



**LAKEFRONT
UTILITIES
INC.**

December 23, 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) Response to Board Staff Interrogatories
EB-2009-0233, 2010 IRM3 Distribution Rate Application**

In response to your correspondence dated December 10, 2009, please find below Lakefront Utilities Inc. comments to the Ontario Energy Board Staff's interrogatories listed in your letter.

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

Yours truly,

Original signed

Dereck C. Paul
Vice President; Lakefront Utilities Inc.

Copy: Bruce Craig – President; LUI
Martin Benum – Board Advisor; Applications & Regulatory Audit

Lakefront Utilities Inc.

Response To Board Staff Interrogatories

(Board File: EB-2009-0233)

1. Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by Lakefront shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued “Regulatory Audit and Accounting Bulletin 200901” which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

Account Description	Account Number	Total Claim I = C + D+ E + F + G + H
RSVA - Power (Excluding Global Adjustment)	1588	1,659,251
RSVA - Power (Global Adjustment Sub-account)		(687,787)

- a) Has Lakefront reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?

LUI's Response:

Lakefront reviewed the Regulatory Audit and Accounting Bulletin 200901 dated October 15, 2009 and resubmitted an updated 2010 IRM Deferral Variance Account work-form via email to the Board on November 12, 2009 with adjusted figures that showed the split for account 1588 – Power and Global Adjustment as follows:

Account Description	Account Number	Total Claim I = C + D+ E + F + G + H
RSVA - Power (Excluding Global Adjustment)	1588	826,591
RSVA - Power (Global Adjustment Sub-account)		144,869

- b) Has Lakefront made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account work-form?

LUI's Response:

Yes and the updated work-form were re-filed with the Board on November 12, 2009. However, as a result of the Board's request to further update the amended Deferral Variance Account Work-form (Version 4) that was released by the Board on December 7th, Lakefront will resubmit an updated 2010 IRM Deferral Variance Account V4 work-form with these responses.

2. Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board's original Deferral Variance Account workform was modeled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."

Board staff would like to poll Lakefront on the above issue.

- a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does Lakefront agree that this proposal would be fair to all customers? Why or why not?

LUI's Response:

Lakefront agrees with the Board staff proposal that a separate rate rider be applied to the Non-RPP customers for 1588 – Global Adjustment. This would be reasonable and fair to all the classes.

General Service class >50kW customers would be billed on Non-RPP rates and therefore contributed to GA balances regardless of whether they are enrolled with a Retailer, or paying the market rates directly.

As for Residential class, only those customers who have signed with a Retailer would have been responsible for any variances related to the GA charges.

It is therefore reasonable to say that the customers in the General Service >50kW class were “responsible” for the GA rate and the resulting variance for the entire period from 2005 through to the end of 2008. Whereas, only a handful of Residential customers that were on and off Retailer contracts were responsible for contributing to the GA account variance.

We should also consider that the variance account changed from a positive value to a negative value during different periods of time throughout 2005 to 2008.

Given the above factors, it would therefore be difficult to apply a rate rider to the entire Residential class without allocating the proper amount of the variance account at a granular level to the specific consumers associated with the accumulation of the variance.

- b) If the Board were to order Lakefront to provide such a rate rider, would Lakefront’s billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would Lakefront see with this rate rider?

LUI’s Response:

Lakefront has discussed the existing capabilities of the billing system with our Application Service Provider (ASP), and has identified that establishing a separate rate rider for disposition of the GA variance account could be done. However, there will be incremental costs for these changes to the billing system. There will also be additional costs for managing retailer Residential enrolled versus Residential RPP accounts.

The issue of which enrolled customer should be required to pay back the variance balance would be difficult to track given that many of the customers responsible for the growth of the variance account balance are no longer enrolled with Retailers.

If the Board requires Lakefront to establish this rate rider, then Lakefront believes the cost associated with making the necessary billing changes should be addressed through a variance account that tracks the associated costs for future rate recovery.

- c) If Lakefront were to be unable to bill in this fashion what would Lakefront consider proposing in the alternative?

LUI's Response:

Lakefront suggests that the entire GA variance be collected from the GS>50 kW customer class through a specific rate adder over a three year period.

Lakefront also proposes that the Board undertake a review to see if it would be feasible to establish a charge or credit for customers returning to Regulated Rates (either RPP or TOU) similar to the current charge (or credit) applied to customer accounts when they leave the Regulated Rate plan to enroll with a Retailer. This would ensure that in the future those responsible for variance accounts related to GA are the ones paying or receiving credit appropriately.

Note re sheet C1.4a Reg Assets – Cont Schd 2009

Please be advised the figures populated in this sheet for 2009 are for the period of January 2009 to September 2009. The 3rd quarter numbers are not finalized as of the date of this response.

3. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the billing determinants identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

			2008		
Rate Class	Fixed Metric	Vol Metric	Billed Customers or Connections		
			A	B	C
Residential	Customer	kWh	8,023	75,604,253	
General Service Less Than 50 kW	Customer	kWh	1,052	35,639,722	
General Service 50 to 2,999 kW	Customer	kW	134	125,799,428	298,912
General Service 3,000 to 4,999 kW	Customer	kW	2	43,016,692	80,519
Unmetered Scattered Load	Connection	kWh	98	743,068	
Sentinel Lighting	Connection	kW	55	49,122	98
Street Lighting	Connection	kW	2,793	2,001,656	5,177

- a) Please identify if these values are from the Lakefront 2008 Cost of Service Application or 2008 RRR reported values.

LUI’s Response:

These values are from Lakefront’s actual 2008 figures as of December 31, 2008 that was reported in our RRR filing, with some negligible differences, as noted below:

For the customer/connection data, the RRR filing was incorrectly made using the average number of customers/connections in the 2008 year, whereas the above figures are the total customers/connections as at the end of December 31, 2008.

The RRR filing disclosed the total number of customers for Streetlights and Sentinel classes, whereas the IRM was filed using number of connections.

The billed kWh are consistent with RRR with the exception of the GS<50, where the RRR was filed with a slight error, that was not caught before submission, and only recently noted. The total difference in the kWh was 2,347 kWh. The IRM was filed using the correct figure and differs (as noted) only slightly, at 2,347 kWh higher than the RRR submission.

Lakefront will be refiling the December 2008 RRR with the corrected figures ASAP.

- b) If the above are from the 2008 CoS application please provide reference to location in the application.

LUI’s Response:

N/A

4. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the Billed kWh for Non-RPP customers identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

Rate Class	Billed kWh for Non-RPP customers
	D
Residential	717,950
General Service Less Than 50 kW	298,867
General Service 50 to 2,999 kW	7,749,137
General Service 3,000 to 4,999 kW	3,532,226
Unmetered Scattered Load	0
Sentinel Lighting	0
Street Lighting	166,805

- a) Please identify if these values estimated values or actual values and specify the applicable period.

LUI's Response:

These values are actual for 2008. Lakefront conducted a complete reconciliation and analysis of the accounts to obtain these figures. A copy of this report is available if required.

- b) If the above values are estimated please explain why Lakefront is unable to determine actual.

LUI's Response:

N/A

- c) As discussed in one of the questions above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would Lakefront support using the numbers above as the most reasonable denominator to be used for rate determination.

LUI's Response:

Lakefront is supportive of using the above numbers to be used for the disposition of the 1588 – Global adjustment.

- d) If Lakefront were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does Lakefront believe that the rider be applied to customers in the MUSH sector? If not, would Lakefront have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

LUI's Response:

MUSH sector were RPP customers. As of November 1, 2009 that categorization has been “eliminated.” Lakefront therefore believes the rider should not be applied to the MUSH sector.

5. Ref: 2010 IRM Deferral Variance Total Claim

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Regulatory Assets - Continuity Schedule Final

Account Description	Account Number	I= C + D+ E + F + G + H
LV Variance Account	1550	293,002
RSVA - Wholesale Market Service Charge	1580	-677,234
RSVA - Retail Transmission Network Charge	1584	-48,229
RSVA - Retail Transmission Connection Charge	1586	-32,509
RSVA - Power (Excluding Global Adjustment)	1588	1,659,251
RSVA - Power (Global Adjustment Sub-account)		-687,787
Recovery of Regulatory Asset Balances	1590	-40,635
Disposition and recovery of Regulatory Balances Account	1595	0
	Total	465,859

- a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board’s website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you.

LUI’s Response:

Lakefront has completed the Deferral Account Workform Version 4 and it is attached to this response.

- b) Please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify the source and reasons for variances.

LUI’s Response:

Completed

- c) Please confirm that Lakefront has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If Lakefront has used other practices in the calculation please explain where in the filing and why.

LUI's Response:

Lakefront has correctly applied the Board's accounting policy and procedures as provided. We will continue to monitor this issue in consultations with the Board.

- d) Please confirm that Lakefront has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If Lakefront has used other calculations please explain where in the filing and why.

LUI's Response:

Yes, Lakefront has correctly applied the Board's interest calculation policy in its calculations.

- e) Please confirm that Lakefront has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If Lakefront has not complied with this requirement please explain why not?

LUI's Response:

Lakefront confirms that it applied recoveries to principal first and complied with the Board's requirements.

6. Ref: Supplemental Module - Z-Factor Tax Changes

Sheet “F1.1 Z-Factor Tax Changes” of the supplemental module shows Grossed-Up Tax Amount as \$283,894 while the 2009 3GIRM Supplementary Filing Module sheet “F1.1 Z-Factor Tax Changes” shows Grossed-Up Income Taxes as \$290,930.

- a) Please review and advise of the correct amount.

LUI’s Response:

The \$290,930 figure is for 2008 at the Corporate tax rate of 28.9% (on \$717,129 taxable income established from Lakefront’s Cost of Service (CoS) Application).

In the supplemental model, sheet “B1.4 Re-based Rev from Rates” requires Lakefront to input the \$290,930 from our COS. Whereas, the \$283,894 figure in sheet “F1.1 Z-Factor Tax Changes” in the supplemental module is for 2009 and was calculated on a Corporate tax rate of 28.4% in the IRM. This change is reflected in the Board’s Decision (EB-2008-0193) dated March 26, 2009, page 3:

“A change in the federal income tax rate from 19.5% to 19% effective January 1, 2009 as introduced in the 2007 Economic Statement, was incorporated into the rate model. The Federal Budget enacted on February 3, 2009 included an increase in the small business income limit from \$400,000 to \$500,000 effective January 1, 2009, and a change in the capital cost allowance (CCA) applicable to certain computer equipment and related system software (CCA class 50) acquired between January 27, 2009 and February 2011. The Board has considered these fiscal changes and determined that the rate model will be adjusted to reflect the increase in the federal small business income limit for affected distributors.”

The impact of the change produced an incremental tax savings of \$7,036 (\$290,930 minus \$283,894), which 50% (\$3,518) was shared with Lakefront customers through a rate rider in the 2009 IRM.

“The Board approves the amount of \$3,518 to be returned to customers through a one year rate rider, as calculated by the rate model.”

Similarly, for 2010, the Corporate tax rate in the model shows a rate of 27.4%, producing a savings of \$20,816 (\$290,930 minus \$270,113) and in this IRM, Lakefront calculated a rate rider to share 50% (\$10,408) with its customers through a rate rider reflected on Sheet “F1.3 Calc Tax Chg RRider” of the supplemental module and Sheet “J2.1 Tax Change Rate Rider” of the rate generator model.

Lakefront completed the model in accordance with the Board’s instructions. If there are other changes during the IRM process, they can be dealt with when the Final Rate Order decision is provided.

HST Interrogatory

7. Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

- a) Would Lakefront agree to capture in a variance account the reductions in OM&A and capital expenditures?

LUI's Response:

Lakefront will comply with the Board's requirements as it relates to HST.

- b) Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

LUI's Response:

As of the date of this response, the bill has been enacted. Lakefront submits that any adjustment due to this will not be material and another alternative the Board should consider is dealing with this issue at the time of a distributor's rebasing.