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VIA E-MAIL AND COURIER

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

Dear Ms. Walli:

Re: Lakefront Utilities Inc. – Draft Rate Order
2008 Electricity Distribution Rate Application (EB-2007-0761)

VECC has reviewed the Draft Rate Order filed with the Board by Lakefront Utilities Inc. (LUI) for rates effective May 1, 2008 and its comments are set out below.

Operating, Maintenance and Administrative Expenses

In its Decision the Board directed LUI to make four adjustments to its proposed 2008 OM&A Expenses:

- Regulatory Expenses (A&G) – Reduced by $66,667
- Bad Debt Expense (Billing & Collecting) – Reduced by $25,000
- Smart Meters (Maintenance) – Reduced by $220,278
- CDM (Customer Relations) – Reduced by $80,408

The revised Operating Expenses shown on page 7 of the Rate Order reflect these adjustments. However, they also include $83,396 for resealing all expired meters. LUI claims that this incremental cost arises from the Board's direction to remove its proposed 2008 Smart Meter costs from the revenue requirement and the need to "re-seal" existing meters.

In VECC's view it is inappropriate for LUI to include the $80,408 in its Draft Rate Order:

- The Draft Rate should reflect the Decision of the Board. The Board has not approved the inclusion of $83,396 in revenue requirement for a re-sealing program. Indeed, LUI has indicated (page 6) that it has only investigated the issue and derived the proposed value following the issuance of the Board's Decision. If LUI seeks to include these costs in its 2008 rates, the appropriate approach would be for the utility to make a "review and vary" application regarding the Board's original decision.
- This action appears to be predicated on the view that the Board has denied LUI recovery of its Smart Meter cost for 2008. This is incorrect. The Board denied LUI permission to include the costs in its 2008 revenue requirement on the basis that it has not been "authorized" to initiate Smart Meter implementation. Should LUI receive such authorization, the Board has established variance/deferral accounts in which it can record such spending. Indeed, the Board (Decision, pages 14-15), in anticipation that LUI may have authorization in advance of its next rate proceeding, has authorized an increase (to $1.00/meter/month) in LUI's smart meter rate adder based LUI forecasted smart metering cost estimates.

Amortization

The Draft Rate Order includes a reduction in Amortization Expense of $67,083 (see page 28). It is unclear to VECC how this value was determined. The only aspect of the Board's Decision affecting amortization expense was its direction to LUI to remove smart meter costs from the revenue requirement. According to

LUI's response to VECC Interrogatory #6, the revenue requirement as initially proposed included $116,161 for smart meter amortization expenses in 2008.

2008 Capital Budget

LUI has removed the capital spending associated smart metering from its 2008 rate base but has replaced it with $325,262 in capital spending for voltage conversion. The resulting capital spending for 2008 is $1,234,015 (page 13). LUI claims (page 13) that the Board implicitly approved this spending when it directed LUI to remove the smart meter spending from rate base. In VECC's view it is clear that, while the Board denied the inclusion of smart meter capital spending in LUI's 2008 rate base, it did make provision for increased smart meter spending by LUI in 2008 by increasing the smart meter rate adder. Furthermore, in its discussion regarding LUI's capital budget, the Board (page 12) makes reference to a forecast spending value of $900,000, excluding smart meters. As a result, VECC does not agree that the Board's Decision can be interpreted as approving the inclusion of the added spending for voltage conversion.

Rate Base – Fixed Assets

The opening fixed asset balance for 2008 ($10,959,545) use in the LUI's Rate Order differs slightly from that presented in its Application (Exhibit 2, Tab 2, Schedule 1, page 5) and Interrogatory Responses (OEB Staff 2.5 (d)). It would be useful if LUI could explain the basis for the difference in its final comments.

Rate Base – Working Capital

In calculating the 2008 Network and Connection Transmission costs to be included in the derivation of working capital, LUI appears to be introducing new information (i.e., its 2007 billed values from HONI) that was not submitted during the discovery phase of the current rate review process. While VECC agrees with the Board (page 16) that the most accurate data should be used in the calculation of working capital, it does not believe that this should extend to the introduction of new information at the time the Rate Order is being finalized.

While potentially more “accurate” such information has not been tested during the proceeding. VECC is concerned with the precedent such an approach would set for future proceedings.

Cost Allocation

In its Draft Rate Order LUI has increased the revenue to cost ratio for the Residential Class from 94.9% to 97.51% (see page 25). In VECC’s view this is not consistent with the Board’s Decision. In its Decision (pages 20-21), the Board directed LUI to increase the revenue to cost ratios for the Street Lights and Sentinel Lights customer classes and to use the additional revenue to reduce the rates for the GS <50 kW and GS 50-2,999 kW classes. There was no direction from the Board to increase the revenue to cost ratio for the Residential class. As a result, VECC submits that the ratio for the Residential class should be held constant at 94.9%.

We thank the Board for extending the deadline for intervenors to provide comments with respect to the draft order.

Yours truly,

Michael Buonaguro
Counsel for VECC