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March 16, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

RE: Lakeland Power Distribution Ltd.
EB-2008-0234
2009 Electricity Distribution Rate Application
Reply Submission

Please find enclosed the Reply Submission from Lakeland Power Distribution Ltd. in the above-noted proceeding.

Respectfully submitted,

Margaret Maw
CFO
Lakeland Holding Ltd.

Preface

Lakeland Power Distribution Ltd. (LPDL) is the Local Distribution Company formed by the Municipalities of Bracebridge, Huntsville, Burk's Falls, Magnetawan and Sundridge. LPDL currently serves approximately 7,500 Residential customers, 1,500 General Service under 50 kW customers and 96 General Service over 50kW customers within 144 sq. km. of service territory.

On September 15, 2008 LPDL submitted a 2009 Distribution Rate Application following the required filing guidelines. The Application has been based on a forward test year cost of service methodology. LPDL submitted the required interrogatory responses to Board staff and Interveners within the deadlines outlined in various Procedural Orders issued by the Ontario Energy Board (Board).

LPDL provided evidence supporting a Service Revenue Requirement request of $5,365,301 with revenue offsets of $407,336 once applied resulting in a base revenue requirement to be recovered from rates of $4,957,965. This revenue requirement reflects a revenue deficiency for 2009 of $991,889 based on existing approved rates. The main contributors to this deficiency are:

- Correction of Account balance error from the 2006 EDR process for a reversal of a provision against the recovery of regulatory assets that should not have been included in the three year average
- Projected increases in OM&A costs, particularly Tree Trimming expenses as LPDL is in one of the most heavily treed areas of the province and the need to stay on target with a 7 year tree trimming program
- Projected increases in investments in gross assets to replace and upgrade aging assets as well as enhancements to provide for preventative maintenance and ultimately improving reliability.

This document is LPDL’s reply submission in respect of its 2009 Cost of Service Application for an Order approving just and reasonable rates for the distribution of electricity effective May 1, 2009. This submission is in response to the submissions from:

- OEB Staff (Board Staff)
- Energy Probe Research Foundation (Energy Probe)
- Vulnerable Energy Consumers Coalition (VECC)
- School Energy Coalition (SEC)

To facilitate a review of LPDL’s replies on the issues, the replies have been consolidated by topic.

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Load Forecasting:

Board staff regards the load forecasting methodology and model as a sound weather-normalized forecasting methodology and submits that the load forecast as submitted is satisfactory. Board staff also submits there is only a small likelihood of the forecast being too low. LPDL agrees with the views of Board staff. LPDL also appreciates the level of detail that Board staff has provided in their comments on load forecasting in their submission. To date comments from Board staff in other 2009 cost of service applications on the issue of load forecast have been limited. This has caused LPDL to be concerned that the approach used to determine the load forecast would probably not be accepted by the Board. This concern is based on Energy Probe and VECC essentially providing the same disapproving comments in all submissions of 2009 applicants that have used this load forecasting approach and suggesting the approach is a flawed methodology.

SEC did not make any submission with regards to the load forecast. VECC and Energy Probe take a number of pages within their submissions to express major concerns with the load forecasting methodology and suggest the proposed forecast is substantially too low. LPDL will attempt to briefly address the issues raised by VECC and Energy Probe and show that their proposed changes to the forecast are unreasonable in the current economic climate.

In preparing for the 2009 rate application, LPDL had reviewed the OEB's decision of the 2008 rate applications. Within the area of load forecasting, the method used by many distributors was accepted by the Board. However, there were concerns from Board staff and Interveners that the method used was too simplistic. In particular there were concerns that the methodology utilized only a single year of weather-normalized historical load (i.e. 2004) to determine the future load. It is interesting to note that now Energy Probe is suggesting this approach should be used for LPDL's forecast (EP page 27, third paragraph).

LPDL noted in the case of Toronto Hydro, the load forecasting methodology used appeared to have a higher level of acceptance with parties. The Board's Decision on the Toronto Hydro case it stated:

> *"The Board accepts the forecast advanced by the Applicant, as amended throughout the process. This provides for a very small increase in load in 2008 of 0.03% and a small decrease in 2009 of 0.06% over 2006.*
>
> *Going forward, the Board encourages the Applicant to work with OPA, IESO, and perhaps others to understand differences in methodology employed by each. Of special interest is the development of methodology to account for the specific effects of CDM activities in forecasts. The success of LRAM and SSM applications is dependent on fully developed evidence respecting the effects of CDM activities on throughput. The Applicant can make a very important contribution to the sector by working with stakeholders to bring needed clarity to this aspect of forecasting and utility operations."*

In summary, the Board approved the Toronto Hydro load forecast as proposed but also encouraged Toronto Hydro to work with the OPA, IESO and others to understand the differences in methodology employed by each. LPDL prepared a load forecast for the 2009 rate application using a similar method based on the outcome of the Toronto Hydro case.

LPDL understands that to a certain degree the process of developing a load forecast for cost of service rate application is an evolving science for electric distributors in the province. LPDL expects to improve the load forecasting methodology in future cost of service rate applications by taking into consideration comments made by parties to this application as well as other cost of service rate applications for 2009 and onward. However, for the purposes of this application LPDL submits the load forecasting methodology is reasonable.

With regards to the overall process of load forecasting, it is LPDL’s view that the "Toronto Hydro" approach or the top down approach is appropriate. LPDL knows by month the exact amount of kWhs purchased from the IESO and others for use by customers of LPDL. With a regression analysis these purchases can be related to other monthly explanatory variables such as heating degree days and cooling degree days which occur in the same month. To use a bottom up approach as suggested by Energy Probe in which the monthly billed kWh of a class is related to other monthly variables is problematic. The monthly billed amount is not the amount consumed in the month but the amount billed. The amount billed is based on billing cycle meter reading schedules whose reading dates vary and typically are not at month end. The amount billed could include consumption from the month before or even further back. By using a regression analysis to relate rate class billing data to a variable such as heating degree days does not appear to be logical, since the resulting regression model would attempt to relate heating degree days in a month to the amount billed in the month, not the amount consumed. In LPDL's view, variables such as heating degree days impact the amount consumed not the amount billed. It is possible to estimate the amount consumed in a month based on the amount bill but until smart meters are fully deployed this would only be an estimate which in LPDL's view would reduce the accuracy of a regression model that is based on monthly billing data.

The process of preparing a proper weather normalized load forecast is a critical component of a cost of service rate application, LPDL would suggest that from a pure pragmatic perspective, in the future it would be advisable for the Board to provide additional details in the filing requirement on how a weather normalized load forecast should be determined. This would serve to reduce the time spent between Board staff, Interveners and Distributors in disputing the "theory" of preparing a proper method to determine a weather normalized forecast

In their submissions, Energy Probe and VECC raised a number of issues at a very detailed level. LPDL will attempt to respond to these issues but in order to be of assistance to the Board the issues will be addressed at a higher level.

Adjustments to the Forecast

The following table summarizes the adjustment to the load forecast proposed by Energy Probe and VECC parties.

Adjustment to Forecast Description	Energy Probe (kWh)	VECC (kWh)
Use the correct loss factor of 6.14%	(7,297,772)	(7,297,772)
Average use per customer for GS 50 – 999 kW increased to 647,371 kWh	8,711,794	8,711,794
Customer numbers revised to October 2008 levels	2,992,608	2,992,608
Use Hydro One 2004 weather normalized average use data for Residential and GS < 50 kW	6,900,768	
Total	11,307,398	4,406,630

Based on the above LPDL would agree with the adjustment resulting from a corrected loss factor. However, LPDL submits it would not be consistent to update the customer forecast numbers using actual 2008 data when other data items in the load forecast have not been updated for 2008 actual amounts. In addition, LPDL does not agree with increasing the average use per customer for the GS 50 – 999 kW class to 647,371 as this level has never been achieved since 2002 and considering the current economic condition LPDL strongly believes this usage per customer cannot be achieved in 2009. LPDL agrees with VECC that the adjustment suggested by Energy Probe to reflect Hydro One 2004 weather normalized usage data is not appropriate. It appears to LPDL that Energy Probe is using a method previously rejected by Interveners to increase LPDL's load forecast

The following table outlines the proposed 2009 forecast of total billed amount by the various parties.

Description	(kWh)	2 year Growth Rate	Annual Average Growth Rate
LPDL 2007 Actual Billed – Exhibit 4, Tab 2, Schedule 9, Page 1	217,874,248		
VECC 2009 Forecast Billed	230,327,976	5.72%	2.86%
Energy Probe 2009 Forecast Billed	237,228,744	8.88%	4.44%
LPDL 2009 Forecast Billed – OEB Staff IR 25	225,921,346	3.69%	1.85%

As per OEB Staff IR 25, LPDL is proposing the 2009 forecast billed amount should be 225,921,346 (kWh). Based on information in OEB Staff IR 25 as well as on the previous page LPDL submits the 2009 forecast bill amount should be 218,623,574 kWh (i.e. 225,921,346 minus 7,297,772) which is a 0.3% increase over the 2007 actual amount. Considering the current economic downturn, 218,623,574 kWh appears to be reasonable. However, as a rate mitigation strategy, LPDL is proposing to maintain the load forecast of 225,921,346 kWh and understands that it is highly unlikely this amount will be achieved in 2009. This is also suggests that the forecast of 237,228,744 kWh (i.e. 225,921,346 plus 11,307,398) suggested by Energy Probe and the forecast of 230,327,976 kWh (i.e. 225,921,346 plus 4,406,630) suggested by VECC are completely unreasonable. If either one were adopted by the Board it would put significant risk on LPDL's ability to collect the approved revenue requirement.

Customer Forecast

Energy Probe and VECC are proposing the 2009 customer numbers for Residential, GS < 50, and GS > 50 kW be increased to reflect actual customer numbers as of October 2008. As suggested by Energy Probe and VECC these changes should increase the load forecast by 2,992,608 kWh. As stated previously, LPDL does not support these adjustments to the customer number and/or kWh forecast. However, if the Board decides to adopt the Energy Probe and VECC proposal LPDL would appreciate the opportunity to reduce the load forecast to offset the risk of revenue collection associated with a higher customer numbers. LPDL could have reduced the forecast by 7,297,772 kWh to reflect a corrected loss factor but decided not to make this change for rate mitigation purposes. If the customer numbers are increased this would decrease the monthly service charges and provide additional rate mitigation. LPDL submits additional rate mitigation is not needed. To offset the risk of revenue collection the load forecast should be reduced by 2,992,608 kWh which is only 41% of the reduction LPDL could have made (i.e. 2,992,608 is 41% of 7,297,772)

Rate Base:

Working Capital

Cost of Power

Energy Probe (Rate Base a) i)) and VECC (2.16-2.18) submitted that the rate used for the cost of power should be updated to reflect the most recent forecast available. LPDL used a rate of $.0545 per kWh in its original submission and applied this average forecast rate (at the time) to the total estimated load. In October 2008, the OEB's Regulated Price Plan Report was issued citing $0.0603 per kWh as the most recent average forecast. LPDL did not update its application and ultimately the working capital amount, as it would have lead to an increase in revenue deficiency and ultimately more rate mitigation as the overall increases were approaching 10% on total bill impact. LPDL submits that it will take Board direction on which rate to utilize for working capital purposes and suggests, the end result may need to be readjusted for rate mitigation purposes.

Energy Probe and VECC have concerns over the methodology used to calculate the commodity component of the cost of power. LPDL's understanding is that the price is an average and is applied to the total estimated load. LPDL submits that the methodology used for calculating the cost of power remains appropriate as applied to the current rate application and pending any future direction from the Board on the methodology. Also of note, LPDL is not an IESO market participant as suggested in VECC's submission (2.17).

Removal of Property Taxes

Energy Probe (Rate Base a)ii)) has submitted that the working capital allowance should be adjusted by the removal of the property tax expense, on the basis that Appendix A in the 2006 EDR Handbook shows that account 6105 is NOT included in the calculation. LPDL concurs that the Appendix A would indeed appear to exclude 6105 however, in the actual 2006 EDR model issued by the OEB, this account was included in the working capital calculation as part of "other distribution expenses". This was the model and calculation upon which LPDL's 2006 rate approval was based. LPDL respectfully requests direction from the Board as to whether the approach of the approved OEB 2006 EDR model that was used in its 2009 rate application can stand, or the property tax should be removed to reflect the text of Appendix A in the 2006 EDR Handbook.

Changes to Controllable Expenses

LPDL agrees with Energy Probe (Rate Base a) iii)) that if the Board makes any adjustments to the controllable OM&A expenses in its Decision, these changes will be reflected in the calculation of the working capital component of rate base.

Working Capital Methodology

Energy Probe (Rate Base (a)) and VECC (2.16 – 2.18), with SEC support, provided comments for the Board regarding the approach that should be taken by distributors in general to the working capital calculation. LPDL submits it has utilized the 15% working capital allowance as provided by the OEB filing instructions November 14, 2006 (EB-2006-0170, page 15). LPDL submits that the methodology it has used remains appropriate in the context of its current rate application and pending any future direction from the Board on the methodology.

Energy Probe urges the Board to require a lead-lag study for LPDL's next rebasing application. LPDL submits that these studies can be expensive and if they become a requirement it would be LPDL's opinion it should be conducted in a generic sense across the province through a consultation process led by the OEB.

Capital Expenditures:

As indicated in Board staff submission, LPDL is proposing 2009 capital expenditures of $1.7 M. This is a significant increase in capital additions however as LPDL has submitted in previous interrogatories, this is largely due to a new substation and for spending to address aging assets. To address VECC's concern (2.12-2.14) about spending at the end of the year, LPDL takes offense to the suggestion that there was a year-end surge to hit a spending target. LPDL tries to streamline capital spending throughout the year to avoid cash issues as well as making the most of seasonality. Being a tourism area as well as heavily forested, most of the capital work is done in the fall. Most parts and major items have such a long lead time that it would be almost impossible to truly co-ordinate a specific spending in the last two months of the year. The "surge" at yearend was expected to be line transformers that had been on order for over 8 months as well as the bucket truck that was on order for over 9 months. The transformers were to be on hand to be installed with the PCB change-out as indicated in the rate application. In the end, only half of the transformers arrived in 2008, the balance in January and February of 2009. Prior year capital spending was almost entirely work for which LPDL received a capital contribution and due to lean staff numbers, this was all the work that could be performed. With the downturn in the economy, it will allow the aging assets projects that have been deferred due to staffing to be completed in the next few years.

In references to the 10 mVA substation, this has been in the planning and request for proposal stage since 2006, with the original energization to be 2008, and only deferred due to lead-time on the manufacturing of the station. This substation will not only allow for the expansion due to the two developers, but will also allow LPDL to shift load in order to do maintenance without shutting off power to its customers. This installation was not a “spending behaviour to increase capital in the Test year” as referred to by VECC as LPDL was not in control of the timing of the expansion, it was directed by the developers. The components have now all arrived and installation is to start at the end of March with energization by June 2009. Although the economic situation has changed the actual connections that will be realized in the short term, the process, contracts, and agreements were too far along in the process to stop. In this regard it is LPDL’s view it is unreasonable for VECC, SEC, and Energy Probe to suggest disallowing this expenditure to be in the rate base and thus not allow LPDL a rate of return on its investment until it’s next rebasing process. In reference to the incremental cost, VECC (2.12) suggests that the original amount be reflected. LPDL did not ask for the incremental amount to be added, it was only a note to make parties aware that the project cost had increased from the 2007/2008 estimates once all the final quotes had been received.

With reference to VECC's comments on spending in Test year (2.13), "*increasing capital spending significantly in the Test Year compared to the spending in the years immediately preceding*". LPDL would agree with the comment if it was in a position of being able to control the two major expenditures causing the increase, the first being the bucket truck for which the older truck's boom failed, making it a safety issue and the fact that LPDL does not control the timing of new subdivision development. Capital spending in any industry that the writer has had experience in, is not consistent year to year, there are always spikes. Constant deferral of costs to a variance account affects future cashflow which in turn causes more spikes as smaller utilities spend when they have the available funds hence a significant reason why LPDL's spending has been sporadic.

LPDL submits that it wishes to have the capital expenditures stay as submitted in the original application and is not requesting a revised amount, eliminating the need for recalculation of revenue requirement, depreciation, and CCA.

Cost of Capital:

Capital Structure

All parties to this submission agree that LPDL's proposal of a capital structure of 56.67% debt and 43.33% equity is consistent with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors* dates December 20, 2006.

Short Term Debt

LPDL wishes to indicate that it will adopt the short term debt as revised by the Board in early 2009, from 4.47% to 1.33%.

Long Term Debt

No issues were identified with LPDL's calculation of the weighted cost of debt at 5.16%.

Common Equity/Return of Equity

LPDL wishes to indicate that it will adopt the return on equity rate as revised by the Board in early 2009, from 8.57% to 8.01%.

OM&A Costs:

Regulatory Expenses/2009 Rate Rebasing Costs

LPDL submitted in the original application that total spending for the 2009 Rate Rebasing costs will be $166,825 as per the cost breakdown in Response to Board staff IR #7, which includes funds spent in 2008. $2,119 was presented as a reallocation not on an actual basis but to meet the expected total cost submitted in the rate application as $70,000. LPDL submitted in this response that the expense would be taken over 4 years as $41,706 per year. In error, LPDL used the years 2008 to 2011 instead of 2009 to 2012. In light of the Board decision to have LPDL's application be decided by way of a written hearing rather than an oral hearing, LPDL submits that the legal costs could be reduced in half to $20,000 from $40,000 as indicated in Response to Board staff IR#7 and in agreement with Energy Probe's suggestion in their submission. This would result in a per year cost of $36,706, a reduction of $5,000 per year.

IFRS Conversion Costs

In Board staff's submission, it acknowledges that LPDL has not included any costs for the conversion to International Financial Reporting Standards (IFRS). At the time of the submission of the rate application, LPDL was unsure of the magnitude of the expenditure for this conversion. LPDL has since obtained quotes from three parties regarding this process as well as quotes on IT software changes to assist with managing regulatory books as well as IFRS books. In total, the expected spending is to be $120 K for conversion costs and higher audit fees, and $140 K for Accounting software changes to a more sophisticated system that will allow the tracking of differences between the methodologies and through the conversion comparative stage (2010). The accounting software implementation is set for July 2009 with a cutover date of January 1, 2010. To this end, LPDL wishes to submit a revision to its OM&A costs to include ¼ of the implementation fee and none of the software implementation costs in 2009-2012. The total change if accepted would be $34,000 per year in OM&A.

Electrical Safety Authority Fees

LPDL agrees with Energy Probe in its submission that ESA fees should be reduced by $22,700 and reflected in the revenue requirement.

Bad Debt Expense

LPDL agrees with Energy Probe's submission that the hiring of a part time collections person plus the purchase of credit risk insurance for Commercial/industrial customers should reduce the bad debt expense. By the end of 2008, the amount of residential accounts and GS<50 kW accounts that have been sent to a collection agency, as LPDL had exhausted all avenues, was 71% higher than the amount listed at the end of 2007. This alone will likely translate to bad expense of $25 K more than 2007 as the accounts are more than 6 months old. In light of the current economic conditions, LPDL does not feel it is a prudent time to reduce the expected level of bad debt expense from that submitted in the original rate application.

Office Supplies and Expenses

Energy Probe submits that the forecast for 2009 in Account 5620 should be based on the 2008 forecast. LPDL did not include two annual software maintenance fees in the 2008 Bridge Year in the total amount of $26,500. This was maintenance fees for the current accounting software and for the system/network maintenance. This amount was included in the 2009 amount. LPDL wishes to maintain the submitted amount for Account 5620 as $94,496.

Reallocation of Lakeland Holding Expenses

Energy Probe submits that the amount of hours that were allocated to the various companies were high by the reallocation of 2,674.5 hours that should remain in the Holding company, LPDL disagrees. These hours are the total of vacation, sick days, statutory holidays, attendance at management meetings, Board meetings and Shareholder meetings. The discussions and efforts at the various meetings invariably match with the level of time allocation for the balance of time. The Holding company only houses employees that perform services for the other companies, they have no other responsibilities. By reallocating the time as LPDL has done, the Power company has only been charged for the exact rate per hour plus payroll benefits (not including vacation and statutory as they are included in hours) without any cost plus factor or overhead allocation. This is turn, reduced the costs to the Power company that could have been charged under the ARC, namely a fully allocated cost including a return not to exceed LPDL's weighted average cost of capital.

The breakdown of the 2,674.5 hours is as follows

Vacation/Stat -	2,284.5 hours
Management Mtgs -	215.0 hours
Board meetings -	166.0 hours
Shareholder Mtg -	9.0 hours

For these above hours, LPDL was only charged with 62.3% of them or 1,667.24 as per the schedule submitted with response to Energy Probe IR #37.

LPDL submits that it is not contrary to regulatory principles and that no reduction in costs is warranted.

Based on the submissions of LPDL above, there would be an increase in the OM&A costs claimed for 2009 of approximately $6,300 (-$5,000+$34,000-$22,700). However, LPDL wishes to leave the OM&A costs at the level submitted in the original rate application and will make adjustments within accounts to match the total of $2,865,018.

Depreciation/Amortization

Energy Probe and SEC submit that LPDL should use the standard depreciation rates on the merged asset opening balances of LPDL. When the assets of the 5 LDC's were merged, their Net Book Value was used to set up the Cost in fixed assets rather than using Gross and Accumulated Depreciation. The percent that the NBV was of the original cost was applied to the standard depreciation rates to determine the remaining years of depreciation. The schedule below outlines how the assets were setup in the accounts. LPDL should have booked $19,070,821 to the Gross asset accounts and $6,252,131 to the Accumulated Depreciation account then used the remaining years.

Conversion of Fixed Assets to Lakeland Power Distribution Ltd	(A) Cost	(B) Acc. Dep'n	(A)-(B)=(C) NBV as at Sept. 1, 2000	(D)=(C)/(A) Est Life Left	(E) Term	(F)=(D)*(E) Remaining Yrs	(G)=(C)/(F) Annual Dep'n
1806	$ 486,965.40	$ 14,611.99	$ 472,353.41	97.0%	75	72.75	$ 6,492.87
1808	$ 182,949.20	$ 45,602.13	$ 137,347.07	75.1%	50	37.54	$ 3,658.98
1820	$ 1,334,779.37	$ 427,129.52	$ 907,649.85	68.0%	25	17.00	$ 53,391.17
1830	$ 4,548,979.46	$ 1,408,278.09	$ 3,140,701.37	69.0%	25	17.26	$ 181,959.18
1835	$ 2,894,008.65	$ 1,234,814.73	$ 1,659,193.92	57.3%	25	14.33	$ 115,760.35
1840	$ 2,950,709.81	$ 414,510.16	$ 2,536,199.65	86.0%	25	21.49	$ 118,028.39
1845	$ 663,972.44	$ 26,557.28	$ 637,415.16	96.0%	25	24.00	$ 26,558.90
1850	$ 3,443,244.50	$ 1,438,080.24	$ 2,005,164.26	58.2%	25	14.56	$ 137,729.78
1860	$ 931,997.34	$ 181,262.99	$ 750,734.35	80.6%	25	20.14	$ 37,279.89
1905	$ 226,661.40	$ -	$ 226,661.40		0		
1908	$ 91,879.89	$ 8,238.08	$ 83,641.81	91.0%	30	27.31	$ 3,062.66
1915	$ 60,841.62	$ 32,774.20	$ 28,067.42	46.1%	10	4.61	$ 6,084.16
1920	$ 197,015.87	$ 136,563.96	$ 60,451.91	30.7%	5	1.53	$ 39,403.17
1930	$ 793,567.14	$ 695,917.51	$ 97,649.63	12.3%	8	0.98	$ 99,195.89
1935	$ 10,021.49	$ 7,259.96	$ 2,761.53	27.6%	10	2.76	$ 1,002.15
1940	$ 253,227.50	$ 180,529.75	$ 72,697.75	28.7%	10	2.87	$ 25,322.75
Total	$ 19,070,821.09	$ 6,252,130.60	$ 12,818,690.49				

LPDL does not believe that the merged assets have a shorter life but rather should have been accounted for at the gross level rather than at net. The result for the 2009 Depreciation expense would remain at the amount submitted in the rate application.

PILs:

LPDL understand the Board's Decision on other issues of LPDL's rate application will impact the calculation of PILs such as the rate of return on equity. In this submission, LPDL will not attempt to update the calculation of PILs but will seek to address the issues raised by parties to assist the Board in its Decision on PILs. It is LPDL's objective to assure the Board that the calculation of PILs is correct which should allow the calculation of PILs in the 2009 draft Rate order to be as mechanistic as possible.

Capital Tax

Energy Probe submits that the Ontario Capital tax exemption that LPDL used in the rate application is not appropriate. LPDL split the $15 million exemption amongst all the

PILs paying affiliates in the LPDL group of companies. This is consistent with the methodology that LPDL used in the 2006 EDR rate application which LPDL's 2006 rate approval was based. LPDL submits that the calculation and exemption split should remain as submitted.

Capital Cost Allowance

With regards to Energy Probe's submission on changes to the Capital Cost Allowance, LPDL is in agreement that should the Board make any changes to the capital expenditure forecast, the 2009 CCA calculation would be updated. If there is a change, LPDL would also be willing to make changes to Class 1 and Class 47 as indicated on page 16 of Energy Probe's submission. Any other changes due to the Federal Budget such as that regarding Class 50 (Computer software) and its full depreciation in Year 1, will also be updated.

Income Tax

The OEB staff submission suggests LPDL method diverges from the Board's established methodology. LPDL would respectfully submit the "Top Down" approach used by LPDL is consistent with the Board's long standing methodology termed the "Regulatory Gross-up" method for the purposes of this discussion. The Top Down approach assumes revenues and cost are known and that taxable income can be determined to calculate income taxes in a manner similar to the process used to submit a tax return to the Ministry of Finance. The "Regulatory Gross-up" assumes ROE is adjusted for items such as the difference between depreciation and capital cost allowance. The tax rate is then applied to the adjusted ROE and the result is grossed-up with the tax rate to determine PILs. When the tax rate is one number the calculation is rather simplistic. However, the gross-up method becomes more difficult assuming the effect of the small business income threshold and clawback which creates more than one tax bracket or rate to be factored into the methodology. In any event, the purpose of the grossed-up PILs is to determine the PILs that would be calculated when the total revenue requirement is known. This means that the PILs calculated from a regulatory gross-up method must equal PILs from a top down method once the PILs are known and included in the total revenue requirement. The above discussion is summarized with LPDL information in the following table.

Lakeland Power Tax Calculations			
Top Down Approach to Calculate PILs		**2009**	
Return on Equity		$574,963	(A)
Tax Adjustments for 2009 PILs		185,309	(B)
Gross Up PILs		**$349,723**	(C) = (G)
Taxable Income before Tax for Ministry of Finance Purposes		$1,109,996	(D) = (A) + (B) + (C)
	Tax Rates		
First $500k before tax	24.50%	$122,500	(E) = $500k * 24.5%
$500 to $1,500k	37.25%	$227,223	(F) = ((D) - $500k) * 37.25%
Gross Up PILs		**$349,723**	(G) = (D) + (E)
Effective Tax Rate	31.507%		(H) = (G) / (D)
Regulatory Gross Up Method - Bottom Up Approach		**2009**	
Return on Equity		$574,963	(A) from above
Tax Adjustments for 2009 PILs		185,309	(B) from above
Taxable Income before tax for regulatory purposes (*)		$760,272	(I) = (A) + (B)
PILs before Gross Up	Tax Rates		
First $377.5k (**) after tax	24.50%	$92,488	(J) = 377.5k * 24.5%
$377.5k to $1,005k (***) after tax	37.25%	$142,583	(K) = ((I) - 377.5k) * 37.25%
Total PILs before Gross Up		$235,070	(L) = (J) + (K)
Gross Up PILs		**$349,723**	(M) = (I) / (1-(H)) * (H)
Proof			
First $377.5k (*) gross-up	24.50%	$122,500	(N) = (J) / (1-24.5%)
$377.5k to $1,005k (**) gross-up	37.25%	$227,223	(O) = (K) / (1- 37.25%)
Gross Up PILs		**$349,723**	(P) = (N) + (O)
(*) Taxable Income before tax for regulatory purposes = Taxable Income before tax for Ministry of Finance purposes less Gross Up PILs			
(**) $377.5k is the after tax amount of $500,000 when a tax rate of 24.5% is applied			
(***) $1,005k is the after tax amount of $1,500,000 when a tax rate of 37.25% is applied			

In preparing this section of the submission. LPDL has discovered the PILs calculated in Board staff supplemental IR#7 of $342,620 was incorrect and that this amount should have been $360,222 (i.e. $349,723 from above plus $10,499 in capital tax) as the blended rate should be 31.507% rather than 27.867%. As previously mentioned, LPDL understands the number may change based on the Board Decision and the recalculation of the revenue deficiency using the new tax rates. However at this stage, LPDL submits it is more important to provide evidence to assure the Board the calculation used by LPDL to calculate PILs is correct. In LPDL's view, the above table shows that income taxes should be $349,723 as the top down and regulatory gross-up approach provide the same results.

Board staff has calculated PILs expense of $319,113. This amount is determined using the regulatory gross-up approach as follows:

ROE = $575,165
Adjustment = $185,309
Taxable Income before PILs for Regulatory Purposes
= $575,165 + $185,309
= $760,474
Income Tax rate = 28.867%- This is Board staff's interpretation of the tax rate with the two tax brackets for small business.
Income Tax before gross-up = 28.867%% x $760,474= $219,526
Income Tax after gross-up = $219,526 / (100% - 28.867%)
= $308,614
Capital Tax = $10,499
Total PILs = $319,113

Using the OEB staff's income tax figure of $308,614, the top down approach will yield the following result.

Taxable income including Income Tax for Ministry of Finance Purposes

= ROE + Adjustments + Income Tax

= $575,165 + $185,309 + $308,614

= $1,069,088

Income Tax on this income = $500,000 x 24.5% + ($1,069,088- $500,000) x 37.25%

= $334,485

The top-down approach produces income taxes of $334,485 and the gross-up method result is $308,614, since these numbers are not equal there must be a flaw in the assumption. It is LPDL's view the flaw is in the assumed tax rate used for gross-up purposes. The tax rate to be used should be 31.507% not 28.867%. As shown below when this tax rate is used both approaches produce the same result.

ROE = $574,963

Adjustment = $185,309

Taxable Income before PILs for Regulatory Purposes

= $574,963 + $185,309

= $760,272

Income Tax rate = 31.507% - This is LPDL's interpretation of the tax rate with the two tax brackets for small business.

Income Tax before gross-up = 31.507% x $760,272= $239,610

Income Tax after gross-up = $239,539/ (100% - 31.507%)

= $349,723

Capital Tax = $10,499

Total PILs = $360,222

Taxable income including Income Tax for Ministry of Finance Purposes

= $574,963 + $185,309 + $349,728

= $1,110,000

Income Tax on this income = $500,000 x 24.5% + ($1,110,000- $500,000) x 37.25%

	= $349,723
Capital Tax	= $10,499
Total PILs	= $360,222

LPDL submits the method used to determine PILs is consistent with the Board's methodology and should be adopted in final rates.

Cost Allocation

Treatment of Transformer Ownership Allowance

VECC disagrees with the Cost Allocation results of the Informational Filings relating to the handling of the transformer allowance. Energy Probe and SEC did not make any submission with regards to handling of transformer allowance. However, Board staff submits that the reasoning underlying the VECC correction is valid, insofar as the cost allocation model does have an internal inconsistency in how it handles the “cost” of the transformer ownership allowance. However, staff submits that impact of the correction is very small, and cost allocation results are not so precise that LPDL should change its proposal for re-balancing class revenues. LPDL agrees with Board staff’s submission.

VECC submission proposes removing the cost of the transformer ownership allowance from the allocation of the revenue to the customer classes. VECC proposes to allocate the transformer ownership allowance directly to the GS>50 kW class after the cost allocation adjustments have been completed. This results in a set of revenue-to-cost ratios provided in which VECC feels is a more appropriate starting point.

Although an alternative method has been proposed, LPDL submits it is more appropriate at this time for LDCs to apply a consistent methodology until an alternative has been developed, tested, and approved by the Board. For this reason, LPDL submits the Board should approve the Transformer Allowance method used in the Cost

Allocation model and the resulting revenue to cost ratios for use in the 2009 Application with a view of addressing this subject through a consultation process under the direction of the Board.

Revenue to Cost Ratios

VECC has expressed concern with LPDL's use of the class revenue requirement distribution from the Cost Allocation Informational Filing to determine cost responsibility for 2009. VECC has proposed an alternate method which produces values to be used as the reference point for any cost allocation adjustments. LPDL disagrees with VECC's proposal and submits it followed an iterative process of allocating different proportions of revenue to the classes while trying to achieve desirable revenue to cost ratios which would move all classes in the direction toward unity. LPDL is proposing rates that are fair and balanced to all customers by bringing all classes closer to paying their fair share of costs that are attributed to them. While it is true the use of a different starting point would obviously result in slightly different results, the reduction of revenue by one class would have to be picked up by the other classes.

The Board Report on Cost Allocation dated November 28, 2007 stated cost allocation "calls for the exercise of some judgment both in terms of the cost allocation methodology itself …" and it is therefore recognized there will be differences of opinions on how some issues are handled. LPDL is not looking for winners or losers in the allocation of the revenue requirement but attempted to move the ratios toward unity while trying to keep the bill impact to reasonable levels for all customer classes.

All parties have agreed with LPDL to move the Street Light and Sentinel Light class ratios half way to the bottom end of the Board's Guidelines for the 2009 rate year. LPDL also agrees with Board staff, Energy Probe and SEC to phase in the balance of the movement to the bottom of the target range over the entire IRM period. Therefore, LPDL submits the Board should direct LPDL to phase in the movement of the revenue-to-cost ratios for the Street Lighting and Sentinel Lighting customer classes over the entire IRM period which will mitigate the bill impact on these two classes following the rate shock year proposed for 2009.

VECC has proposed alternative revenue cost ratios for LPDL. The following table provides a comparison of the proposed revenue-to-cost ratios between LPDL's Application and VECC. However, it should be observed that Board staff, Energy Probe and SEC did not propose alternative ratios.

	LPDL	**VECC**
Residential	100.00%	99.85%
GS<50 kW	100.00%	96.90%
GS>50 kW	122.84%	125.00%(*)
Street Lights	50.24%	43.65%
Sentinel Lights	52.70%	47.50%
USL	81.25%	80.00%

(*) Estimated

In the Board's Report on Cost Allocation the quality of data used to complete the cost allocation was an issue raised by the Board. Considering this issue, LPDL submits the revenue to cost ratios proposed by VECC are similar to LPDL's proposal considering the level of confidence with the results of the cost allocation study. As a result, LPDL suggest the Board should accept LPDL's proposal which is supported with all of the facts through to the bill impacts included with the submitted Application.

LPDL further submits it has applied for rates within the OEB Cost Allocation Guidelines. Any approach that is being cited as being more appropriate than that used by the 2008 and 2009 rate filers should be reviewed by the Board and communicated to the applicants for future year filings. LPDL submits it will apply any changes directed by the Board in its Decision.

Rate Design

Monthly Fixed Charges & USL

LPDL proposed to maintain the fixed/variable split constant for all classes, except for Residential where it proposed to increase the proportion of revenue from the volumetric rate and decrease the proportion from the Monthly Service Charge. VECC agreed with this approach. Energy Probe submitted no comments with regards to Rate Design

Board staff agreed with LPDL's approach except for the USL class. Board staff submits that LPDL should reconsider its rate design for USL and propose rates that would be comparable to the General Service < 50 kW class rate. LPDL submits that the proposal to maintain the fixed/variable split in this situation is reasonable, pending the completion of on-going study of rate design issues by the Board.

For the GS > 50 kW class, SEC is recommending that monthly fixed charge of $132 per month should be used. Consistent with the approach taken for USL, LPDL submits that proposes to maintain the fixed/variable split in this class is reasonable, pending the completion of on-going study of rate design issues by the Board.

Low Voltage Costs

Board staff have submitted that while LPDL's application of Low Voltage costs are consistent with policy, the rates used have now been updated effective May 1, 2009 in Board Decision for Hydro One (EB-2008-0187). The tables below reflect the new rates and the calculated reduction of $52,753.

Lakeland Power Distribution Ltd.
Low Voltage Costs

Description	kW or number	Rate	Total	
Service Charge	17	188.00	$	38,352
Meter charge	17	553.00	$	112,812
Common ST Line	519362	0.58	$	301,230
LVDS	164878	1.24	$	204,449
Original Submission			$	656,843

Description	kW or number	Rate	Total	
Service Charge	14	184.28	$	30,959
Meter charge	14	537.18	$	90,246
Common ST Line	519362	0.55	$	283,052
LVDS	164878	1.21	$	199,832
Revised amount			$	604,090
Difference			-$	52,753

Allocation of LV Costs

Customer Class	Retail Tx Con Revenue - Basis for Allocation ($)	Allocation Percentages	Allocated $
Residential	$417,732	42.08%	$254,205
GS <50 kW	$211,609	21.32%	$128,772
GS>=50 kW	$355,119	35.77%	$216,103
Street Light	$7,008	0.71%	$4,264
Sentinel	$154	0.02%	$94
Unmetered Scattered Load	$1,071	0.11%	$652
TOTALS	**$992,693**	**100.00%**	**$604,090**

LV-Related Adjustments to Volumetric Charges

Customer Class	Test Year Forecasted kWh	Test Year Forecasted kW	Low Voltage Rates/kWh	Low Voltage Rates/ kW
Residential	87,027,546		$0.0029	
GS <50 kW	49,211,450		$0.0026	
GS>=50 kW	87,383,887	209,041		$1.0338
Street Light	2,007,912	5,336		$0.7992
Sentinel	41,511	115		$0.8159
Unmetered Scattered Load	249,040		$0.0026	
TOTALS	**225,921,346**	**214,492**		

Retail Transmission Service Rates

Board staff has submitted that the Hydro One application (EB-2008-0187) for rates effective May 1, 2009, may be approved with increases. During the first round of IRs, LPDL responded to Board Staff #36 with new RTSR rates that not only would minimize any future variance but would also eliminate any current balance in the variance account. The same was true in the response to Supplemental Board IR #10. In the current submission LPDL has used current 2008 data and utilized H1 Rates of $2.24/kW for Network (11.4% increase) and $1.99/kW for Connection (5.9% increase).

NETWORK CHARGES BILLED $ - New Rates and New Loss Factor									Proposed	
Class	**Jun-08**	**Jul-08**	**Aug-08**	**Sep-08**	**Oct-08**	**Nov-08**	**Dec-08**	**TOTAL**	**Rate**	**/Unit**
Residential	$21,032	$22,432	$23,104	$22,894	$23,646	$26,789	$35,973	**$175,870**	$ 0.0044	/kWh
GS <50 kW	$12,005	$14,474	$15,984	$15,909	$14,949	$14,603	$17,314	**$105,237**	$ 0.0041	/kWh
GS>=50 kW	$28,954	$31,744	$31,796	$31,566	$31,206	$29,890	$31,105	**$216,261**	$ 1.7390	/kW
Street Light	$0	$0	$0	$268	$536	$536	$536	**$1,875**	$ 1.2667	/kW
Sentinel	$8	$13	$13	$13	$13	$13	$13	**$85**	$ 0.0036	/kWh
Unmetered Scattered Load	$2	$160	$75	$75	$65	$65	$65	**$508**	$ 0.0041	/kWh
Back-up/Standby Power								**$0**	$ -	/kWh
TOTALS	**$62,001**	**$68,823**	**$70,972**	**$70,725**	**$70,414**	**$71,896**	**$85,006**	**$499,837**		
Hydro One Charges	**$ 66,367**	**$ 66,978**	**$ 69,851**	**$ 62,281**	**$ 71,859**	**$ 76,917**	**$ 84,090**	**$ 498,343**	$ 2.2400	/kW
Difference	**$ 4,366**	**-$ 1,845**	**-$ 1,121**	**-$ 8,444**	**$ 1,445**	**$ 5,021**	**-$ 916**	**-$ 1,494**	0%	

CONNECTION CHARGES BILLED $ - New rates and New Loss Factor									Proposed	
Class	**Jun-08**	**Jul-08**	**Aug-08**	**Sep-08**	**Oct-08**	**Nov-08**	**Dec-08**	**TOTAL**	**Rate**	**/Unit**
Residential	$18,642	$19,883	$20,479	$20,292	$20,959	$23,745	$31,885	**$155,885**	$ 0.0039	/kWh
GS <50 kW	$10,541	$12,709	$14,035	$13,969	$13,126	$12,822	$15,203	**$92,403**	$ 0.0036	/kWh
GS>=50 kW	$25,801	$28,288	$28,334	$28,130	$27,808	$26,636	$27,719	**$192,717**	$ 1.5184	/kW
Street Light	$0	$0	$0	$234	$469	$469	$469	**$1,641**	$ 1.1083	/kW
Sentinel	$7	$11	$11	$11	$11	$11	$11	**$74**	$ 0.0031	/kWh
Unmetered Scattered Load	$2	$140	$66	$66	$57	$57	$57	**$446**	$ 0.0036	/kWh
Back-up/Standby Power	$0	$0	$0	$0	$0	$0	$0	**$0**	$ -	/kWh
TOTALS	**$54,993**	**$61,032**	**$62,925**	**$62,702**	**$62,430**	**$63,740**	**$75,344**	**$443,165**		
Hydro One Charges	**$ 58,960**	**$ 59,503**	**$ 62,041**	**$ 55,330**	**$ 63,839**	**$ 68,333**	**$ 74,705**	**$ 442,710**	$ 1.9900	/kW
Difference	**$ 3,967**	**-$ 1,529**	**-$ 884**	**-$ 7,372**	**$ 1,409**	**$ 4,593**	**-$ 639**	**-$ 455**	0%	

The above recalculated rates will reduce any variance to a minimum.

Specific Service Charges

No parties found issue with LPDL's submitted charges or with the forecast revenue from these charges.

Transformer Ownership Allowance

No parties found issue with LPDL's requested allowance of $.60 per kW.

Loss Factors

LPDL proposed an increase to its total loss factor from a current value of 1.0428 to 1.0614 for secondary metered customers <5000 kW. The data used to calculate this factor was five years average of Distribution Loss Factor and five years average of Supply Facility Loss Factor. Both VECC and Energy Probe have submitted that a three year average would be more appropriate however Board Staff have submitted that the data submitted is reasonable. To that end, LPDL submits that the five year data and subsequent result allows for less variability and more consistent value over time, much like that submitted by parties in regards to load forecast, more years of historical data result in better forecasted results. LPDL proposes no change to the submitted loss factors.

Deferral and Variance Accounts

LPDL did not request disposition of any deferral or variance accounts. Board staff submits that it would support disposition of most or all deferral and variance accounts without creation of a specific rate rider. The total amount for all deferral and variance accounts is approximately $152,000. LPDL feels that the only mechanism available to dispose of these under recovered costs is through a specific rate rider. LPDL wishes to recoup the amount at some point in time when the Board feels a rate rider is appropriate.

Revenue Offsets

Board staff submits that the Revenue offsets as submitted by LPDL are reasonable. Energy Probe contends that LPDL should remove any interest income or expense included in Other Distribution Revenue forecast in 2009 associated with deferral and variance accounts, LPDL did not include any in this category. All other Distribution Revenue items were considered a good basis for the 2009 forecast by both Board staff and Energy Probe.

SUMMARY

The following are the updated list of requested approvals updated for the discussion outlined in this submission. Some of the updates listed below could have an impact on the calculation of Revenue Deficiency but the impact can not be determined until the Board issues their Decision. LPDL continues to submit for approval a Revenue Deficiency amount of $991,889.

LPDL requests approval that in the event that the Board is unable to provide a Decision and Order in this Application for implementation as of May 1, 2009, an interim Order be issued approving the proposed distribution rates and other charges, effective May 1, 2009, which may be subject to adjustment based on the Board's Final Decision and Order.

Consistent with Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006, LPDL is requesting a change in capital structure, decreasing the Applicant's deemed common equity component from 46.7% to 43.3% and increasing the deemed debt component from 53.33% to 52.7% for Long Term and 4% for Short term. LPDL will use Board deemed appropriate % and rates of return when preparing the Final Rate Order.

LPDL requests approval to adjust the Low Voltage Rate Rider as reviewed and described within this submission, adjusted for new Hydro One rates. LPDL will adjust as per the annual amount based on the Board's decision.

LPDL requests approval to maintain the Smart Meter Rate Adder at $.25 per metered customer pending a completed Smart Meter Rate Adder filing.

LPDL requests approval of the proposed loss factor, as provided in the Application.

LPDL requests approval to continue to use the legacy rate for Transformer Allowance at $.60/kW.

LPDL requests approval to continue the Specific Service Charges approved in the Board's Decision and Order in the matter of LPDL's 2006 EDR rates.

LPDL requests approval of proposed changes to Retail Transmission Service rates as outlined in this submission utilitizing expected future Hydro One rates pending approval for May 1, 2009.

LPDL requests that the fixed/variable splits be maintained.