SHIBLEY RIGHTON LLP
Barristers and Solicitors

TORONTO OFFICE:
250 University Avenue, Suite 700, Toronto, Ontario, M5H 3E5
Main 416 214-5200 Toll free 1-877-214-5200
Facsimile 416 214-5400

WINDSOR OFFICE:
2510 Ouellette Avenue, Suite 301, Windsor, Ontario, N8X 1L4
Main 519 969-9844 Toll free 1-866-422-7988
Facsimile 519 969-8045

www.shibleyrighton.com

Please reply to the TORONTO OFFICE

John De Vellis
Direct Line (416) 214-5232
Direct Fax (416) 214-5432
john.devellis@shibleyrighton.com

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ONTARIO ENERGY BOARD

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OEB BOARD SECRETARY
File No. EB-2007-0761 Sub File: 16
Panel: G.K./C.C.
Licensing
Other: Christie C. M.M.
COMM

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Lakefront Utilities Inc. EB-2007-0761

Please find enclosed a copy of the Submissions of the School Energy Coalition in respect of the above-captioned matter. An electronic copy has already been sent to the parties.

Yours very truly,
SHIBLEY RIGHTON LLP

per

John De Vellis

EB-2007-0761

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an Application by Lakefront Utilities Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2008.

SUBMISSIONS OF THE SCHOOL ENERGY COALITION

These are the submissions of the School Energy Coalition ("SEC") in connection with the application by Lakefront Utilities Inc. ("LUI") for an order approving just and reasonable rates for the distribution of electricity effective May 1, 2008.

Operating Expenses

LUI's OM&A expenditures increase by 33% between 2006 and 2008. About a third of the increase ($207,850 of the $598,296 increase between 2006 and 2008) is due to smart meter operating expenses. About another 18.5% of the increase (or $110,947) is due to general increases to wages and benefits [Board Staff IR #3.12(b)]

In SEC's submission, some of the other cost drivers have not been fully explained by LUI or result from one-time spending increases in previous years which have been carried forward to the test year without explanation.

Regulatory Expenses

LUI's 2008 regulatory expenses are projected to increase by $100,000 compared to 2007 (Ex 4/2/3/pg3). These are the costs associated with the preparation of 2008 rate application.

In Board Staff interrogatory #3.13, LUI provided a breakdown of its 2008 regulatory costs, as follows: $90,944 one-time costs, $47,905 ongoing costs, $12,349 are 2007 costs carried over to 2008.

SEC has a number of observations with respect to regulatory costs:

- $12,349 represented the portion of 2007 actual regulatory spending over the projected level. It is not appropriate to include this amount in LUI's 2008 revenue requirement, as 2007 rates are based on 2nd Generation IRM and any overspending of operating expenses should not be carried over to 2008 for recovery.

- At Exhibit 4, Tab 2, Schedule 6, pg. 2, LUI provides a schedule of its purchased services. Included in that table is $25,000 in 2008 to the law firm Ogilvy Renault for the 2008 Rate application. However, in response to Board Staff interrogatory 3.13, LUI provides a breakdown of its forecasted regulatory expenses for 2008, which includes $64,000 for "legal costs for regulatory matters". It is unclear what the additional costs are for or to whom they are paid.

In response to Board Staff interrogatory #3.12(c), LUI suggested that $75,000 of the incremental regulatory expenses be included in 2008 revenue requirement in recognition of the fact that a portion of these costs can be characterized as one-time expenses. That would result in a decrease in 2008 regulatory expenses of approximately $25,000.

In SEC's submission, the incremental regulatory expenses involved in preparing 2008 rate application were incurred to provide a base for LUI's rates which will then be used to set rates for 2009 and 2010. Accordingly, these additional expenses should be amortized over three years.

However, as discussed above, SEC also believes a regulatory expenses for 2008 should be reduced by $12,349 to account for the fact that LUI is carrying forward expenditures from 2007. In addition, further reductions may be warranted on the basis of the apparent discrepancy in LUI's legal fees as discussed above.

Bad Debt Expense

It appears LUI has carried over an increase in bad debt expense in 2006, $45,586, into 2007 and 2008 [Board Staff IR #3.12(b)[1]] The explanation given, however, is that the 2006 increase continued in 2007 with a larger company bankruptcy. In SEC's submission, that does not justify a permanent step increase in bad debt expenses. SEC believes the projected increase in bad debt expenses should be disallowed.

Increase in Supplies, Services & Expenses

Built into LUI's 2008 OM&A budget is an additional $116,256 for supplies, services and expenses. SEC cannot comment on the reasonableness as no information was provided to explain them.

[1] The amount does not appear as a driver of the increase for 2006 and 2007 but is included in the total for those years since it was included in the total for the previous year and carried forward to the subsequent years.

Smart Meters

As stated below, SEC believes the total cost of smart meters should be removed from the base revenue requirement and be included in a deferral account and recovered through a rate adder.

However, as discussed below, SEC proposes a specific adjustment to depreciation for smart meters.

Amortization

In response to VECC interrogatory #6(d), LUI states that it is including in its revenue requirement depreciation for smart meters in the amount of $116,161. This represents 5.7% of the projected 2008 smart meter capital expenditures of $2,037,923. LUI is, therefore, depreciating smart meters for 2008 as if they were in service for the entire year, even though the standard practice is to include half of the projected value in rate base for the year in which the expenditures occur.

It appears from LUI's response to Board Staff interrogatory #2.9(b) that LUI made a similar error with respect to the remainder of its 2008 capital expenditures.

Rate Base and Capital Expenditures

1.Asset Performance Statistics

In Board Staff interrogatory 2.3(a), LUI was asked to provide asset reliability indices for the years 2002-2008. An average of the last 3 years was chosen as the desired value.

LUI stated that as the indices did not provide adequate information to establish its capital replacement program, LUI's capital maintenance and replacement requirements were instead based on a complete system inspection and assessment [Board Staff IR #2.3a]. A "pole by pole" condition and inventory assessment project was conducted to determine areas needed to be addressed [Board Staff IR #2.10(d)].

SEC believes the asset condition for major distribution asset classes should be quantified through the use of asset health indices. SEC agrees with Board Staff that an asset management plan is necessary to address reliability and asset condition problems.

2. Smart Meters

LUI has confirmed in Board Staff IR 2.5(a) that its 2008 test year rate base of $15,577,513 includes $2 million projected smart meter capital expenditures.

Despite the fact that LUI has not received approval to commence smart meter installation, SEC believe it is not prudent to replace expired meters with regular meters when they will most likely have to be replaced with smart meters. However, it is unclear whether LUI will receive approval to begin smart meter spending in 2008 and if so whether all of the expenditures will be incurred in 2008. Therefore, SEC submits that smart meter expenses, both capital and operating (subject to SEC's proposed adjustment for depreciation as set discussed above) should be tracked through a deferral account and recovered through a smart meter rate adder rather than included in the base revenue requirement.

Recording smart meter expenditures in a deferral account also avoid the problem of having 2009 and 2010 rates indexed on a base that is inflated by the fact that LUI has loaded almost all of its smart meter capital expenditures into a single year (2008).[2]

3. Other Capital Expenditures

Board Staff asked parties to comment on the adequacy of LUI's capital expenditures for 2008, excluding smart meters. In SEC's submission, LUI is taking a responsible approach to capital expenditures by offsetting increases in one area with decreased spending in other areas. Since the bulk of smart meter capital expenditures are expected to be incurred in 2008, it does not appear the decrease in other capital expenditures will need to continue for more than one year.

Cost of Capital

LUI was originally seeking approval for a weighted average cost of debt of 7.25% [Exhibit 6, Tab 1, Schedule 1]. In response to Board Staff interrogatory 1.3, LUI provided a corrected figure of 7.161%.

The bulk of LUI's debt, however, is in the form of a promissory note issued to the Town of Cobourg for $7,000,000. This promissory note is callable on demand. Therefore, SEC agrees with Board Staff that the interest rate for this debt should be the Board's deemed long-term debt rate.

SEC would also like clarification as to how the company intends to move towards a 40% common equity component of its capital structure by 2010 and how those changes will be implemented during the incentive regulation period.

Load Forecast

LUI has used 2004 weather-normalized consumption as the base data to produce the weather normalized forecast for the test year (Ex 3/2/1/pg2, IRR OEB #6.4). Until the

[2] Smart Meter cap ex is $2 million in 2008, and $0.95 million in 2009 and about $0.013 million for each of 2010-2012 [Exhibit B/2/3, pg. 9-12]

next (2008) weather normalized forecast can be conducted by Hydro One, the most recent 2004 weather normalized data appears to be the reasonable base upon which to build the forecast.

Board Staff has commented on the apparent incongruity between the growth in overall customer numbers (increasing 1.3% per year growth in customer numbers from 2006 to 2008) and load growth (forecast to decrease an average of 1.8% per year from 2006 to 2008) This appears to stem from the fact that LUI is projecting an 11.8% decrease in the number of customers and consumption in the GS>50 rate class during this period. In response to VECC IR#15, LUI says that the decrease in customer count in the GS>50 class "is attributed to change in customer count and yearly reassessment by LUI of customer classes based on annual kWh consumption, i.e. the mall restructured and combined stores. We expect this trend to continue, which is the basis for the 127 [projected number of GS>50 customers in 2008] figure."

To the extent that the decrease in GS>50 customer count is due to a reclassification of customers to other rate categories, however, there does not appear to be a corresponding increase in other rate classes. Consumption in the GS>50 rate classes decreases by 13,854,000 kWh from 2006 to 2008, whereas consumption in the GS<50 rate class increases by only 1,057,000kWh during the same period. Without more information, it is not possible to determine whether LUI's forecasted consumption for the GS<50 and GS>50 rate classes is reasonable.

Loss Factor

LUI proposes a distribution loss factor of 1.0541 which will be used for a three-year period. LUI has stated, however, that its voltage conversion project will result in lower distribution loss factors [Board Staff IR #9.1(c)] This implies that LUI's 2009& 2010 loss factors should be lower. SEC questions whether the 2008 loss factor of 1.0541 is an appropriate factor to use for 2009 and 2010 given that LUI has stated it anticipates actual losses in those years will be lower.

In addition, LUI's proposal to increase its loss factor is to compensate the actual losses not covered through the power variance account. In SEC's submission, approval of LUI's requested loss factor which serves to compensate for the actual losses not covered through the power variance account would lead to an over-recovery of the power variance account in the non-rebasing years (2009 & 2010).

Deferral and Variance Accounts

Account 1590

It appears that LUI is proposing to clear deferral account balances as of December 31, 2006 for all accounts except for account 1590, in respect of which LUI is proposing to clear the projected balance to April 30, 2008.

In SEC's submission, the proposed treatment is inconsistent and results in a clearance to ratepayers that is larger than it would be if balances were cleared as of the same date. Accordingly, SEC agrees with Board Staff that disposal of Account 1590 should be deferred until the balance has been finalized and verified.

New deferral account for future capital projects

LUI is requesting a new deferral account to track future capital project investments in non-rebasing years in the event that the 3rd Generation Incentive Regulatiom Mechanism ("3GIRM") is not completed in time to address the capital project expenditures.

In SEC's submission, the treatment of revenues in the 3IGRM period is a matter for the panel deciding the 3GIRM process. LUI's application is premature as it preempts the 3GIRM process.

Transition Cost Recovery Items

LUI is seeking to continue regulatory asset rate riders beyond April 30, 2008 in order to recover a shortfall, in the amount of $296,000 arising from an error in calculating its 2006 revenue requirement.

In SEC's submission, what LUI is seeking is a reconsideration of its 2006 rates. LUI's should be dealt with by way of a motion to review the 2006 EDR and not as part of the 2008 cost of service application. Moreover, LUI's request is inappropriate as it involves reconciling an error made in the 2006 rate application. 2006 rates have already been superseded by 2007 rates, and 2008 rates will soon be in place.

Cost Allocation

LUI's revenue to cost ratios show that a number of rate classes are significantly over-contributing to its revenue requirement. In particular, the GS<50 and GS>50 rate classes, with revenue to cost ratios of 141.5% and 148.3%, respectively, are over-contributing to LUI's revenue requirement by a combined $578,386. The Residential rate class, with a revenue to cost ratio of 114%, is also over-contributing by $220,258. However, as can be seen from the following table, the problem is much more pronounced with respect to the general service rate classes:

	Rev/Cost Ratio[3]	Revenue	Over (Under) Contribution	Over/Under Contributing as % of Total	LUI Proposed New

[3] Existing rates.

				Revenue from Class	Rev/Cost Ratio
Residential	113.99%	$1,794,600	$220,258	12.2%	111.84%
GS<50	141.43%	$670,993	$196,543	**29.3%**	137.56%
GS>50-2999kW	148.3%	$1,172,963	$381,543	**32.5%**	134.33%
GS 3000-4,999kW	29.94%	$122,958	($370,050)	-300%	70.47%
Streetlighting	12.86%	$62,075	($420,466)	-677%	2.86%

[Source: Table adapted from data at Exhibit 8/1/2, pg. 5]

As a proportion of revenue allocated to the GS<50 and GS>50 rate classes, therefore, the degree of over-contribution from the GS<50 and GS>50 rate classes is extremely large. In essence, the GS<50 and GS>50 rate classes are paying approximately 30% more for distribution services than they should be. That represents an unacceptable degree of cross-subsidization that should be addressed immediately.

Despite the fact that the GS<50 and GS>50 rate classes are over-contributing to LUI's revenue requirement by a significant amount, LUI proposes only minimal reduction in their respective revenue to cost ratios. Moreover, LUI actually proposes to reduce the contribution from the Streetlighting class, despite the fact that the Streetlighting customer is an affiliate of LUI and despite the fact that Streelighting's revenue to cost ratio- at 12.86%- was already well-below the Board's guideline. The new proposed revenue to cost ratio for Streetlighting will result in virtually no revenue being collected from Streetlighting ($17,249 on a revenue requirement of $4,661,871, or 0.37%).

In SEC's submission, LUI is providing a service to an affiliate at a cost well below the actual cost of providing the service. Unless there is an exemption by the Board, it is SEC's submission that LUI is not entitled to charge an affiliate for any service at less than cost. Therefore, it is submitted that the rules relating to affiliate transactions should be applied, and the streetlighting rates should be set at 100% of cost.

SEC refers the Board to the recent settlement agreement in Enersource Hydro Mississauga's 2008 rate proceeding [EB-2007-0706, Settlement Proposal dated December 21, 2007, section 7.1]. There the parties agreed on a process to have all rate classes begin to move towards 100% cost recovery. The initial stage was an agreement to move all rate classes to a minimum revenue to cost ratio of 91.5% and a maximum of 111%. SEC believes that is a reasonable approach as it begins to move all rate classes towards the ultimate goal of 100% cost recovery while avoiding large rate impacts in a single year.

Costs

SEC participated responsibly in this proceeding and respectfully submits that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 15th day of February, 2008.

John De Vellis
Counsel to the School Energy Coalition