

London Hydro (ED-2002-0557)
2010 Distribution Rate Adjustment Application (EB-2009-0235)
October 19, 2009

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an Application by London Hydro. for an Order or Orders approving or fixing a proposed schedule of adjusted distribution rates, retail transmission rates and other charges, effective May 1, 2010.

MANAGER'S SUMMARY

London Hydro is a licensed electricity Distributor operating under the Ontario Energy Board Distribution License ED-2002-0557. London Hydro serves approximately 146,000 customers in the City of London.

London Hydro hereby requests new electricity distribution rates effective May 1, 2010. London Hydro has followed the methodology and filing guidelines set out in the “*Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors*” (the “IRM Report”) issued on September 17, 2008 and used the 2010 3rd Generation Incentive Regulation Mechanism Model (the “Model”) to calculate the proposed rates..

The requested rates reflect an adjustment to the rates as previously approved by the Board in the Rate Order issued by the Board on September 22, 2009, Board file EB-2008-0235.

The proposed adjustments include:

- A price cap adjustment
- A continuation of existing specific service charges and loss factors as approved in EB-2008-0235

- A continuation of Retail Transmission Service Rates (“RTSRs”) as adjusted in EB-2008-0235 for the change in whole transmission rates effective July 1, 2009.
- Currently known tax changes
- Approved adjustments to revenue to cost ratios as per EB-2008-0235.
- A continuation of the existing smart meter funding adder of \$1.00 per metered customer as approved in EB-2008-0235 and pursuant to OEB Guideline G-2008-002: Smart Meter Funding and Cost Recovery
- A continuation of the existing Deferral Account Rate Riders pursuant to Decision in the proceeding EB-2008-0235 (2009 Electricity Distribution Rate Application).

Price Cap Adjustment

London Hydro has used the Model to calculate an interim price cap adjustment of 1.18 % to the monthly distribution service charge and volumetric rate for each rate class. This adjustment is calculated as the combination of:

- GDP-IPI escalator = 2.3%
- Total Productivity Factor = - 0.72%
- Interim stretch factor = - 0.40%

London Hydro acknowledges that the GDP_IPI escalator and the stretch factor may be adjusted by the Board before the final Rate Order is issued

Specific Service Charges and Loss Factors

London Hydro is applying to continue its Specific Service Charges and loss factors unchanged from the ones currently approved by the Board on September 22, 2009, in London Hydro’s 2009 cost of service rate application EB-2008-0235.

Retail Transmission Service Rates (RTSR’s)

London Hydro’s existing RTSR’s as approved by the Board in its Rate Order issued on September 22, 2009 EB-2008-0235, have been adjusted for the changes to the whole

transmission rates effective July 1, 2009. London Hydro is not requesting or proposing any further changes to RTSR's in this application.

Tax Changes

The Board has determined that a 50/50 sharing between London Hydro and its ratepayers of the impact of currently known legislated tax changes is appropriate at this time. The Model was used to determine the amounts to be used to calculate the applicable rate rider.

- Incremental Tax savings are calculated as \$502,010 (based on tax calculations differences between calendar 2009 and 2010). These tax calculations are based on forecasted tax changes for Ontario Capital Tax (not grossed up) and Regulatory Taxable Income (grossed up).
- The amount to be retained by London Hydro is \$251,005. Therefore, the tax savings required to be allocated to customers will be in the form of a proposed rate rider for the period May 1, 2010, with an expiry date of April 30, 2011.

Revenue to Cost Ratio Adjustments

The Decision issued pursuant to proceeding EB-2008-0235 instructed London Hydro to adjust revenue to cost ratios for several rate classes for the 2010 rate year. Pursuant to those instructions, London Hydro submitted the following table in its draft rate order, identifying the rate classes to be adjusted along with the new revenue to cost ratio for each class 2009 and 2010. The draft rate order determined that the 2010 distribution revenue adjustments required by customer class were those values presented in the following table.

Rate Class	2009 Rebase Ratio	2010 Ratio	Target Range	Distribution Revenue Adjustment 2010
Residential	109.0	108.1	85 – 115	(\$ 284,618)
GS < 50 kW	112.7	108.8	80 – 120	(\$ 284,618)
GS > 50kW to 4,999 kW	80.0	80.0	80 – 180	0
GS > 150kW to 4,999 kW Co-Gen	209.9	180.0	80 – 180	(\$ 35,659)
Standby Power	80.0	80.0	80 – 180	0
Large User > 5,000 kW	73.5	85.0	85 – 115	\$ 199,841
Street Lighting	43.6	70.0	70 – 120	\$ 374,946
Sentinel Lighting	42.3	70.0	70 – 120	\$ 18,974
Unmetered Scattered Load	69.2	80.0	80 - 120	\$ 11,134

Included in this 2010 IRM Rate Application are proposed distribution revenue adjustments by customer class for 2010 based upon the Boards methodology developed in the 2010 IRM Rate Model.

We would bring to the Board’s attention that the values calculated in the IRM Rate Model vary from those values included in the above table that was a component of the draft rate order submitted by London Hydro in EB-2008-0235 and that no submissions were received from the Board Staff or Intervenors to alter those values.

These differences in values result from differing treatments of how transformer discounts and other revenue offsets are utilized in the revenue to cost ratio adjustments by London Hydro in its draft rate order versus how the Board has applied those elements in its IRM rate model.

Smart Meter Funding Adder

Pursuant to the Decision in the proceeding EB-2008-0235 and to the requirements of OEB Guideline G-2008-002: Smart Meter Funding and Cost Recovery, London Hydro

will continue with the existing smart meter funding adder. The Smart Meter Funding Adder is \$1.00 per month per metered customer.

Deferral Account Rate Rider

As indicated previously, the Board issued its Decision on August 21, 2009 in London Hydro's 2009 cost of service rate application. The application incorporated a proposal to dispose of certain deferral and variance account balances, and the Board's Decision directed London Hydro as follows:

Board Findings

While the Board has announced an initiative to consider on a generic basis certain of the deferral and variance accounts, that process is still in the early stages. The RSVA balances are large and the Board finds that these amounts should be disposed of at this time. A rebasing application is an appropriate time at which to consider disposition of each account. The Board finds it appropriate to dispose of all the accounts, except the two PILS accounts (which are subject to a review in a separate proceeding), account 1590 (which the Board has typically not disposed of until the final balance can be verified), and the smart meter and CDM tracking accounts (which will be reviewed at a later date).

The Board finds that the balances at December 31, 2008 shall be disposed of, plus projected interest to the effective date of the 2009 distribution rates.

The Board finds that a period from the implementation date through to April 30, 2011 is appropriate.

The Board's 2010 IRM rate application model includes a "Deferral and Variance Account Work Form" designed for the purpose of clearing certain deferral and variance account principal and interest balances as at December 31, 2008.

London Hydro finds itself in a unique situation, in that with the exception of account 1590, it has already applied for and received Board approval for the disposition of all of the deferral and variance account balances included in the 2010 IRM model. The rate riders for the disposition of these balances were implemented effective October 1, 2009.

Thus due to London Hydro's unique situation we request exemption from completing the Deferral Account work form which would serve no purpose for the Board or London Hydro in this application.

We would note that an attempt was made to complete this form for the 1590 account, but the formula's and layout of the worksheet do not accommodate the unique circumstances of the 5 utilities (London being on of them) that formed the December 2004 transitional cost rate hearings and had their approvals received in December 2004 for transfer of approved costs to account 1590 in March of 2005.

If it is acceptable to the Board, we would propose that London Hydro utilize the worksheets and disposition model that formed a component of our 2009 cost of service distribution rate application for disposition of account 1590, other London Hydro could continue to work with Board Staff to determine how the required information for account 1590 and other accounts, if required, can be accommodated into the Boards IRM worksheet model, but the timelines for filing of the 2010 IRM rate model will not enable completion of this information by the October 21,2009 filing date.

Dave Williamson
Chief Financial Officer