December 13, 2012

Ms. Kirsten Walli
Ontario Energy Board
2300 Yonge Street, 27Th Floor
Toronto, ON M4P 1E4

Re: Lakefront Utilities Inc, 2013 IRM3 Distribution Rate Application Final Reply Submission EB-2012-0144

Dear Ms. Walli:

Please find attached Lakefront Utilities Inc Final Reply Submission to its 2013 IRM3 Electricity Distribution Rate Application. Two hard copies will be sent by courier.

Should you require further information or clarification please contact me at (905) 372 2193 ext 5255 or jtheoret@lusi.on.ca

Yours truly,

{original signed by}

Jennifer Theoret, CPA, CA

Director of Finance and Compliance

Lakefront Utilities Inc.

c.c. Dereck Paul, President

Introduction:

INTRODUCTION

Lakefront Utilities Inc ("LUI") filed an application with the Ontario Energy Board ("the Board") on September 14th 2012, under section 78 of the Ontario Energy Board Act. 1998 seeking approval for changes to the distribution rates that LUI charges for electricity distribution, to be effective May 1, 2013. The Application is based on the 3rd Generation Incentive Regulation Mechanism.

Vulnerable Energy Consumer Coalition ("VECC") requested, and was granted intervener status.

VECC and Board staff submitted interrogatories in respect of the Application, and full responses to the interrogatories were filed by LUI on November 19th 2012.

On November 29th 2012 Board staff and VECC filed final submissions.

LUI hereby submits its final response on the following matters:

- Deferral and Variance Account Balances – Disposition of Group 1 DVAD balances
- Account 1521
- LRAM Rate Rider (Account 1568)
- Revenue to Cost Ratios

Deferral and Variance Account Balances – Disposition of Group 1 Account Balances

Board Staff Submission

LUI completed the Deferral and Variance Account continuity table contained in the Rate Generator model which showed numerous discrepancies between the 2011 RRR balances as entered in the model and the 2011 balances as submitted in LUI's RRR filings. In response to Board staff interrogatory #4, LUI provided corrections to the 2011.

RRR balances entered into the model to reflect its final RRR balances, which contains unbilled entries at the end of the year. Board staff notes that the 2011 RRR balances entered into the model are now consistent with the 2011 RRR balances as reported to the Board.

LUI reported a credit/debit balance of $15,404 for its Group 1 Accounts as of December 31, 2011, including interest projected to April 30, 2013. This amount results in a total debit claim of $0.0001 per kWh, which does not exceed the preset disposition threshold of $0.001 per kWh. As a result LUI did not seek disposition of its Group 1 Account balances in this proceeding.

Board staff has no issues with LUI's proposal.

Lakefront Utilities Inc Submission

Lakefront stands by its submission and agrees with the Board's staff submission that the amount in the Group 1 Accounts as of December 31, 2012 including projected interest to April 30, 2013 will not be disposed in this 3rd Generation IRM period. This amount results in a total debit claim of $0.0008 per kWh, which does not exceed the Board disposition threshold of $0.001 per kWh.

Account 1521

Board Staff Submission

LUI requested approval to dispose of a credit balance in Account 1521 of $61,133. Board staff notes that in LUI's 2012 cost of service application, the Board approved a Settlement Agreement which contained a

credit balance in Account 1521 of $21,303 which was approved for disposition.

In response to Board staff IR #5, LUI explained the balance in the account as follows:

LUI, in the Cost of Service Application in 2012 had entered into the Deferral & Variance Account (EDDVAR) template, provided by the OEB, the amount of $21,303 (a negative figure), however the actual value of the account in question was a positive $21,303 at the end of 2010. (the rate payers as at December 31 2010, still owed LUI, an amount of $21,303), however the collection period had not yet been concluded.

LUI had inadvertently entered the data into the RRR filing, and their own continuity records in the reverse of the actual amount. Had LUI entered the correct positive balance, the 2011 yearend balance in the account would have been $-38,669, and the disposal would have been $+21,303 = leaving approx. $17,893 that was over collected from rate payers. The actual value should have been the $21,303 (positive value). When LUI then proceeded to dispose of the $-21,303, caused the balance in this account to become a larger negative value of $-21303 +($-38669) = $-59,972. Plus the associated interest, this balance comes to $-61,133.

In response to Board staff IR #33d) in its 2012 cost of service rate application, LUI provided the following detail1 regarding its Account 1521:

SPC ASSESSMENT (PRINCIPLE BALANCE)	AMOUNT RECOVERED FROM CUSTOMERS IN 2010	CARRYING CHARGES FOR 2010	DECEMBER 31,2010 YEAR END BALANCE (PRINCIPLE & CARRYING CHARGES)	AMOUNT RECOVERED FROM CUSTOMERS IN 2011	2011 PRINCIPLE BALANCE	CARRYING CHARGES TO APRIL 30, 2012	TOTAL FOR DISPOSITION
$ 106,153.00	$ (85,027.86)	$ 290.48	$ 21,415.62	$ (42,487.07)	$ (21,361.93)	$ (231.17)	$ (21,302.62)

In response to Board staff interrogatory #33e) in that proceeding, LUI stated that "based on actual recoveries in this account as of December 31, 2011, the amount that is recoverable, including associated carrying charges until April 30, 2012 is $21,302.62".

The information provided in LUI's continuity tables in this application is inconsistent with that provided in its 2012 proceeding. In particular:

- LUI did not enter the amount of the SPC Assessment in the 2010 Transactions column
- LUI did not enter the recoveries from customers in 2010 of ($85,027.86)
- LUI has entered an amount in 2010 Adjustments which results in a closing principal balance of $21,416, which is the amount of principal and carrying charges at year end 2010 in the above noted table.
- LUI has entered an amount of ($59,749) in 2011 Transactions, which is inconsistent with the "actual recoveries" of ($42,487.07) reported in EB-20110250
- LUI has reported carrying charges for the 12 months of 2011 of ($336), while the table provided in EB-2012-0250 shows ($231.17) for the 16 month period from January 2011 to April 30, 2012

Board staff is concerned about the accuracy of the balance in Account 1521 as presented by LUI. Furthermore, the amount approved for disposition as part of the 2012 rate application was on a final basis. However, recognizing that this apparent error results in a credit balance (i.e. an amount owing to customers), Board staff submits that it would be appropriate for the Board to approve disposition on an interim basis, and to consider conducting an audit of Account 1521 by the Board's Regulatory Audit and Accounting group.

Lakefront Utilities Inc Submission

Lakefront stands by its submission and agrees with Board staff's submission that the amount of negative ($38,670) in Account 1521 is appropriate disposition for this account. The error of a reversed balance owing to the customers of Lakefront was approved by the board, and LUI does, if deemed necessary, a review of the 1521 records by the Board's Regulatory Audit and Accounting group. Lakefront recognizes the inversion of the sign error in the 2012 Rate Application and explains the discrepancies in Account 1521 as so:

"The information provided in LUI's continuity tables in this application is inconsistent with that provided in its 2012 proceeding. In particular:

- LUI did not enter the amount of the SPC Assessment in the 2010 Transactions column"

Lakefront recognizes that this figure is not entered as it is netted in the amount of $21,416 in column BF of the 3rd Gen rate generator.

- "LUI did not enter the recoveries from customers in 2010 of ($85,027.86)"

Lakefront recognizes that this figure is not entered as it is netted in the amount of $21,416 in column BF of the 3rd Gen rate generator.

- "LUI has entered an amount in 2010 Adjustments which results in a closing principal balance of $21,416, which is the amount of principal and carrying charges at year end 2010 in the above noted table."

  Lakefront as directed entered the net balances of 2010 into the adjustment column to provide the result of closing balances.

- "LUI has entered an amount of ($59,749) in 2011 Transactions, which is inconsistent with the "actual recoveries" of ($42,487.07) reported in EB-20110250"

  Lakefront entered these figures in the EDDVAR for EB-2011-0250 based on the best estimated forecast for the year end unbilled revenues at that point in time.

- "LUI has reported carrying charges for the 12 months of 2011 of ($336), while the table provided in EB-2012-0250 shows ($231.17) for the 16 month period from January 2011 to April 30, 2012"

  Lakefront entered the carrying charge figures in the EDDVAR for EB-2011-0250 based on the best estimated forecast for the year end unbilled revenues at that point in time.

LRAM RATE RIDER (ACCOUNT 1568)

Board Staff Submission

LUI has requested to dispose of its Lost Revenue Adjustment Mechanism Variance Account 1568 (“LRAMVA”) balance of $9,768. The claim is for lost revenues in 2011 from CDM programs contributing towards Lakefront’s 2011-2014 CDM Targets and pre2011 Conservation and Demand Management (“CDM”) programs that were completed in 2011.

Load Forecast

On April 26, 2012 the Board issued updated Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) (the “2012 CDM Guidelines).
The 2012 CDM Guidelines established the LRAMVA to capture, at the customer rate- class level the difference between the following:

i.
The results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor’s franchise area); and

ii.
The level of CDM program activities included in the distributor’s load forecast (i.e. the level embedded into rates).

The Board also noted in the 2012 CDM Guidelines that distributors would be generally expected to include a CDM component in their load forecast in cost of service proceedings. The Board noted that this was to ensure that its customers are realizing the true effects of conservation at the earliest date possible and to mitigate the variance between forecasted revenue losses and actual revenue losses.

In response to VECC IR#3, LUI noted that its 2011 load forecast was not adjusted to account for CDM activities. Board staff notes that the last cost of service rate application for LUI was for 2012 rates. As such, LUI noted that its final 2011 LRAMVA balance is not subject to any reductions to account for an increase in rates as only its 2012 rates, and not its 2011 rates, included an adjustment for the CDM savings it anticipates realizing in association with its 2011-2014 CDM Targets.

Board staff notes that LUI was under IRM in 2011 and did not have any adjustments made to its Board-approved load forecast to reflect savings associated with its CDM Targets. Board staff submits that 100% of LUI's 2011 net energy savings are eligible for recovery through the LRAMVA.

LRAMVA – Significance of total balance

Board Staff Submission

At Section 13.4 of the Board's 2012 CDM Guidelines it notes that "at a minimum, distributors must apply for disposition of the balance of the LRAMVA at the time of their
cost of service rate applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as party of their Incentive Rate Mechanism rate applications, if the balance is deemed significant by the applicant."

In response to Board staff IR #9(a) and VECC IR #1(e), LUI noted that it has applied for disposition of its LRAMVA because an entry for LRAMVA balances was included in the
Rate Generator Model and because of the unknown materiality threshold governing the disposition of the LRAMVA.

Board staff notes that the LRAMVA balance that LUI seeks to dispose is made up of its final 2011 gross savings as reported to LUI in the OPA's final 2011 evaluation report.
Board staff submits that LRAM has only been recovered and approved by the Board on a net basis. Board staff submits that the net savings are representative of the savings that the distributor has directly affected. Conversely, the gross savings include, amongst other externalities, savings from participants who would have participated in an energy efficiency program even if no incentive was offered. These participants are often referred to as free riders. Further, Board staff submits that the CDM Targets were developed as net figures. Board staff submits that it is appropriate that the LRAMVA
amounts be calculated by multiplying LUI's final 2011 net savings by customer class by the approved umetric distribution charge for the applicable rate class. Board staff has calculated the balance in LUI's LRAMVA on a net basis to be $7,583 and requests that LUI confirm this calculation in its reply submission. Board staff will update the LRAM rate riders accordingly in the final rate order. Board staff submits that while the overall LRAMVA amount LUI

seeks disposition of seems small, LUI has indicated that the amount is significant although it has not provided additional argument as to why this is so. Subject to LUI's confirmation of Board staff's calculation of its LRAMVA on a net basis, Board staff supports the disposition of the LRAMVA 1568.

VECC Lost Revenue Adjustment Mechanism (LRAM) Recovery

The lost revenue adjustment mechanism ("LRAM") is a retrospective adjustment, which is designed to account for differences between the forecast revenue loss embedded in rates and the actual revenue loss.

In this application, LUI applies for recovery of an LRAM amount of $9,786 as part of a one year deferral and variance rate rider. LUI did not calculate carrying charges as part of its LRAM for the year 2011 or 2012.

LUI's LRAM claim recovers lost revenue in 2011 and residual 2010 balances that are carried into 2011.3
LUI received its 2011 Final CDM Report from the OPA on August 31, 2012 and its 2011 LRAM amounts are based these actual results. LUI confirmed the most recent input assumptions were used in its LRAM calculation.

LUI's last load forecast was approved as part of its 2012 Cost of Service proceeding in EB-2011-0250. LUI's 2012 load forecast is adjusted for CDM.

The Board's Filing Requirements state:

"At a minimum, distributors must apply for the disposition of the balance in the LRAMVA as part of their COS applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their IRM rate applications, if the balance is deemed significant by the applicant.

In response to VECC IR#1(e) and Board Staff IR#9(a) regarding why LUI deems the balance in the LRAMVA as significant for disposition, LUI responded that LUI has provided the LRAM balances in the IRM application as per the model requirement and also due to the unknown material threshold for the disposition of the LRAM. This is significant to a distributor observing that in the Ontario Energy Board Guidelines for Electricity Distributor Conservation and Demand Management EB – 2012-0003 section 13.2 it also states ' Distributors will generally be expected to include a CDM component in their load forecast in Cost of Service Proceedings to ensure that its customers are realizing the true effects of conservation at the earliest possible date to mitigate that variance between forecasted revenue losses and actual revenue losses.' Therefore to realize the true balancing effects of the LRAM assumptions, LUI feels the amount of $9,786 is significant.

In its submission, Board Staff notes that LUI has calculated LRAM on a gross energy savings basis and submits that LRAM is typically recovered and approved by the Board on a net basis. On a net basis, Board staff calculated the balance in LUI's LRAMVA to be $7,583.4 VECC agrees with Board Staff that the LRAM calculation should be done on the basis of net energy savings.

In principle, VECC does not agree LUI's LRAMVA balance is significant and accordingly should not be disposed of in this IRM application. However, since LUI's load forecast approved in 2012 includes impacts arising from the persistence of historical conservation and demand management programs as well as the forecast impacts arising from new programs deployed in the bridge and test years and this CDM component of the forecast is the basis for the LRAMVA moving forward, VECC submits it makes sense from a timing perspective to dispose of the 2011 balance now so that future disposition of the LRAM VA will follow a consistent approach based on the 2012 load forecast.

Lakefront Utilities Inc Submission

Lakefront recognizes that the savings for LRAM are to be recovered and approved by the Board on a **net basis**, not a gross basis which was previously assumed at the time of LUI's IRM submission in September 2012. Lakefront accepts the methodology provided by the Board's calculation using the appropriate distribution volumetric rates applicable and the amount of kWh and kW savings. Lakefront has identified and corrected an error in the Boards formula calculation and recalculates the figure on net basis savings to $7,597 not the $7,583 in the Board Staff Submission - see LUI's calculation below in the table '**LRAMVA Net Savings Calculation'** below. The LRAM disposal amount rewarded is based on the OPA 2011 Final Annual Report Data **net** savings totaling 1,378,236 kWh and is a restated at a figure of **$7,597**.

As per the above reason of restating Lakefront's CDM figure in **Net basis** amount, Lakefront has calculated and provided in the Rate Generator 2013 Continuity schedule the amount of carrying charges to be claimed on the CDM amount for disposal. Also see below the calculations and division of carrying charges.

Lakefront stands by its submission and that as per the Ontario Energy Board Guidelines for Electricity Distributor Conservation and Demand Management EB 2012-0003 section 13.4 Disposition of LRAM VA distributors are expected to include a CDM component in their load forecast in the Cost of Service Proceedings to ensure that its customers are realizing the true effects of conservation at the earliest possible date to mitigate variances between forecasted revenue losses and actual losses. Therefore customer should also realize the true balancing effects of LRAM assumptions and LUI accepts the amount of LRAM savings and carrying charges of $7,597 as significant.

LUI also concurs with the Board and VECC that from a timing perspective to dispose of the 2011 balance now so that future disposition of the LRAM VA will follow a consistent approach based on the 2012 load forecast.

LRAMVA NET SAVING CALCULATION

2011 LRAM - DVAD 1568			NET SAVINGS			
		2011	2011 OPA REPORT SAVINGS	2011 LOAD FORECAST CDM SAVINGS	2011 OPA REPORT SAVINGS	
CLASS		DISTRIBUTION VOLUMETRIC	kWh		kW	TOTAL
RESIDENTIAL	$/kWh	0.0134	255,337		122	$ 3,422
GS LESS THAN 50	$/kWh	0.0081	308,217		116	$ 2,497
GS 50 - 2999 KW	$/Kw	3.4201	702,108		53	$ 181
GS 3000-4999 KW	$/Kw	1.0268				
USL	$/kWh	0.0293				
SENTINEL	$/Kw	11.4737				
STREET LIGHT	$/Kw	24.3414				
TOTAL 2011			1,265,662		291	$ 6,099
2010 PROGRAMS						
CLASS		DISTRIBUTION VOLUMETRIC	kWh		kW	TOTAL
RESIDENTIAL	$/kWh	0.0133	112,574		19	$ 1,497
GS LESS THAN 50	$/kWh	0.0085				$ -
GS 50 - 2999 KW	$/Kw	3.5044				$ -
GS 3000-4999 KW	$/Kw	1.0229				
USL	$/kWh	0.0292				
SENTINEL	$/Kw	11.4303				
STREET LIGHT	$/Kw	18.4232				
TOTAL 2010			112,574		19	$ 1,497
TOTAL 2010 & 2011		TOTALS	1,378,236		310	$ 7,597

LRAMVA CARRYING CHARGES CALCULATION

2011 LRAM - DVAD 1568			
CLASS	**TOTAL**	**CARRYING CHARGES = 261**	**By Class**
RESIDENTIAL	**$ 3,422**	$ 0.6475	$ 169
GS LESS THAN 50	**$ 2,497**	$ 0.3286	$ 86
GS 50 - 2999 KW	**$ 181**	$ 0.0239	$ 6
GS 3000-4999 KW			**$ 261**
USL			
SENTINEL		**2011 & 2010**	
STREET LIGHT		**Carrying Charges @ 1.47%**	
TOTAL 2011	**$ 6,099**	**$ 90**	
2010 PROGRAMS			
CLASS	**TOTAL**		
RESIDENTIAL	**$ 1,497**		
GS LESS THAN 50	**$ -**		
GS 50 - 2999 KW	**$ -**		
GS 3000-4999 KW			
USL			
SENTINEL			
STREET LIGHT			
TOTAL 2010	**$ 1,497**	**$ 22**	
		$ 149	**Projected Interest from 2013 Continuity**
TOTAL 2010 & 2011	**$ 7,597**	**$ 261**	

Revenue-to-Cost Ratios Submission

Board Staff Submission

LUI proposed no changes to its revenue-to-cost ratios for 2013. In its 2012 application, parties agreed and the Board approved a Settlement Proposal which allowed for the movement of the GS 3,000 to 4,999 to the minimum policy range in equal increments over four years, as follows:

All movement of outliers to the upper and lower boundaries of their ranges will take place in one adjustment in the 2012 test year, with the exception of the General Service 3,000 – 4,999 kW customer class, in respect of which the adjustment to the lower boundary of the range will take place in equal increments over a 4 year period.4 (emphasis added)

In response to interrogatories from Board staff and VECC, LUI stated that this rate class contains only one customer, and that this customer experienced a revenue-to-cost ratio adjustment from 28.63% to 57.5% in 2012. LUI stated that it did not intend to make an adjustment in 2013 to mitigate the rate shock to this customer.

Board staff notes that the Settlement Proposal, which was agreed to by LUI as well as all other parties and approved by the Board, is quite clear that the revenue-to-cost ratio for this rate class is to be adjusted in equal increments over a four year period. This would require LUI to make an adjustment in 2013, which is the first year in LUI's IRM term. Board staff submits that LUI should be required to abide by the terms of its 2012 Settlement Proposal and adjust the revenue-to-cost ratio for the GS 3,000-4,999 kW rate class in equal increments, as calculated in the response to Board staff interrogatory #8.

While Board staff appreciates LUI's attempts to minimize the rate impact to its single affected customer, Board staff notes that without an adjustment of 5.75% in 2013, LUI will be required to make an adjustment of 7.5% in 2014, 2015 and 2016. Board staff suggests that failure to adjust the revenue-to-cost ratio for that class in 2013 adjustment will result in greater rate impact for the remaining transition years.

Revenue-to-Cost Ratios Submission

VECC Submission

In LUI's 2012 Cost of Service settlement proposal, it was agreed that LUI will adjust the revenue-to-cost ratio for its only customer in the General Service 3,000-4,999 kW customer class in years following 2012 by equal increments over a 4 year period from 57.5% to the 80.0% to the Board's minimum policy target range. Adjustments will be made to the classes most above the revenue-to-cost ratio of 100% first, until lowered to the next highest ratio. In the years 2011 to 2012 LUI's GS 3000-4999 kW customer was increased from 28.63% to the 57.50% revenue-to-cost ratio. LUI intends to move the revenue-to-cost ratio by an average of 7.5% increment yearly beginning in 2014 to mitigate rate shock to that specific customer class (GS 3000-4999 kW). Offsetting the movement will be the class of GS < 50-2999 kW due to a 15% revenue-to-cost distance above the maximum policy range.

Board staff made the following remarks in its submission dated November 29, 2012:5

"Board staff notes that the Settlement Proposal, which was agreed to by LUI as well as all other parties and approved by the Board, is quite clear that the revenue-to-cost ratio for this rate class is to be adjusted in equal increments over a four year period. This would require LUI to make an adjustment in 2013, which is the first year in LUI's IRM term. Board staff submits that LUI should be required to abide by the terms of its 2012 Settlement Proposal and adjust the revenue-to-cost ratio for the GS 3,000-4,999 kW rate class in equal increments, as calculated in the response to Board staff interrogatory #8. While Board staff appreciates LUI's attempts to minimize the rate impact to its single affected customer, Board staff notes that without an adjustment of 5.75% in 2013, LUI will be required to make an adjustment of 7.5% in 2014, 2015 and 2016. Board staff suggests that failure to adjust the revenue-to-cost ratio for that class in 2013 adjustment will result in greater rate impact for the remaining transition years."

In response to interrogatories, LUI states it intends to keep revenue to cost ratios as originally submitted.

VECC supports the submissions of Board Staff on this issue and agrees that LUI should be required to make an adjustment in 2013, which is the first year in LUI's IRM term.

Lakefront Utilities Inc Submission

Lakefront intended to minimize the rate shock impact on one single customer in the GS 3,000-4,999 class by deferring a change in rates by a year as previously discussed in the settlement conference process. Lakefront accepts the Board Staff submission of adjusting the revenue to cost ratio by equal increments from 57.5% to 80% over four years. This indicates movement of 5.625% each year until 2016 when the class reaches 80% of the Board Policy Range. However it should be noted, for the record, that LUI, via settlement agreement, and as applied for in the Rate Application in 2012, state that the changes to the GS 3000-4999 would only begin in 2014.

Offsetting the movement will be the class of GS < 50-2999 kW due to a 15% revenue-to-cost distance above the maximum policy range, however in light of the Board's request, it has been provided and completed. Both the Rate Generator and Revenue to Cost Ratio Models have been updated to reflect the movement of ratios.

-All of which is respectfully submitted –