery of any interest over the period should be incorporated into the calculation:

Lakefront has included interest in its calculation of the rate rider for the period from 2008 to 2012 inclusive. The interest rate used by Lakefront for the lost revenue rate rider is the Board's approved interest rate for deferral and variance accounts for the third and fourth quarter of 2008. That rate is 3.35%. Board staff notes that the Board's approved rate posted on its web site for the first quarter 2009 is 2.45%. Utilities update their interest calculations every quarter to reflect the posted rates. Lakefront is proposing to use a rate that is variable as a fixed long term rate.

Lakefront's rationale in choosing the interest rate is unclear. It is also not certain that interest should be collected at all.   Board staff observes that as an alternative, the calculation of a Lost Revenue Adjustment Mechanism is based on a discount rate using the after tax cost of capital. Staff would also like to point out that as an alternative, business can employ their short term line of credit and associated debt, which in Lakefront's case is 4.47%, for revenue short falls. Board Staff request Lakefront to address the appropriateness of using an interest rate and the appropriateness of the chosen rate in its Reply Submission.

Is the Revenue Requirement Appropriate?

Board staff has reviewed the determination of the revenue requirement flowing from including the $325,000 of capital expenditures in the 2008 year. Staff would like to point out that in the PILs calculation provided in Lakefront's Submission appears to include other interest as an addition and as a deduction. The Board in other Decisions has disallowed other interest in PILs calculations. Staff would further like to point out that in this case the other interest addition and deduction almost cancel each other out leaving an insignificant impact. Board Staff submit that Lakefront should be directed to exclude other interest in the determination of PILs.

All of which is respectfully submitted.