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Ontario

BY E-MAIL

May 8, 2009

Ms. Kirsten Walli
Board Secretary
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Board Staff Supplemental Interrogatories
2009 Electricity Distribution Rates
London Hydro Inc.
Board File No. EB-2008-0235

In accordance with Procedural Order No. 2, please find attached Board staff interrogatories in the above proceeding. Please forward the following to London Hydro Inc. and to all other registered parties to this proceeding.

Yours truly,,

Original signed by

Keith C. Ritchie
Project Advisor - Applications

Attachments

May 8, 2009

London Hydro Inc. – 2009 Electricity Distribution Rates
EB-2008-0235

Board Staff's Supplementary Interrogatories

Please note that Board staff has commenced numbering of supplemental interrogatories beginning with 101. This numbering sequence may help parties to distinguish these interrogatories, and the responses, from initial interrogatories when subsequently referencing them in submissions and other documents.

Rate Base and Capital Expenditures

101. Ref: CCC IR #3 and Energy Probe IR #21 b) – Fleet and Facilities Capital Expenditures

The response to CCC IR #3 indicates that 2008 and 2009 capital expenditures for fleet and facilities are significantly higher than for previous years. Board staff has replicated the information provided in that response in the following table, also showing the annual percentage change.

Fleet and Facilities Capital Expenditures

Description		**2005 Actual**	**2006 Actual**	**2007 Actual**	**2008 Forecast**	**2009 Budget**	**Total**
Operating Equipment	$	$ 124,226	$ 92,253	$ 108,601	$ 130,000	$ 135,000	$ 590,080
	yr/yr change		-25.7%	17.7%	19.7%	3.8%	
Office Furniture and Equipment	$	$ 172,174	$ 124,834	$ 87,991	$ 63,000	$ 120,000	$ 567,999
	yr/yr change		-27.5%	-29.5%	-28.4%	90.5%	
Building and Fixtures	$	$ 55,625	$ 614,501	$ 534,088	$ 1,400,000	$ 1,130,000	$ 3,734,214
	yr/yr change		1004.7%	-13.1%	162.1%	-19.3%	
Vehicles and Major Equipment	$	$ -	$ -	$ 39,949	$ 1,550,000	$ 1,778,000	$ 3,367,949
	yr/yr change		#N/A	#N/A	3779.9%	14.7%	
Total	$	$ 352,025	$ 831,588	$ 770,629	$ 3,143,000	$ 3,163,000	$ 8,260,242
	yr/yr change		136.2%	-7.3%	307.8%	0.6%	

a) Please update the above table showing 2008 actuals.

b) In the response to Energy Probe #21 b), London Hydro states that the average age of London Hydro's transport and work equipment is still relatively old, despite replacement made in 2008. In light of this statement of the aging of its fleet, please provide further explanation of why London

Hydro had expenditures for Vehicles and Major Equipment of $nil in 2005 and 2006 and $39,949 in 2007 and has begun significant fleet replacement in 2008 and 2009 with annual expenditures over $1.5 million in each year.

c) Please provide further general explanation on the increase in Building and Fixtures capital expenditures in the $500,000 to $600,000 range in 2006 and 2007 to over $1.1 million in each of 2008 and 2009.

d) It appears that the Three Year Gross Capital Expenditure Plan provided in Exhibit 2 / Appendix A / page 133 does not include estimates for Fleet and Facilities Capital Expenditures.

   i) Please confirm or clarify if this is the case.

   ii) If Fleet and Facilities Capital Expenditures are not shown, please update the Three Year Gross Capital Expenditure Plan to show Fleet and Facilities and Metering capital expenditures forecasts for all years (2008 Budget to 2011 Budget).

Depreciation

102. Ref: Exhibit 4 / p. 69, LPMA IR #39 – Depreciation Expense

On page 69 of Exhibit 4, London Hydro states that it amortizes capital assets on a straight line basis, with amortizing commencing in the quarter that the asset is energized or put into service. In the response to LPMA IR #65, London Hydro provides detailed calculations of the amortization for 2009, of certain capital asset accounts.

Based on the software depreciation calculation shown in part iv) of LPMA IR #39, it appears that London Hydro calculates one month of depreciation for the quarter that an asset enters service. For instance, London Hydro calculates 10 months of depreciation for an asset entering service in 2009 Q1, but only one month of depreciation for an asset entering service in 2009 Q4. For assets for which the in-service date is unknown, London Hydro assumes the half-year rule, common in the industry, which is equivalent to assuming that the assets are in-service mid-year.

a) Is staff's understanding of London Hydro's amortization policy, summarized above, correct?

b) Analogous to the half-year rule, why does London Hydro not use a mid-quarter (1.5 months) approach for calculating depreciation expense of in-service additions in a given quarter.

c) How long has London Hydro been using this approach?

d) Please identify other distributors, transmitters or regulated entities that have adopted this approach.

103. Ref: Exhibit 2 / Appendix A / p. 210, CCC IR #8, Energy Probe IR #8, Energy Probe #14, VECC #8 – Transportation Equipment and Depreciation

London Hydro indicates that it is purchasing eleven pre-owned vehicles, which it states are buy-outs of previously leased low-mileage and low-usage vehicles.

a) Please indicate how London Hydro accounted for depreciation of these vehicles under lease.

b) Please indicate the average remaining expected life of these vehicles, and how London Hydro will handle depreciation of these vehicles for their expected remaining economic lives.

Operating Revenues

104. Ref: Exhibit 3 / p. 24, Board staff IR #14 d) – Revenue Offsets

In its response to Board staff interrogatory # 14 (d) London Hydro stated that the interest on Retail Settlement Variance Accounts (RSVA) was recorded in account 4405 in accordance with the Board's accounting guidelines specified in Article 490 of the Accounting Procedures Handbook. London Hydro further stated that its RSVA balances are in a significant credit position, therefore the entry to the RSVA accounts is a credit, and a debit to account 4405. London Hydro previously showed a negative balance of $19,000 in the deferral and variance accounts portion of account 4405. London Hydro then revised the amount to exclude the interest on the Smart Meter deferral and variance accounts, which has been incorrectly incorporated into the forecast of 2009 interest in account 4405, to negative $350,000.

a) Please provide a detailed breakdown providing the specific deferral and variance accounts and interest amounts that relate to the $350,000 interest expense recorded in account 4405.
b) Please explain why London Hydro does not separate the interest revenue from interest expense for deferral and variance accounts using both account 4405 and account 6035, respectively. Please provide a breakdown of the interest carrying charges by each of these accounts.
c) The interest associated with deferral and variance accounts remains and forms part of these account balances until they are disposed of in rates through the regulatory asset rate rider process. Why is London Hydro including the interest income and / or expense (recorded in accounts 4405 and 6035) related to deferral and variance account balances in the revenue offsets, given that these interest amounts will be included in rates through a "regulatory asset" rate rider? Please adjust the evidence to exclude interest related to deferral and variance accounts in the revenue offset.

105. Ref: Exhibit 3 / p.29, Board staff IR # 14 b) – Occupancy Charges

London Hydro stated in its response to Board staff interrogatory # 14 (b) that in developing the initial forecasts for revenues from occupancy charges for the 2009 test year the amount of $660,000 was developed in reference to the bridge year amount actual dollars of $663,000. London Hydro further stated that multiplying the quantities times the rate will produce revenue of $675,000.

a) Please confirm that $675,000 is the correct amount for the 2009 test year.
b) Based on London Hydro's response to IR 14 (b) Board staff has applied the methodology of multiplying the quantities times the rate to re-calculate occupancy charges for the years 2006 actual, 2007 actual, 2008 bridge

and 2009 test, see table below. Please reconcile the different amounts in revenues for occupancy charges for those years.

4235 - Miscellaneous Service Revenues	Rate	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Volumes					
TOU Meter Charges	$ 5.50	5,268	6,220	6,309	6,600
Occupancy Charges	$ 30.00	26,332	22,589	22,513	22,500
Arrears Certificates	$ 15.00	2,942	3,034	2,867	2,867
Temporary service - install and remove overhead no transformer	$ 500.00	39	26	37	38
Temporary service - install and remove underground no transformer	$ 300.00	15	17	19	20
Revenues					
TOU Meter Charges		$ 28,974	$ 34,210	$ 34,700	$ 36,300
Occupancy Charges		$ 789,960	$ 677,670	$ 675,390	$ 675,000
Arrears Certificates		$ 44,130	$ 45,510	$ 43,005	$ 43,005
Temporary service - install and remove overhead no transformer		$ 19,500	$ 13,000	$ 18,500	$ 19,000
Temporary service - install and remove underground no transformer		$ 4,500	$ 5,100	$ 5,700	$ 6,000

OM&A

106. Ref: Board staff IR #28 – Training Costs

In the response to Board staff IR #28, London Hydro explained that $80,000 of the $198,000 increase in corporate training costs between 2007 actual and 2009 test year is due to the apprenticeship program (for 16 staff at $5,000 each). Please provide further explanation of the remaining increase in training costs of $118,000.

107. Ref: Board staff IR #31 and SEC IR #31 – Regulatory Expenses and CDM

a) In explaining the cost components charged to the Regulatory Expenses Account (OM&A account 5655), London Hydro responds that 2007 actuals of $537,901 includes $142,000 for a one-time write-off of CDM program costs that will not be recovered. Please explain why the write-off was charged to the Regulatory Expenses account, and whether any consideration was given to the impact this treatment would have on year-over-year comparisons.

b) Please also explain how these program costs differ from the CDM 3rd tranche spending of $172,154 in 2007 indicated in the response to SEC IR #31.

108. Ref: CCC IR #15 – Bad Debt Expenses

It appears that no bad debt expense costs are allocated to the Water Billing Service charged to the City of London.

a) Please confirm that no bad debt related to water services is charged to City of London.

b) When both electric and water payments appear on a customer's bill, please explain the basis used to split any unpaid (bad receivables) balances between electricity and water accounting records.

Cost of Capital

109. Ref: Exhibit 6, LPMA IR #30, Board letter of February 24, 2009 (attached) – Cost of Capital

In its response to LPMA IR #30, London Hydro states that its deemed long-term debt amount is $126 million, and that it expects that actual debt of $70 million will attract the embedded or actual debt rate of 6.0%, while $56 million of "unfounded long term debt" will attract the deemed rate of 7.62%. This appears to alter London Hydro's original application in Exhibit 6, in which there is no discussion of unfounded long-term debt or its treatment for rate-setting.

a) Please explain what is meant by "unfunded long term debt".

b) In the Board's Decision and Order for Hydro One Remote Communities Inc.'s 2009 distribution rates, the Board's findings are as follows:

> The Board finds that it is not appropriate to apply the Board's deemed long-term debt rate to the notional or deemed long-term debt. The two are quite separate concepts. The

> deemed long-term debt rate is intended to apply in the absence of an appropriate market determined cost of debt, such as affiliate and variable rate debt situations. For companies with embedded debt, it is the cost of this embedded debt which should be applied to any additional notional (or deemed) debt that is required to balance the capital structure.
>
> Remote's cost of capital will be adjusted to use its weighted average cost of embedded debt (5.60%) for purposes of determining the cost to be applied to the notional or deemed long-term debt. This is consistent with the treatment given to other LDCs that have undergone rebasing in 2008 and 2009.[1]

In light of the Board's findings in this recent decision and the Board's approach in general, please explain why London Hydro expects that the current debt rate of 7.62% should apply to the unfounded long-term debt of $56 million.

c) Please provide the following table on London Hydro's proposed capitalization and Cost of Capital reflecting Exhibit 6 of its Application and updated, as applicable, to reflect the updated Cost of Capital parameters as announced in the Board's letter of February 24, 2009:

London Hydro's 2009 Test Year Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Application			
		(%)	($)	(%)	($)
	Debt				
1	Long-term Debt	0.00 %	$0	0.00%	$0
2	Short-term Debt	0.00 %	$0	0.00%	$0
3	Total Debt	0.00 %	$0	0.00%	$0
	Equity				
4	Common Equity	40.00 %	$0	0.00%	$0
5	Preferred Shares	0.00 %	-	0.00%	-
6	Total Equity	40.00 %	$0	0.00%	$0
7	Total	100 %	$0	0.00%	$0

[1] Ontario Energy Board, Decision with Reasons EB-2008-0232, April 30, 2009, p. 11.

Deferral and Variance Accounts

110. Ref: Board staff IR #36 – Appendix, Board staff IR #37 c) – Appendix

The continuity table provided in response to Board staff IR #36 b) does not include data for the deferral accounts and variance accounts listed in the top half of the table. Some of those accounts are amongst those for which London Hydro has requested disposition of the account balances, including accounts 1508 and 1525. Other accounts, such as account 1548, would affect rate riders in other scenarios, as shown in the response to Board staff IR #37 c). Please provide a complete continuity table, filling in the entries that are blank in the response to Board staff IR #36 b) but that are non-zero in the response to Board staff IR #37 c) (p. 215 of 221).

111. Ref: Board staff IR #36 – Appendix

Please identify the interest rate(s) used to calculate the interest on deferral account balances for 2006 (p. 2, third column from right), and in 2007 (p. 3, second column from right) as shown in the Regulatory Assets Continuity Schedule.

Cost Allocation

112. Reference: VECC IR #24 b)

Please file the following worksheets for the run of the cost allocation model that was filed in response to VECC IR # 24 b):

a) worksheet I3 ‘Trial Balance Data’ (first page only, showing step 7); and

b) worksheet I6 ‘Customer Data’.

113. Reference: Board staff IR #43 a), VECC IR #24 b)

The table provided in response to Board staff # 43 b) shows how London Hydro corrected the treatment of revenue from the Standby Power class in two ways from the initial Informational Filing:

- it added revenue of $339,049 (column 11 of the table), and

- it decreased the forecast revenue offset by $247,191 (distributed across classes in row 4 of the table).

These two adjustments differ by $91,859, which shows up as the discrepancy in the revised cost allocation results filed in response to VECC IR #24 (row “Existing Revenue minus Allocated Costs”). Board staff notes that the discrepancy is nearly equal to the amount of the Transformer Ownership Allowance (“TOA”) for this class ($92,880 in 2009) shown in the response to VECC IR #10.

a) Given that the revenue for each class is net of TOA in the response to VECC #24, please re-examine the Standby Power revenue of $339,049, and determine if it should be decreased for TOA.

b) If necessary, provide a revised calculation of the revenue-to-cost ratio.

114. Ref: Exhibit 8 / Table 4 and VECC IR #24 – Appendix

London Hydro’s proposed revenue to cost ratios for 2009 and beyond are found at Exhibit 8 / p. 4 (Table 4). The proposed ratio for Standby Power appears to be based on the status quo ratio of 84.8%. The adjusted ratio in the response to VECC #24 is 108.7%.

a) Does London Hydro propose a different ratio for Standby Power, in light of the VECC result and/or any further calculation in part b) of the previous interrogatory?

b) Given that the Board has found in several previous 2009 Decisions[2] that the modified cost allocation requested by VECC provides a valid starting point for revenue re-balancing, does London Hydro propose revenue to cost ratios different from those found in Exhibit 8 for any or all classes?

[2] Decision and Order EB-2008-0238, Westario Power Inc., April 24, 2009, p. 27, Decision and Order EB-2008-0237, Niagara-on-the-Lake Hydro Inc., March 25, 2009, pp. 24-25.

Rate Design

115. Ref: Board staff IR #41 b)

The interrogatory notes that London Hydro's application has different Retail Transmission rates for interval-metered customers versus other customers in the GS 50 – 4999 kW class, and points out that the customers who have previously not had interval meters will soon have Smart Meters. In the interrogatory, as all customers in the GS 50 – 4999 kW are and will continue to be metered through interval or Smart Meters, Board staff was seeking information on whether London Hydro intends to bill customers at a higher rate upon having a Smart Meter installed, or if London Hydro intends on developing new blended or weighted average RTSRs for this customer class, and to provide the rationale for London Hydro's proposal. The response does not address the different RTSRs or any plans to blend the RTSR rates. Please provide a more complete response to part b) of the interrogatory.

London Hydro Inc.
EB-2008-0235

Board staff Supplemental Interrogatories
Attachment to Board staff IR #109

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Ontario

February 24, 2009

To: All Licensed Electricity Distributors
All Registered Intervenors in 2009 Cost of Service Applications

Re: Cost of Capital Parameter Updates for 2009 Cost of Service Applications

The Ontario Energy Board (the "Board") has determined the values for the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates for use in the 2009 rate year Cost of Service applications.

On December 20, 2006, following the consultative process conducted under Board Files EB-2006-0087/0088, the Board issued the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report documents the methodologies and formulae used to determine the Cost of Capital parameters: the Return on Equity ("ROE") and the deemed Long-Term and Short-Term debt rates (collectively, the "Cost of Capital parameters").

The methodologies documented in the Board Report stated that the updated parameters will be derived from *Consensus Forecasts* and Bank of Canada/Statistics Canada three (3) months ahead of the implementation date for the proposed rates. Therefore, the January 2009 data will be used for estimating the Cost of Capital parameters used for setting new distribution rates to be effective May 1, 2009.

The Board has applied the methodologies as documented in the Board Report to update the Cost of Capital parameters. The source for the Long-term Bond Yields – All Corporates, used in the calculation of the deemed long-term debt rate is TSX Inc. available to the Board on a subscription basis. The terms of the agreement preclude the Board from publishing the TSX Inc. data but permit it to be viewed in the Information Resource Centre (the "IRC") at the Board's offices during normal business hours.

The Board has determined the values for the updated Cost of Capital parameters, shown in the following table:

Parameter	**Value for 2009 Cost of Service Applications (assuming May 1, 2009 implementation date for rate changes)**
Return on Equity	8.01%
Long-Term Debt Rate	7.62%
Short-Term Debt Rate	1.33%

These values will be used in the Board decisions regarding approval of the rates for the 2009 electricity Cost of Service applications. A summary of the calculation of the ROE is provided in Appendix A.

In addition, the Board wishes to advise parties that it will be initiating a review of its current policy regarding the cost of capital. The Board considers that such a review is appropriate at this time. The Board will consider the appropriateness of the parameters in different economic and financial conditions and their impact on infrastructure investment. Details of this initiative will be announced in due course.

All queries on the cost of capital parameters should be directed to the Board's Market Operations hotline, at 416 440 7604 or market.operations@oeb.gov.on.ca .

Yours truly,

Original Signed By

Kirsten Walli
Board Secretary

Attachment

Appendix A
Summary of Return on Equity Calculation
For 2009 Cost of Service Electricity Distribution Rate Applications

Step		
1	Ten Year Government of Canada Bond Yield – end of April 2009 (*Consensus Forecasts*, January 2009)	2.7%
	Ten Year Government of Canada Bond Yield – end of January 2010 (*Consensus Forecasts*, January 2009)	3.1%
	Average of three- and twelve-month forecasts	2.9%
2	Add the average spread between 30-year and 10-year Government of Canada bonds for all business days in January 2009 as posted by the Bank of Canada	0.814%
3	Equals the forecasted yield on Long-term Government of Canada Bonds	3.714%

Per the mathematical formula documented in Appendix B of the Board Report:

4.	Updated ROE calculated as: 9.35% + (0.75 X (3.714% - 5.50%))	8.011%
5.	Maximum allowed ROE (rounded to two decimal places)	8.01%