



Lakefront Utilities Inc.

207 Division Street, Cobourg, ON K9A 4L3 • www.lusi.on.ca • Tel: (905) 372-2193 • Fax: (905) 372-2581

February 20, 2009

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

Dear Ms. Walli:

**Re: Lakefront Utilities Inc. (LUI) Ref: EB-2008-0722 Motion for Review and Vary
LUI response to Board Staff, VECC and SEC Submissions**

In response to Board Staff, VECC and SEC's correspondence dated February 18, 2009, please find attached Lakefront Utilities Inc. responses.

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

Yours truly,

Original signed

Dereck C. Paul
Lakefront Utilities Inc.

Copy: Bruce Craig – President - LUI
Christie Clark – Case Manager – OEB
Andrew Taylor – Ogilvy Renault; Counsel for LUI
Michael Buonaguro – Counsel for VECC
John De Vellis – Counsel for SEC

THE ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application by Lakefront Utilities Inc. (“LUI”) for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

AND IN THE MATTER OF a Motion by Lakefront Utilities Inc. for a review and variance of the Board’s Decision dated May 9, 2008 in the proceeding.

FINAL SUBMISSIONS

OF

LAKEFRONT UTILITIES INC.

These are the final submission of Lakefront Utilities Inc. (LUI) in response to the submissions of Board staff, School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) dated February 18, 2009.

On February 11, 2009, LUI filed its submission with respect to a Motion for the inclusion of \$325,262 in 2008 capital spending for voltage conversion projects.

As indicated by VECC in their submission (#17) and SEC (paragraph 5), LUI submits that it was reorganizing its 2008 capital expenditure by reducing the \$325,262 in the 2008 EDR Application process, in an attempt to manage its capital spending responsibly and contain costs to make room for anticipated smart meter expenditures in 2008.

With smart meters capital spending disallowed in the Board’s Decision dated May 9, 2008, LUI’s 2008 rates are based on a capital spending well below historical average, which would carry though during the IRM period if the Board does not allow the adjustment of LUI’s 2008 capital expenditures to include the \$325,262.

Contrary to VECC’s assertion that the \$325,262 is supported as a 2009 expenditure (#6, #20, #23 and #28), as previously stated in LUI’s submission dated February 11, 2009 and asserted by Board staff, LUI would like to duly reiterate that the related

\$325,262 was spent on voltage conversion capital in 2008 and is not a 2009 spending proposed for inclusion in 2008 rates.

The inclusion of the \$325,262 to LUI's 2008 capital is necessary in order to ensure that LUI's distribution rates going forward into the IRM period are based on a reasonable capital budget and are sufficient for future capital investments required on LUI's system for improve reliability and efficiency.

LUI indicated in its Submission dated February 11, 2009, the actual capital expenditures for 2007 at \$1.7 million. That figure was a typo transposition error and should have been \$1.2M in accordance with LUI's interrogatory response to Board staff interrogatory 13. LUI apologize for any confusion this has caused.

To reiterate, LUI's previous five years total capital expenditures are:

2007 - \$1,244,906
2006 - \$1,637,086
2005 - \$ 957,219
2004 - \$ 691,779
2003 - \$ 762,583

A 2008 capital budget of \$908,753 approved by the Board in the May, 9, 2008 without the inclusion of the \$325,262 would have an impact for four years, 2008 through to 2012.

This would be detrimental to LUI's planned infrastructure spending and the ongoing safe sustainability of the utility. It would also have major impact and ramifications to LUI's fixed assets and rate base, and ultimately hamper the ability to earn an appropriate regulated rate of return for the safe, efficient and reliable operations of the utility.

The addition of the \$325,262 voltage conversion would bring LUI's capital expenditure to \$1,229,008 which is a more appropriate level relative to the above scenario and less than 2007 and 2006 capital expenditures.

Methodology

LUI is proposing to not change the levels of its 2008 distribution rates but rather to put in place a lost revenue rate rider until April 30, 2012. The rate rider tables have been provided by LUI in its Submission dated February 11, 2009. Appropriate increase to LUI's rate base would be addressed in our next rebasing.

Interest

LUI included interest on the 2008 lost revenue associated with the \$325,262 capital between May 1, 2008 and April 30, 2009 only.

LUI is not proposing to collect interest on the \$325,262 capital from May 1, 2009 to April 30, 2012.

Should the Board allow the inclusion of the \$325,262 capital allowance in 2008, the rate riders would start effective May, 1, 2009. The interest rate used for calculations on the 2008 lost revenue was obtained from the Board's web site. For Q2 2008 its 4.08%, Q3 2008 its 3.35%, Q4 2008 its 3.35% and Q1 2009 its 2.45%. A reasonable estimate was the 3.35% used. The breakdown of the rate rider amount are as follows:

May 01, 2008 to April 30, 2009 principal	= \$18,777.00
Interest on \$18,777 for May 01 2008 to Apr 30, 2009 at 3.35%	= \$ 629.03
May 01, 2009 to April 30, 2012 principal (\$18,777 X 3)	= \$56,331.00
TOTAL amount used to calculate rate rider	= \$75,737.00

PILs

LUI has excluded other interest in the recalculation of PILs as suggested by Board staff. Below are the details of the calculation.

2008 PILS RATE AND CALCULATION						
Item	Description	Reference	Rates	Dollars		PILS
1	Taxable Income			\$ 719,581		
2	Ontario					
3	Income Tax Payable		14%	\$ 100,741		
4	Small Business credit	400,000	8.50%	-\$ 34,000		
5	Surtax on (1-4)	319,581	4.67%	\$ 14,924		
6	Income Tax			\$ 81,666		
7	Effective Ontario Rate (6/1)		11.35%			
8	Federal rate		19.50%			
9	Combined tax rate		30.85%			
10	Income tax PILs	(1) x (9)				\$ 221,984
11	Grossed-up PILs	(10) / (1-30.85%)				\$ 321,014

The PILs difference is \$437 (\$321,014 - \$320,577) and is thereby increasing LUI's Base Service Revenue Requirement accordingly (see below calculation):

OM&A Expenses			2,150,631
Amortization Expenses			821,158
Total Distribution Expenses			2,971,789
Regulated Return On Capital			1,047,221
PILS (with gross-up)			321,014
Service Revenue Requirement			4,340,024
Less: Revenue Offsets		-	335,564
BASE REVENUE REQUIREMENT			4,004,460

The difference in loss revenue for 2008 would be \$19,214 (\$4,004,460 - \$3,985,246)

Depreciation – half-year rule

SEC is concerned that LUI completed the work towards the end of 2008 and used the half year rule for recognition of the capital expenditures in rate base for 2008 in the calculations. LUI respectfully submits that this methodology used for the first year addition is consistent with the Canadian Institute of Chartered Accountants (CICA) Handbook and the OEB's Accounting Procedure Handbook and applies to capital work done at the beginning of the year as well as towards the end of the year. Based on SEC's rationale, capital investments that are used and useful at the beginning of the test year should be fully included in rate base. LUI made capital investments in the test year that were used and useful at the beginning of the year, however the half-year rule was applied to those investments. Therefore, LUI submits that the half-year rule should be applied uniformly.

Other

In response to VECC's submission, it is LUI's understanding that a review by the Board is not restricted to the grounds set out in section 44.01 of the Rules of Practice and Procedure. Rather, the Board has the discretion to review a decision and order where appropriate. Since both SEC and Board staff generally support LUI's request, subject to some minor issues addressed in this submission, LUI requests that the board exercise its discretion in this circumstance.