



**Lakefront
Utilities
Inc.**

January 16, 2015

Lillian Ing
Case Administrator
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mrs. Ing

**Re: Lakefront Utilities Inc.
2015 IRM Distribution Rate Application
Board Staff Interrogatories
Board File No.: EB-2014-0090**

In accordance with Procedural Order #1, please find attached Lakefront Utilities Inc's responses to Board Staff interrogatories in the above proceeding.

Should the board have questions regarding this matter please contact Adam Giddings at agiddings@lusi.on.ca or myself at dpaul@lusi.on.ca

Respectfully Submitted,

Dereck C. Paul
President
Lakefront Utilities Inc.

**Lakefront Utilities Inc.
EB-2014-0090
Response to Interrogatories**

Interrogatory #1

Ref: Managers Summary - Page 17 - 1595 Balances Excluded

For Account 1595 (2011), LUI indicated that this account should not have been disposed in LUI's 2014 IRM, EB-2013-0148 as the refund/recovery period is not completed until April 30th, 2016.

- a) On page 17, LUI indicates that "The 2012 balance is not included in this EB-2014-0090 because the recovery period is not complete". However, a balance of \$1,020,359 is included in Tab 5 of the IRM Rate Generator for disposition. Please confirm that LUI is requesting interim disposition for this account.
- b) There are differences between the revised audited balances per Table 1 (page 8) and the requested disposition balances per Table 5 (page 16) for Accounts 1595 (2009), 1595 (2010), and 1595 (2011), though the total balance for Account 1595 is the same. Please explain why the balances requested for disposition is different than the revised audited balances.
- c) Subject to LUI's response to part a) above, LUI is proposing to dispose the adjustment to Account 1595 (2011) so that the net balance disposed from the 2014 IRM and the current 2015 IRM is equal to the account balance as at December 31, 2012. However, Account 1595 (2011) should not be disposed until after April 30th, 2016. Please explain why LUI is not proposing to reverse \$1,020,360, the entire amount that was disposed on an interim basis in LUI's 2014 IRM so that the net effect is that the account is not disposed. This would simplify the process and allow LUI to bring the remaining residual balance in the account for disposition in a future rate application.

Response:

- a) LUI agrees that balances are not disposed of until the recovery period is complete. However, as described below, LUI incorrectly requested the disposition before the DVA rate rider ceased. LUI confirms that we are requesting interim disposition of account 1595 (2011) as stated in EB-2014-0090.
- b) LUI agrees the balances requested for disposition are different from the revised audited balances. However, LUI also agrees that the total balance is the same. Below is the revised Table 5: Deferral and Variance Account Disposition Balances:

Group 1 Accounts		Principal	Interest	Projected Interest	Revised Account Balance at December 31, 2012
LV Variance Account	1550	1,477	(1,089)	432	820
RSVA - Wholesale Market Service Charge	1580	2,275	10,536	(10,958)	1,853
RSVA - Retail Transmission Network Charge	1584	558	2,597	(431)	2,724
RSVA - Retail Transmission Connection Charge	1586	(1,007)	1,836	53	882
RSVA - Power (excluding Global Adjustment)	1588	133,371	27,187	11,080	171,638
RSVA - Power - Sub-account - Global Adjustment	1589	251,890	27,971	(18,834)	261,027
Disposition and Recovery/Refund of Regulatory Balances (2009)	1595	(301,714)	688,246	(12,998)	373,534
Disposition and Recovery/Refund of Regulatory Balances (2010)	1595	(483,122)	12,644	(751)	(471,229)
Disposition and Recovery/Refund of Regulatory Balances (2011)	1595	939,915	61,530	(371)	1,001,074
Group 1 Sub-Total (including Account 1589 - Global Adjustment)		251,890	27,971	(18,834)	261,027
Group 1 Sub-Total (excluding Account 1589 - Global Adjustment)		291,753	803,487	(13,944)	1,081,296
Total of Group 1		543,643	831,458	(32,778)	1,342,323

- c) As Board Staff may or not be aware, LUI had requested disposition of the credit balance of \$1,020,360 related to the 2012 DVA and GA rate riders in EB-2013-0148. The Board approved the request for disposition on an interim basis. LUI had an OEB audit performed on the Group 1 Deferral and Variance Accounts as at December 31, 2012. As a result of the audit, it was discovered that LUI should not have requested the disposition before the rate rider ceased.

LUI is not proposing to reverse the entire \$1,020,360 as the mis-use of the sub-account of Account 1595 resulted in a premature disposition on an interim basis of the credit balance of \$1,020,360 in the form of a refund to customers before the 2012 DVA and GA rate riders ceases on April 30, 2016. Considering the disposition was approved on an interim basis, a rate rider was set-up by LUI to refund the money to the customers. Reversing the entire amount as suggested by the Board Staff would result in a larger balance to be collected from the customers. Therefore, by requesting the final residual balance as recommended during the OEB audit, LUI is ensuring the financial impact on customers is minimal

Interrogatory #2

Ref: Rate Generator – Tab 11 – STS – Tax change

- a) Please confirm Taxable Capital Income should be \$17,660,020, see RRWF Tab 4 line 5, from Cost of Service EB-2011-0250. If not, please explain why the amount of \$2,660,020 is correct.
- b) Please confirm Regulatory Taxable income should be \$164,531, see RRWF Tab 6 line 3, from Cost of Service EB-2011-0250. If not, please explain why the amount of \$142,661 is correct.
- c) Please confirm Tax Impact should be \$18,685, see RRWF Tab 6 line 6, from Cost of Service EB-2011-0250. If not please explain why the amount of \$22,112 is correct.
- d) Please confirm the Grossed-up Tax Amount should be \$22,112, see RRWF Tab 6 line 8. If not, please explain why the amount of \$26,169 is correct.

Board Staff updated Version of Tab 11 – STS – Tax Change
Summary - Sharing of Tax Change Forecast Amounts

For the 2012 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)

1. Tax Related Amounts Forecast from Capital Tax Rate Changes	2012	2015
Taxable Capital (if you are not claiming capital tax, please enter your Board-Approved Rate Base)	\$ 17,660,020	\$ 17,660,020
Deduction from taxable capital up to \$15,000,000	\$ 15,000,000	\$ 15,000,000
Net Taxable Capital	\$ 2,660,020	\$ 2,660,020
Rate	0.00%	0.00%
Ontario Capital Tax (Deductible, not grossed-up)	\$ -	\$ -
2. Tax Related Amounts Forecast from Income Tax Rate Changes		
Regulatory Taxable Income	\$ 164,531	\$ 164,531
Corporate Tax Rate	15.50%	15.50%
Tax Impact	\$ 18,685	\$ 25,502
Grossed-up Tax Amount	\$ 22,112	\$ 30,180
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 22,112	\$ 30,180
Total Tax Related Amounts	\$ 22,112	\$ 30,180
Incremental Tax Savings		\$ 8,068
Sharing of Tax Savings (50%)		\$ 4,034

Response:

- a) LUI has reviewed the last RRFW which was filed following the Draft Rate order and agrees with Board Staff that the taxable capital income should be \$17,660,020 as approved in the Cost of Service EB-2011-0250.
- b) LUI has reviewed the last RRFW which was filed following the Draft Rate order and also agrees with Board Staff in that the Regulator Taxable income should be \$164,531 as opposed to \$142,661.

- c) LUI has reviewed the last RRFW which was filed following the Draft Rate order and also agrees with Board Staff that the Tax Impact should be \$18,685.
- d) LUI has reviewed the last RRFW which was filed following the Draft Rate order and also agrees with Board Staff that the Grossed-up Tax Amount should be \$22,112.

A screen shot from the final RRFW as approved as part of proceeding EB-2011-0250 is presented below. The information below supports LUI's responses to part b), c) and d) of interrogatory #2.

<u>Particulars</u>	<u>Application</u>	<u>Settlement Agreement</u>	<u>Per Board Decision</u>
<u>Determination of Taxable Income</u>			
Utility net income before taxes	\$671,593	\$644,238	\$644,238
Adjustments required to arrive at taxable utility income	(\$479,707)	(\$523,689)	(\$479,707)
Taxable income	<u>\$191,886</u>	<u>\$120,548</u>	<u>\$164,531</u>
<u>Calculation of Utility income Taxes</u>			
Income taxes	\$29,742	\$18,685	\$18,685
Total taxes	<u>\$29,742</u>	<u>\$18,685</u>	<u>\$18,685</u>
Gross-up of Income Taxes	\$5,456	\$3,427	\$3,427
Grossed-up Income Taxes	<u>\$35,198</u>	<u>\$22,112</u>	<u>\$22,112</u>
PiLs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$35,198</u>	<u>\$22,112</u>	<u>\$22,112</u>
Other tax Credits	\$ -	\$ -	\$ -
<u>Tax Rates</u>			
Federal tax (%)	15.00%	15.00%	15.00%
Provincial tax (%)	0.50%	0.50%	0.50%
Total tax rate (%)	<u>15.50%</u>	<u>15.50%</u>	<u>15.50%</u>

Interrogatory #3

Ref: Rate Generator – Tab 15 – RTSR – UTR's & Sub Tx

- A. Please confirm Hydro One Sub-Transmission Rates effective January 1, 2015 should equal the January 1, 2014 rates and not the January 1, 2013 rates. If not, please explain.

Hydro One Sub-Transmission Rates	Unit	Effective January 1, 2013	Effective January 1, 2014	Effective January 1, 2015
Rate Description		Rate	Rate	Rate
Network Service Rate	kW	\$ 3.18	\$ 3.23	\$ 3.18
Line Connection Service Rate	kW	\$ 0.70	\$ 0.65	\$ 0.70
Transformation Connection Service Rate	kW	\$ 1.63	\$ 1.62	\$ 1.63
Both Line and Transformation Connection Service Rate	kW	\$ 2.33	\$ 2.27	\$ 2.33

Response:

LUI has updated its UTRs to reflect the OEB's Rate Order issued on January 8, 2015. The table below shows the rates effective as of January 1, 2015. The model filed in conjunction with these responses reflects these newly approved rates.

	<u>Monthly Rate (\$ per kW)</u>
Network Service Rate (PTS-N): \$ Per kW of Network Billing Demand ^{1,2}	3.78
Line Connection Service Rate (PTS-L): \$ Per kW of Line Connection Billing Demand ^{1,3}	0.86
Transformation Connection Service Rate (PTS-T): \$ Per kW of Transformation Connection Billing Demand ^{1,3,4}	2.00

Hydro One Sub-Transmission Rates	Unit	Effective January 1, 2013	Effective January 1, 2014	Effective January 1, 2015
Rate Description		Rate	Rate	Rate
Network Service Rate	kW	\$ 3.18	\$ 3.23	\$ 3.78
Line Connection Service Rate	kW	\$ 0.70	\$ 0.65	\$ 0.86
Transformation Connection Service Rate	kW	\$ 1.63	\$ 1.62	\$ 2.00
Both Line and Transformation Connection Service Rate	kW	\$ 2.33	\$ 2.27	\$ 2.86

Interrogatory #4
Ref: Generic IR

Chapter 3 of the Filing Requirements notes that “distributors must establish separate rate riders to recover the balances in the RSVAs from Market Participants (“MPs”) who must not be allocated the RSVA account balances related to charges for which the MPs settle directly with the IESO (e.g. wholesale energy, wholesale market services).

Chapter 3 of the Filing Requirements also note that “distributors who serve Class A customers per O.Reg 429/04 (i.e. customers greater than 5 MW) must propose an appropriate allocation for the recovery of the global adjustment variance account balance based on their settlement process with the IESO.

- a) Please confirm whether or not Lakefront Utilities serves any consumers that are Wholesale Market Participants (“WMPs”).
 - i. If yes:
 - i. Have these consumers been WMPs throughout the entire time over which variances accumulated in the RSVA accounts proposed for disposition?
 - ii. Please confirm that RSVA account balances have not been allocated to WMP customers as they settle these charges directly with the IESO.
- b) Please confirm whether or not Lakefront Utilities serves any class A consumers that settle energy charges directly with Lakefront Utilities. If yes, please explain how balances in Account 1589 (Global Adjustment) have been allocated to these consumers.

Response:

Lakefront confirms this question is not applicable as Lakefront does not have any class A or WMP consumers at this time.

Interrogatory #5
Ref: Generic IR

In calculating Deferral and Variance Account rate riders for sub-groups of customers within a class (e.g. WMPs and non-WMPs), distributors have used two approaches.

- 1) Rate riders grouped by the nature of the deferral and variance accounts (i.e. one set of rate riders for accounts related to transmission (e.g. 1584 and 1586) and another set of rate riders for accounts related to power (e.g. 1580 and 1588). For an example, see the EnWin Utilities Ltd. Final 2014 Tariff of Rates and Charges (EB-2014-0156).

- 2) Sets of rate riders calculated on the basis of the customer group to which they would apply (i.e. one rate rider for WMPs and one rate rider for non-WMPs). For an example, see Bluewater Power Distribution Corp.'s 2014 IRM application (EB-2013-0112).

Please explain which approach Lakefront Utilities would use and why.

Response:

- 1) As mentioned in response to IR #4, LUI does not have customers who are market participants. With respect to all other classes, the utility has used board models and directions to calculate its proposed rate riders.

Accounts 1588 – Power, account 1580 - Wholesale Market, 1584 - Transmission and 1586 – Connection, the rate rider is applicable to all rates classes while 1589 – Global Adjustment only applies to non-RPP.

- 2) Not applicable.