



**Lakefront
Utilities
Inc.**

207 Division Street, Cobourg, ON K9A 4L3 • www.lusi.on.ca • Tel: (905) 372-2193 • Fax: (905) 372-2581

November 20, 2008

Mr. Michael Buonaguro – Counsel for VECC
Vulnerable Energy Consumers Coalition
c/o Public Interest Advocacy Centre
34 King Street East, Suite 1102
Toronto, Ontario
M5C 2X8
Email: mbuonaguro@piac.ca

Dear Mr. Buonaguro:

**RE: Lakefront Utilities Inc – EB-2008-0277 – 2008 Electricity Distribution
Rate Application – Request for Review and Vary**

In response to your correspondence dated November 6, 2008, please find attached Lakefront Utilities Inc.'s response to Vulnerable Energy Consumers Coalition (VECC) Interrogatories.

As per Procedural Order No. 1 dated October 31, 2008 we have enclosed two paper copies along with a CD to the Board.

Should you have any questions regarding the above, please call me at (905) 372-2193.

Yours truly,

Lakefront Utilities Inc.

Original signed

Dereck C. Paul,
Manager Compliance & Finance

Copy: Ms. Kristen Walli – Board Secretary -Ontario Energy Board

**Lakefront Utilities Inc. (LUI) Response
Motion to Review and Vary**

Board File: EB-2008-0277

LUI's Response to VECC's Interrogatories

Question #1

Reference: i) R&V Application, page 2, paragraph 2
ii) Response to VECC IR #6 b)

- a) In response to VECC #6 b) Lakefront indicated that it had sought "reprieve" from Measurement Canada regarding the seal status of its meters.
- Please provide a copy of Lakefronts' correspondence to Measurement Canada.
 - Please provide copies of any correspondence received from Measurement Canada on the matter.
 - What is the current status of Lakefronts' reprieve request?

LUI's response:

Please find attached as Appendix "A" the correspondence between LUI and Measurement Canada regarding LUI meters seal issue.

Question #2

Reference: i) R&V Application, page 4, paragraph 11
ii) R&V Application, Tab 1, page 2

- a) Please provide a breakdown of the \$250,000 as between capital costs and OM&A costs.
- b) Please clarify precisely how many meters are being re-sealed by type of meter.
- c) What would be the 2008 revenue requirement associated with the \$250,000 spending. With respect to the capital cost portion of the \$250,000 please show the calculation of the associated depreciation and return on capital components of the revenue requirement impact.

d) Why is Lakefront proposing to amortize the \$250,000 over three years?

LUI's response:

a) The entire \$250,000 amount that LUI is requesting in the Notice of Motion for a Review and Vary, Tab 1, page 2, is for a maintenance program and therefore there are no capital costs. To initiate the program, LUI will be purchasing used meters from other LDCs that have changed over to smart meters. These used meters will be used temporarily as substitutes for existing meters that are being re-sealed, and rotated throughout LUI's system during the re-sealing program. LUI plans on obtaining the following used meters (as per tab 1, page 2) at an estimated cost of \$10,990

700 used residential meters
50 used S-base network meters
20 used 2-wire transformer type 1 phase meters
40 used 3-phase S-base meters
40 used 3-phase P-base transformer meters

b) The total meters being reseal (as per tab 1, page 2 of LUI's Motion to Review and Vary) are:

2,681 Residential meters
271 S-base network meters
72 transformer type (2-wire) 1 phase meters
200 S-base 3-phase meters
161-base 3-phase meters

c) As LUI is requesting this cost as an OM&A expense and proposing to amortize it over three years, the revenue requirement associated with the \$250,000 would be divided by three for a sum of \$83,333 per year.

d) LUI proposes to amortize the \$250,000 expense over three years, to be consistent and similar to the treatment of regulatory cost of preparing LUI's 2008 COS Application as it will be a one time expense.

Question #3

Reference:

- i) R&V Application, page 5, paragraph 15
- ii) R&V Application, Tab 1, page 2
- iii) Original Application, Exhibit 2/Tab 3/Schedule 1, page 1

- a) Please confirm whether the requested additional spending on voltage conversion program is required in 2008 in order to maintain a safe and reliable operation of Lakefront's distribution system. If yes, why was it not included in the original application?
- b) Please indicate whether Lakefront has actually started (as of November 1st, 2008) any of the conversion projects listed in Tab 1 (re reference (ii)).
- c) Given the current date, why is it reasonable to expect Lakefront to complete over \$325,000 in capital spending on voltage conversion in the 2008 rate year?
- d) Given the timing of Application, if the Board were to approve such spending, why is it reasonable to use a ½ year rule to estimate the revenue requirement impact? Should a shorter in-service period be used for the 2008 rate year? If not, why not?

LUI's response:

- a) **All of LUI's capital programs serve the purpose of providing safe and reliable distribution service. Because LUI, like every other utility, has limited resources, capital projects must be prioritized and some projects must therefore be deferred for higher-priority projects. Just because a project is deferred does not mean that it is not important. In the case of LUI's voltage conversion program, LUI did not include the 2009 voltage conversion work in its application to accommodate its proposed Smart Meter program. With Smart Meters excluded from LUI's 2008 capital budget, LUI will have the resources to carry-out its 2009 voltage conversion work. By including the incremental \$325,000 voltage conversion in LUI's 2008 budget, its total 2008 capital budget will be consistent previous years' capital spending.**
- b) **LUI has not started as of November 1st, 2008 any of the \$325,000 voltage conversion projects.**
- c) **Although LUI has not started, we are confident that should we receive the Board's approval, the work should be completed in 2008.**
- d) **The ½ year rule contemplates that some capital projects will be used**

and useful at the beginning of the year, and some at the end of the year. By using an average, the ½ year rule levelizes these timing incongruities. Therefore, the ½ year rule should be applied uniformly to all capital expenditures, regardless of when during the year they are used and useful. Although there are a number of instances where LUI's capital was used and useful at the beginning of the test year, LUI did not propose to depart from the ½ year rule for those projects.

Question #4

Reference: i) R&V Application, pages 7-8

- a) Does the \$55,271 represent all forecast interest income for the 2008 test year?
- b) Why is the \$55,271 considered to be interest on retained earnings?
- c) Can Lakefront identify any OEB precedents for excluding interest income from miscellaneous revenues?

LUI's response:

- a) **No, the \$55,271 only represents a portion of the forecast interest income for 2008 test year. The total forecast interest income is approximately \$89,500.**
- b) **The \$55,271 represents the 2008 interest income on the previous year's Retained Earnings that has not been dividended to our shareholders.**
- c) **LUI believes it is appropriate to keep retained earnings and interest earned thereon separate from revenue requirement. Some LDCs dividend their entire Net Income (retained earnings) to their shareholders, while others like LUI retain its shareholder's earnings for future dividends. In either case, both retained earnings and the interest earned thereon belong to the shareholder. Had LUI dividended their entire Net Income, all interest earned by its shareholder would have accrued to its benefit. LUI erroneously offset its revenue requirement by interest earned on retained earnings. LUI expects that in almost every other rate proceeding, the Board has approved revenue requirement that was not offset by interest earned on retained earnings, since no LDC would propose such an offset. LUI is unaware of any precedent whereby the Board required an LDC to offset its revenue requirement by interest earned on retained earnings.**