

Board Staff Interrogatories 2008 Electricity Distribution Rates Lakefront Utilities Inc. EB-2007-0761

1 COST OF CAPITAL

1.1 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 2 – Short-term Debt

In the table shown under “Capital Structure”, Lakefront Utilities has used a short-term debt rate (or “Cost Rate”) of 4.77%.

The Board Report on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (the “Board Report”) states the following in section 2.2.2:

“The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers’ acceptance rate plus a fixed spread of 25 basis points.” This is consistent with the Board’s method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers’ acceptance rate as published on the Bank of Canada’s website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor’s rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates.” [Emphasis in original]

- a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.
- b) Please confirm if Lakefront Utilities is proposing that the deemed short-term debt rate would be updated based on January 2008 Consensus Forecasts and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If Lakefront Utilities is not proposing that the methodology in the Board Report be followed, please provide Lakefront Utilities' reasons for varying from the methodology in the Board Report.

1.2 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 1,
Exhibit 6 / Tab 1 / Schedule 4, and
Exhibit 1 / Tab 2 / Schedule 1
Return on Equity

Lakefront Utilities states that it is requesting an equity return of 8.68% per the Board's formulaic approach as documented in Appendix B of the Board Report, with the final ROE for 2008 rate-setting purposes to be established based on January 2008 Consensus Forecasts and Bank of Canada data per the methodology in the Board Report. Please provide further information on the derivation of the 8.68% ROE shown in the table labelled "Return on Equity Calculation" in Exhibit 6 / Tab 1 / Schedule 4 showing the source data used, and identifying fully the data sources and date(s) of the data used.

1.3 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 2,
Exhibit 6 / Tab 1 / Schedule 3 and
Exhibit 6 / Tab 1 / Schedule 4
Long-Term Debt and Weighted Average Cost of
Capital

Lakefront Utilities provides data on its cost of debt in Exhibit 6 / Tab 1 / Schedule 2, and also states in a note at the bottom of the Schedule that: "Lakefront Utilities [Lakefront Utilities] intends to acquire a loan for an additional \$1,000,000 in 2008 to move to the capital structure closer to the "deemed" amount of 53.33% Debt and 46.67% Equity Capital Structure. This additional debt will be required as Lakefront Utilities continues with system optimization and Capital Infrastructure plans as outlined in our capital plans." Information on this planned debt is shown in the Table "Cost of Debt" under Exhibit 6 / Tab 1 / Schedule 3, with an estimated debt rate of 6.45%.

In the Board Report, the Board states in section 2.2.1 the following policy for setting the debt rate:

“For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

The Board has determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with “A/BBB” rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with “A/BBB” rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and “A/BBB” corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.” [Emphasis in original]

- c) Please restate the information shown in Exhibit 6 / Tab 1 / Schedule 3 to show the information in the following table for debt instruments in effect and the weighted average cost of long-term debt of Lakefront Utilities for each year:
- i 2006 Board-approved;
 - ii 2006 actual;

- iii 2007 bridge; and
- iv 2008 forward test.

Year:							
	Name of instrument	Debt holder (name)	Is debt holder affiliated with Lakefront Utilities? (Yes/No)	Issue date	Maturity date	Principal	Interest rate
1							
2							
3							
...							
Total							

- d) While Lakefront Utilities shows two debt instruments of \$7,000,000 with a debt rate of 7.25% and \$1,000,000 with a debt rate of 6.45% for the 2008 test year in Exhibit 6 / Tab 1 / Schedule 3, Lakefront Utilities has assumed a weighted cost of debt (Cost Rate) of 7.25% for the 2008 test year in the "Capital Structure" table in Exhibit 6 / Tab 1 / Schedule 2. Please explain why the cost of the new debt is not factored into the weighted cost of debt and hence into the weighted average cost of capital. Provide updates for Exhibit 6 / Tab 1 / Schedule 2 and Exhibit 6 / Tab 1 / Schedule 4, if necessary.
- e) Please provide further information, to the extent possible, of the new debt of \$1,000,000 that Lakefront Utilities indicates that it will acquire. Specifically, indicate:
 - i If the debt-holder will be affiliated to Lakefront Utilities or will be third-party;
 - ii When Lakefront Utilities anticipates incurring the debt; and
 - iii What form of debt Lakefront Utilities anticipates that it will incur (e.g. promissory note, demand instalment loan, secured or unsecured debenture).
- f) For the new debt:
 - i Provide the derivation of the forecasted debt cost of 6.45%, providing the calculation and data used, and identifying all data sources used.

- ii Explain if and how the proposed rate of 6.45% complies with the debt rate policy for rate-setting, as documented in section 2.2.1 and Appendix A of the Board Report.
- iii If the proposed rate does not comply with the methodology documented in the Board Report, please provide a justification for the deviation from the Board's Cost of Capital guidelines.

2 RATE BASE

2.1 Ref: Exhibit(s) Exhibit 2/ Tab 1/ Schedule 1

- a) Please provide Lakefront Utilities Inc.'s Code of Business Conduct.
- b) For the years 2002 to 2008 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars, or % where indicated):
 - i Net income;
 - ii Actual Return on Equity (%);
 - iii Allowed Return on Equity (%);
 - iv Retained Earnings;
 - v Dividends to Shareholders;
 - vi Sustainment Capital Expenditures excluding smart meters;
 - vii Development Capital Expenditures excluding smart meters;
 - viii Operations Capital Expenditures;
 - ix Smart meters Capital Expenditures;
 - x Other Capital Expenditures (identify);
 - xi Total Capital Expenditures including and excluding smart meters;
 - xii Depreciation.

2.2 Ref: Exhibit(s) Exhibit 2/Tab 1/Schedule 1

For each of the years 2002 to 2008 please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars, or % where indicated):

- a) Average Fixed Assets in Service
- b) Average Depreciation Rate as a % of Average Fixed Assets in Service;

- c) Working Capital as a % of Average Fixed Assets in Service;
- d) Number of Customer Connections in Each Customer Category
 - i New Connections
 - ii Service Upgrade Connections
 - iii Population (actual or estimated) of Service Area.

2.3 Ref: Exhibit(s) Exhibit 2/Tab1/Schedule 1

- a) Please provide a record of reliability indices for the years 2002 through 2008 and indicate the desired values.
- b) Indicate if and how the reliability indices relate to the capital expenditures for each of the projects that have been undertaken for reasons of reliability.
- c) None of the projects indicated have been initiated for reasons of reliability considerations. Please explain why this is the case.

2.4 Ref: Exhibit(s) Exhibit 2/ Tab 1/Schedule 1/Page 2/Line 6.

Please confirm that Lakefront Utilities' description of Rate Base is arithmetically as follows:

$$\text{Rate Base} = \text{Gross Assets in Service} - (\text{Accumulated Depreciation} + \text{Contributed Capital}) + \text{Working Capital}$$

2.5 Ref: Exhibit(s) Exhibit 2/ Tab 1/ Schedule 2/ Page 1

- a) Please confirm that the 2008 Test Year projection of \$15,577,513 contains within it, the \$2 million of Smart Meter capital expenditures as described in Exhibit 2/Tab3/Schedule1 page 7 (Summary of Lakefront Utilities Smart Meter Plan).
- b) Please confirm that there is no capital contribution receivable associated with the Smart Meter capital expenditures that is included within the above mentioned rate base. If such capital contribution is receivable please provide details.
- c) Lakefront Utilities is not one of the utilities authorized by the Board's decision (EB-2007-0063) of August 8, 2007 to include Smart Meters in the Rate Base.
 - i Please indicate why the amounts are included.
 - ii Why does Lakefront Utilities consider that the amounts for Smart meters can be included in the Rate Base?
- d) Provide a revised set of Capital Asset and Capital Expenditure and accumulation tables with Smart Meters excluded.

2.6 Ref: Exhibit(s) Exhibit2/Tab2/Schedule1

Please confirm that the continuity statement has included interest during construction and all overheads.

2.7 Ref: Exhibit(s) Exhibit 2/Tab2/Schedule2/p.1-4.

Please provide a listing of gross assets on a functional basis (distribution, general plant etc.)

2.8 Ref: Exhibit(s) Exhibit2/Tab2/Schedule3/p.1

The text at the top of the referenced page indicates that "Comments for variances that exceed the materiality thresholds as prescribed... are set out below in the Materiality Analysis on Gross Assets Table". However there is no explanation for the variances in the referenced items e.g. there is no explanation for the variance on buildings and fixtures (\$379,088) in Exhibit 2 Tab 3 schedule 2 page 1, only the statement that a building was constructed. Therefore, for each project in the 2006 year where there is a material variance, provide an explanation for why the projects have exceeded the amount approved by the Board.

2.9 Ref: Exhibit(s) Exhibit 2/Tab2/Schedule5

Please provide

- a) A table indicating the depreciation period for each of the asset accounts, and
- b) A table showing the calculation of the depreciation for each of the accounts in each of the years 2006, 2007 and 2008.

2.10 Ref: Exhibit(s) Exhibit 2/Tab3/Schedule1/p1.

The text states that;"Lakefront Utilities applies a systematic planning process for all of its capital additions. This process ensures only those capital investments that are required to maintain a safe and reliable operation of Lakefront Utilities's distribution system are made". Please provide:

- a) A description of the planning process,
- b) Documentation according to which the planning process is conducted,
- c) The specific completed documentation for the years 2006, 2007 and 2008,
- d) Methodology for determination of condition of assets including documentation of procedures and practices, and
- e) For those capital projects which are planned or which have been undertaken for reasons of load growth, please indicate the growth in the number of customers and the load that led to the project being undertaken or planned.

3 OPERATING EXPENSES

Purchases of Services or Products

3.1 Ref: Exhibit(s) Exhibit 4/ Tab 2/ Schedule 6/ Pages 1 and 2

- a) For each specific methodology used in determining the price of the service/product, please provide a detailed description of the methodology.
- b) Does Lakefront Utilities have an approved list of vendors for the contract process?

Shared Services

3.2 Ref: Exhibit(s) Exhibit 4/ Tab 2/ Schedule 5/ Page 1

To comply with section 2.5 (Exhibit 1 Operating & Maintenance and Other Costs) of the Filing Requirements for Transmission and Distribution Applications, please file the following information for each shared service:

- a) Type of service
- b) Total annual expense by service, and
- c) Rationale and cost allocators used for shared costs for each type of service.

Corporate Cost Allocation

3.3 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 5 / Page 2

As defined in the November 14, 2006 Filing Requirements for Transmission and Distribution Applications, Corporate Cost Allocation is an allocation of costs for corporate and miscellaneous shared services from the parent to the utility. This is not to be confused with the allocation of the revenue requirement to rate classes for the purposes of rate design.

Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications, Applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please provide the requisite documentation described above.

Employee Compensation

3.4 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Lakefront Utilities provides a comparison of total salary and wages for 2006 to 2008.

- a) Please explain the 112% differential between the 2006 Board approved amount of \$45,079 in average executive compensation and the 2006 actual amount of \$95,691.
- b) Please explain the 19% differential between the 2006 Board approved amount of \$56,963 in average management compensation and the 2006 actual amount of \$68,062.
- c) Please explain the 39% differential between the 2006 Board approved amount of \$37,630 in average unionized compensation and the 2006 actual amount of \$52,138.

3.5 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Lakefront Utilities provides a comparison of total salary and wages for 2006 to 2008.

- a) Please provide the rationale and justification for the two-year increase of 18% in management salary and wages, from \$272,246 in 2006 to \$322,400 in 2008.
- b) Please provide the rationale and justification for the two-year increase of 21% in unionized salary and wages, from \$469,239 in 2006 to \$566,000 in 2008.

3.6 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Lakefront Utilities indicates that it hired a summer student at a total cost of \$22,374 in 2006 and \$23,145 in 2007, including benefits. Assuming a three month summer period, these figures prorate to an annual cost of approximately \$100,000. Please provide the relevant terms of employment for this summer student including the period of employment and the hourly rate at which this summer student was compensated and the justification for that rate.

3.7 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

Page 1 provides a comparison of total benefits from 2006 to 2008. Please explain the 31% differential between the 2006 Board approved amount of \$10,512 in average unionized benefits and the 2006 actual amount of \$13,726.

3.8 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

Page 1 provides a comparison of total incentives for 2006 to 2008.

- a) Please confirm that this table represents total compensation amounts, including salary, wages and benefits, paid to employees and not total incentive amounts, and
- b) If so, please indicate whether or not Lakefront Utilities has an employee incentive program and provide a breakdown of amounts paid

by employee type for 2006, Board Approved and Actual, 2007 and 2008.

3.9 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Lakefront Utilities provides a breakdown of employee compensation from 2006 to 2008.

- a) Please confirm whether or not Lakefront Utilities has overtime compensation, and
- b) If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

3.10 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

Page 1 provides a breakdown of "Total Costs charged to O&M" from 2006 to 2008. Lakefront Utilities' 2006 actual, 2007 bridge and 2008 test year data indicate that on average, the utility only charged 74%, 74%, and 73% of its total employee compensation costs to O&M, respectively. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.

OM&A Expenses

3.11 Ref: Exhibit(s) General Question

Please confirm that Lakefront Utilities has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

3.12 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 2

Board Staff Table 1 below was prepared to review Lakefront Utilities' OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below. This table removes uncontrollable expenses from the 2006 Board approved controllable expenses and from the 2007 and 2008 forecasted expenses. This is to allow for a consistent view of Lakefront Utilities' controllable expenses over the reporting period.

Board Staff Table 1

OM&A expenses	2006 Board			
	Approved	2006 Actual	2007 Bridge	2008 Test
Operations	523,452	481,734	568,635	620,871
Maintenance	104,971	88,033	114,011	324,385
Biling & Collecting	223,962	420,421	441,986	453,844
Community Relations *(adjusted for CDM below)	8,918	17,130	19,767	19,767
Administrative and General Expenses **(adjusted for Low Voltage	698,073	801,751	786,480	988,498
Controllable OM&A	1,559,376	1,809,069	1,930,879	2,407,365
CDM - Energy Conservation *(from Community Relations above)	0	0	119,169	80,408
Low Voltage **(from Admin & General Above)	230,681	0	0	0
Amortization Expense	737,576	824,816	780,981	888,341
Taxes Other Than Income	21,919	52,040	53,601	55,209
Total Distribution OM&A Expenses	2,549,552	2,685,925	2,884,630	3,431,323
LCT, OCT & Income Taxes	323,377	306,478	568,666	407,159
TOTAL OPERATING COSTS	2,872,929	2,992,403	3,453,296	3,838,482

Board Staff Table 2 below was created to review variances in Lakefront Utilities' controllable OM&A expenses from the evidence provided in the application's Exhibit 4/ Tab 1/Schedule 2. (Note rounding differences may occur, but are immaterial to the following questions.) Board staff notes that Lakefront Utilities is forecasting increases to 2008 Controllable OM&A Expenses of \$598,296 or 33.1% from Actual 2006.

Board Staff Table 2

OM&A Expenses	2006 Board	Variance	Variance		Variance		Variance	
	Approved	2006 / 2006	2006 Actual	2007 / 2006	2007 Bridge	2008 / 2007	2008 Test	2008 / 2006
Operations	523,452	-41,718	481,734	86,901	568,635	52,236	620,871	139,137
		-2.7%		4.8%		2.7%		7.7%
Maintenance	104,971	-16,938	88,033	25,978	114,011	210,374	324,385	236,352
		-1.1%		1.4%		10.9%		13.1%
Biling & Collecting	223,962	196,459	420,421	21,565	441,986	11,858	453,844	33,423
		12.6%		1.2%		0.6%		1.8%
Community Relations *(adjusted for CDM)	8,918	8,212	17,130	2,637	19,767	0	19,767	2,637
		0.5%		0.1%		0.0%		0.1%
Administrative and General Expenses **(adjusted for Low Voltage	698,073	103,678	801,751	-15,271	786,480	202,018	988,498	186,747
		6.6%		-0.8%		10.5%		10.3%
Controllable OM&A	1,559,376	249,693	1,809,069	121,810	1,930,879	476,486	2,407,365	598,296
		16.0%		6.7%		24.7%		33.1%

Board Staff Table 3 below was created to review the drivers of Lakefront Utilities' controllable OM&A actual and forecasted expenses from the evidence provided in OM&A Costs Table in Exhibit 4/ Tab 2/Schedule 1. (Rounding differences may occur, but are immaterial to the following questions.)

Board Staff Table 3

Cost Drivers By Year	2006	2007	2008
Opening Balance	1,559,376	1,809,069	1,930,879
Increase Wages and Benefits			45,106
Smart Meters			207,850
New employee Finance			69,292
Regulatory Expenses			100,000
Unexplained Difference	249,693	121,810	54,238
Closing Balance	<u>1,809,069</u>	<u>1,930,879</u>	<u>2,407,365</u>

- a) Please confirm that Lakefront Utilities agrees with the three tables prepared by Board Staff presented above. If Lakefront Utilities does not agree with any table please state why not.
- b) Please complete a Cost Drivers by Year analysis table similar to the Board Staff Table 3 above, identifying the cost drivers that make up the changes to Lakefront Utilities annual controllable expenses, including a breakdown of the line item "Unexplained Difference" in the above table. The objective is to identify all significant expense cost drivers that reduces the "Unexplained Difference" to an amount less than Lakefront Utilities calculated OM&A materiality limit as found on Exhibit 4/Tab 2/ Schedule 3. Please separate changes for the line item "Increase in wages and benefits" between current and new employees. You may report these values on a consolidated company basis as opposed to by department or USoA account. Please ensure that each identified driver is followed with a more detailed discussion including economic or other assumptions so as to provide information sufficient for a complete record to be established for the Board's consideration. For example, the line item "New employee Finance" would benefit from some discussion as to what precipitated this cost as would "Regulatory Expenses" and the reasons for the build up in those costs.
- c) Lakefront Utilities identifies that the company is planning to expend \$100,000 for Regulatory Expenses.
 - i Please confirm that the regulatory expense is a one-time cost of \$100,000.
 - ii If this cost is a one-time cost, please explain why this one-time amount should be recovered by way of Lakefront Utilities' annual revenue requirement in light of the fact that the 2008 revenue requirement, once approved will not be adjusted until 2011.

- iii If the cost is not a one-time cost, please explain why Lakefront Utilities expects to incur the additional level of regulatory expense reported for the 2008 test year on an annual basis going forward.
- iv Has Lakefront Utilities identified any other one time costs that should be addressed in a similar manner as above? If yes please provide similar discussions.
- d) Please state what cost saving / efficiency initiatives or activities the applicant has implemented after the last 2006 EDR application or plans to be implementing that have not already been discussed in the application. Please provide discussion on any relevant initiatives or plans.

3.13 Ref: Exhibit(s) General Question

Please provide the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 actual, 2007 bridge year, and 2008 test year regarding the following regulatory costs and present it in the following table format"

Regulatory Cost Category	Ongoing or One-time Cost?	2006 Board Approved	2006 Actual	2007 (as of Dec 07)	% Change in 2007 vs. 2006	2008 Forecast	
1. OEB Annual Assessment							
2. OEB Hearing Assessments (applicant initiated)							
3. OEB Section 30 Costs (OEB initiated)							
4. Expert Witness cost for regulatory matters							
5. Legal costs for regulatory matters							
6. Consultants costs for regulatory matters							
7. Operating expenses associated with staff resources allocated to regulatory matters							
8. Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)							
9. Other regulatory agency fees or assessments							
10. Any other costs for regulatory matters (please define)							

- a) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are "One-time Cost" and not expected to be incurred by the applicant during the impending two year period when

the applicant is subject to 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation of IRM process.

- b) Please state the utility's proposal on how it intends to recover the "One-time" costs as a part of its 2008 rate application.

3.14 Ref: Exhibit(s) 2006 EDR Application Model, Sheet "7-2 ALLOCATION - LV-Wheeling"

In Lakefront Utilities's 2006 EDR Application Model, Sheet "7-2 ALLOCATION - LV-Wheeling", Cell L120 has included the amount of \$ 230,721 for Low Voltage charges. This Low Voltage charge was handled as a pass through charge in the 2006 EDR model. It was included into rates as a rate adder on the above referenced worksheet and accounted for as General and Administrative expense (or more intentionally as a revenue offset).

- a) Please confirm whether or not Lakefront Utilities has included a budget amount in the 2008 Cost of Service or OM & A budget for low voltage.
- b) If yes please state reasons for including and identify the amounts included including detailed calculation.
- c) If no, please declare confirmation that no amounts have been included in Cost of Service or OM&A for Low Voltage.

3.15 Ref: Exhibit(s) 2007 Incremental CDM Funding

In 2007 Lakefront Utilities filed an application for \$550,000 incremental CDM funding to upgrade its distribution network to a higher voltage. The Board's Decision and Order EB-2007-0550 and EB-2007-0106 dated April 12, 2007 allowed Lakefront Utilities to include into rates the amount of \$38,761 which is the annual capital-related expenses for \$550,000 investment in the first year. The amount \$38,761, when applied to rates, resulted in a rate adder of \$0.00037 per kWh for both the Residential and General Service Less than 50 kW classes. The Board also approved a new sub-account in Account 1508 to track expenditures of this program pending a decision on the amount requested.

On August 13, 2007 the Board issued its Decision EB-2007-0106 which decided that Lakefront Utilities was entitled to claim only \$119,169 of the \$550,000 requested. The Board did not change Lakefront Utilities Tariff of Rates and Charges at that time, but stated it would address the over-collection prior to rate re-basing.

- a) Please confirm that Lakefront Utilities has started the upgrade project to higher voltage for it's distribution network as originally proposed in the 2007 Incremental CDM proposal. If Lakefront Utilities does not confirm, please explain why not.

- b) Please confirm that Lakefront Utilities has not changed to any significant degree the proposed upgrade project. If Lakefront Utilities does not confirm, please explain why not.
- c) Please confirm that Lakefront Utilities has opened the approved sub-account to Account 1508, as authorized April 12, 2007. Please provide a forecast of amounts collected and spent as of April 30, 2008. If Lakefront Utilities does not confirm, please explain why not.
- d) Please confirm agreement that the final \$119,169 in approved incremental CDM funding requirement would require only \$8,398 in capital related expenses. If Lakefront Utilities does not confirm, please explain why not.
- e) Please confirm that Lakefront Utilities agrees with Board Staff Table 4. This table compares collected revenues based on the adder of \$0.00037 per kWh and the approved expenses of \$8,398 in capital related expenses. The table indicates that Lakefront Utilities will have over collected the amount of \$30,363 by the end of April 2008 and that simple interest on the over-collection will amount to \$704 as shown below. If Lakefront Utilities does not confirm, please explain why not.

Board Staff Table 4

					Prescribed		
	Opening Balance	Collected	Expense	Closing Balance	Interest Rate	Simple Interest	
May-07	\$ -	\$ 3,230	-\$ 700	\$ 2,530	4.59%	\$ -	
Jun-07	\$ 2,530	\$ 3,230	-\$ 700	\$ 5,061	4.59%	\$ 10	
Jul-07	\$ 5,061	\$ 3,230	-\$ 700	\$ 7,591	4.59%	\$ 19	
Aug-07	\$ 7,591	\$ 3,230	-\$ 700	\$ 10,121	4.59%	\$ 29	
Sep-07	\$ 10,121	\$ 3,230	-\$ 700	\$ 12,651	4.59%	\$ 39	
Oct-07	\$ 12,651	\$ 3,230	-\$ 700	\$ 15,182	5.14%	\$ 54	
Nov-07	\$ 15,182	\$ 3,230	-\$ 700	\$ 17,712	5.14%	\$ 65	
Dec-07	\$ 17,712	\$ 3,230	-\$ 700	\$ 20,242	5.14%	\$ 76	
Jan-08	\$ 20,242	\$ 3,230	-\$ 700	\$ 22,772	5.14%	\$ 87	
Feb-08	\$ 22,772	\$ 3,230	-\$ 700	\$ 25,303	5.14%	\$ 98	
Mar-08	\$ 25,303	\$ 3,230	-\$ 700	\$ 27,833	5.14%	\$ 108	
Apr-08	\$ 27,833	\$ 3,230	-\$ 700	\$ 30,363	5.14%	\$ 119	
		\$ 38,761	-\$ 8,398			\$ 704	

- f) Please confirm that Lakefront Utilities agrees that the net fixed asset amount to be added to opening balance for 2008 is \$116,970 in respect to the incremental CDM project upgrading the distribution system to higher voltage. This value is determined in Board Staff Table 5. If Lakefront Utilities does not confirm, please explain why not.

Board Staff Table 5

Opening Balance	Fixed Asset	Amortization *	Net Fixed Asset
Jan-07	119,969	250	119,719
Feb-07	119,719	250	119,469
Mar-07	119,469	250	119,219
Apr-07	119,219	250	118,969
May-07	118,969	250	118,719
Jun-07	118,719	250	118,469
Jul-07	118,469	250	118,219
Aug-07	118,219	250	117,970
Sep-07	117,970	250	117,720
Oct-07	117,720	250	117,470
Nov-07	117,470	250	117,220
Dec-07	117,220	250	116,970

** Amortization is based on 20 year life at one half value in first year*

- g) Please confirm that Lakefront Utilities will complete the distribution system voltage upgrade, reduce the overall project costs to \$119,169, create a rate rider to refund the \$30,363 plus \$704 interest over recovery over one year to the residential and general service less than 50 kW class and consider the utility paid in full for all monies expended in respect to the 2007 capital expenses for this project. If Lakefront Utilities does not confirm, please explain why not.
- h) Please confirm that Lakefront Utilities agrees that the 2007 and 2008 forecast amounts to Account 5415 Energy Conservation for \$119,169 and \$80,408 are related only to the voltage upgrade project. If so please confirm that Lakefront Utilities agrees that the 2008 amount of \$80,408 should be removed from the 2008 revenue requirement. If Lakefront Utilities does not confirm, please explain why not.

4 SMART METERING

4.1 Ref: Exhibit(s) Exhibit 1 /Tab 2 /Schedule 1:

In the first paragraph Lakefront Utilities states:

“Lakefront Utilities Inc. participated with Cornerstone Hydro Electric Concept (CHEC) group in submitting a comprehensive smart metering plan to the Ministry of

Energy. Our intent is to install smart meters throughout our entire service territory in 2008.”

Lakefront Utilities is not one of the thirteen licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities with respect to smart meters. In its decision on Lakefront Utilities’ 2007 IRM application (EB-2007-0550 / EB-2007-0160), the Board confirmed its understanding that Lakefront Utilities would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

- a) In light of its “un-named” status, please explain under what authority Lakefront Utilities has decided to undertake smart meter activity in 2008.
- b) Please provide copies of all directives and regulations Lakefront Utilities has received from the Ontario Government directing or allowing the utility to undertake smart meter activities.
- c) Has Lakefront Utilities undertaken any smart meter activity in 2007? If so please explain in full all smart meter activities and associated costs.

In the next paragraph Lakefront Utilities states:

“Lakefront Utilities Inc. has included our smart metering program, as noted in capital and OM&A costs, as part of our rate application. Lakefront Utilities Inc. is not requesting the continuance of the existing smart metering rate rider or the establishment of a new comprehensive rate rider in this application as all costs relating to smart meter implementation is included as part of normal operation.”

- d) Please confirm whether “all costs relating to smart meter implementation is included as part of normal operation” means that Lakefront Utilities is incorporating the smart meter capital expenditure amount into the rate base and includes the associated return and OM&A smart meter costs in permanent distribution rates in 2008.
- e) Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Include in this listing the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether Lakefront Utilities considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

4.2 Ref: Exhibit(s) Exhibit 2 /Tab 3 /Schedule 1: Capital Budget by Project
- 2008

On page 7, Lakefront Utilities indicates that the capital expenditure amount for account 1860 – Smart Meters is \$2,037,923 in 2008. Please indicate how many smart meters Lakefront Utilities plans to install in 2008.

5 DISTRIBUTION REVENUE

5.1 Ref: Exhibit(s) Exhibit 3, Tab 3, Schedule 1,

Please provide the sources of the Interest Income, specifically stating whether any of this interest relates to regulatory assets.

5.2 Ref: Exhibit(s) Exhibit 1, Tab 2, Schedule 5

- a) Please state what new specific charges, if any, Lakefront Utilities Inc. is proposing for the 2008 test year. For any new such charges please state whether or not Lakefront Utilities Inc. is seeking the standard rate or non-standard rate.
 - i In the event that non-standard rate is sought, please provide cost justification for that rate.
 - ii For any new specific service charges Lakefront Utilities Inc. is proposing, please confirm that Lakefront Utilities Inc. has made any necessary adjustments so that these costs will not also be recovered through the general revenue requirement.
- b) Please note that the standard rate for “Collection of account charge – no disconnection – after regular hours” is \$165.00. It appears that Lakefront Utilities has proposed an amount of \$185.00. Please confirm that Lakefront Utilities is seeking a different rate from the standard rate and, if so, please provide cost justification for the proposed charge

6 VOLUMETRIC FORECAST

6.1 Ref: Exhibit(s) Exhibit 3/ Tab 2/ Schedule 1/ page 1)

In Schedule 1, page 1, Lakefront Utilities Inc. very briefly explains how it developed its 2008 load forecast. While parts of the explanation are missing, Lakefront Utilities Inc. appears to have used a similar approach to some other applicants. Hence, the essential approach used appears to be that Lakefront Utilities Inc.:

- i Determined the 2008 forecasted customer count for each customer class,

- ii Determined the weather-normalized retail energy for each customer class for 2004,
 - iii Determined the 2004 retail normalized average use per customer (NAC) for each class by dividing each of these weather-normalized retail energy values by the number of customers/connections in each class existing in 2004,
 - iv Applied the 2004 NAC for each class to the 2008 Test Year *without modification*, and
 - v Determined the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 NAC for each class by the 2008 forecasted customer count in that class.
- a) Please verify that the above is the essence of Lakefront Utilities Inc.'s load forecasting methodology, and
 - b) Fully correct any errors in the above explanation if it is not.

6.2 Ref: Exhibit(s) Exhibit 3/Tab 2/Schedule 1/p1

In Schedule 1, page 1, Lakefront Utilities Inc. notes that the results for Street Lighting customers were skewed and this "...did not represent a realistic forward scenario." Please fully explain the situation encountered together with the applicable values.

6.3 Ref: Exhibit(s) Exhibit 3/Tab 2/Schedule 1/p2

In Schedule 1, page 2, Lakefront Utilities Inc. presents a table of Customer and Load Forecast Data. Please:

- a) Verify that the total kWh consumption for "Historical Actual Normalized 2006" is 300,473,472 kWh and the 2006 customer count is 11,797,
- b) Verify that the total kWh consumption for "Test Year Normalized Forecast 2008" is 289,948,010 kWh and the 2008 customer count is 12,092,
- c) Verify that the average annual change in kWh consumption over the 2006 to 2008 period is approximately -1.75%,
- d) Verify that the average annual change in customer count over the 2006 to 2008 period is approximately +1.25%, and
- e) Rationalize the approximately 3% annual difference in change between the total kWh consumption and the total customer count **especially in light of the apparent assumption that the total kWh consumption and the customer count are in lockstep.**

6.4 Ref: Exhibit(s) Exhibit 3/Tab 2/Schedule 1/p3

In Schedule 1, page 3, Lakefront Utilities Inc. noted that for the GS>3,000 to 4,999 kW customer class the years 2004-05 showed anomalous growth (2.46% and 4 % respectively) and this historical growth was omitted from the trend line used to develop the forecast. While the 2004-05 growths may have been unusual, the rationale of removing these values from the trend analysis and simply assuming a 0% annual growth is not clear.

- a) Please provide detailed justification for rejecting the 2004 and 2005 values and explain the selection of the 0% annual growth assumption, and
- b) Estimate the 2007 and 2008 values if the 2004 and 2005 values had not been eliminated from the growth analysis.

6.5 Ref: Exhibit(s) Exhibit 3/Tab 2/Schedule 1/p1-2

In Schedule 1, pages 1 and 2, Lakefront Utilities Inc. determines the 2004 retail normalized average use per customer (NAC) for each class and apparently uses this value for other years also. This does not appear to adequately weather-normalize the energy usage in historical years and does not allow for the possible change in energy usage per customer over the 2002 – 2008 period due, for example, to Conservation and Demand Management. The minimal weather normalization and the constant retail energy assumption could potentially lead to forecasting errors.

- a) Please file a data table for the historical years 2003 to 2006 that shows:
 - i The actual retail energy (kWh) for each customer class in each year,
 - ii The weather normalized retail energy (kWh) for each customer class in each year (where, for the customer classes that Lakefront Utilities Inc. has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year *and not rely on results for any other year*),
 - iii The values of the weather conversion factors used,
 - iv The customer count for each class in each year,
 - v The retail normalized average use per customer for each class in each year based on the *weather corrected* kWh data in item ii. above, and

- vi As a footnote to the table, the source(s) of the weather correction factors.
- b) Please file a data table for the 2003 to 2008 period:
 - i Utilizing the retail normalized average use per customer values for each class in each year obtained in a) v. above for the historical years 2003 to 2006,
 - ii Including 2007 and 2008 projections for the retail normalized average use per customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) for each class, and
 - iii For each of the weather-sensitive classes, describe in detail the trend analysis performed in ii. above.
- c) Please file an updated version of the Schedule 1, page 2, Customer and Load Forecast Data table, utilizing the *weather corrected* data determined in b) above.

7 COST ALLOCATION

7.1 Ref: Exhibit(s) Exhibit 2/Tab 4/Schedule 1/ page 2

The statement for 'Working Capital Allowance Calculation by Account', account 4750 – LV Charges Costs, shows an increase from \$229,603 actual cost in 2006, a projected cost of \$343,449 in 2007, and a forecast of \$346,196 in 2008. The 2006 actual is very close to the approved amount in the 2006 EDR model.

- a) Please provide an explanation for the increase in 2007, along with data such as monthly settlement amounts with the host distributor.
- b) Please show how the forecast cost of \$346,196 is allocated to the customer classes, including the amounts allocated and the allocation method. (If applicable, the response should include an update on customer class billing totals from the Retail Transmission Service Connection Rate.)
- c) Please provide a breakout of the LV component within the monthly fixed charge and the volumetric charge for each of the classes.

7.2 Ref: Exhibit(s) Exhibit 8/Tab 1/Schedule 2

Please file the “rolled-up” version of the referenced Run 2 of the Informational filing EB-2006-0247 as an official part of the record of this Application.

7.3 Ref: Exhibit(s) Exhibit 8/Tab 1/Schedule 2/pages 3 and 5

The calculated revenue to cost ratio for the GS 3000-4999 kW class is 24.94%. Under the proposed rates, the proportion of total revenue generated by this class would increase from 3.19% to 9.29%, and the resulting revenue to cost ratio would be increased to 70.47%.

The purpose of the allocator LTNCP4 is to allocate the cost of the distributor's line transformers to the classes that are served by the transformers. The loads of the respective classes are input at Sheet I8 ‘Demand Data’.

- a) Please confirm that the load of the GS 3000-4999 kW class has been input at its full amount without allowing for the load of customer-owned transformers, and that the load of other classes such as Residential has been input at zero despite being served by transformers supplied by Lakefront Utilities.
- b) Please confirm that data inputs that are more consistent with the loads actually served through utility-supplied transformers would increase the existing revenue to cost ratio to a value in the range of 35 – 40%. Alternately, if not confirmed, please provide an explanation for the load inputs in the model as filed in the Application.

8 RATE DESIGN

8.1 Ref: Exhibit(s) Appendix E, Sheet O1 ‘Revenue to Cost Summary Worksheet – Second Run’

Lakefront Utilities Inc.’s Miscellaneous Revenue in the 2006 model is approximately 15% of total revenue. As a result of the default allocation factors used in the cost allocation model, the Miscellaneous Revenue attributed to the Streetlighting class exceeds the Distribution Revenue from the approved rates, with the amounts being \$53,338 allocated Miscellaneous Revenue and \$8737 from approved distribution rates. This makes the revenue to cost ratio much more favourable than it would be in the absence of Miscellaneous Revenue.

Please provide an estimate of the revenue actually derived from specific service charges and any other sources included in Miscellaneous Revenue in 2006, and confirm whether the revenue actually derived from

Miscellaneous Revenue was lower than the amount of revenue attributed in the model by the default methodology.

8.2 Ref: Exhibit(s) Appendix E / Page 6

In the Lakefront Utilities Manager's Summary, the opinion is expressed that the cost allocation model applies too heavy weighting to Street Light connections.

- a) Please provide an alternative run in which the weighting of Streetlight connections is reduced, for example by decreasing the weighting factor on services to Street Light connections or by simply decreasing the number of connections. Provide a brief narrative description of the altered inputs to the model and the effect on the revenue cost ratio.
- b) Please provide an alternative set of revenue to cost ratios, in which rates and revenues from Streetlighting are increased to yield a revenue to cost ratio of 70%, and revenue is decreased by an equal amount from one or more classes that have ratios above 100%. (The alternative model developed in part a) may be used in this exercise.)

8.3 Ref: Exhibit(s) Exhibit 8/Tab 1/Schedule 2/page 5, and
Exhibit 9 / Tab 1 / Schedule 7 / page 3

Based on the re-examination of the allocation of transformer costs in a previous Interrogatory 6.3, please describe any change that would be indicated to the proposed rates for the Intermediate Class.

8.4 Ref: Exhibit(s) Appendix E, Manager's Summary, page 6

The Lakefront Utilities Manager's Summary points out that the cost allocation model does not reflect the fact that all customers classes benefit from streetlighting.

- a) Is Lakefront Utilities able to provide a reference to a policy or precedent that indicates that the revenue to cost ratio of the streetlight class (or any class) should be influenced by the benefit of the use to which the electricity is put? If so, please provide the reference or a brief description of it.
- b) Please provide calculations of an alternative Streetlighting rate that would yield a revenue to cost ratio of 70%.

8.5 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 1

In addition to the previous interrogatories, please describe any adjustments that you would make to the proposed rates in order to implement the policies in the Board Report on the Application of Cost allocation for Electricity Distributors, EB-2007-0667, November 28, 2007

9 LOSS FACTORS

9.1 Ref: Exhibit(s) Exhibit 4, Tab 2, Schedule 9

Exhibit 9, Tab 1, Schedule 6, Pages 1 and 2

- a) Included in the Loss Adjustment Factor Calculation is a row titled "Unbilled kWh". Please provide an explanation for this as it is not a standard item in Schedule 10-5 of the 2006 EDR Handbook.
- b) The actual Distribution Loss Adjustment Factor shown in row H is 4.43%, 4.99% and 5.40% respectively for 2004, 2005 and 2006. Please provide an explanation for this increase.
- c) The proposed Distribution Loss Adjustment Factor for 2008 is 4.94% (based on the average of 2004 to 2006), a Supply Facilities Loss Factor is 1.0045 and a Total Loss Factors are 1.0541 for secondary metered customers and 1.0436 for primary metered customers.
 - i Please provide a rationale for proposing that the 2008 Distribution Loss Adjustment Factor be an average of the factors for 2004-2006 rather than the lower 2004 factor of 4.43%.
 - ii On Exhibit 9, Tab 1, Schedule 6, Pages 1 and 2 the proposed Distribution Loss Adjustment Factor is 1.0541, which is in contradiction to Exhibit 4/Tab 2/Schedule 9 which provides a Distribution Loss Adjustment Factor of 1.0541 for secondary metered customers. Please explain the apparent discrepancy.
- d) Given that Lakefront Utilities is embedded in the Hydro One Networks Inc. (HONI) distribution system, please confirm that the Distribution Loss Adjustment Factor values provided include losses that occur in the HONI distribution system.
 - i If this is correct, please provide a breakdown of losses that occur in the Lakefront Utilities and HONI distribution systems.
 - ii If this is not correct, please confirm if losses that occur in the HONI distribution system are included in the Supply Facility Loss Factor and provide a breakdown by separating out the HONI losses.

- e) Lakefront Utilities is applying for rebased rates with associated loss factors for ongoing purposes in a forecast test year application. Please explain how the CDM initiative to reduce loss factors has been applied in establishing losses for 2008 and going forward. If this initiative has not been reflected in the loss factors, please indicate what the impact of the initiative would be and why it was not applied to the forecasted loss factor.

10 DEFERRAL & VARIANCE ACCOUNTS.

10.1 Ref: Exhibit(s) Exhibit 1/Tab2/Schedule1/Page5
Exhibit 1/Tab1/Sch7/Page1,
Exhibit 1/Tab3/Sch3/Page1, and
Ex5/Tab1/Sch3/Page 1

Lakefront Utilities stated that there was a significant error in smart metering in 2007 which impacted three areas: system loss factor, the over billing of customers and the variance accounts.

- a) Please quantify this impact for 2004, 2005, 2006, and 2007 on the three areas above.
- b) Please state regulatory precedent that would allow Lakefront Utilities to include the interest shortfall of \$16,970 in account 1588 calculation.
- c) What is Lakefront Utilities' plan to correct this error?
- d) Is Lakefront Utilities still billing Horizon Plastics with the error?
- e) Has Lakefront Utilities refunded the money to Horizon Plastics? What is the amount to be refunded? What will be the journal entries to account for the refund?
- f) On Ex1/Tab3/Sch3/Pg1 for 2006 there are numbers impacting the "adjustment for incorrect Horizon Plastics billing, error adjusted".
1. Please provide a breakdown of the "adjustment for incorrect Horizon Plastics billing, error adjusted" for 2004, 2005, 2006, 2007 and beyond for each applicable account – income statement accounts and RSVAs.
 2. Does this adjustment impact the December 31, 2006 balances in RSVAs being requested for disposition on Ex5/Tab1/Sch3/Pg1?
 - i If so, please provide the dollar impact on each RSVA for each calendar year.
 - ii If so, please state the regulatory precedent for allowance of retroactive ratemaking with adjustments relating to prior periods?

3. Why are the power expense accounts being credited if this is an adjustment of a billing error?

10.2 Ref: Exhibit(s) Exhibit 5/Tab1/Schedule1/Page7

Lakefront Utilities is requesting a new deferral and variance account for the Late Payment Class Action Suit.

- a) What is the regulatory precedent for the collection of these costs in this proposed deferral account?
- b) What is the justification for this account?
- c) What are the journal entries to be recorded?
- d) When does Lakefront Utilities plan to ask for its disposition?
- e) How does Lakefront Utilities plan to allocate this amount by rate class?
- f) Since the costs or fees are not known, what would be the basis of the approval to record these amounts in a deferral account?
- g) What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs or fees in a deferral account?

10.3 Ref: Exhibit(s) Exhibit 5/Tab1/Schedule1/Page7

Lakefront Utilities is also requesting a new deferral and variance account for Meter Data Management Repository Account (MDMR).

- a) What is the regulatory precedent for the collection of these MDMR costs in this proposed deferral account?
- b) What is the justification for this account?
- c) What are the journal entries to be recorded?
- d) When does Lakefront Utilities plan to ask for its disposition?
- e) How does Lakefront Utilities plan to allocate this amount by rate class?
- f) Since the costs or fees are not known, what would be the basis of the approval to record these amounts in a deferral account?
- g) What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs or fees in a deferral account?

10.4 Ref: Exhibit(s) Exhibit 5/Tab1/Schedule1/Page7

Lakefront Utilities is requesting a deferral account to track future capital projects.

- a) What is the regulatory precedent for the collection of these costs in this proposed deferral account?
- b) What is the justification for this account?
- c) What are the types of capital expenditures to be recorded in this account?
- d) What are the journal entries to be recorded?
- e) How will these capital expenditures be financed?
- f) When does Lakefront Utilities plan to ask for its disposition?
- g) How does Lakefront Utilities plan to allocate this amount by rate class?
- h) Lakefront Utilities has identified new capital spending for the 2008 test year. If Lakefront Utilities under-forecast or over-forecast the 2008 capital costs, is Lakefront Utilities proposing to record the difference in this deferral account? If not, please explain the rationale for not doing this?
- i) Please confirm whether Lakefront Utilities will record the total capital costs in this account or just the amounts related to the annual cost of service associated with the new assets (i.e. depreciation, return, PILs, etc.). If the latter, please provide an example showing all the relevant calculations and amounts. If the former, is Lakefront Utilities proposing to recover the total capital costs outside of rate base in the future (i.e. via a future rate rider), and therefore these amounts will not be included in rate base in the future?

10.5 Ref: Exhibit(s) Exhibit 5/Tab1/Schedule1/Pg7

Exhibit 1/Tab1/Schedule7/Pg1

Lakefront Utilities stated that the inclusion of \$296,000 interest of transition costs (1570) as a revenue offset requirement in the 2006 EDR should not have been included in the revenue offset for rate setting purposes. This has resulted in an under-recovery of transition costs and Lakefront Utilities is requesting the Board to allow transition cost recovery to continue until the approved recovery amount is achieved.

- a) Was the \$296,000 interest for transition costs included in Account 1590 when the transfer was made to debit 1590 and credit 1570, upon approval of 2006 EDR regulatory assets?

- b) Is Lakefront Utilities seeking special disposition for the \$296,000 amount?
 - i If so, what is the regulatory precedent for this request?
 - ii If so, is the request for disposition through the revenue requirement or through a rate rider?

10.6 Ref: Exhibit(s) Exhibit 5/Tab1/Schedule 3/Page1

Lakefront Utilities is requesting for disposition of regulatory variance accounts in Exhibit 5/Tab1/Schedule 3/Page1. Most of the totals do not agree to totals reported to the Board under S.2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31, 2006. Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Ex5/Tab1/Sch3/Pg1. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

10.7 Ref: Exhibit(s) Exhibit 5/Tab1/Sch3/Pg1

Is there a balance in account 1508 sub-account OMERS that represents costs paid to OMERS by an affiliate of the LDC?

- a) If yes, what is the balance?
- b) If yes, have the billings by the affiliate to the LDC reflected an increase in OMERS pension costs beginning in the period that costs were collected in 1508?
 - i If so, what has been the increase in burden beginning in this period?
 - ii What is the period?
- c) If no, what does the balance in account 1508 sub-account OMERS represent?

11 PILS

11.1 Ref: Exhibit(s) Exhibit 4/Tab 3/Schedule 1/Page 21

- a) For the 2007 PILs tax calculations, please explain how the distributor calculated the income tax rate of 38.708%. The actual income tax rate in 2006 was 27.62% and taxable income in 2006 and 2007 are similar.

- b) For the 2008 PILs tax calculations, please explain how the distributor calculated the income tax rate of 36.519%. The actual income tax rate in 2006 was 27.62% and taxable income in 2006, 2007 and 2008 are similar. The maximum tax rate for 2008 will be 34.5% and the small business combined tax rate will be 17%.
- c) In the pro-forma 2008 income statement, Appendix C, net income after PILs tax is shown as \$710,218. If the income tax amount of \$405,519 is added back to net income, the pre-tax income in this pro-forma income statement is \$1,115,737. However, the amount used in the PILs income tax calculation is \$631,175. Please explain how the numbers can be different.

11.2 Ref: Exhibit(s) Exhibit 4/Tab 3/Schedule 3/P2-4

- a) Please explain why Capital Cost Allowance (CCA) class 47, 8% rate, was not used in the 2006 tax returns. Class 47 has been available for use since February 23, 2005.
- b) Actual 2006 additions to UCC are shown as \$1,086,253. Please explain why the 2006 capital expenditure budget for 2006 shown as \$1,637,086 on E2/T3/S1/P2 was not used for additions to UCC. Please provide a table that reconciles the differences.
- c) Please provide a continuity table that shows the movement in construction work in progress for 2006, 2007 and 2008.
- d) Has Lakefront maximized the CCA deductions in its tax returns and in this application?
- e) Please explain why CCA is much lower than amortization in 2006, 2007 and 2008.

11.3 Ref: Exhibit(s) Audited financial statements

In Note 5 on page 13 of the audited financial statements it indicates that there is a provision against regulatory assets of \$385,462. Please explain why Lakefront requires this provision since the Board has allowed recovery of regulatory assets to take place. Please show how Lakefront dealt with the change in the provision from \$623,586 in 2005 to \$385,462 in 2006 in its 2006 tax returns.