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January 14, 2008

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2007-0761
Lakefront Utilities Inc. – 2008 Electricity Distribution Rate Application

Please find enclosed the Interrogatories of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

Lakefront Utilities Inc. (Lakefront)
2008 Electricity Rate Application
Board File No. EB-2007-0761

VECC's Interrogatories

Question #1

Reference: i) Exhibit 1/Tab 1/Schedule 5, page 1
ii) Exhibit 1/Tab 2/Schedule 5
iii) Exhibit 9/Tab 1/Schedule 7

a) Please indicate whether Lakefront is proposing to change the levels for any of its 2007 Specific Service Charges in 2008. If yes, please identify which charges and the rationale for the change.

b) With respect to Reference (ii), Lakefront appears to be introducing a new service charge (Interval Meter Load Management Tool Charge). Please confirm whether this is the case and, if so, what the rationale and basis for the charge is.

c) Is Lakefront proposing any other new Specific Service Charges for 2008? If so, please describe what they are, the rationale for employing a specific service charge and the basis for the rate.

Question #2

Reference: i) Exhibit 1/Tab 1/Schedule 7

a) Please provide additional explanations as to how the correction of the metering error impacts on the RSVA Accounts. In particular, please explain:
   - Does the error result in any retroactive changes to the RSVA balances as of December 31, 2006?
   - Would this error only lead to an "over collection" in the RSVA – Power account or in all RSVA accounts?
   - What is the basis (i.e., Board direction or guideline) that led to Lakefront including the difference in interest in the variance account 1588 calculation?
   - For what year was the interest difference adjustment included in the RSVA accounts (i.e., is it included in the December 2006 balance that Lakefront is requesting disposition of?)

- Please provide a continuity schedule for each of the RSVA accounts for the period December 31, 2003 to December 31, 2006 and indicate specifically any changes resulting from the meter reading error.
- Was compensation (apart from the interest compensation) paid to Horizon Plastics and, if so, how has it been treated (e.g., was it also recorded in the RSVA accounts)?

b) With respect to Transition Cost Recovery Item (a), please indicate:
- What the outstanding balance with respect to transition cost recovery is after the two years? Is it equal to (or just a part of) the $598,999 April 30, 2008 balance reported for Account 1590?
- How Lakefront proposes (from an accounting perspective) to separate this item (which will not attract interest) from other items that may be captured in the 1590 Account that will attract interest?

<u>Question #3</u>

Reference: i) Exhibit 1/Tab 1/Schedule 8

a) Please provide an illustrative "accounting order" that shows how the "Future Capital Projects" deferral/variance account would work.

b) What information would Lakefront anticipate filing at the time of its next rebasing to justify clearance of the "Future Capital Projects" account?

c) Why is a separate deferral/variance account needed for MDMR as opposed to treating the expense as part of Account #1556?

<u>Question #4</u>

Reference: i) Exhibit 1/Tab 1/Schedule 14

a) Please provide copies of the Service Agreement between:
- LUSI and LUI for the services provided by LUSI to the Utility
- CNI and LUI for the services provided by CNI to the Utility
- LUI and its affiliates for services provided by the Utility.

b) If not provided in response to part (a) please indicate:
- The specific services provided by LUSI to LUI
- The specific services provided by CNI to LUI
- The specific service provided by LUI to each of its affiliates

c) Please provide a schedule that for 2006 (actual), 2007 (forecast) and 2008 (forecast) lists the charges made by LUSI and CNI to LUI for each of the services provided and indicates the basis on which the cost of the service was determined.

d) Please provide a schedule that for 2006 (actual), 2007 (forecast) and 2008 (forecast) lists the charges made by LUI to each of its affiliates for each of the services provided and indicates the basis on which the cost of the service was determined.

Question #5

Reference: i) Exhibit 1/Tab 2/Schedule 1
ii) Exhibit 4/Tab 2/Schedule 6, page 2

a) Given the Lakefront Application was prepared in 2007, please explain the basis for including the bulk of the costs from Ogilvy Renault and ERA associated Application in 2008.

b) Do the 2007 and 2008 costs shown in Reference (ii) for Ogilvy Renault and ERA represent the total costs from these two parties associated with the 2008 Rate Application?

c) Are there any other costs in Reference (ii), from other service providers, that are associated with the preparation of the 2008 Rate Application? If so, what are they?

d) Given that rate rebasing is a periodic event, was any consideration given to amortizing the cost of preparing the Application over the period of the 3GIRM?

Question #6

Reference: i) Exhibit 1/Tab 2/Schedule 1, pages 4-5

a) Has Lakefront received authorization (from the provincial government) to proceed with the procurement of Smart Meters? If so, please provide. If not, what is Lakefront's understanding as to when such authorization will be provided?

b) On what basis (i.e., OEB policy or directive) has Lakefront decided that it is appropriate to include its Smart Meter related costs for 2008 in its distribution revenue requirement as opposed to tracking the revenue requirement impacts in a variance account and establishing an appropriate "rate adder"?

c) Please provide a schedule setting out Lakefront's plan with respect to the annual deployment of new Smart Meters over the 2008 to 2010 period.

d) Please provide a schedule setting out:

- The capital spending on Smart Meters forecast for 2008
- The revenue requirement impacts (i.e., depreciation, return and taxes) associated with the Smart Meters in-service in 2008
- The 2008 OM&A expense associated with Smart Meters.

e) Based on the spending planned for Smart Meters and the funds collected to date from the Smart Meter Rate adder, please compute the 2008 rate adder consistent with maintaining the reporting of Smart Meter spending through the variance accounts established by the Board.

Question #7

Reference: i) Exhibit 1/Tab 2/Schedule 4

a) Please confirm that the $3,730,325 in "Distribution Revenue" represents Distribution revenues based on 2007 billing quantities and 2007 approved rates. If this is the case, please re-do the calculation of deficiency using Distribution Revenues based on 2008 billing quantities and 2007 approved rates.

b) Please confirm whether the 2007 rates used to determine Distribution Revenue (per part (a)) included the Smart Meter rate adder. If not, please revise accordingly.

c) Please confirm that the deficiency (as filed) suggests a 27.1% increase in required base distribution revenues for 2008.

d) Please explain the "Net Adjustments per 2008 PILs" of $73,740.

Question #8

Reference: i) Exhibit 1/Tab 23Schedule 4, page 1

a) Please indicate when the voltage conversion program started and when it is expect to be completed.

b) Please indicate when Lakefront expects to start experiencing lower line losses as a result of the conversion program.

Question #9

Reference: i) Exhibit 2/Tab 3/Schedule 1, page 7

a) Please indicate what portion of the $2,037,923 capital spending on Meters (Account 1860) is associated with Smart Meters.

b) Please explain the distinction between the $1,956,245 and the $81,678 spending on Meters in 2008.

c) Please indicate precisely where in Appendix D the Lakefront Smart Meter plan and the details supporting the Smart Meter spending indicated in response to part (a) can be found.

d) Is there spending in any other Account (besides #1860) which is related to Smart Meters? If so, please indicate which accounts, the amount of spending involved and what the spending is for.

Question #10

Reference: i) Exhibit 2/Tab 3/Schedule 1

a) Please provide a summary Schedule that shows the capital spending and capital additions for each of the years 2006 (actual) through 2008 for each of the following asset categories:
   - Land and Buildings (Accounts 1805, 1806, 1810)
   - DS (Account 1820)
   - Poles and Wires – Overhead (Accounts 1830 and 1835)
   - Underground (Accounts 1840 and 1845)
   - Line Transformers (Account 1850)
   - Services and Meters (Accounts 1855 and 1860)
   - IT Assets
   - Equipment
   - Other Distribution Assets

b) For each year (2006 to 2008) please indicate the total spending by account associate with:
   - The Voltage Conversion Program
   - The Smart Meter Program

Question #11

Reference: i) Exhibit 2/Tab 3/Schedule 1, page 1

a) Please explain the relevancy, in terms of assessing the appropriateness of Lakefront's proposed level of capital spending, of comparing "system reinvestment" with the "depreciation allowance".

b) Has Lakefront performed any form of Asset Condition Assessment in order to determine areas of required spending for system sustainment and their priority? If yes, please provide. If not, on what basis did Lakefront determine the 2008 sustainment capital spending projects it is undertaking?

Question #12

Reference: i) Exhibit 2/Tab 3/Schedule 2, page 4

a) Please confirm that the 8,923 meters represent the total number of Smart Meters Lakefront needs to deploy by 2010. If not, what is the number?

b) Does the $2,041,819 spending in 2008 represent the cost of installing all 8923 meters?

c) Why is Lakefront proposing to complete the Smart Meter installation all in 2008 as opposed to phasing it in over 2008-2010?

Question #13

Reference: i) Exhibit 2/Tab 4/Schedule 1, page 2

a) Please indicate how the forecasts for the 2007 and 2008 for the various cost of power components were developed. In particular, what was the assumption regarding the average cost purchased power in 2008 (i.e., the average HOEP)?

b) Why are there no reductions in the forecast for Transmission Network and Connection charges consistent with the lower pooled wholesale rates approved by the OEB for 2008?

Question #14

Reference: i) Exhibit 3/Tab 1/Schedule 2, page 1

a) Please confirm whether that the bridge year revenue represents revenues based on rates approved for 2007 and 2007 billing quantities. If this is not the case, what is the basis for the values.

Question #15

Reference: i) Exhibit 3/Tab 2/Schedule 1, pages 2-3

a) The text states that the number of customers in the GS > 50 – 2,999 class was held constant at 129 for 2007 and 2008. However, the table shows a 2008 value of 127. Please reconcile. If the 127 figure is correct, please explain the reason for the assumed decrease in customers.

b) Please provide a schedule setting out the number of customers by class for the period 2002 – 2006.

c) Please confirm that Cobourg has recently experienced new condominium construction. If so, how is this reflected in the customer and load growth forecasts.

Question #16

Reference: i) Exhibit 3/Tab 2/Schedule 3, page 2
ii) Exhibit 3/Tab 2/Schedule 4, page 1

a) In Reference (i), the text suggests that the number of customers in the Sentinel Lighting, Street Lighting and USL classes is unchanged from 2007 to 2008. However, in Reference (ii) the number of customers in the Street Lighting and Sentinel Light classes increase in 2008. Please reconcile.

Question #17

Reference: i) Exhibit 3/Tab 3/Schedule 1

a) Please explain why the SSS Admin revenues are the same in 2007 and 2008 when the number of small volume customers (i.e., residential and GS<50) are forecast to increase.

b) Are the revenues received from services provided to affiliates reported here? If so, where are they captured? If not, where are such revenues reflected in the Application?

Question #18

Reference: i) Exhibit 3/Tab 3/Schedule 4, page 2

a) Please provide the 2007 rates used to create the 2007 bridge year projection and confirm whether the rate used included the Smart Meter rate adder.

Question #19

Reference: i) Exhibit 4/Tab 2/Schedule 1, pages 1-3
ii) Exhibit 4/Tab 2/Schedule 3, page 2

a) Please explain the material increases (over 40%) in spending on Transformer Station Equipment (Accounts 5014 and 5015) between 2006 (actual) and 2007.

b) Please provide the data and analyses that led to concerns about reliability of service issues for line transformers and a more than 80 % increase in maintenance spending between 2006 (actual) and 2007.

c) Please explain the more than 14% increase in Meter Reading expense (Account 5310) between 2006 (actual) and 2007.

d) The explanation for the $34,737 increase in Management Salaries and Expenses between 20076 (actual) and 2007 makes reference to wage scale improvements. Please explain the nature and reason for wage scale improvements that led to almost a 13% increase in management salaries.

e) Please explain what the additional CDM funds approved for 2007 were for. Were these funds part of Lakefront's 3rd tranche spending?

f) How much of the $237,509 spending in 2008 on Maintenance of Meters (Account #5175) is attributed to Smart Meters?

g) Why is the installation of Smart Meters considered a Maintenance expense instead of part of the capital cost of the new meter (per Reference (ii), page 3)?

h) Does the installation of the Smart Meters in 2008 lead to any reduction in Billing and Collecting expense for that year? If yes, how much and were is it reflected in the OM&A Costs Table? If not, why not?

i) The written explanation of the 2008 versus 2007 Energy Conservation variance suggests an increase of $41,647. However, the Table in Reference (i) shows a decrease of $38,751. Please reconcile and clarify level and purpose of Energy Conservation spending projected for 2008.

j) Please provide a further breakdown of the $100,000 increase in regulatory spending attributed to the preparation of the 2008 Rate Application.

<u>Question #20</u>

Reference: i) Exhibit 4/Tab 2/Schedule 8, page 1

a) Please provide a schedule that shows (for 2006-Board Approved through to 2008) and for each of the various asset classes:
- The Beginning Gross Book value
- The Depreciation Rate
- The Annual Depreciation

The total annual depreciation for each year should reconcile with the amortization expenses shown in Exhibit 4/Tab 1/Schedule 2.

Question #21

Reference: i) Exhibit 4/Tab 2/Schedule 9

a) Does Lakefront have an explanation for the continual increase in the annual loss factor over the 2004 to 2006 period? Please provide the calculation and values for 2002 and 2003.

b) If the voltage conversion program is expected to reduce losses, why is it not appropriate to use a lower loss factor than one based on an historical three year average?

c) What issues or concerns would Lakefront have with maintaining the distribution loss factor at 1.0471 for 2008?

Question #22

Reference: i) Exhibit 4/Tab 3/Schedule 3, page 3

a) Is any of the planned smart meter investment for 2008 related to computer software or equipment? If so, how much and please confirm which CCA class(es) it has been assigned to.

b) The March 2007 federal budget introduced new CCA classes for computer equipment and buildings (after March 2007). Do any of Lakefront's capital additions in 2007 and 2008 qualify and, if so, please adjust the CCA calculation accordingly.

Question #23

Reference: i) Exhibit 5/Tab 1/Schedule 3, page 1

a) Please explain the basis on which Hydro One Networks bills Lakefront for LV Facilities.

b) Based on the response to part (a), why is the LV Variance Account being allocated to customers based on distribution revenue as opposed to say kWhs?

c) Please explain why the outstanding balance in Account 1590 is positive for some customer classes and negative for others.

Question #24

Reference: i) Exhibit 5Tab 1/Schedule 2, page 1

a) For each account, please provide a continuity schedule from December 31, 2004 to December 2006 showing the details of the annual postings to each account.

Question #25

Reference: i) Exhibit 6/Tab 1/Schedule 3

a) Please confirm that the 7.25% long term debt rate is consistent with the OEB policy with respect to allowed debt rates for borrowings from affiliates.

Question #26

Reference: i) Exhibit 7/Tab 1/Schedule 1, page 2

a) Does the deficiency calculation and the 2008 revenue requirement ($4,752,287) include: a) the recovery of LV Charges or b) a recognition of the transformer allowance discount paid to certain GS customers? If yes, please indicate how these items are accounted for.

b) If not, please indicate where in Exhibit 9 recovery of the "costs" associated with these items is discussed.

c) Please confirm that (as a result of the 2006 EDR) Lakefront's currently approved distribution rates include an allowance for LV charges.

d) If the response to (c) is yes, are the revenues from this allowance posted to the LV Charge deferral account? If not, why not?

Question #27

Reference: i) Exhibit 8/Tab 1/Schedule 2

a) Please explain why $80,408 spending for CDM is directly allocated to the residential customer class. What is the purpose of the expense that makes it directly attributable to residential customers.

b) Do the revenue to cost ratios resulting from the Cost Allocation Informational filing reflect any CDM expense directly allocated to the Residential Class in 2006? If so, how much? Also, if so, why is it appropriate to treat the 2008 spending as a separate adjustment?

c) Please demonstrate how a proposed allocation of 44.35% of 2008 revenue requirement (plus the directly allocated CDM) results in a revenue to cost ratio of 111.84% for the residential class.

d) Please confirm whether the column titled “Proportion of Revenue at Existing Rates” is based on: a) 2007 billing quantities and rates or b) 2008 billing quantities and 2007 approved rates. If the former, please redo the column and the balance of the Table using 2008 billing quantities and 2007 approved rates.

e) Please explain the concerns Lakefront has regarding the Cost Allocation Informational filing results for Street Lights, Sentinel Lights and USL.

f) It is understandable that concerns about the results could lead to Lakefront not wanting to aggressively move certain customer class’ revenue to cost ratios towards 100%. However, why for these three classes, are the revenue to cost ratios proposed for 2008 being allowed to move “away” from 100%?

Question #28

Reference: i) Exhibit 9/Tab 1/Schedule 1, pages 3-4

a) On November 28, 2007 the OEB issued a Report titled: “Application of Cost Allocation for Electricity Distributors”. In this report (pages 12-13) the Board set an upper bound on Monthly Service Charges equal to 120% of “avoided costs plus allocated customer costs”. In light of this, does Lakefront still consider it appropriate to propose a monthly service charge for residential customers of $11.44 which is well above this maximum (i.e., $8.24 * 1.20% = $9.89). If so why? If not, will Lakefront change its proposed rate design for residential customers?

b) Please provide the details regarding revenues by customer class (e.g., rates used, billing parameters used, revenues for fixed and variable) that support the fixed variable splits used to establish the currently proposed monthly service charges. Please confirm whether or not the rates used included the 2007 Smart Meter adder.

c) Please provide a schedule setting out the derivation of the proposed “variable” distribution rates for each customer class.

d) With respect to page 4, what is the projected “cost” of the transformer ownership allowance for 2008 and how much of the allowance is paid to each customer class? How is the “cost” of the transformer ownership allowance discount recovered in Lakefront’s Application?

e) Is there any provision in Lakefront's proposed rates for recovery of LV Charges from Hydro One Networks? What are the projected 2008 LV Charges from Hydro One Networks?

f) Given the reduction in Wholesale transmission rates for 2008, will Lakefront be proposing a reduction in its Retail Transmission rates? If not, why not? If yes, please provide the proposed rates and supporting schedules indicating how they were determined.

Question #29

Reference: i) Exhibit 9/Tab 1/Schedule 7

a) In the text Lakefront indicates that is has "concern on the Revenue-to-Cost Ratios" for each of the customer classes. Please outline what these concerns are, particularly as they apply to the Residential ratio.

b) If Lakefront's proposal is to maintain the existing fixed/variable split, why aren't the 2008 percentage increases in the fixed and variable portions of the Residential distribution charges for a 750 kWh customer the same?

Question #30

Reference: i) Exhibit 9/Tab 1/Schedule 9

a) Based on a recent 12 consecutive months of actual billing data, please indicate the percentage of total residential customers that:
   - Consume less than 100 kWh per month
   - Consume 100 -> 250 kWh per month
   - Consume 250 -> 500 kWh per month
   - Consume 500 -> 750 kWh per month

Question #31

Reference: i) Exhibit 9/Tab 1/Schedule 8
ii) Exhibit 8/Tab 1/Schedule 2, page 5

a) The total distribution revenue requirement shown in Reference (i) is $5,347,238. Please provide a cross reference to where in the Application the derivation of this "total" can be found. If there is none, please explain the basis for the number.

b) Please reconcile the $5,347,238 value for total distribution revenue in Reference (i) with the $4,742,279 value shown in Reference (ii).

Question #32

Reference: i) General

a) Please provide copies of all Board Decisions pertaining to Barrie's rates issued since December 31, 2004.

Question #33

Reference: i) Exhibit 9/Tab 1/Schedule 4 and Schedule 6

a) If not provided in response to Question #32, please provide a copy of Lakefront's complete approved 2007 rate schedule.

b) Please provide a copy of Lakefront's proposed 2008 rate schedule, including all items for which it is seeking Board approval (e.g. specific charges, loss factors, etc.).