Lakefront Utilities Inc.

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March 10, 2008

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

Dear Ms. Walli:

RE: 2008 Electricity Distribution Rate Application Ref: EB-2007-0761
Lakefront Utilities Inc. response to Board Staff, VECC and SEC Submissions

In response to Board Staff correspondence dated February 13, 2008 and VECC and SEC's dated February 15, 2008, please find attached Lakefront Utilities Inc. responses.

As per Procedural Order No. 1 dated December 19, 2007 we have enclosed two paper copies along with a CD.

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: Christie Clark – Case Manager – OEB
Andrew Taylor – Ogilvy Renault; Counsel for LUI
Michael Buonaguro – Counsel for VECC
John De Vellis – Counsel for SEC

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Lakefront Utilities Inc.
EB-2007-0761

Introduction

Lakefront Utilities Inc. (“LUI”) serves approximately 9,150 customers in the Town of Cobourg and the former Village of Colborne. Lakefront is embedded to Hydro One Networks Inc. (“HONI”), and hosts no utility.

LUI submitted an application for 2008 electricity distribution rates on October 31, 2007 using the cost of service methodology. Interventions were received from Board staff, the School Energy Coalition (“SEC”) and Vulnerable Energy Consumers Coalition (“VECC”). Their submissions reflect observations and concerns which arise from LUI’s pre-filed evidence and interrogatory responses.

In this submission, LUI addresses those concerns and provide further clarification on the items identified by Board staff, VECC and SEC.

Summary

LUI has undergone significant financial challenges in recent years as a result of numerous policy changes since market opening. Despite all the developments over the past number of years, LUI has continued to deliver electricity safely and reliably to our customers. We believe we have made positive efforts towards maintaining high levels of efficiencies in a setting of increasing costs and no new revenues. We carried millions of dollars in transition costs and increased expenses (i.e. inflation and higher labour costs), while incurring a revenue requirement deficiency.

Despite these challenges, LUI is always seeking ways to improve efficiencies in our business operations by pooling resources and building alliances with organizations such as the CHEC group, and have demonstrated the ability to adapt to constant change in the electricity environment.

Over the last two years, LUI has ramped up spending on its long term plan to continue its voltage conversion program initiated more than two decades ago to convert 4 KV systems to 27.6 KV. LUI will continue this recent aggressive investment in its distribution system to improve reliability and efficiency that would have, if left unaddressed, due to the financial challenges in the past, certainly decline.

Even with these recent increased capital expenditures, (relative to other peers, comparator and cohort's measured expenses and costs), LUI submits that our cost performance is reasonable, adequate and prudent. Management is cognisant of the utility having to move towards a debt/equity ratio of 60/40 by 2010 and take this into consideration in our budgeting process.

LUI's request for the proposed adjusted distribution rates is necessary to meet LUI's Market Based Rate of Return, PILs requirements and continue to provide dependable service to our customers.

In its application, LUI applied for the following:

- Service Revenue Requirement $5,077,851
- Base Revenue Requirement $4,742,287
- Rate Base $15,557,507
- Return on Rate Base 7.82%
- Deficiency $1,011,962
- With the following proposed rate impacts:
- Res @ 750 kWh: $4.25 or +4.8% Dist charges only: $4.62 or +5.2%
- GS<50 @2,000 kWh**:** $16.00 or +5.3% Dist charges only: $12.10 or +3.8%
- Interim approval of the rates applied effective, May 1st, 2008 subject to final approval, if, final rates are not be approved in time to implement on May 1st, 2008

- Approval of LUI's proposed change in capital structure, decreasing LUI's deemed common equity component from "50%" to "46.67%" in 2008
- Approval of disposition of the principal of certain deferral and variance account balances as of December 31, 2006 and the projected accrued interest to April 30, 2008, plus the continuation of account 1590, transition costs rate rider, for a combined total of $1,389,869
- Approval of the Distribution Loss Factor (DLF) of 1.0494
- Recovery of Specific Service Charges as listed in Exhibit 1, Tab 2, Schedule 5 page in LUI's application.

LUI would also like to bring to the Board's attention that LUI was recently made aware (after filing its Application) that its largest customer, Kraft Canada Inc., will be closing its operations in October 2008. Accordingly, LUI has adjusted its load forecast as further discussed on page 34.

Operating Costs Background

LUI's Summary of Operating Costs is found at Exhibit 4/Tab 1/Schedule 2, Page 1 of its application ("Summary") and copied below:

SUMMARY OF OPERATING COSTS

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
OM&A expenses				
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	8,918	17,130	138,936	100,175
Administrative and General Expenses	928,754	801,751	786,480	988,498
Taxes Other Than Income	21,919	52,040	53,601	55,209
	1,811,976	1,861,109	2,103,649	2,542,982
Amortization Expense	737,576	824,816	780,981	888,341
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**

The forecasted Total Operating Costs for 2008 is $3,838,482, which is comprised of $2,407,365 in controllable expenses. LUI's actual 2006 controllable expenses were $1,809,069. Therefore, 2008 forecasted controllable expenses are $598,296 greater than LUI's 2006 actual controllable expenses.

The OM&A proposed expenditures represent LUI's integrated set of asset maintenance and activities to meet public and employee safety objectives; to comply with the Distribution System Code; environmental requirements; comply with Government direction; and to maintain distribution business service quality and reliability at acceptable performance levels. These costs also include providing services to customers connected to LUI's distribution system, and to meet the service levels stipulated in the Standard Supply Service Code and the Retailer Settlement Codes.

The proposed OM&A cost expenditures for the 2008 test year result from a business planning and work prioritization process that reflects risk-based decision making to ensure that the most appropriate, cost effective solutions are put in place.

According to Table 4 of Board staff's submission, the drivers for the two-year $598,296 increase in controllable expenses were as follows:

i) $116,256: Supplies, services and expenses
ii) $100,000: Regulatory expenses
iii) $(62,556): Outside services
iv) $236,746: Wages and benefits
v) $207,850: Smart meters

Each of these cost drivers is discussed below.

i) Supplies, Services and Expenses

LUI submits that the increase in Supplies, Services & Expenses between 2006 to 2008 (a two year period) of $116,256 is a result of the following:

a. The projected cost increase for 2008 *Distribution O&M* of **$9,654** is a 3% inflationary increase from 2007 values to 2008 attributed to Distribution O&M for supplies and expenses including tree trimming.
b. The projected cost for 2008 for *Billing & Collecting & General Admin* of **$27,934** is a 3% inflationary increase from 2007 values. In 2008, there is a projected cost in Billing & Collecting for $11,858 for meter reading, supplies, CIS billing software support PLUS in General Admin, there is $16,076 for office supplies, property and liability insurance, general building maintenance and other general expenses.
c. In 2007, **$15,912** was attributed to *Distribution Operations* for expenses due to Distribution Station Equipment, roof repair and other maintenance. This increase was a one-time expense that does not appear in 2008.
d. *Distribution Maintenance* in 2007 is due to abnormally high transformer repairs of **$22,504.** Due to the uncertainty, this figure is also budgeted for 2008 plus 3% inflationary increase.
e. *Billing and Collecting* for 2007 was calculated based on taking the actual value of $7,133 at the time of our application preparation (July) and projected out for the remaining of the year ($7,133 / 7 X 12 = **$12,228**)
f. Admin and general which consists of office supplies, property insurance, maintenance costs and general expenses was calculated the same as Billing and Collecting in (e) above, i.e. $16,347 at July / 7 X 12 = **$28,024**)

ii) Regulatory Expense

LUI budgeted $100,000 for legal and consulting costs associated with this rate application. This cost involves assistance in the preparation of pre-filed evidence, interrogatory responses, these submissions and modeling.

LUI's current annual regulatory expense (2007) is $56,714, (not including any costs associated with this application). As suggested by VECC in its final argument, LUI proposes including $56,714 in its 2008 forecasted regulatory expenses plus $33,333 (the $100,000 budgeted for this application amortized over a three-year period), as annual regulatory expenses in account #5655 – for a total of $90,047 annually until next rebasing in 2011.

LUI will charge account 1525 the upfront cost of $100,000 that is projected to be spent on the application, and credit 1525 account annually with one-third of the $100,000 plus interest and debit account 5655. We believe this is a reasonable approach as LUI will be paying upfront costs for the 2008 Rate Application.

iii) Outside Services

In 2006, LUI applied for recovery of transition costs in its EDR application under the comprehensive review process. Part of the preparation for transition cost recovery involved associated legal expenses and consulting services of $79,206 that were specific to that process and were considered a “one-time” expense and therefore would result in a decrease in future years. In 2008 LUI is planning on redoing the cost allocation study and budgeted a cost of $16,650 for the process. The net result of these two items amounts is a $62,556 decrease.

iv) Wages and benefits

Below is the completed Table 7 with the allocation of OM&A expenses for the 2006 Board Approved year (2004) which was incomplete in the interrogatory response.

Table 7
Lakefront Utilities Inc.
Employee Compensation and Benefits

Table 5

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Compensation	$ 768,423	$ 905,236	$ 998,900	$ 1,063,400
Pension and Benefits	$ 195,894	$ 216,655	$ 239,596	$ 266,168
Incentive Pay	$ -	$ -	$ -	$ -
Total Compensation	$ 964,317	$ 1,121,891	$ 1,238,496	$ 1,329,568
OM&A	$ 926,817	$ 826,449	$ 911,996	$ 975,084
Capital Additions & Other	$ 37,500	$ 295,442	$ 326,500	$ 354,484
Total Compensation	$ 964,317	$ 1,121,891	$ 1,238,496	$ 1,329,568
OM&A	96%	74%	74%	73%
Capitalized	4%	26%	26%	27%

As indicated in this table, compensation and benefits allocated to OM&A are forecasted to increase by $148,635 between 2006 (actual) and 2008. Board staff did not seem to take exception with LUI's proposed wages and benefits costs. Board staff commented that compensation is impacted by LUI's shared services; therefore LUI has included submissions on its shared services arrangements in this section.

LUI applied for approval of costs related to an additional Finance Clerk in its application. LUI operates its Finance Department with the same staff that it had prior to the restructuring of the electrical market in Ontario. The utility has endured the workload demanded by the new regulatory environment, including but not limited to, IESO statistics and reporting, retailer communications, new USofA development of statistics collection, income tax filing, the many audits relating to transition costs, IESO, provincial rebates, GST, financial, etc.

LUI submits that in order to continue to meet the workload requirements being demanded by the market, that more clerical staff time is needed to ensure the timely and proper recording and filing of information required by all parties and submits that the costs associated with an additional Financial Clerk be approved in our 2008 rate application.

Shared Services

LUI is a subsidiary of the Town of Cobourg and the associated affiliates are Lakefront Utility Services Inc. (“LUSI”), Cobourg Networks Inc. (“CNI”) that share services.

For purposes of clarification, Lakefront Generation Inc. (“LGI”) is a venture company operating at its Board level with separate board members and no staff from LUI is impacted. Costs associated with LGI are charged to LGI.

LUSI is a service company providing services to LUI and CNI. LUSI also provides water services to the Town of Cobourg. The revenues and expenses associated with providing the services are allocated to the respective entity at cost. CNI provides Internet services to LUSI to operate the Billing system through the Application Service Provider (ASP) model via Erie Thames in order to provide billing services for both LUI and the Water Department. Building and administration expenses (such as Human Resources) are also allocated at cost on a user-based calculation.

LUSI is a non-profit services company that provides the manpower required by Lakefront Utilities Inc. The affiliate, in this case LUI, requests the services company (LUSI) to perform the required functions in order for the utility (LUI) to meet its obligations. As LUSI is a non-profit organization, it serves as a vehicle to provide manpower services to LUI, and LUI is charged the actual cost of the services on a straight line pass-thru methodology. All expenses and charges associated with providing that manpower services to LUI by LUSI are based on actual costs incurred and are based solely on cost recovery. There is no margin or profit in the charges assessed to LUI so that when extra charges are incurred by LUSI related to the services provided, the costs must be passed through to LUI as though LUI incurred that expense on its own.

With respect to Board Staff’s submission on the rent amount, LUI submits that the $48,000 rent that LUI collects from LUSI (and offset from LUI’s revenue requirement) is made up of two components; office and garage rents. Office rent is $1,000 per month. Garage is $3,000 per month which started in March 2006 when the garage was completed for 2006, the amount is $12,000 for office + $30,000 for the garage = $42,000. But in 2007, the amount is $48,000 and will be $48,000 in 2008. Rent is calculated on costs related to the capital costs of building and proportioned by use. Maintenance costs are shared proportional use.

The comparison of shared services from 2006 Board Approved to 2008, which is comprised of three lines (Billing and Collecting, Community Relations, Administrative and General Expenses) can be found in Table 8 below:

Table 8

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Shared Services				
Biling & Collecting	223,962	420,421	441,986	453,844
Community Relations	8,918	17,130	138,936	100,175
Administrative and General Expenses	928,754	801,751	786,480	988,498
	1,161,634	1,239,302	1,367,402	1,542,517

In LUI's response to Board's IR 3.2b, General Administration dollars should have been $818,881 instead of $870,920 as "*Taxes Other Than Income"* should be excluded.

Please note, in the above table, **Community Relations** for 2007 includes the $119,169 CDM amount from the Board's August 13, 2007 Decision. This amount is reduced by $32,761 as of Apr/30/08 due to recoveries LUI expects through a rate rider that is in place from May 1, 2007 to April 30, 2008. The majority of the $175,000 increase in **Administrative and General Expenses** from 2007 to 2008 relates to the Regulatory Expense increase of $100,000 for the rate application preparation, wage increases, an additional finance staff and 3% inflationary increase on other items.

The rational for shared services is to achieve efficiencies by maintaining a corporate structure where actual costs and revenues are allocated based on proportioned usage by each company. Costs are assessed to the company based on calculated and proportioned costs. For example, Billing and Finance software are shared by LUI and the Water Operations. The result is LUI's share of costs is far less than providing this service on its own. Other examples are office staff, supplies, telephone, etc.

Employee's costs are allocated to each company based on the time spent performing each company's activities.

Currently billing and collecting payroll costs are based on 67% activity in LUI. Time is currently allocated depending on the position and is based on the proportioned time spent in that company. Allocations to the electric company range from the President at 48% to the Manager of Compliance and Finance at 75%.

Staff time allocated to Electric, unless specifically identified to a company:

President 48%
Management 50%
Finance & Compliance officer 75%
Billing, collecting & customer service 67%
Store keeper 75%

Costs such as maintenance, operating and administration expenses that are attributed to a specific company, are directly charged to that company. If they are shared costs then they are allocated based on proportioned use of that company.

Allocation of operating and maintenance costs to Electric, (not attributed to a company)

Shared office and garage services 50%
Communications, phone, fax, internet 50%
Billing and Finance Software provision and support 50%
Office and billing supplies 50%

Board Staff asked LUI to comment on the impact of its operations of the Board denying these costs and LUI submits that since the shared services include Billing and Collecting and all Administrative and General expenses of LUI, the impact would be detrimental to LUI and its operations should the Board denied these costs. It would affect the service reliability for LUI's operations and the sustainability of the organization.

v) Smart Meters

LUI is not one of the 13 distributors authorized to undertake smart meter activities and is not named in the combined smart meter proceeding, EB-2007-0063. However, LUI is one of the “un-named” 11 distributors who filed a specific smart meter plan in the 2006 EDR proceeding.

In 2007, LUI performed a study of inside and outside meters to be changed in preparation for the installation of smart meters and participated with other CHEC members in submitting a smart meter plan to the Ministry of Energy. LUI also participated with CHEC in the technology selection process that would best suit LUI for installation in the fourth quarter of 2008 should LUI become part of the London RFP process.

LUI submits that Section 53.18 of the *Electricity Act, 1998* allows the Board to authorize discretionary metering by way of an order, which the Board could do as part of this proceeding.

LUI included the smart meter capital expenditure amounts in 2008 rate base, instead of tracking the revenue requirement impacts in smart meter deferral accounts and employing an appropriate rate adder, because the Government’s mandate is to implement smart meters by 2010. Approximately 40% of our customers’ meter seals are expired or are on the verge of expiration and LUI believes that it would be imprudent and unfair to our customers to replace expired seal meters with regular kWh meters only to change them within a short period with smart meters. The cost of approximately $500,000 (up from the $300K initial estimate provided in interrogatory response) would be a stranded cost that LUI’s rate payers would have to bear unnecessarily.

LUI’s proposed smart meter capital expenditure amount for 2008 is $2,037,923, which is broken down into $1,956,245 for smart meters and $81,678 for repair of unsafe meter bases, consulting services, and legal expense for installation contract & old meter recycling. Computer related expense is not part of the planned smart meter investment in 2008. The amount of $2,037,923 represents 69.3% of LUI’s total capital expenditure of $2,941,669 for 2008.

The $207,850 OM&A expense for Smart Meters includes operational costs for the advanced metering regional collector (AMRC), the advanced metering control computer (AMCC), the advanced metering infrastructure (AMI) including labour for daily operations, Industry Canada re-verification and billing / customer service for meter data management repository (MDMR).

Though there is no formal authorization from the provincial government for LUI to undertake smart meter activities, we are proposing to participate in the CHEC group’s smart meter implementation plan in 2008 by installing smart meters to all of its residential and general service < 50 kW customers.

In the event the Board denies LUI's cost recovery of smart metering activities at this time in our rate base, LUI submits that the Board should establish and approve an appropriate Smart Meter Rate adder and continue use of the related deferral/variance accounts 1555 and 1556 for 2008.

Board staff duly noted, with the exclusion of smart meters, LUI's capital spending would be lower than the historical values and LUI would therefore re-prioritize our Capital spending for 2008 as per **Tables 10 and 11** in the Rate Base section of this submission.

If Smart Metering implementation were not to proceed in 2008, then LUI would therefore be forced to proceed with meter change out for those with expired seals in compliance with Industry Canada, at an approximate project cost of $503K.

LUI would also elevate its voltage conversion program totaling $325K (highlighted in green in Table 11), that were diverted to 2009 as a result of planned smart metering expenditures in 2008. The result of these changes is that LUI's total capital spending for 2008 would be approximately $1.74M.

Amortization

The issue of amortization method being the standard practice was alluded to in intervenors submission.

Consistent with the Canadian Institute of Chartered Accountants (CICA) Handbook, the OEB's Accounting Procedure Handbook does not provide prescriptive guidance in terms of the amortization methods to be used, but rather, it states that it is expected that utilities will continue to use methods consistent with past practices. LUI's past practices have been to not use the half year rule for financial presentation but with respect to Income Tax filings, LUI will use the half year rule as required by the Income Tax Act.

PILs

Lakefront in our application applied for income tax (PILs) of $405,513, and capital tax (PILs) of $1,646, for a total of $407,159. Lakefront used a combined income tax rate of 36.519% in the test year calculation of income tax PILs which is grossed up.

LUI in its calculations did not deduct the Ontario small business credit. However, we added the surtax amount.

The revised tax calculations LUI will be using are as follows:

$897,861 x 21%	= $188,551	Federal Tax
$897,861 x 14%	= $125,701	Provincial Tax
$400,000 x 8.5%	= ($ 34,000)	Small Business Tax Credit
($897,861 - $400,000) x 4.667%	= $ 23,234	Capital Tax
TOTAL	**= $303,486**	

The combined income tax rate is $303,486 / $897,861 = 33.80%

LUI expects PILs to be re-calculated after all adjustments and final figures are determined.

Line Losses

LUI has applied to set rates using a Distribution Loss Factor ("DLF") of 1.0494 based on an average of our last three years.

Board staff is concerned with the periodic increase in the actual DLF in the 2002 to 2006 period (1.0482 to 1.0549 to 1.0443 to 1.0499 to 1.0540).

Base on the current Loss Factor of 1.0471, our Power Variance account has a high accumulated balance, which indicates LUI is are not collecting enough to cover the actual losses and LUI is proposing an increase to the loss factor to compensate. By doing this we avoid rate shock to our customers at rebasing and disposition of the Power Variance account. Alternatively, should the Board deny LUI this Loss Factor increase, our Power Variance account may carry a higher than normal amount at the next rebasing.

LUI believes our DLF will over time, see a decline due to system voltage conversion investments that have been initiated and will continue over the next 10 years. As LUI expands its voltage conversion project, greater savings will be realized by our customers and they will be reflected in the calculated loss factor at the next rate setting.

LUI does not feel an additional assessment and action plan is necessary.

CDM
2007 Incremental CDM Funding

As part of the 2007 EDR process, LUI filed an application for $550,000 incremental CDM funding to upgrade its distribution network to a higher voltage. This was an extension of one of LUI's projects that was originally authorized as a component of our 2005 third tranche MARR CDM program plan approved by the Board on February 8, 2005.

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 subject to final approval at a later date while a full review of the application was conducted. The amount of $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. LUI is projected to collect $32,825 at the end of April 30, 2008.

On August 13, 2007 the Board issued its Decision EB-2007-0106 which decided that LUI was entitled to claim only $119,169 of the $550,000 requested.
Since in LUI's CDM Application, LUI was applying for the full $550,000 amount for Voltage conversion spending, similar to our $170,000 third tranche amount LUI was seeking the full amount of capital costs to be collected from rate payers and the $38,761 was a temporary decision while a hearing was conducted.

Accordingly, when the August 13, 2007 decision was released, LUI interpreted the $119,169 as the amount we should recover from rates as the decision made no mention of $8,938, nor a time period for recovery. Without the details of the Decision, LUI is unclear of the benefits to our customers of the CDM application.

LUI maintains that the $80,408 should be included in its 2008 revenue requirement for the reasons set out above, however, if the Board accepts VECC's position that only $8,398 should be included in LUI's 2008 revenue requirement, then LUI withdraws its request for the inclusion of any CDM amounts in its 2008 revenue requirement. The cost and resources required to administer $8,398 in CDM funding would be uneconomical for LUI and its customers.

Rate Base

LUI serves approximately 9,150 customers in the Cobourg and Colborne area which has a population of approximately 24,000 residents. Customer growth rate is in the 1.3% to 1.4% range (117 customers between 2006 to 2007 and 130 between 2007 and 2008 forecast) per annum. These figures exclude Street Light and Sentinel Light connection changes.

LUI's average rate base for 2008 with the smart meters excluded is $14,553,852. This represents an increase of approximately 3.8% as compared to 2007 rate base (excluding smart meters) of $14,024,339 and an increase of 10% from the 2006 actual level of $13,228,047. Allowance for working capital consists of approximately 25% of the rate base; whereas the distribution plant makes up the bulk of the remaining 75%.

Lakefront projects a 2008 capital expenditure level of $2,941,669. Table 9 below provides the comparisons for the rate base and the capital expenditure for 2006, 2007, and 2008 and Board Staff noted that the information on the rate base is essentially complete. Supplementary information on reliability statistics, trends and history were properly supplied with confirmation of the rate base definition and inclusion of overhead and interest during construction in capital project costs.

Increase in 2008 Capital Expenditures
Table 9

	2002	2003	2004	2005	2006	2007	2008
Net Income	$ 262,096	$ 1,126,612	$ 949,332	$ 951,412	$ 324,980	$ 152,741	$ 710,218
Actual Return on Equity (%)	5.03%	17.78%	15.20%	14.41%	5.14%	2.40%	10.14%
Allowed Return on Equity (%)	9.80%	9.80%	9.80%	9.80%	9.00%	9.00%	8.68%
Retained Earnings	$ 526,848	$ 1,653,460	$ 1,564,880	$ 1,916,292	$ 1,641,272	$ 1,685,999	$ 2,322,175
Dividends to Shareholders			$ 800,000	$ 600,000	$ 600,000	$ 600,000	$ 600,000
Sustainment Capital Expenditures - NO SM	$ 488,683	$ 346,427	$ 530,106	$ 499,490	$ 503,583	$ 1,328,932	$ 468,746
Development Capital Expenditures - NO SM		$ 220,000	$ 73,600	$ 59,200	$ 129,600		
Operations Capital Expenditures	$ 10,569	$ 196,156	$ 88,073	$ 398,529	$ 1,003,903	$ 135,000	$ 435,000
Smart Meter Capital Expenditures						$ 80,000	$ 2,037,923
Other Capital Expenditures (identify)							
Total Capital Expenditures (include SM)	$ 499,252	$ 762,583	$ 691,779	$ 957,219	$ 1,637,086	$ 1,543,932	$ 2,941,669
Total Capital Expenditures (exclude SM)	$ 499,252	$ 762,583	$ 691,779	$ 657,219	$ 1,637,086	$ 1,463,932	$ 903,746
Depreciation	$ 662,166	$ 685,742	$ 724,056	$ 749,415	$ 824,816	$ 780,981	$ 888,431

Board staff also noted that capital expenditures in 2008, excluding smart meters, are expected to be significantly lower than the historical values and that the capital expenditure pattern conforms to Lakefront's assertions of a need for "catch-up" on infrastructure investment following low capital expenditures for years 2002 through 2005.

In VECC's submission, they do not have the same concerns as Board staff regarding the adequacy of LUI's planned capital spending and considers (with the exception of Smart Meters) the spending for 2007 and 2008 reasonable.

In SEC's submission, they stated that LUI is taking a responsible approach to capital expenditures by offsetting increases in one area with decreased spending in other areas and since the bulk of Smart Meter capital expenditures are expected to be incurred in 2008, it does not appear to SEC that the decrease in other capital expenditures will need to continue for more than one year.

LUI submits that much of the 2008 investment in its infrastructure (more than $2 million in capital expenditures and more than $1 million in rate base) is being diverted to prioritize smart meters to achieve the Government mandate of smart meter installation by the target date as LUI believes that time is running out in order to properly deploy our Smart Meter program. As outlined in the CHEC group Smart Meter Proposal, our installation is slated for 2008.

In addition, there are approximately 40% of LUI's conventional kWh meters with expired seals that require replacement in accordance with Industry Canada's standards, replacing these meters only to change them out shortly with Smart meters will leave a stranded asset and additional cost to our customers.

Should the Board not allow LUI to proceed with our smart metering program, LUI would readdress its capital budget plan for 2008 to proceed with replacing the expired seals conventional meters at a cost of $503K plus reschedule 2009 capital projects of approximately $325K as per Tables 10 and 11 below. Capital spending for 2008 would be reduced from the proposed $2,941,669 to $1,738,007. Relative to LUI's actual 2006 capital budget of $1,637,086, the revised amount would represent a $100,921 increase (a 6% increase).

Table 10 - Conventional Meters Expired Seals Updated Estimate

Meters to change out by Dec 2008

Style of Revenue Meter	Indoor		Outdoor		TOTAL
	S-base	P/A-base	S-base	P/A-base	
Single-Phase; 3W, 240 V, SC	**279**	**594**	**1808**		2681
Single-Phase; 2W, 120 V, SC		**4**			4
Single-Phase; 2W, 240 V, Tx	**40**	**28**	**15**		83
Network; 3W, 120/208Y V, SC	**271**				271
Polyphase; 4W, 120/208Y V, SC	**74**				74
Polyphase; 4W, 347/600Y V, SC	**92**				92
Polyphase; 3W, 600V Δ, SC	**27**	**7**			34
Polyphase; 3W, 240V Δ, SC					0
Polyphase; 3W, 120V Δ, Tx		**60**			60
Polyphase; 4W, 120V, Tx		**101**			101
TOTAL	783	794	1823	0	3400

Labour cost to change out each type of meter **$ 110.00 per hour**

Style of Revenue Meter	Indoor / unit hours		Outdoor / unit hours		TOTAL	
	S-base	P/A-base	S-base	P/A-base		
Single-Phase; 3W, 240 V, SC	**0.6**	**0.75**	**0.42**		$	150,949
Single-Phase; 2W, 120 V, SC		**1**			$	440
Single-Phase; 2W, 240 V, Tx	**0.75**	**1**	**0.5**		$	7,205
Network; 3W, 120/208Y V, SC	**0.5**				$	14,905
Polyphase; 4W, 120/208Y V, SC	**1**				$	8,140
Polyphase; 4W, 347/600Y V, SC	**1**				$	10,120
Polyphase; 3W, 600V Δ, SC	**1**	**1.5**			$	4,125
Polyphase; 3W, 240V Δ, SC					$	-
Polyphase; 3W, 120V Δ, Tx		**3**			$	19,800
Polyphase; 4W, 120V, Tx		**3**			$	33,330
TOTAL	4.85	10.25	0.92	0	$	249,014

Meter costs

Style of Revenue Meter			Indoor		Outdoor		TOTAL	
			S-base	P/A-base	S-base	P/A-base		
Single-Phase; 3W, 240 V, SC	**$**	**38**	10602	22572	68704		$	101,878
Single-Phase; 2W, 120 V, SC	**$**	**120**		480			$	480
Single-Phase; 2W, 240 V, Tx	**$**	**120**	4800	3360	1800		$	9,960
Network; 3W, 120/208Y V, SC	**$**	**100**	27100				$	27,100
Polyphase; 4W, 120/208Y V, SC	**$**	**285**	21090				$	21,090
Polyphase; 4W, 347/600Y V, SC	**$**	**285**	26220				$	26,220
Polyphase; 3W, 600V Δ, SC	**$**	**350**	9450	2450			$	11,900
Polyphase; 3W, 240V Δ, SC							$	-
Polyphase; 3W, 120V Δ, Tx	**$**	**350**		21000			$	21,000
Polyphase; 4W, 120V, Tx	**$**	**350**		35350			$	35,350
TOTAL	$	222	99262	85212	70504		$	254,978

$ 503,992

Table 11 - Updated Capital Spending excluding Smart Meters but including Meter Seal change of $503,992 out and elevated Voltage conversion projects totaling $325,262.

CAPITAL BUDGET BY PROJECT - 2008 (Cont'd)

Project Description	Year	USoA Account	Expansion or Enhanceme	Amount		
WO#7594 Swayne St Conversion	2008	1830	Enhancement	11,076		528
WO#7594 Swayne St Conversion	2008	1835	Enhancement	25,065		1196
WO#7594 Swayne St Conversion	2008	1850	Enhancement	68,822		3283
					104,963	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Burwash St	2008	1830	Enhancement	13,825		
Burwash St	2008	1835	Enhancement	18,564		
Burwash St	2008	1850	Enhancement	6,765		
Hayden Cres	2008	1830	Enhancement	15,362		
Hayden Cres	2008	1835	Enhancement	19,932		
Hayden Cres	2008	1850	Enhancement	18,390		
Murray Cres	2008	1830	Enhancement	15,228		
Murray Cres	2008	1835	Enhancement	19,474		
Murray Cres	2008	1850	Enhancement	20,290		
Spragge Cres	2008	1830	Enhancement	3,408		
Spragge Cres	2008	1835	Enhancement	9,321		
Spragge Cres	2008	1850	Enhancement	7,598		
					168,157	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Harden Cres	2008	1830	Enhancement	9,216		
Harden Cres	2008	1835	Enhancement	16,642		
Harden Cres	2008	1850	Enhancement	13,795		
Harden St	2008	1830	Enhancement	19,968		
Harden St	2008	1835	Enhancement	25,884		
Harden St	2008	1850	Enhancement	12,167		
Marion St	2008	1830	Enhancement	3,990		
Marion St	2008	1835	Enhancement	5,322		
Sandra Cres	2008	1830	Enhancement	5,732		
Sandra Cres	2008	1835	Enhancement	7,268		
Sandra Cres	2008	1850	Enhancement	6,764		
Sinclair St	2008	1830	Enhancement	16,896		
Sinclair St	2008	1835	Enhancement	28,944		
Sinclair St	2008	1850	Enhancement	23,038		
					195,626	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Burnham St	2008	1830	Enhancement	32,256		
Burnham St	2008	1835	Enhancement	58,463		
Burnham St	2008	1850	Enhancement	79,935		
Burnham Manor	2008	1835	Enhancement	9,026		
Burnham Manor	2008	1850	Enhancement	4,500		
Barbara St	2008	1830	Enhancement	10,752		
Barbara St	2008	1835	Enhancement	17,580		
Barbara St	2008	1850	Enhancement	13,526		
Elizabeth St	2008	1830	Enhancement	13,658		
Elizabeth St	2008	1835	Enhancement	17,627		
Elizabeth St	2008	1850	Enhancement	22,792		
Shirley St	2008	1830	Enhancement	8,598		
Shirley St	2008	1835	Enhancement	11,352		
Shirley St	2008	1850	Enhancement	7,597		
Norma St	2008	1830	Enhancement	3,990		
Norma St	2008	1835	Enhancement	4,713		
Ruth St	2008	1830	Enhancement	3,990		
Ruth St	2008	1835	Enhancement	4,907		
					325,262	

CAPITAL BUDGET BY PROJECT - 2008 (Cont'd)

Project Description	Year	USoA Account	Expansion or Enhanceme	Amount		
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
MS 1 Security Card System	2008	1808	Enhancement	10,000		
					10,000	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Meters	2008	1860	Expansion	503,992		
					503,992	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Office Equipment - Storage & she	2008	1915	Expansion	25,000		
					25,000	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Computer Hardware/Software	2008	1925	Expansion	115,000		
					115,000	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Tools & Equipment	2008	1940	Expansion	25,000		
					25,000	
Project Description		**USoA Account**	**Expansion or Enhanceme**	**Amount**		
Truck	2008	1930	Expansion	260,000		
					260,000	
			TOTAL CAPITAL BUDGET BY PROJECT 2008		**1,733,000**	**5,007**
				1,738,007		
				Capital Plan Asset Additions		

Cost of Power Forecast

VECC stated that for the Cost of Power component of LUI's Working Capital calculation, LUI used its forecast 2008 wholesale load and then used an average HOEP of $57.16 / MWh estimate provided to the Board by Navigant in April 2007 and a more recent forecast is now available so LUI should recalculate the figures using a HOEP of $54 / MWh.

LUI submits that the information and forecast used in its application calculation was based on best available information at the time and from a report accepted by the Board. LUI acknowledges that HOEP forecast may fluctuate up or down and do not see the merit in a recalculation.

LUI is unaware of any Board requirement that applies uniformly to LDCs in regard to their cost of power forecasts. The April 2007 Navigant report was available to LDCs at the time they filed their 2008 rate applications, so it is likely that many LDCs rebasing in 2008 have used a cost of power forecast that is similar to LUI's. Should the Board adopt a uniform cost of power estimate for all LDCs rebasing in 2008 based on the most current Navigant report, LUI would comply. However, until the Board does so, LDCs should be able to rely on the HOEP from Navigant's April 2007 report, despite variances from more current Navigant reports.

HONI Transmission Costs Forecast

VECC also stated that LUI has not adjusted its forecast costs for retail transmission charges from Hydro One and propose that Retail Network Transmission costs should be reduced by 20% and Retail Connection Transmission costs should be reduced by 10%.

HONI's application to change its Retail Transmission Service Rates was not yet approved by the Board. If HONI's application is approved, LUI would adjust the Retail Transmission Service Rates appropriately to reflect the percentage changes.

Service Reliability Indices

Service reliability figures are measures of performance of the system as seen by customers. System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") provide information on the duration and frequency respectively of interruptions experienced by customers on the system averaged over the total number of customers. Customer Average Interruption Index ("CAIDI") represents the average duration of interruption averaged over the number of customers that are interrupted.

Board staff indicated that LUI shows relatively poor reliability performances in 2003 and 2004, followed by considerable improvement in 2005 and eluded to LUI's increased capital expenditures in 2005 and 2006 as a contributing factor.

Board staff questions how LUI can maintain the improved level of reliability performance if capital infrastructure spending is decreased.

LUI submits that the poor performance noted in 2003 was mainly due to the August 2003 blackout and 2004 was a result of a high number of lighting storms which damaged a number of transformers. The storms also brought to our attention the need to improve our tree trimming practices and schedule. In 2004, LUI performed a major tree trimming of the secondary, primary and 44kV lines. A schedule was implemented to trim trees on a 3-year cycle by dividing our territory into 3 sections and trim one section per year. This resulted in part of the reduction seen in the indices.

Board Staff noted that there was a decrease in capital spending in 2007 and 2008 which impacts the ability of LUI to maintain the service quality indices. In fact, the reverse is true in that in 2006, approximately $300,000 was spent on the distribution system and that increased to over $1,300,000 in 2007 and is projected to be approximately $500,000 in 2008 if smart meters are not approved by the Board for 2008.

The 2007 SAIFI increased due to a greater number of supply loss outages in 2006 and 2007 than previously encountered.

LUI plans to invest in the Distribution System to improve its reliability indices. This is also impacted by the ability to fund capital program and issues relating to proper funding, both operational and ROE, need to be resolved and approved by the OEB to ensure adequate funds are available.

Assessment of Asset Condition and Asset Management Plan

In LUI's pre-filed evidence, LUI states that it relies on a condition assessment, municipal requirements, developer requirements and voltage plans to establish our capital budget. We consider reliability as part of the budgeting process and provided pole inspection forms and voltage and load studies justifying conversion from a 4kV to a higher distribution voltage.

Board Staff asserts there is little evidence of a methodical asset management plan which might include:

1. An overview of the condition and age of all assets;
2. Documentation for the reliability of circuits
3. A procedure for converting the information in (a) and b) into a schedule for replacement/renewal, and
4. A plan to address reliability and asset condition problems identified on the short-term and long-term basis.

LUI submits that it operates a relatively small system having only 9,150 customers. We essentially follow the 4 step process Board Staff outlined above by Board Staff.

Our Foreman and Engineer has a very good working knowledge of the whole system and if there are areas or feeders that have a high incident of interruptions, LUI will respond to those areas as required without a complex analysis process as is required in a large utility where the supervisors are not involved with every call.

Over 20 years ago this utility consisted of a 44 KV sub-transmission system and a 4 KV distribution system including 4 Municipal Substations in Cobourg. The substations were aging and their replacement needed to be planned. The Commission decided that it was a better plan to convert the 4 KV system to a 27.6 KV system which would require fewer substations as voltage drop on the feeders are less and longer feeder lines could be utilized and improve the quality of the service provided to our customers.

Two 27.6 KV substations were built, one in 1988 and the other in 1997, to accommodate the transfer of load to the 27.6 KV system. In order to properly convert to the 27.6 KV system, a plan was needed to not only convert an area but to maintain a properly functioning, reliable 4 KV system, including backup circuits between 4 KV substations.

The Utility having made those decision many years ago, still has in our capital plan to continue conversion of existing 4 KV systems to 27.6 KV and eliminate the old and aging 4 KV substations before they fail. If we get calls in an area that are a result of system condition, we respond by upgrading that section. For example, when we get a fault on overhead quadraplex primary cable, we consider immediate replacement and rebuild that section to eliminate future potential interruptions.

Cost of Capital

Board staff noted that, with respect to the Cost of Capital, LUI's application, as clarified and corrected on the record and, subject to staff's comments on the applicable rate for the cost of long-term debt, is consistent with the Board's guidelines for Cost of Capital for the purposes of electricity distribution rate-setting.

LUI initially proposed that the embedded cost of long-term debt for setting 2008 its revenue requirement would be 7.25%, pertaining to the current rate applicable to a promissory note held by the Town of Cobourg. LUI corrected this to incorporate into the average cost of long-term debt the rate of 6.10% for new third-party debt as per the Board's Cost of Capital Parameters dated March 7, 2008.

Board staff noted that the promissory note due to the Town of Cobourg is callable on demand and this promissory note is affiliated debt. In compliance with section 2.2.1 of the Board Report, Board staff noted that the appropriate rate for this affiliated debt should be the updated deemed long-term interest rate calculated in accordance with Appendix A of the Board Report.

LUI submits Table 12 below to update the rate associated with the affiliate's debt to the deemed rate of 6.10% as per the Board's Cost of Capital Parameters release, dated March 7, 2008.

Table 12

2006 Board Approved		Actual	Deemed		
Elements	$	Ratio (%)	Ratio (%)	Cost Rate (%)	Return (%)
Long-term debt Municipal	7,000,000	52.5%	50.0%	7.25%	3.63%
Unfunded short-term debt	-	0.0%			
Deposits	-	0.0%			
Common equity	6,337,916	47.5%	50.0%	9.00%	4.50%
Total	**13,337,916**	**100.0%**			**8.13%**

2006 Actual		Actual	Deemed		
Elements	$	Ratio (%)	Ratio (%)	Cost Rate (%)	Return (%)
Long-term debt Municipal	7,000,000	52.26%	50.00%	7.25%	3.79%
Unfunded short-term debt	-				
Deposits	250,000	1.87%		Prime-1.85%	0.09%
Common equity	6,144,880	45.87%	50.00%	9.00%	4.13%
Total	**13,394,880**	**100.0%**			**8.01%**

2007 Bridge		Forecast	Deemed		
Elements	$	Ratio (%)	Ratio (%)	Cost Rate (%)	Return (%)
Long-term debt Municipal	7,000,000	49.95%	50.00%	7.25%	3.62%
Unfunded short-term debt	-				
Deposits	280,001	2.00%		Prime-1.85%	0.10%
Common equity	6,732,807	48.05%	50.00%	9.00%	4.32%
Total	**14,012,808**	**100.00%**			**8.04%**

2008 Test		Forecast	Deemed		
Elements	$	Ratio (%)		Cost Rate (%)	Return (%)
Long-term debt Municipal	7,000,000	44.94%			
Other Long-Term Debt	684,384	4.4%	49.33%	6.10%	3.01%
Deposits	300,000	1.9%			
Unfunded short-term debt	323,100	2.1%	4.0%	4.47%	0.18%
Common equity	7,270,023	46.67%	46.67%	8.57%	4.00%
Total	**15,577,507**	**100.0%**			**7.19%**

Return on Equity (ROE)

In its application, LUI proposed an ROE of 8.68%, while acknowledging that the ROE would be updated in accordance with the methodology in Appendix B of the Board Report for determining LUI's 2008 revenue requirement and distribution rates. With the information on the record and given that the ROE is to be updated in accordance with the Board Report, Board staff noted that LUI's approach is consistent with the Board Report. With the recent release of the Board's Cost of Capital Parameters, LUI's proposed ROE is 8.57%.

Weighted Average Cost of Capital (WACC)

As a result of recalculating the affiliate's long-term debt to the deemed rate of 6.10% as per table 12 above, the resulting Regulated Rate of Return has changed to 7.19%

Load Forecasting

A projection for the number of customers in each customer class is provided for both the Bridge Year (2007) and the Test Year (2008). Historical data for the annual number of customers in each rate class is available for 2003 through to 2006 as part of the Cost Allocations study filing with the OEB. Due to significant restructuring at market opening and system conversions, accurate customer data prior to 2003 is not available. As a result of the limited amount of data available, time series techniques that are often used to help estimate forecast values cannot be used. Rather, LUI has used a simple trend growth in customer connections, by class, to forecast Bridge and Test Year customer numbers. Given the growth and trends in customer numbers in LUI's service territory over the past five years, the resulting customer forecast is likely not materially different than what would result from using more sophisticated time series techniques. In recent history, there has been very little year-to-year variation in customer growth by class. Historical and forecast customer numbers, by class, are displayed in the next section.

As required by the OEB Filing Requirements for Transmission and Distribution Applications, we are providing normalized historical and forecast (Bridge Year and Test Year) throughput data. Weather normalization (where required) is based on normalized average use per customer ("NAC") calculated from the weather-normalized throughput of the utility from 2004. This weather-normalized throughput was generated by Hydro One using their weather normalization model for the Cost Allocation process previously undertaken by the Board. The process to obtain these weather normalized data was an intensive effort for all parties involved, and we are leveraging the value of this work by using most of the results for this process. The exception is LUI's conclusion that there were some skewed results for the Street Lighting customer class, which did not represent a realistic forward scenario. For this reason LUI has used actual consumption data for this class in its projection and we are proposing to redo the Cost Allocation process with Hydro One in 2008.

Board staff in its submission, ask parties to comment on whether a multi-year trend would provide a more comprehensive weather normalization method.

LUI submits that it is our understanding that the weather normalization method used by HONI to determine weather normal consumption in 2004 is a comprehensive and proven technique. Our understanding is that the Hydro One methodology was reviewed and approved by the Board in the Distribution Cost Allocation Review (EB-2005-0317) and for Hydro One's 2006 Distribution Rate case (RP-2005-0020/EB-2005-0378). We have no reason to doubt the NAC calculated for 2004 represents an accurate description of weather normalized average consumption per customer for those classes of customers that have weather sensitive load. In a handout distributed at the June 15, 2006 Cost Allocation Review (EB-2005-0317) Final Technical Workshop, Hydro One described the weather correction methodology:

"Weather correction is a statistical process designed to remove the impact of abnormal or extreme weather conditions from historical load data. Normal weather data is defined to be data that is based on the average weather conditions experienced over the last 31 years. A weather-normal load forecast is a forecast of load assuming normal weather conditions with a weather-corrected base year. The weather correction method is applicable to the total utility load as well as by rate class." (Available at http://www.oeb.gov.on.ca/documents/cases/EB-2005-0317/phase3/jun15/handout-weathernormalization-honi.pdf)

A multi-year trend of weather normalized average use per customer may serve to confirm and validate the results obtained for 2004. While it may be possible for Hydro One to carry out analysis for different years, this would be prohibitively expensive and may involve significant delay in getting the results. We believe the approach we have adopted is reasonable, yields plausible results, and leverages on past work using a weather correction model that has been used extensively.

Board staff also stated that LUI presented its kW demand forecast for those customer classes that use this charge determinant. No rationale is presented for the determination of these values and invited LUI to comment on the development of the kW demand for 2008 in their submission.

LUI submits that the kW demand forecast values are determined by calculating an "average load ratio" and applying it to the appropriate kWh value. For 2006, the "average load ratio" is calculated by dividing weather actual kW in 2006 by weather actual kWh in 2006. This ratio is then applied to the weather normalized kWh in 2006 to determine the weather normalized kW (where applicable). For Bridge Year and Test Year values, the same methodology is used except that the "average load ratio" is averaged over the 2002 to 2006 period, rather than being based on a specific year, except for Intermediate 3000-4999 kW where 2006 was used for the Bridge Year and Test Year.

Board staff also asks LUI to comment on the fact that the normalized kWh for 2004 was applied without adjusting for weather and other factors such as CDM.

LUI submits that the 2004 NAC is adjusted for weather using HONI's weather correction methodology. The 2004 NAC is not adjusted for CDM. The expectation is that CDM would slightly lower the demand forecast.

LUI's forecast shows a 1.3% annual average growth in customer numbers from 2006 to the 2008 Test Year. This compares with an average annual customer growth of 1.5% during the 2003 to 2006 period. The forecasted growth in customer numbers is consistent with what one might expect based on the input data.

Board staff pointed out that LUI's forecast shows a -1.8% (i.e. negative) annual average kWh load growth from 2006 to the 2008 Test Year. This compares with an average annual kWh load growth of 1.0% during the 2002 to 2006 period which is inconsistent with the historical relationship between customer growth and kWh growth. That is, the historical 1.5% p.a. growth in customer numbers produced a 1.0% p.a. growth in kWh load whereas LUI forecasted 1.3% p.a. growth in customer numbers is expected to produce a negative 1.8% p.a. growth in kWh load.

LUI submits that the forecasting methodology we have adopted (using the NAC approach) means that, by definition, normalized class consumption will grow in proportion to growth in class customers. This is illustrated in the table in our Application at Exh 3/Tab 2/Sch 1/ Page 2. The Residential and GS<50 classes have seen growth in number of customers and in normalized class consumption. Intermediate, Lighting and USL classes have had no growth. The GS > 50 - 2999 class has seen a decline in normalized class consumption due to a drop in customers. Since these are relatively large customers, this has contributed to overall decline in total kWh consumption. However, classes that have increasing customer numbers, have increasing class consumption, as illustrated in the table.

Intermediate Customer - New Recent Development

LUI was made aware recently (after filing its Application) that its largest customer, Kraft Canada Inc., will be closing its operations in October 2008. We have noticed a 10% declining load over the last two months (Jan/08 roughly 10% less than Jan/07 in kWh and kW respectively). For the year, this results in a reduction of 15,561,809 kWh and 29,582 kW, as Table 13 below demonstrates.

Table 13

Previous 13 Billings		
	kWh	kW
02/01/08	2,168,404	3,840
01/01/08	1,906,547	2,840
12/01/07	2,200,194	4,217
11/01/07	2,392,198	4,198
10/01/07	2,518,741	4,247
09/01/07	2,401,891	4,384
08/01/07	2,255,068	4,858
07/01/07	2,769,727	4,909
06/01/07	2,845,996	4,819
05/01/07	2,645,414	5,028
04/01/07	2,405,840	4,679
03/01/07	2,258,169	4,476
02/01/07	2,245,226	4,451
12 month	28,845,011	53,107

Declining 10% per month from Jan'08 (02/01/08 billing)		
	kWh	kW
Jan	2,168,404	3,840
Feb	1,951,564	3,456
Mar	1,756,408	3,111
Apr	1,580,767	2,800
May	1,422,690	2,520
Jun	1,280,421	2,268
Jul	1,152,379	2,041
Aug	1,037,141	1,837
Sep	933,427	1,653
Oct	0	0
Nov	0	0
Dec	0	0
Total	13,283,201	23,526
2008 Reduction	***15,561,809.2***	***29,581.5***

The loss of Kraft as a customer will impact LUI's Intermediate customer class. A projection of this is reflected below in Table 14:

Table 14

Intermediate (3000-4999 kW)								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Customers	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**1**
kWh	**51,011,783**	**55,999,658**	**61,881,063**	**52,606,618**	**55,719,421**	**50,632,274**	35,070,465	**21,787,263**
kW	**92,451**	**103,182**	**102,714**	**116,390**	**123,329**	**97,288**	**67,707**	**14,600**
	In 2008, Kraft has 10% declining load each month to zero in October 2008 (closing)							
	In 2009, Kraft annual consumption (2007) removed from class							

LUI proposes to adjust our application to reflect this reduction in load for 2008, 2009 and 2010. It is unlikely a customer of this size will relocate to Kraft's location prior to the next rebasing.

The deficiency in revenue and financial impact to LUI for 2008 rate year, if the load forecast is not changed, is approximately $179,000 less revenue for LUI, based on the new projected rates in LUI's Application. This will have an impact after PILs of approximately 15% reduction to LUI's net income and is a significant contributor to LUI's inability to earn its Board approved ROE.

Low Voltage Charges

In Board staff's submission, the question of Low Voltage charges was raised and LUI is asked to comment.

Lakefront provided an estimate of $346,196 LV charges for 2008 which is an average of $28,850 per month, and provided supporting backup statements. However, the most recent three statements for August, September, and October 2007 shows an average cost of approximately $31,400

HONI has applied for a change in its LV Rates and the application is for approval of a monthly rate for "Common ST Line" at $0.58 per kW, compared to the existing rate for "Shared LV Lines" at $0.633. HONI's application also involves approval of charges which do not currently exist. Board staff suggest that the proposed rate for Common ST Line, is substantially lower than the existing Shared LV Line rate and the annual decrease in LUI's cost can be expected to be approximately $30,000.

LUI submits that our LV charge changed from $.063 per KW to $0.633 per KW on April 12, 2007 and the average bill from July 2007 to December 2007 to LUI is $32,640 per month with this change, which translates into an annual cost of $391,680. As HONI's rate will be going from $0.633 per KW to $0.58 per KW, which is a 8% reduction and taking this into account, LUI's projected expenses should be $391,680 less 8% reduction for a total of $360,000 in 2008.

LUI's position is, the $346,196 figure we used seems appropriate and any differences will be captured in the RSVA account.

Further, Board staff requested information on the LV allocation method and amounts that were being proposed for each class and LUI provided information on the allocation method and the amounts for the LV Variance Account (1550). Board staff acknowledged that the revenue collected from each class under the Retail Transmission Service Rate – Connection provides a reasonable allocation of the cost of LV service in Account 4750 as this is the allocation method used in the 2006 EDR re-basing. Board staff was however unclear whether the proportions are based on new RTSR revenues or on some other allocation method.

LUI submits that the allocation of LV charges to customer classes were based on the Retail Transmission revenue for 2008 which was calculated using forecasted loads for 2008 at existing 2007 rates by customer class. The resulting ratio was applied to the LV charges for allocation to customer classes as per Table 15 below:

Table 15

Customer Class	Ret Trans Rev @ existing Rates	Trans Rev Pct	LowVoltRev
Residential	$ 687,447	29.26%	$ 101,285
General Service Less Than 50 kW	$ 299,378	12.74%	$ 44,109
General Service 50 to 2,999 kW	$ 882,518	37.56%	$ 130,026
General Service 3,000 to 4,999 kW	$ 460,830	19.61%	$ 67,897
Street Lighting	$ 13,271	0.56%	$ 1,955
Sentinel Lighting	$ 248	0.01%	$ 37
Unmetered Scattered Load	$ 6,020	0.26%	$ 887
	$ 2,349,711	**100.00%**	**$ 346,196**

Board staff also request that LUI clarify which cost per-unit calculation is used in the rate adder that recovers LV cost for Account 4750.

LUI submits that the LV Volumetric charges for 2008 are as reflected in Table 16 below:

Table 16

Customer Class	Low Voltage Charges			
	Total $		Rate	Volumetric
Residential	$ 101,285	77,241,201 kWh	$ 0.0013	kWh
General Service Less Than 50 kW	$ 44,109	36,960,205 kWh	$ 0.0012	kWh
General Service 50 to 2,999 kW	$ 130,026	270,520 KW	$ 0.4807	kW
General Service 3,000 to 4,999 kW	$ 67,897	123,328 KW	$ 0.5505	kW
Street Lighting	$ 1,955	5,335 KW	$ 0.3665	kW
Sentinel Lighting	$ 37	98 KW	$ 0.3710	kW
Unmetered Scattered Load	$ 887	620,588 kWh	$ 0.0014	kWh
TOTAL	**$ 346,196**			

Cost Allocation

LUI submitted its Cost Allocation Informational Filing in which Run 2 yielded Revenue to Cost Ratios found Table 17 below as the basis for stetting rates.

Table 17

Revenue to Cost Ratio	
Customer Class	**Informational Filing Run 2**
Residential	114.0
GS < 50 KW	141.4
GS > 50 - 2,999 KW	148.3
GS > 3,000 - 4,999 KW	24.9
Street Lights	12.9
Sentinel Lights	29.3
Unmetered Scattered Load	96.5

LUI has expressed concerns about the accuracy of the results of the Cost Allocation Informational Filing and its methodology, noting in particular that the results were influenced by allocating miscellaneous revenues across all classes using a composite allocator and about allocating costs to the Street Lighting class in proportion to connections as LUI has 2 Street Lighting customers but 2,693 connections in total and costs in the model are being allocated to the connections.

Board staff suggested in an interrogatory that certain load data inputs to the Informational Filing appeared to be incorrect, and that the most serious effect was to under-state the revenue to cost ratio for the GS 3000-4999 kW class. LUI provided a re-calculation of its revenue to cost ratios by correcting the load data, and removing the miscellaneous revenue. The result is as per Table 18 below, however the whole group does not reconcile to 1.0.

Table 18

Revenue to Cost Ratio	
Customer Class	**Revised Data & Misc. Revenue removed**
Residential	87.7
GS < 50 KW	114.9
GS > 50 - 2,999 KW	135.6
GS > 3,000 - 4,999 KW	32.4
Street Lights	8.6
Sentinel Lights	36.4
Unmetered Scattered Load	96

In response to an interrogatory, LUI incorporated its concern about costs being allocated in proportion to Street Lighting connections and the result of this change is a significant decrease in the allocation of costs to the Street Lighting class from $482,541 down to $10,676 which we felt was more appropriately in line, and a corresponding increase in the revenue to cost ratio. Other changes have also been made to bring Street Lighting to a 70.5 revenue to cost ratio and bring the total revenue up to the forward test year amount. LUI proposes that the ratios from this run of the model should be used for comparison with the Board's guidelines presented in the report Board Report *Application of Cost Allocation for Electricity Distributors EB-2007-0667 November 28, 2007* ("Board's guidelines"). The ratios are found in Table 19 below.

Table 19

Revenue to Cost Ratio	
Customer Class	**Proposed Ratios**
Residential	102.1
GS < 50 KW	122.6
GS > 50 - 2,999 KW	114.0
GS > 3,000 - 4,999 KW	68.8
Street Lights	70.5
Sentinel Lights	14.6
Unmetered Scattered Load	59.1

To produce the above results in Table 19 LUI substituted the number of customers for the number of connections in the model and Board Staff pointed out that as per the Board report Cost Allocation Review: *Board Directions on Cost Allocation Methodology for Electricity Distributors EB-2005-0317, September 29, 2006* ("Cost Allocation Methodology") LUI should have followed "The weighted number of customers or connections will be used to allocate costs related to Services (Account 1855)" and that this wording does not permit a simple choice between the number of customers versus number of connections.

LUI submits that in the Street Lighting class, the number of connections is an inappropriate yardstick, since many Street Lights are connected by one connection. In new subdivisions, Electrical Safety Authority (ESA) requires a pedestal to be installed where many lights are connected to it with only one connection to the utility. This is also applicable to overhead systems that incorporate a street light wire. The Street Light wire is one connection which links many Street Lights.

In any event, it is LUI's position that the number of connections for Street Lights used in the Cost Allocation Model cannot apply, therefore LUI proposes that using the number of customers as there is insufficient information available regarding the number of connections.

New Deferral Accounts

In its application, LUI is requesting to establish three new accounts for future use for , Future capital projects, Meter Data Management Repository Account and Late Payment Class Action Suit. Board staff pointed out that deferral and variance accounts open to one utility, are usually open to all distributors. Therefore, creating a new deferral account for one distributor may set a precedent for other distributors. In general, LUI submits that the creation of deferral accounts imposes no obligation on the Board to disburse the balances of those accounts. Therefore, there is no regulatory risk or precedent that could be set by approving the use of deferral accounts. Should the Board address the issues covered by LUI's proposed deferral accounts in the future (i.e. capital expenditures during 3rd generation IRM), the Board can simply deny disbursement of any balances in the deferral accounts as part of a future rate application.

Future capital projects – Board staff indicate that the mechanistic calculation for 3rd Generation IRM has not been finalized, as it is currently before the Board. Therefore, the request for a capital projects deferral account may be premature.

LUI submits that we have encountered losses in the past where we did not recover ROE or depreciation on asset costs; i.e. our garage was not included in rate base during the 2006 EDR process. This resulted in our volunteering for 2008 rebasing. If the 3rd Generation IRM addresses this issue, then LUI would not use the deferral account (if approved).

Meter Data Management Repository - Board staff pointed out that the IESO has not brought forward an application to the Board concerning recovery of this cost, therefore, there has been no approval granted by the Board for the IESO to recover these amounts and any such recovery mechanism has not been decided by the Board. Since the Board has not yet approved if MDMR costs will be recovered and how the MDMR costs will be levied by the IESO on distributors, the distributors have not been instructed if, and how, to recover these costs. Also, the Board already has two potential mechanisms for recovery if MDMR is considered to be a recoverable cost.

LUI submits that since the Board already has two potential mechanisms for LDCs recovery of MDMR costs if it is determined to be a recoverable cost, LUI will withdraw its request for this deferral account.

Late Payment Class Action Suit - on November 18, 1998, a class action claiming $500 million in a restitution payment plus interest was filed against Toronto Hydro Energy Corporation (THEC) as the representative of the defendant class consisting of all electricity distributors in Ontario which have charged late payment charges on overdue bills at any time after April 1, 1981. Assuming a claim on THEC is successful

LUI believes that we may be liable for any claim that relates to late payment charges paid by LUI's customers.

Board staff suggest that the Board may consider deferring any decision until the results of the lawsuit are made available which is consistent with past precedent where in the Enbridge Gas Distribution Inc. Decision, RP-2002-0133, where the Board "*questions the appropriateness and necessity of a more generic deferral account*" and that "*the mere existence of the deferral account may imply an expectation of future recovery by the Company*." The Board did not approve the creation of a deferral account at that time and suggest that the applicant reapply in the future with greater details on the scope, potential costs and grounds for ratepayer responsibility for the costs.

LUI submits that based on past precedent set by the Board in a similar issue and circumstance, LUI will withdraw its request for this deferral account at this time.

Clearing Variance Account Balances

LUI is requesting that the following accounts and balances be cleared for disposition as of April 30, 2008. LUI proposes to collect these amounts from rate payers over two years beginning May 1, 2008 through rate riders. The balances provided below include the December 31, 2006 principal balances plus the interest on these balances up to April 30, 2008:

1508 Other Regulatory Assets, $129,296
1518 RCVA – Retail, $20,731
1548 RCVA – STR, $24,557
1550 LV Variance, $91,718
1580 RSVA – Wholesale Market Service Charge, ($359,475)
1582 RSVA – One Time Wholesale Market Service, $17,302
1584 RSVA – Retail Transmission Network Charges, ($136,899)
1586 RSVA – Retail Transmission Connection Charges, ($164,589)
1588 RSVA – Power, $1,168,228

Subtotal $790,890

1590 Recovery of Regulatory Asset Balances, $598,999

Total $1,389,869

LUI submits that, as can be seen in the above accounts, LUI is applying for disposition of 1588 RSVA Power in this application as LUI projected the value of 1588 RSVA Power variance account, including interest, as of April 30, 2008 at $1,168,228.

For a utility our size, a balance this large has a significant impact on LUI's cash flow and our borrowing ability. We respectfully request the Board take this factor into consideration.

In addition, LUI is proposing the continuance of account 1590 as well for reasons outlined in the following section *(Transition Cost Recovery).* LUI believes that account 1590 should be restated including the under recovered amount and is not asking for the account 1590 to be finalized but respectfully requests that the Board authorize the continuation of the existing regulatory Asset Rate Rider to be continued and incorporated into a single set of regulatory asset rate riders with the disposition of the above accounts for convenience.

At the end of the two year period, account 1590 is expected to be finalized and verified.

Transition Cost Recovery

LUI's Transition Cost account balances (Account 1570) were the subject of RP-2005-0020/EB-2005-0011. In that proceeding LUI entered into settlement negotiations which included VECC.The recovery of LUI's Transition Costs were negotiated, and the parties (including VECC) entered into a settlement agreement that contemplated LUI recovering $296,000 in carrying charges for Account 1570. The Board approved the terms of the settlement agreement, including LUI's recovery of the $296,000 in carrying charges. The mechanism for recovering the $296,000 was a two-year rate rider. Prior to the Board approving the $296,000, Lakefront's auditor required LUI to write off that amount on the basis that recovery had not been established. Following the Board's approval of the recovery of this amount, LUI's auditor required LUI to include the $296,000 as part of its income in 2004 as reflected in LUI's 2004 financial statements.

As a result of this circumstance, and because 2006 rates were based on 2004 actuals, LUI's revenue requirement ended up being offset by $296,000. The cause for this circumstance was not an error on LUI's part as suggested by VECC in its submissions. Rather, the $296,000 offset in the 2006 EDR process was caused by the 2006 EDR model. In the 2006 EDR model, sheet 5-3 asks for the Applicant to input "Other Regulated Charges", which included accounts 4090, 4205 to 4215, 4240 to 4245. The "Other Regulated Charges" in Sheet 5-3 are used to offset the Applicant's Service Revenue Requirement.

The details from these accounts (4090, 4205 to 4215, 4240 to 4245) were automatically "pulled" in (formulas) from the Trial Balance details in another sheet (Sheet 2-1). Sheet 2-1 incorporates information from a distributor's financial statements. In LUI's case, its financial statements included the $296,000 carrying charge in operating income on the recommendation of LUI's auditor. Account 4215 is "Other Utility Operating Income" and the transition cost carrying charges were captured in this account.[1]

As a result of all of this, LUI has been unable to recover the $296,000 that Board had approved for recovery (and VECC agreed to as part of the settlement agreement), and LUI has lost a further $296,000 because the discrepancy carried over to 2007 (for a total of $592,000). Therefore LUI is worse off than it would have been had it not applied to recover the $296,000 in the first place, which is a perverse outcome that would be contrary to both the settlement agreement and the Board's approval in RP-2005-0020/EB-2005-0011. Although VECC has characterized this matter as retroactive rate-making, it is more properly an issue of giving effect to the Board's decision in RP-2005-0020/EB-2005-0011. None of the parties have taken issue with LUI's recovery of this

[1] Please note, transition cost interest, normally would be booked in account 4405. Although LUI did not book this interest in 4405, but rather in 4215, the 2006 EDR model would still have required LUI to "clawback" as a revenue offset the amounts in 4405 as per Sheet 5-5 (Cell D-22).

amount in substance, which is consistent with their involvement in the settlement process in RP-2005-0020/EB-2005-0011. The only issue seems to be whether LUI's proposal to recover the $592,000 in this proceeding through a rate rider is the correct mechanism for recovery. LUI was not in a position to discover this discrepancy until it was preparing its 2008 rate application. The rationale for addressing this matter in this proceeding is because Board approval is required for continuing the existing Regulatory Asset rate rider past April 30, 2008 in conjunction with LUI's 2008 rates. However, if the Board is of the view that the appropriate mechanism for recovery is through a variation of the 2006 EDR order, the ultimate outcome would be a rate rider as proposed by LUI in this proceeding.

The impact of this problem on LUI is very significant. The materiality threshold for LUI on fixed assets is $101,000, significantly less than the $592,000. As indicated at Table 9 on page 20 above, LUI's actual ROE was 5.14% in 2006 and 2.4% in 2007 relative to its Board approved ROE of 9%. LUI's failure to recover its transition cost carrying charges was a significant contributor to its inability to earn its Board approved ROE.

Horizon Plastic Metering Error

In May of 2007, Horizon Plastics ("Horizon") was investigating the loading on one of its three separately metered substations. Horizon compared its metered data to its system readings and discovered that the meter was over-reading consumption. Upon investigation, it was discovered that the meter pulse multiplier was incorrect. The meter had been installed in April 2004 and the meter reading contractor had entered the wrong multiplier on Horizon's system, which resulted in LUI over-billing Horizon.

Because Horizon has three meter points, the metering error could not be easily determined by LUI. This is because there are varying load patterns for each of the three meter points. The problem was discovered in May of 2007 when the customer performed load checks to resolve a voltage drop issue. The customer has a widely varying load month to month and depends on the number and size of contracts it has at any given time, this makes any comparative analysis and bill quality control difficult. There was no other way that this problem could have been discovered in the absence of the customer performing the load checks to resolve the voltage drop issue. Upon identifying the issue, LUI took steps to correct the metering error and reimburse Horizon as soon as it learned about the metering error as it is required to do in accordance with its license.

A consequence of Horizon's overpayment was that Lakefront's actual power losses were higher than perceived, resulting in lower amounts being recorded by Lakefront in RSVA accounts 1588, 1580, 1550, 1584 and 1586 (the "Affected RSVA Accounts"). Lakefront is seeking to recover its December 31, 2006 balances of its Affected RSVA Accounts, adjusted to correct the consequences of the metering error. The total adjustment to Lakefront's December 31, 2006 balances of its Affected RSVA Accounts was $927,352.[2]

As indicated in the response to Board staff's interrogatory #10, this amount was incorporated into the December 31, 2006 Affected RSVA Account balances in Lakefront's pre-filed evidence[3] for recovery in this proceeding. In other words, Lakefront's evidence illustrates the December 31, 2006 Affected RSVA Account balances had the metering error not occurred.

Intervenors and Board staff have raised the question of whether the Board should approve the 2004 portion of Lakefront's December 31, 2006 Affected RSVA Account balances. According to Board staff, *"Lakefront has adjusted the 2006 EDR approved balances to correct the error for the 2004 period. However, the balances of these accounts for the period between April 2004 (when the meter was installed) to December 31, 2004 were given final disposition as part of the 2006 EDR".* Lakefront notes that its

[2] The sum of the "Total" column in Table 1 of Lakefront's response to Board staff interrogatory #10.
[3] Exhibit 5, Tab 1, Schedule 3, Page 1

2005 and 2006 account balances have not been the subject of a Board decision, so Board staff's question only applies to 2004 balances.

Lakefront is not requesting that the Board adjust its December 31, 2004 Affected RSVA Account balances. Rather, Lakefront has only adjusted its adjusted December 31, 2006 Affected RSVA Account balances and is seeking recovery of those balances. Although the metering discrepancy occurred in 2004, 2005 and 2006, the need to make the $927,352 adjustment did not arise until the meter problem was discovered and LUI was obligated to reimburse the customer. This adjustment is in accordance with GAAP.

In any event, the correction of billing errors in relation to a pass-through cost that is tracked in Board-mandated variance accounts is not retroactive rate making. The correction of billing errors addresses mistaken overpayments and underpayments by customers. Customers should not be prejudiced by over-billed amounts, nor should they be entitled to the windfall of under-billed amounts that result from billing errors. The fundamental rationale for the Affected RSVA Accounts is to keep customers and utilities whole in regard to the pass-through costs of power. The adjustment that LUI has made achieves that very purpose and is entirely consistent with this principle. If Lakefront is not permitted to adjust its December 31, 2006 Affected RSVA Account balances by the impact of the billing error in 2004, its customers will enjoy a $155,906 windfall[4] caused by a wrong multiplier being used by a meter reading contractor. Lakefront would suffer a corresponding loss, despite the fact that the wrong multiplier was not discovered until May of 2007, after the 2006 EDR process.

For all of these reasons, including the fact that LUI's proposed adjustment is consistent with the Retail Settlement Code, LUI submits that the Board should approve LUI's entire $927,352 adjustment plus interest to its December 31, 2006 Affected RSVA Account balances. The $155,906 which represents the 2004 portion of the $927,352 adjustment is significantly more than the $101,000 materiality threshold for LUI and is extremely important to LUI.

[4] The sum of the "2004" column in Table 1 in Lakefront's response to Board staff interrogatory #10.