



**Lakefront
Utilities
Inc.**

December 8, 2015

Katherine Wang
Analyst
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Mrs. Wang

**Re: Lakefront Utilities Inc.
2016 IRM Distribution Rate Application
Application Analysis
Board File No.: EB-2015-0085**

In accordance with the letter issued by the Ontario Energy Board on November 3, 2015, please find attached Lakefront Utilities Inc.'s responses to the 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,

A blue ink handwritten signature, appearing to be 'Dereck C. Paul', is written over the 'Respectfully Submitted,' text.

Dereck C. Paul
President
Lakefront Utilities Inc.

Lakefront Utilities Inc.
2016 Price Cap IR Application (EB-2015-0085)
Application Analysis
December 1, 2015

Interrogatories

Interrogatory #1

IRM Model – Tab 1: Rate Year in which Group 1 accounts were last cleared

Lakefront Utilities indicates on the Information Sheet of IRM model that its Group 1 accounts were last cleared in rate year 2014. OEB staff notes that as per the Decision and Rate Order issued in Lakefront Utilities' 2015 IRM application (EB-2014-0090), Lakefront Utilities was approved to dispose its Group 1 accounts in debit balance of \$1,342,323. Therefore, the "Rate Year in which the Group 1 accounts were last cleared" cell should show 2015.

- a) Please confirm if Lakefront Utilities agrees with the above. If so, OEB staff will update the IRM model.
- b) If answer to a) is no, please provide an explanation for the discrepancy.

Versi

Utility Name	Lakefront Utilities Inc.
Assigned EB Number	EB-2015-0085
Name of Contact and Title	Adam Giddings, Finance Supervisor
Phone Number	1-905-372-2193 ext:5242
Email Address	agiddings@lusi.on.ca
We are applying for rates effective	May-01-16
Rate-Setting Method	Price Cap IR
Please indicate in which Rate Year the Group 1 accounts were last cleared ¹	2014
Please indicate the last Cost of Service Re-Basing Year	2012

□

LUI proposes the following recovery share portion figures for both 2009 and 2010 and understands that OEB staff will update the model.

Rate Class	1595 Recovery Share Portion (2009)	1595 Recovery Share Portion (2010)
Residential Service Classification	29.59%	29.23%
General Service Less than 50 kW Service Classification	14.13%	14.05%
General Service 50 to 2,999 kW Service Classification	47.01%	48.20%
General Service 3,000 to 4,999 kW Service Classification	8.38%	7.71%
Unmetered Scattered Load Service Classification	0.30%	0.29%
Sentinel Lighting Service Classification	0.02%	0.03%
Street Lighting Service Classification	0.56%	0.49%
Total	100.00%	100.00%

The above share percentages for 1595 Recovery Share Portion (2009) and 1595 Recovery Share Portion (2010) were based on LUI's previous filings EB-2010-0095 and EB-2011-0250, respectively.

Interrogatory #3

IRM Model – Tab 7: STS – Tax Change – Tax Rate

On Tab 7 of the 2016 IRM model, the Regulatory Taxable Income, Corporate Tax Rate and Tax Impact in 2012 are showing amounts of \$164,531, 15.5% and \$18,685. These amounts agree with the amounts on the Revenue Requirement Work Form (RRWF) in Lakefront Utilities' 2012 CoS application. The Tax Impact amount should be the product of Taxable Income times Tax Rate. In Lakefront Utilities' case, it's $\$164,531 \times 15.5\% = \$25,502$. This calculated tax impact \$25,502 is different than the amount filed in the IRM model or the RRWF.

- a) Please provide explanation to the discrepancy described above. Please confirm if any amounts mentioned need to be changed. OEB staff will update the model.

Response:

LUI confirms that the Regulatory Taxable Income, Corporate Tax Rate and Tax Impact in 2012 are \$164,534, 15.5%, and \$18,685. All amounts agreed to LUI's 2012 Cost of Service Application and agree to the 2015 IRM filing.

Summary - Sharing of Tax Change Forecast Amounts

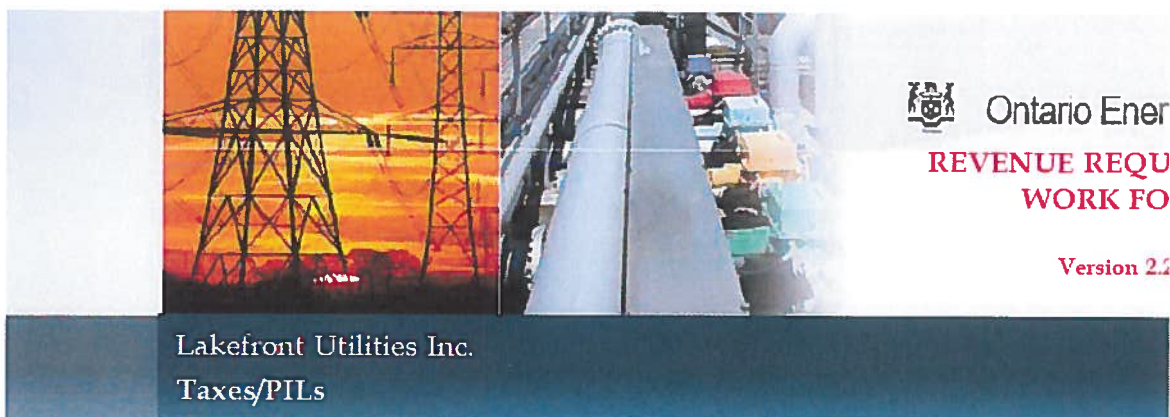
For the 2012 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)

1. Tax Related Amounts Forecast from Capital Tax Rate Changes

	2012	2016
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%
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%	26.500%
Tax Impact	\$ 18,685	\$ 43,601
Grossed-up Tax Amount	\$ 22,112	\$ 59,321
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 22,112	\$ 59,321
Total Tax Related Amounts	\$ 22,112	\$ 59,321
Incremental Tax Savings		\$ 37,209
Sharing of Tax Amount (50%)		\$ 18,604



Line No.	Particulars	Application	Settlement Agreement	Per Board Decision
<u>Determination of Taxable Income</u>				
1	Utility net income before taxes	\$671,593	\$644,238	\$644,238
2	Adjustments required to arrive at taxable utility income	(\$479,707)	(\$523,689)	(\$479,707)
3	Taxable income	\$191,886	\$120,548	\$164,531
<u>Calculation of Utility income Taxes</u>				
4	Income taxes	\$29,742	\$18,685	\$18,685
6	Total taxes	\$29,742	\$18,685	\$18,685
7	Gross-up of Income Taxes	\$5,456	\$3,427	\$3,427
8	Grossed-up Income Taxes	\$35,198	\$22,112	\$22,112
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	\$35,198	\$22,112	\$22,112
10	Other tax Credits	\$ -	\$ -	\$ -
<u>Tax Rates</u>				
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	0.50%	0.50%	0.50%
13	Total tax rate (%)	15.50%	15.50%	15.50%

Interrogatory #4

Revenue to Cost Ratio Adjustment Model – Tab 6: Decision Cost Revenue Adj

The Current Year (2015) Revenue to Cost ratio for GS 50 to 2,999 class is 127.88% on Tab 6 of the 2016 Revenue to Cost Ratio Model that Lakefront Utilities filed. This ratio is different than the Proposed 2015 Revenue to Cost ratio (1.32) for the same class in Lakefront Utilities' 2015 IRM Decision (EB-2014-0090).

- a) Please explain the discrepancy described above and confirm which ratio is correct for this entry on Tab 6 of the Revenue to Cost Ratio model. OEB staff will update the model.

Update Group


Rate Class	Direction	Current Year 2015	Transition Year 1 2016	Transition Year 2 2017	Transition Year 3 2018	Transition Year 4 2019	Transition Year 5 2020
Residential	No Change	89.90%	89.90%	89.90%	89.90%	89.90%	89.90%
General Service Less Than 50 kW	No Change	99.64%	99.64%	99.64%	99.64%	99.64%	99.64%
General Service 50 to 2,999 kW	Rebalance	127.88%	tbd	tbd	tbd	tbd	tbd
General Service 50 to 4,999 kW	Change	74.38%	80.00%	80.00%	80.00%	80.00%	80.00%
Unmetered Scattered Load	No Change	81.94%	81.94%	81.94%	81.94%	81.94%	81.94%
Sentinel Lighting	No Change	117.24%	117.24%	117.24%	117.24%	117.24%	117.24%
Street Lighting	No Change	111.73%	111.73%	111.73%	111.73%	111.73%	111.73%

The additional revenues from these adjustments would be used to reduce the revenue-to-cost ratio for General Service 50 to 2,999 kW.

The table below outlines the proposed revenue-to-cost ratios.

Current and Proposed Revenue-to-Cost Ratios

Rate Class	Current 2014 Ratio	Proposed 2015 Ratio
Residential	0.90	0.90
General Service Less Than 50 kW	1.00	1.00
General Service 50 to 2,999 kW	1.34	1.32
General Service 3,000 to 4,999 kW	0.69	0.74
Unmetered Scattered Load	0.82	0.82
Street Lighting	1.12	1.12
Sentinel Lighting	1.17	1.17



Response:

LUI agrees that the correct current year (2015) revenue-to-cost ratio for GS 50 to 2999 class is 1.32 as indicated in Lakefront Utilities' 2015 IRM Decision (EB-2014-0090). Please make the necessary adjustment to the IRM model.

Interrogatory # 5

Revenue to Cost Ratio Adjustment Model – Tab 7: Revenue Offsets Allocation

As per the Proposed Settlement Agreement in Lakefront Utilities' 2012 CoS application (EB-2011-0250), the Miscellaneous Revenue Allocated for Unmetered Scattered Load (USL) and Street Lighting classes were 3,775 and 21,518 respectively.

Tab 7 of the 2016 Revenue to Cost Ratio model displays the two balances of these two classes as 21,518 and 3,775 (reversed).

- Please confirm if the correct balances should be the same as in the Proposed Settlement Agreement in Lakefront Utilities' 2012 CoS - 3,775 for USL and 21,518 for Street Lighting. If so, OEB staff will update the Revenue to Cost Ratio model.
- Otherwise, please provide explanation to the discrepancy.

The purpose of this sheet is to allocate the Revenue Offsets (miscellaneous revenue, cell F47) found in the last COS to the various rate classes in proportion to the allocation from the Cost Allocation informational filing.

Rate Class	Informational Filing Revenue A	Percentage Split C = A / B	Allocated Revenue Offsets E = D * C
Residential	212,698	56.20%	212,699
General Service Less Than 50 kW	53,016	14.01%	53,016
General Service 50 to 2,999 kW	75,443	19.93%	75,443
General Service 50 to 4,999 kW	11,487	3.04%	11,487
Unmetered Scattered Load	21,518	5.69%	21,518
Sentinel Lighting	524	0.14%	524
Street Lighting	3,775	1.00%	3,775
	378,461	100.00%	378,462
	B		D

Proposed Settlement Agreement in 2012 CoS application(EB-2011-0250):

Class	Revenue Requirement - 2012 Cost Allocation Model - Line 35 from O1 in CA	2012 Base Revenue Allocated based on Proportion of Revenue at Existing Rates	Miscellaneous Revenue Allocated from 2012 Cost Allocation Model - Line 19 from O1 in CA	Total Revenue	Revenue Cost Ratio	Check Revenue Cost Ratios from 2012 Cost Allocation Model - Line 70 from O1 in CA	Proposed Revenue to Cost Ratio
Residential	2,409,187	1,953,823	212,698	2,166,521	89.9%	89.9%	94.8%
GS < 50 kW	642,800	588,783	53,016	639,798	99.5%	99.5%	99.0%
GS 50-2999	922,322	1,207,827	75,443	1,283,270	139.1%	139.1%	120.0%
GS 3000 - 4999	188,018	41,789	11,487	53,256	28.0%	28.0%	57.5%
Sentinel Lights	5,177	5,545	524	6,089	117.2%	117.2%	117.2%
Street Lighting	208,735	212,189	21,518	233,707	112.0%	112.0%	111.7%
USL	43,735	31,571	3,775	35,346	80.8%	80.8%	94.8%
	0	0	0	0	0.0%	0.0%	0.0%
	0	0	0	0	0.0%	0.00%	0.0%
TOTAL	4,417,972	4,039,506	378,462	4,417,968	100.0%	100.0%	

Response:

LUI confirms that the Miscellaneous Revenue Allocated for Unmetered Scattered Load (USL) and Street Lighting classes are 21,518 and 3,775 (the reverse of what was filed in the 2016 IRM application. The correct balances should be the same as in the Proposed Settlement Agreement in Lakefront Utilities 2012 Cost of Service and LUI is aware that the OEB staff will update the Revenue to Cost Ratio model.

Updates to IRM Model made by OEB staff

1. Tab 15: Rev2Cost_GDPIP - Price Escalator

The OEB has calculated the value of the inflation factor for the incentive rate setting under the Price Cap IR and Annual Index plans, for rate changes effective in 2016, to be 2.1%. The derivation of this is shown on OEB's webpage:

<http://www.ontarioenergyboard.ca/oeb/Industry/Regulatory%20Proceedings/Applications%20Before%20the%20Board/Electricity%20Distribution%20Rates/2016%20Electricity%20Distribution%20Rate%20Applications>

This new inflation factor has been applied to Tab 15 of the IRM model as the Price Escalator.

2. Tab 18: Bill Impacts – Ontario Clean Energy Benefit (OCEB) and Debt Retirement Charge (DRC) to Residential Class

Sioux Lookout Hydro's 2016 electricity distribution rates are effective on May 1, 2016. Therefore, the "Current Board-Approved" section of the individual bill impact table should include the rates as of April 30, 2016 (the day before the effective date). The OCEB will be ending on December 31, 2015, thus it is not applicable to any individual bill impact table. OEB staff has changed the "OCEB Applicable?" option from "Yes" to "No" for Residential, GS<50 kW and USL classes, so that the OCEB amount will not appear in any bill impact table.

Also, as the DRC will be removed from Residential customers' bills after December 31, 2015, the model has been fixed to show \$0 DRC rate under Current Board-Approved section for Residential Classification.

3. IRM Model – Tab 3: 2015 Continuity Schedule

Based on email communications with Adam Giddings (contact of Lakefront Utilities), OEB staff has updated the continuity schedule of Lakefront Utilities'

2016 IRM model. The changes have been confirmed by Lakefront Utilities on Nov 30th, 2015 (through email).

Response:

LUI agrees with the above updates to the IRM model by the OEB staff.