Lakefront
Utilities
Inc.

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January 28, 2008

EMAILED

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Dear Mr. De Vellis:

RE: Lakefront Utilities Inc – 2008 Electricity Distribution Rate Application Ref: EB-2007-0761, School Energy Coalition (SEC) response

In response to your correspondence dated January 14, 2008, please find attached Lakefront Utilities Inc. response to the School Energy Coalition (SEC) Interrogatories listed in your letter.

As per Procedural Order No. 1 dated December 19, 2007 we will enclose two paper copies along with a CD to the Board.

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

Yours truly,

Original signed

Dereck C. Paul
Lakefront Utilities Inc.

Copy: Ms. Kristen Walli – Board Secretary – Ontario Energy Board

Rate Application

1. Transition Cost Recovery
Ref: Ex 1/T1/S7/pg2

a. LUI has stated in the Evidence that subsequent to the write-down of its transition costs from a tax perspective in 2002 as advised by LUI's auditor, LUI created a revenue account to reverse the write-down and return the asset to its financial statements to reflect its financial position for tax purposes.

Please provide the adjustment entries LUI has made to write down its transition cost and reverse entries LUI has made to return its assets for tax purposes.

b. LUI has stated that $238,124 per year needs to be added to return the asset to its financial statements for tax purposes.

Please advise the total amount to be added to LUI's financial statements and what rate years will be affected as a result of removing this additional revenue.

LUI's Response
Please refer to the table below

SEC

1. a. The transition costs and premarket opening costs had all been expensed to their appropriate capital and operating expense accounts and an allowance was set up to track these costs by debiting the cost of power and crediting the allowance for transition costs as follows:

Account 1599 - transition cost allowance.

Year	Amount
2002	$1,834,161
2003	342185
2004	473052
2005	-102688
2006	47169
	$2,593,879

The revenue was set back up debiting the allowance for transition costs and crediting distribution service revenue. As of December 31, 2006 we had set back up as distribution revenue $2,208,416 leaving a balance left to be set back up of $385,463.

1. b. LUI had set back up, as distribution revenue, $238,124 in 2006. Leaving a balance of $385,463 left to be set back up as revenue in future years.

2. Specific Charges for 2008 Test Year
Ref: Ex 1/T2/S5

LUI has forecasted the volume for its specific services based on past 3-year average.

a. The volume forecasted for collection of account charge has increased by 15 times, from 49 in 2006 to 800 in 2007 & 2008. Please explain.
b. The volume forecasted for Disconnect/Reconnect at meter during regular hours has almost tripled, from 53 in 2006 to 150 in 2007 & 2008. Please explain.

LUI's Response
In 2006 LUI was not applying the collection of account Disconnect / Reconnect charges appropriately. Practices were refined in 2007 to ensure the charges are applied, resulting in this significant increase. Had we applied the same process in 2006, we estimate the figures would be higher but not attaining the levels seen in 2007.

3. Depreciation Policy
Ref: Ex 4/T1/S2

LUI's 2007 depreciation expense has decreased by $44K compared to 2006 level, despite the fact that LUI had approximately $1.5 million additions to gross fixed assets in 2007. In the "Explanation of Decrease in Depreciation from 2006 to 2007" table, LUI has explained that Account #1808 (Land and Buildings), #1915 (Office Furniture), #1930 (Rolling Stock), #1980 (Equipment) were depreciated over a longer period of time in 2007.

Please explain whether LUI has conducted any depreciation study, and if yes, please file a copy of the study justifying the change in its depreciation policy.

LUI's Response
A depreciation study was not conducted. Upon the review of the depreciation rates used by LUI and in comparison with the OEB standard depreciation rates, LUI made changes to the rates to reflect the rates posted by the OEB.

4. Wages and Compensation
Ref: Ex 4/T2/S7 – Average total compensation columns

a. Please confirm that LUI's average total compensation should be as follows.

Average Total Compensation				
	2006 Approved	***2006 Actual***	***2007***	***2008***
Executive	56,348	114,453	118,179	122,293
Mgmt	71,204	83,767	86,334	81,467
Non-Unionized	#DIV/0!	22,374	23,145	24,335
Unionized	48,142	65,863	69,275	71,446
Total	55,016	72,380	75,060	75,975

b. Please explain the average salary & wages and average benefits increase in 2006 actual levels compared to the 2006 approved levels for the identified pay group.

	2006 Actual vs. Approved			
	Average Salary and Wages		**Average Benefits**	
	$	***%***	***$***	***%***
Executive	50,612	112%	7,492	66%
Mgmt	11,098	19%	1,465	10%
Non-Unionized	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Unionized	14,508	39%	3,213	31%

LUI's Responses a & b
In the 2006 Board Approved column of Exhibit 4, Tab 2, Schedule 7, three executive employees were recorded. The three executives are shared employees and are equal to 1.5 full time employees (FTE). In the balance of the columns, the 1.5 FTE was inserted, which make comparison to the 2006 Board Approved difficult. LUI has corrected the chart as follows:

EMPLOYEE DESCRIPTION

Number of employees (Full-time equivalents (FTE's)):								
		2006 Board Approved		2006 Actual		2007 Bridge		2008 Test
Executive		1.5		1.5		1.5		1.5
Management		4		4		4		5
Non-Unionized		0		1		1		1
Unionized		9		9		10		10
TOTAL		**14.5**		**15.5**		**16.5**		**17.5**

Compensation (Total Salary and Wages ($)):								
	2006 Board Approved	Average	2006 Actual	Average	2007 Bridge	Average	2008 Test	Average
Executive	135,236	90,157	143,536	95,691	148,000	98,667	153,000	102,000
Management	227,853	56,963	272,246	68,062	280,000	70,000	322,400	64,480
Non-Unionized (Summer Students)	-	-	20,215	20,215	20,900	20,900	22,000	22,000
Unionized	376,296	41,811	469,239	52,138	550,000	55,000	566,000	56,600
TOTAL	**739,385**	**50,992**	**905,236**	**58,402**	**998,900**	**60,539**	**1,063,400**	**60,766**

Compensation (Total Benefits ($)):								
	2006 Board Approved	Average	2006 Actual	Average	2007 Bridge	Average	2008 Test	Average
Executive	26,500	17,667	28,143	18,762	29,269	19,512	30,440	20,293
Management	57,000	14,250	62,823	15,706	65,336	16,334	84,937	16,987
Non-Unionized (Summer Students)	-	-	2,159	2,159	2,245	2,245	2,335	2,335
Unionized	112,394	12,488	123,530	13,726	142,746	14,275	148,456	14,846
Total	**195,894**	**13,510**	**216,655**	**13,978**	**239,596**	**14,521**	**266,168**	**15,210**

Compensation (Total Incentives ($)):								
	2006 Board Approved	Average	2006 Actual	Average	2007 Bridge	Average	2008 Test	Average
Executive	161,736	107,824	171,679	114,453	177,269	118,179	183,440	122,293
Management	284,853	189,902	335,069	223,379	345,336	230,224	407,337	271,558
Non-Unionized	-	-	22,374	14,916	23,145	15,430	24,335	16,223
Unionized	517,728	345,152	592,769	395,179	692,746	461,831	714,456	476,304
Total	**964,317**	**66,505**	**1,121,891**	**72,380**	**1,238,496**	**75,060**	**1,329,568**	**75,975**

Total of Costs charged to O&M ($)):								
	2006 Board Approved	Average	2006 Actual	Average	2007 Bridge	Average	2008 Test	Average
TOTAL	**-**	**-**	**826,449**	**53,319**	**911,996**	**55,272**	**975,084**	**55,719**

5. Cost Allocation
Ref: Ex 8/T1/S2

	Existing Rev/Cost Ratio	Proposed Rev/Cost Ratio	Over/Under Contributing
Residential	114%	112%	Over
GS<50	141%	138%	Over
GS>50	148%	134%	Over
GS 3000-4999	25%	70%	Under
Street Lights	13%	3%	Under
Sentinel Lights	29%	26%	Under
USL	97%	92%	Under

a. Please explain the steps LUI will take to further move Revenue /Cost ratios for its various rate classes to the desired range.

b. LUI has expressed concerns with the output of the Cost Allocation study for Street Lights, Sentinel Lights, and USL rate classes. Please specify.

LUI's Response
LUI has concerns on the Cost Allocation output, due to the fact that in the Sheet 01 Revenue to Cost Summary Worksheet of the Cost Allocation Filing, miscellaneous revenues of $578,484 were allocated across customer classes and that figure is inflated by $296,000 Regulatory Interest. We also believe that allocation of expenses and other items, such as net income and revenue requirements were done based on number of connections rather than number of accounts which further inflated the figures for Street Lighting in particular but also distorted the other classes figures. LUI is planning to redo the Cost Allocation Study in 2008 due to changes in customer data and misapplication of the Street Lighting data.

Once we have revised the cost allocation study, LUI plan to continue moving the various class figures closer to the 100% mark in the next rebasing process.

6. Revenue Requirement
Ref a: Ex 9/T1/S1
Ref b: Ex 1/T2/S1

In Ref a, LUI's 2008 test year base revenue requirement is shown as $4,742,278.
In Ref b, LUI's 2008 test year base revenue requirement is shown as $5,077,851.

Please confirm that correct amount and provide breakdown of LUI's 2008 revenue requirement components. etc.

LUI's Response
LUI's base revenue requirement excluding other operating revenue of $335,573 is $5,077,851. When $335,573 of other operating revenues are deducted, the figure is $4,742,278. Please refer to Exhibit 7, Tab 1, Schedule 1 Page 2 for the breakdown of LUI's 2008 revenue requirement.