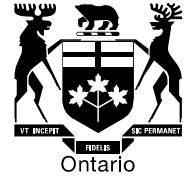


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BY EMAIL

January 18, 2011

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Lakefront Utilities Inc. ("LUI")
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0095**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Lakefront Utilities Inc. and to all other registered parties to this proceeding.

In addition please remind Lakefront Utilities Inc. that its Reply Submission is due by February 8, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Lakefront Utilities Inc.

EB-2010-0095

January 18, 2011

**Board Staff Submission
Lakefront Utilities Inc.
2011 IRM3 Rate Application
EB-2010-0095**

Introduction

Lakefront Utilities Inc. (“LUI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 1, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that LUI charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by LUI.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by LUI. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, LUI confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to LUI’s model at the time of the Board’s decision on the application.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by LUI. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time that this IRM decision is issued based on any available updated Uniform Transmission Rates.

In its original application, LUI requested approval to submit its 2012 Cost of Service rate application and move to a calendar year in 2012 for the distribution rates, so that they mirror the fiscal year of January 1st to December 31st.

Staff notes that in response to Board staff interrogatory # 7, LUI withdrew this request noting the level of effort to complete rate applications during the same period of year end audits.

The Board's Decision for LUI's 2008 cost of service rate application (EB-2007-0761) prescribed a phase-in period to adjust revenue-to-cost ratios. The 2011 IRM3 Revenue Cost Ratio Adjustment Workform allowed LUI to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment. Board staff submits that LUI has complied with the filing requirements of the 2011 IRM3 Revenue Cost Ratio Adjustment Workform. Board staff takes no issue with LUI's revenue-to-cost ratio adjustments.

Board staff makes submissions on the following matters:

- Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") rate rider;
- Smart Meter Funding Adder;
- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report"); and
- Tracking of incremental HST costs.

LRAM and SSM rate rider

The Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM and SSM.

Board staff submits that LUI's application for LRAM and SSM recovery is generally consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM and SSM recovery, except for two inclusions.

First, LUI has requested the recovery of both LRAM and SSM amounts related to its Street Lighting Program. LUI's Street Lighting Program was not delivered in concert with the OPA and did not receive approval from the Board. Section 5.1 of the CDM Guideline's outlines the programs that are eligible for LRAM. Within Section 5.1 it states that:

“LRAM is available regardless of whether the programs are funded by the OPA or through distribution rates. The LRAM applies to programs implemented by the distributor, within its licensed service area, including programs delivered by the distributor itself and/or programs delivered for the distributor by a third party (under contract with the distributor, either in relation to rate-funded programs, or where the distributor has contracted with the OPA but has outsourced CDM program delivery to a third party).”

Board Staff submits that the Board should not allow recovery of LRAM and SSM for the Street Lighting Program in the amounts of \$14,451.26 and \$29,707.79 respectively, as the program was not reviewed and tested by Board Staff and the intervenor community and ultimately approved by the Board prior to its implementation.

Second, with respect to the revised LRAM amount found within LUI’s interrogatory response to VECC’s IR# 2, Board Staff submits that the original amounts of \$196,513.82 for LRAM, (with the exception of the amount identified above for street lighting) as applied for by LUI in its original application, should be accepted by the Board. Board staff notes that the revised LRAM amount of \$204,100.64 was calculated using the OEB Measures and Assumptions list, which represent outdated input assumptions. On January 27, 2009 the Board adopted the OPA’s Input Assumption list for use by distributors for the purposes of making applications for new distribution rate-funded CDM Programs, LRAM and SSM. Board Staff submits that if the Board is to approve the revised LRAM amount by LUI, LUI will be recovering amounts above and beyond what is necessary to keep the utility whole due to impacts that have resulted from implementing CDM Programs.

Smart Meter Funding Adder

Discussion

In its original application, LUI proposed an increase in its Smart Meter Funding Adder from \$2.00 to \$3.44 per month, applicable to all metered customers.

In response to Board staff interrogatory # 6, LUI submitted a revised Smart Meter Model correcting for errors in the calculations of PILs, Net Income and Amortization. LUI revised the proposed Smart Meter Funding Adder to \$4.22 per month per metered customer. However, LUI stated that it will not change its request from a \$3.44 adder at this time and will address any “true-up” at the completion of the Smart Meter implementation initiative.

Submission

Board staff has no concerns with the updated smart meter model filed by LUI. Board staff notes that the total bill impact attributable solely to this proposed change to a funding adder of \$3.44 per meter per month (keeping all other proposals in the application model as filed) is 1.4% for the residential class. Staff notes that the total bill impact for all elements of the application for a typical residential customer including a funding adder of \$3.44 is 2.7%. Board staff concurs that any under-recovery now will be taken into account when LUI subsequently files for disposition of smart meter costs.

Disposition of Deferral and Variance Accounts as per the *Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”)

Discussion

In its Manager’s Summary, LUI indicated that in its 2010 IRM Deferral and Variance Account Workform, incorrect calculations were used in sheet B1.3 (Rate Class and Bill Det), column M for the Billed kWh and for Non-RPP customers.

LUI requested that the Board issue an amended order rescinding the 2010 Global Adjustment Rate rider and issuing a revised tariff sheet effective November 1 2010. LUI

stated that it would then reconcile account 1595 and apply for disposition of any residual in its 2012 application.

LUI explained that upon identifying the billing error, LUI immediately contacted Board staff to advise them of the issue and stopped billing the incorrect rate rider, cancelled the few bills that were affected for the months of May and June as continuing billing the wrong amount had budget and operational impacts for the affected customers, and sent out a letter to communicate the error to its customers.

In response to Board staff interrogatory # 8b, LUI indicated that the total amount LUI has to collect at the end of the 12 month period is \$144,869. The amount collected up to date is \$74,106.

In response to Board staff interrogatory # 8g, LUI has recalculated a new rate rider to rebill the affected customers for May, June and subsequent months.

Submission

Board staff is of the view that Lakefront should have formally informed the Board of this issue and of the proposed method to remedy it, prior to taking action. LUI's approach is not in compliance with a Board- approved rate order, which is a serious matter.

With regard to its 2011 deferral and variance account balances, Board staff notes that the principal amounts to be disposed of as at December 31, 2009 reconcile with the amounts as part of the Reporting and Recording-keeping Requirements ("RRR"). Board staff therefore submits that the amounts should be disposed on a final basis.

Board staff also notes that accounts 1550 and 1508, as approved in the 2008 COS process for balances as of December 31, 2006 were transferred to account 1595. The residual balances in these two accounts are now part of the group 1 account balances for disposition as part of the 2011 IRM process. LUI is showing a negative residual balance in account 1595. This amount should be positive since there appears to be a shortfall that is recoverable from customers. In the original application, the total claim to be recovered is \$380,480. With this adjustment, the total claim to be recovered should be \$438,161. This amount includes \$16,367 and \$9,162 of interest charges. Board staff submits that LUI should confirm whether or not the residual balance as filed is an error and if not, to provide an explanation in its reply submission. A revised version of

the deferral and variance accounts model is included with this submission.

Tracking of Incremental HST Costs

Background

LUI is requesting that the Board allow the incremental costs to track the HST to be placed in deferral account 1592. LUI further submitted that Board staff be directed to issue more detailed accounting guidance in this matter.

Submission

Board staff notes that in December 2010, the Board provided Frequently Asked Questions (“FAQs”) on the Accounting Procedures Handbook for electricity distributors. Specifically, accounting guidance was provided to electricity distributors on “Sub-account HST / OVAT Input Tax Credits” of Account 1592 to record the ITC savings arising from the implementation of the HST on July 1, 2010. The accounting guidance provided a simplified approach designed to provide administrative cost-saving opportunities. On that basis, Board staff submits that any costs incurred to track the HST should not be recorded in Account 1592.

All of which is respectfully submitted.