



**Lakefront
Utilities
Inc.**

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February 07, 2011

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

Dear Ms. Walli:

Lakefront Utilities Inc. Submission
Re : 2011 3rd Generation IRM (EB-2010-0095)

Please find attached LUI's submission made in response to Submissions from Board Staff and Vulnerable Energy Consultants Coalition (VECC) dated January 18, 2011.

An electronic version of our response has been sent via email as well as filed on the Ontario Energy Board's RESS Filing System and two hard copies have been mailed to the Board Secretary.

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

Yours truly,

Dereck C. Paul – President
LAKEFRONT UTILITIES INC.

THE ONTARIO ENERGY BOARD

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. (“LUI”), Licence #ED-2002-0545, EB-2010-0095 pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2011.

SUBMISSION

Lakefront Utilities Inc. (“LUI”) submitted an application on October 1, 2010, seeking approval for changes to the distribution rates that LUI charges for electricity distribution, to be effective May 1, 2011. The application is based on the 2011 3rd Generation Incentive Regulated Mechanism (“3rd GIRM”).

On November 25th 2010, Board Staff and VECC filed interrogatories and on December 13th 2010 LUI responded to those interrogatories.

Lost Revenue Adjustment Mechanism (LRAM) Recovery – Street Lighting

In its submission, Board Staff indicated that “the Board should not allow recovery of LRAM and SSM for Street Lighting Program in the amounts of \$14,451.26 and \$29,707.79 respectively, as the program was not reviewed and tested by Board Staff and the intervenor community and ultimately approved by the Board prior to its implementation.”

LUI submits that even though this project was not funded through distribution rates, LUI played a central role to the program as it was initiated and proposed by LUI to the Municipality. LUI established the partnership between the Municipality and the Induction Lights supplier. Approval from the Board was not sought because the development of a “program” was not needed as there was only one customer that would benefit from this Street Lighting Project. The Municipality decided to proceed with the project and apply for a Provincial grant to support the project based on the financial analysis for the project without any subsidies from the utility.

An important factor the Board must consider is the “spirit” and “intent” of pursuing the project - it fulfilled the Conservation mandate of the Provincial Government of reduced load, and in this case, more than 50%. Another important element is the lost revenue to

LUI as a result of this initiative, it directly impacted the Street Light class loss revenue for LUI.

This initiative is among one of the only conservation project that can be exactly measured. The Provincial Government, in granting the Municipality \$500K funding, believes strongly in this initiative, and the Federation of Municipalities in awarding Cobourg the Energy Award for this initiative, believe strongly in it.

If the Board does not allow recovery of LRAM and SSM for the Street Lighting Project in LUI's service territory, it will be perceived as a penalty to utilities for encouraging and promoting CDM initiatives with their customers (whether those customers are large businesses that fund CDM projects on their own or whether they are Municipalities).

Lost Revenue Adjustment Mechanism (LRAM) – Third Tranche CDM

LUI recognizes and seeks to be in compliance with OEB's direction letter, Conservation and Demand Management ("CDM") Input Assumptions Board File No. EB-2008-0352, January 27, 2009. As such, LUI and Burman Energy sought assistance in the interpretation on the appropriate application of assumptions and measures for both LRAM and SSM calculations.

In its October 8th decision and order regarding Horizon Utilities' recovery of amounts related to CDM, the OEB indicated that:

..the filing guidelines cannot reasonably be expected to address every possible scenario that may be faced by Ontario's 80 regulated distributors. What is clear is the underlying principle of LRAM, which is that distributors are to be kept whole for revenue that they have forgone as a direct consequence of implementing CDM programs. Accordingly, in the absence of clear direction from the filing guidelines to the contrary, utilities should always use the most current input assumptions which have been adopted by the Board when preparing their applications because these assumptions represent the best estimate of the impact of the programs."

In response to this direction, Horizon Utilities recalculated LRAM using the most recent assumptions and measures as directed for 2005 and 2006 results which persisted in 2007 and 2008 only. No revisions were made retroactively to results which occurred in 2005 and 2006. These revised calculations were performed to the VECC group's satisfaction (Comments on Horizon's Draft Rate Order, dated October 21, 2009) and were subsequently approved as part of the OEB's final rate order for Horizon, October 23, 2009.

It is LUI's view this precedent illustrates acceptance of the limits to the application of newer assumptions and measures to the beginning of the year, those assumptions and measures were accepted by the Ontario Energy Board. LUI considers this a reasonable

position given the absence of any published updates until 2009. This is also consistent with the example within Guidelines and Policy Letter of January 27, 2009:

*The input assumptions used for the calculation of LRAM should be the best available at the time of the third party assessment referred to in section 7.5. For example, if any input assumptions **change in 2007**, those changes should apply for LRAM purposes **from the beginning of 2007 onwards** until changed again.....*

LUI further submits the application of the most recent (OPA) assumptions and measures to be applied in LRAM calculations were endorsed by the OEB in 2009. Applying the aforementioned interpretation, it was deemed appropriate to apply the more recent assumptions and measures retroactively for 2009 only.

Consistent with the Horizon decision and order, LUI submits that no further adjustment be made to the SSM calculations.

The statement by VECC that LUI "...has gone against the independent third party review by Burman Consulting..." is interpreted to imply that Burman Energy was not involved in the subsequent review and revisions resulting from VECC interrogatories. LUI denies that this is the case and submits that the revised calculations have been prepared by Burman Energy. LUI also notes VECC has not provided evidence to support their assumption.

LUI accepts OEB staff endorsement of the process and results for determining LRAM/SSM amounts. However, the statement referencing the use of outdated input assumptions is in conflict with Board and staff recognition of the adoption of OPA assumptions and measures January 27, 2009. Applying these new assumptions and measures retroactively for all years would represent an inconsistency with the Horizon decision. This inconsistency was discovered only upon detailed review of LRAM assumptions in response to VECC interrogatories.

LUI submits the revised application for LRAM recovery is consistent with the Board's Guidelines (EB-2008-0037 dated March 28, 2008) and the Board's Decision on Horizon's application (EB-2009-0192). Applying these new assumptions and measures retroactively for all years would have represented an inconsistency with the Horizon decision. In addition, LUI submits that since OEB endorsement of OPA assumptions and measures did not occur until 2009, 2005 assumptions and measures represents the best available and most reliable for the years 2005, 2006, 2007, and 2008. LUI submits that no official adoption of new assumptions and measures until 2009 supports this position. In lieu of annual approved updates to assumptions and measures, LUI respectfully requests the Board approve the revised LRAM calculation of \$204,100.64 and the SSM of \$7,586.83.

LUI notes VECC has identified the same concern relating to the LRAM and SSM component in several 2011 LDC rate applications. LUI understands intervenors recover their costs for their prudent review of those applications and preparation of interrogatories. Many LDCs received the same detailed interrogatories from VECC.

Therefore, LUI submits any cost awards approved by the Board to reimburse VECC, should be based on one interrogatory and submission only and not duplicated for subsequent inclusion in other LDC applications interventions.

Smart Meter Funding Adder

Board staff submits that they have “*no concerns with the updated smart meter model filed by LUI*” and that “*any under-recover now will be taken into account when LUI subsequently files for disposition of smart meter costs.*”

LUI concurs and appreciates Board Staff comments, understanding and support of our position on this matter.

Disposition of Deferral and Variance Accounts (As per the “EDDVAR Report”

As mentioned in LUI’s response to Board Staff interrogatory #8d, upon identifying the billing error, LUI immediately contacted Board Staff (by email and telephone) to advised of the issue and sought direction. But after more than 3 weeks delay and complaints from the affected customers about the overbilled amounts and incorrect accruals for their budget and cash flows, LUI adjusted the bills.

And as per our response to Board Staff interrogatory #8g, LUI recalculated a new rate rider to rebill the affected customers for May, June and subsequent months. However, please note that the new rate rider is **lower** than the incorrect “*original rate rider*” values, and result in the recovery of the same Board approved amount of \$144,869 demonstrating that the rate contained in the approval was in error.

With regard to the 2011 deferral and variance balances, LUI has reviewed the revised version of the DVAD model, as provided by Board Staff in their Submission. The revised version had been changed by Board Staff to reflect some changes made. One of the changes was an accurate adjustment, on sheet C1.1, where the principal amounts were entered as debits, and should have been entered as credits. The other change, with respect to interest recoveries, (the entries in cells H69 & H70 respectively) are to be amended as per the following:

When originally entered, these amounts related to interest charge on the outstanding balance, entered into the interest recoveries column, (though not related to interest recoveries). Once Board Staff Submission was received by LUI, it was noted that these items were incorrectly entered on sheet C1.1. Therefore they have been removed, and entered in the appropriate area, on sheet D1.6, in column E (cell T35). The amount entered in cell H70 is the accurate figure that reflects the interest recoveries, separate from the principal. Note that the total does not change in cell J70, as the principal & interest was simply split out. LUI submits that this adjustment is the correct one.

Finally, please note that there was an accrual made to 1595 in March 2010, for the 2009 year end, that would not have been reflected in our RRR filing for the year ended December 31, 2009 Quarter 4 2.1.1 filing. The difference between our OEB RRR 2.1.1 filing and the deferral and variance account model is the accrual amount.

This attached (DVAD) deferral and variance account model, has been modified to include all the appropriate changes necessary to provide the accurate model, to be used for the purposes of the 2011 IRM.

Tracking of Incremental HST Costs

LUI has no further comments than those provided in its Manager's summary on this item.

ALL OF WHICH IS RESPECTFULLY SUBMITTED