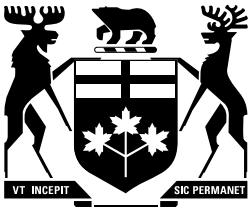

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

London Hydro Inc.

EB-2008-0235

June 24, 2009

INTRODUCTION

London Hydro Inc. ("London Hydro" or the "Applicant") is a licensed electricity distributor serving approximately 145,000 customers in the City of London, located in southwestern Ontario. London Hydro filed its 2009 rebasing application (the "Application") on December 8, 2008, and requested approval of its proposed distribution rates and other charges effective May 1, 2009; it also requested that its current rates be declared interim effective May 1, 2009 or, alternatively, that proposed distribution rates be declared interim effective September 1, 2009, if a decision and order was not made by that date. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers' Coalition ("VECC"), the School Energy Coalition ("SEC"), Energy Probe Research Foundation ("Energy Probe"), the London Property Management Association ("LPMA") and the Consumers Coalition of Canada ("CCC") were granted intervenor status.

The proceeding was conducted through written discovery, with two rounds of written interrogatories. Board staff notes that the Board, through Procedural Order No. 2 issued April 23, 2009, declared London Hydro's current approved distribution rates interim as of May 1, 2009.

Pursuant to Procedural Order No. 2, parties made submissions on June 2, 2009 on the need for an oral process. No party requested an oral process. The Board issued Procedural Order No. 3 on June 10, 2009, amending the submissions process. London Hydro filed its Argument-in-Chief ("AIC") on June 15, 2009.

This submission reflects observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses made by London Hydro, and are intended to assist the Board in evaluating London Hydro's application and in setting just and reasonable rates. Staff has determined that comments on the issue of Service Quality and Reliability are not necessary.

THE APPLICATION

In its original application[1], London Hydro requested a revenue requirement of $64,108,653, which represents an 18% increase over the 2006 Board approved amount

[1] Exhibit 1 / p. 27 and Exhibit 7 / p. 5

of $54,316,008. The proposed rates are set to recover a revenue deficiency of $7,943,577. The following is a breakdown of London Hydro's revenue requirement from its original application:

Revenue Requirement	2006 EDR	2009 Test	Variance
OM&A	$21,544,271	$28,219,400	31%
Amortization	12,135,496	15,919,000	31%
Return	14,682,576	15,681,425	7%
Low Voltage	0	0	
PILs / Capital Taxes (Grossed-up)	5,953,665	4,288,828	-28%
Transformer Allowance			
Smart Meters			
Service Revenue Requirement	$54,316,008	$64,108,653	18%
Revenue Offsets	-4,090,796	-3,707,148	-9%
Base Revenue Requirement	$50,225,212	$60,401,505	20%

London Hydro has calculated the following bill impacts if the application is approved as originally filed[2]:

	Delivery (%)	Delivery ($)	Total Bill (%)
Res @ 1,000 kWh	13.1	4.55	4.1
GS<50kW @ 2,000 kWh	8.0	5.60	2.5

In its AIC, London Hydro proposed a reduction to its revenue requirement, to $60,201,330, reflecting largely adjustments to rate base, operating expenses, PILs and Cost of Capital.[3]

London Hydro notes that it delayed filing its application until December 2008. As a result of its application, London Hydro notes that the effective date of new rates may be September 1, 2009. In its AIC, London Hydro states that it "… is not seeking recovery of incremental revenue for the period of May 1, 2009 through August 31, 2009", and as a result will forego incremental revenue of $2,560,000.[4]

[2] Exhibit 9 / Appendix A / page 28

[3] AIC, pp. 21-22, para. 52

[4] AIC, p. 6, para. 13.

Issues Outstanding from Previous Board Decisions

For completeness, Board staff documents the following matter arising from a previous Board decision. In a previous decision of the Board (EB-2007-0677), London Hydro was authorized to establish deferral account 1508 – Other Regulatory Assets to track costs related to Earth Day 2007. The estimated costs were $250,000, but actual costs were $143,000. London Hydro states that it will not seek recovery of these costs in this or any future application.[5] Board staff takes no position on this matter.

LOAD FORECAST

Exhibit 3 of the Application discusses how the customer count and load forecast are developed. The kWh forecast and the kW forecast for appropriate classes is presented by customer class. Variance analyses are presented in support of the forecasts.

London Hydro's weather normalized load forecast is developed using a three-step process:

1. A total system-wide weather normalized energy forecast is developed using a multivariate regression model that incorporates historical load, weather, and economic data.
2. This energy forecast is adjusted by historical loss factors to derive the system-wide billed energy forecast.
3. The system-wide billed energy forecast is allocated by rate class using a forecast of customer numbers and historical usage per customer.

Staff provides a synopsis of London Hydro's methodology and forecasts, and any apparent issues, following.

Customer Forecast

Background

London Hydro is seeking Board approval for a test year customer forecast of 182,388 customers. The test year forecast is approximately 3% higher (or 5,546 customers) than the 2007 actuals. The forecast is derived by applying the class specific historical annual growth rate from 1996 to 2007 as the growth rate for the bridge and test years, except GS > 50kW, Large User, and Cogeneration classes. For Large User and Cogeneration

[5] Exhibit 1 / page 30 / lines 23-30 and AIC, pp. 6-7, para. 13. Also, see responses to LPMA IR #2 and Board staff IR #107.

classes, London Hydro expects that there will be three customers in both of the classes in 2009. With respect to the GS > 50kW class, London Hydro calculated the growth rate as -1.49%; however London Hydro determined that the forecast for 2009 should remain at the 2007 level because of a high fluctuation in this class's growth rate from 1996 to 2007. Board staff analysed observed trends and historical customer levels to test the reasonableness of the proposed forecast.

Customer Count Forecast

2009 Test Year Customer Count Forecast (Ex 3/P 9)	
Rate Classes	No. of Customers
Residential	131,936
GS<50 kW	12,349
GS>50 kW	1,595
Large User	3
Cogeneration	3
Street Lights	34,187
Sentinel Lights	734
Unmetered Load	1,581
TOTAL	**182,388**

Discussion and Submission

London Hydro's forecast shows a 1.6% annual average growth in customer forecast from the 2007 Actual to the 2009 Test Year. This is slightly higher than the 1.4% average annual customer growth experienced during the 2003 to 2007 period; but Board staff submits that the forecasted growth in customer numbers is reasonable when compared with the historical growth rate.

Load Forecast

Background

London Hydro is seeking Board approval for a test year forecast of 3,431,680,137 kWh. This represents a 1.3% increase from 2007 actuals.

To develop its load forecast, London Hydro used a multivariate regression model to determine the relationship between historical system load purchases with weather data, calendar factors, and socio-economic data. London Hydro presented the comparison of the results of the model with actual system load purchases for the period from 1996 to

2007.[6] This evidence indicates that the percentage difference between the model estimate and actual load ranged from -1.10% to 1.39% over the regression range.

The following were used as the inputs for the model to generate the weather-normalized system purchases load forecast for the Bridge (2008) and Test years (2009):

- Average monthly Heating Degree Days ("HDD") and Cooling Degree Days ("CDD") from 1996 to 2007 as measured at the Environment Canada, London A weather station and London CS weather station;
- Ontario Real GDP monthly index, based on the Toronto Hydro Electric System Ltd. 2008 distribution rate application (EB-2007-0680); and
- Number of days in the month, number of peak hours and a spring/fall flag (binary variable).

London Hydro made a further adjustment to convert from system purchases load forecast to total billed load forecast by using an average of historical annual loss factors. In response to an interrogatory[7], London Hydro stated that the approach of using system purchases is reasonable. Since London Hydro knows monthly kWhs purchased from IESO and other generators for use by its customers, it could ensure that the regression analysis would be directly related to other monthly variables such as HDD and CDD. Customer class-specific forecasts were derived by allocating the share of each rate class to total billed forecast, exclusive of distribution losses. The class-specific forecasts are summarized in the following table:

Load Forecast[8]

Rate Class	(kWh)
Residential	1,091,392,572
GS<50 kW	422,161,110
GS>50 kW	1,651,046,316
Large User	200,485,379
Cogeneration	36,489,491
Streetlights	23,921,899
Sentinel Lights	856,841
Unmetered Load	5,326,529

In its AIC, London Hydro states that updated 2009 load forecasts, as documented in responses to interrogatories from VECC, will be used.[9]

[6] Exhibit 3 / page 13 / Table 7

[7] Response to LPMA IR #15 c)

[8] Response to VECC IR #15 d)

Discussion and Submission

London Hydro's load forecast shows a 0.7% annual average kWh load growth from the 2007 Actual to the 2009 Test Year Normalized, compared to an average annual kWh load growth of 1.1% during the 2003 to 2007 period. London Hydro states that its forecast reflects the impacts of CDM program for its Residential class on the basis that most of its CDM programs have been targeted to the Residential class.[10] Board staff considers London Hydro's explanation of reduced forecasted kWh growth is consistent with the usage reduction in residential class[11], and may also be reasonable in light of current macroeconomic conditions.

Board staff takes no issue with the adjustments proposed by London Hydro in the AIC pursuant to certain interrogatory responses.

Weather Normalization

Background

London Hydro's load forecast is normalized for weather. The normalized weather forecast is based on average monthly HDD and CDD for the period from 1996 to 2007. To test the appropriateness of the 10-year average weather normal method, Board staff compared the accuracy of forecasts based on the proposed method with those based on the 20-year trend method, which is the current Board approved method for determining the weather normal forecast for the large natural gas utilities.

Discussion and Submission

In its response to a Board staff interrogatory[12], London Hydro calculated its forecast using a trend of monthly HDD and CDD from 1988 to 2007. Board staff notes that a load forecast developed using the 20-year trend weather normalization method would increase the proposed forecast by 0.3%.

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[9] AIC, p. 10, para. 27 to p. 11, para. 28
[10] Exhibit 3 / p. 18
[11] Exhibit 3 / p. 18 / Table 13
[12] Response to Board staff IR # 10

OPERATIONS, MAINTENANCE AND ADMINISTRATION

Background

For the 2009 Test year, London Hydro is requesting approval of $28,151,763 in OM&A expenses, excluding income and capital taxes, donations and amortization expenses (see table below).[13] This represents an increase of 11.9% over London Hydro's 2007 actuals and a 20.2% increase over its 2006 actuals. London Hydro's 2009 Test Year OM&A represents a 7.2% decrease from 2008 Bridge year. The following table summarizes London Hydro's OM&A expenses by year:

	Summary of OM&A *	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
1	Operation	$5,460,125	$5,686,720	$6,465,055	$6,870,259	$7,180,864
2	Maintenance	$5,279,935	$5,448,857	$5,779,162	$6,068,492	$6,323,653
3	Billing and Collection	$3,290,054	$3,763,129	$3,815,883	$4,052,567	$4,392,700
4	Community Relations	$105,686	$357,778	$380,305	$295,558	$316,579
5	Administrative and General Expenses	$7,358,471	$8,159,437	$8,724,001	$8,983,591	$9,937,967
6	**Total**	**$ 21,494,271**	**$ 23,415,921**	**$ 25,164,406**	**$ 26,270,467**	**$ 28,151,763**
7	**year on year increase**			$ 1,748,485	$ 1,106,061	$ 1,881,296
8	**year on year % increase**			7.5%	4.4%	7.2%
9	**% increase 2006 to 2009**					20.2%
10	**% increase 2007 to 2009**					11.9%
12	* Note: 2006 and 2007 OM&A adjusted for CDM 3rd Tranche spending of $1,783,156 and $172,154 respectively. Amounts for all years exclude charitable donations (bill payment assitance) of $50,000.					

Discussion and Submission

Over the 2003 to 2007 period, London Hydro's OM&A actual expenses, as confirmed in the response to Board staff IR #15, increased by approximately 4.45% annually. Applying an annual increase of about 4.45 % to the 2007 actual would indicate a 2009 OM&A Budget of about $27,480,000; this is about $670,000 less than what is requested.

Over the 2007 to 2009 period, the average annual increase is about 5.8%. This is significantly higher than the approximate 1.5% average annual increase in the number of residential and general service customers over the same period. Assuming an inflation rate, including salary/wage increases, of 3%, London Hydro's OM&A increased by about

[13] At Exhibit 4 / page 2 / Table 1 in the original application, dated December 5, 2008, London Hydro's 2009 Test Year OM&A totalled $28,169,400. In its AIC, it reduced its Total 2009 OM&A by a net $17,637. This results in an updated total of $ 28,151,763. London Hydro reduced its provision for regulatory costs associated with this application, due to the elimination of a technical conference and oral hearing being replaced by a second round of interrogatories and fully written process.

1.3% annually over what would be expected from the impact of customer additions. Adjusting for this would also reduce London's 2009 OM&A by about $670,000.

In addition to providing an OM&A summary by function and service, London Hydro also broke out its OM&A into major cost categories, as presented in the table below.

OM&A by Expense Category				
	2006 actual	**2007 actual**	**2008 Bridge**	**2009 Test**
labour and benefits	$ 16,703,490	$17,824,703	$18,274,050	$19,393,700
purchased services	$ 3,559,303	$3,793,126	$4,161,600	$4,342,000
materials and supplies	$ 956,963	$994,275	$1,041,050	$1,074,500
bad debts	$ 545,728	$534,840	$525,000	$535,000
property tax & insurance	$ 1,157,996	$1,114,952	$1,151,800	$1,222,000
facilities maintenance and repair	$ 1,369,441	$1,438,224	$1,545,000	$1,531,800
office equipment services & maintance	$ 943,689	$944,722	$1,029,400	$1,324,000
postage	$ 877,051	$893,672	$925,000	$975,000
fleet operations& maintenance	$ 909,942	$934,822	$1,057,400	$1,079,800
corporate training & employee expenses	$ 585,182	$691,740	$813,800	$932,900
rental, regulatory and other	$ 860,877	$1,044,718	$937,067	$1,005,763
studies and special projects	$ 85,776	$184,344	$93,500	$109,000
allocations to capital, billable & other	($1,516,232)	($1,586,844)	($1,679,200)	($1,715,700)
cost recoveries	($3,623,284)	($3,642,889)	($3,605,000)	($3,658,000)
TOTAL	$ 23,415,922	$25,164,405	$26,270,467	$28,151,763

Source: Exhibit 4 / p.9 / Table 7(and adjusted per AIC, p. 14, paras. 33-34)

Based on this information, Board staff has prepared the following summary, quantifying increases/decreases that are incremental to the impact of inflation (assumed to average 3% per year). Excluding inflation, OM&A increased by 4.5 % between 2006 actual and 2007 actual, by 1.4 % between 2007 actual and 2008 Bridge and by 4.2 % between 2008 Bridge and 2009 Test Year. The impact by cost component is presented in the table below.

Summary of Major Increases (Decreases) in OM&A

		2007 vs 2006		2008 vs 2007		2009 vs 2008	
	Major components of Increase/	**$ 1,748,483**	**%**	**$ 1,106,062**	**%**	**$ 1,881,296**	**%**
a	assumed inflation @ 3% on all expense items incl. labour/benefits	$ 702,478	3.0%	$ 754,932	3.0%	$ 788,114	3.0%
b	labour and benefits	$ 620,108	3.7%	$ (85,394)	-0.5%	$ 571,429	3.1%
c	purchased services	$ 127,044	3.6%	$ 254,680	6.7%	$ 55,552	1.3%
d	materials and supplies	$ 8,603	0.9%	$ 16,947	1.7%	$ 2,219	0.2%
e	bad debts	$ (27,260)	-5.0%	$ (25,885)	-4.8%	$ (5,750)	-1.1%
f	property tax & insurance	$ (77,784)	-6.7%	$ 3,399	0.3%	$ 35,646	3.1%
g	facilities maintenance and repair	$ 27,700	2.0%	$ 63,629	4.4%	$ (59,550)	-3.9%
h	office equipment services & maintance	$ (27,278)	-2.9%	$ 56,336	6.0%	$ 263,718	25.6%
i	postage	$ (9,691)	-1.1%	$ 4,518	0.5%	$ 22,250	2.4%
j	fleet operations& maintenance	$ (2,418)	-0.3%	$ 94,533	10.1%	$ (9,322)	-0.9%
k	corporate training & employee expenses	$ 89,003	15.2%	$ 101,308	14.6%	$ 94,686	11.6%
l	rental, regulatory and other	$ 158,015	18.4%	$ (138,993)	-13.3%	$ 40,584	4.3%
m	studies and special projects	$ 95,995	111.9%	$ (96,374)	-52.3%	$ 12,695	13.6%
o	allocations to capital, billable & other	$ (25,125)	1.7%	$ (44,751)	2.8%	$ 13,876	-0.8%
p	cost recoveries	$ 89,094	-2.5%	$ 147,176	-4.0%	$ 55,150	-1.5%
	TOTAL	$ 1,748,483	7.5%	$ 1,106,062	4.4%	$ 1,881,296	7.2%

For 2007 and 2009 Salaries, Wages and Benefits costs are the most significant contributor to the overall increase in OM&A.

Inflation

London Hydro indicated that its 2009 O&MA reflects inflationary impacts of 3.25 % on labour/wage costs. London Hydro noted that it did not use a CPI forecast for development of 2009 Test Year, but instead used more detailed and category-specific cost increase factors. For material and supplies, these ranged from 3% to 12%, depending on the commodity and the supplier.[14] London Hydro did not provide a single number that, in aggregate, quantifies the impact of wage increases and inflation on its 2009 OM&A.

In response to VECC supplementary IR # 47, London Hydro indicated that applying a 2009 inflation rate of 2.3% would reduce the proposed 2009 OM&A, excluding labour and benefits, by $563,000. Board staff's analysis suggests that this appears to capture the difference between the 2009 Test Year, as proposed, and 2008 Bridge Year amount increased by 2.3% inflation. This approach assumes that inflation would be the sole determinant of the increase between 2008 Bridge and 2009 Test Years.

[14] Responses to Board staff IR # 16 and LPMA IR #35.

London Hydro also indicated, in response to LMPA IR #35, that the Ontario CPI for 2008 was 2.5%. This would suggest that the 3% to 12% range of cost increase factors used for the 2009 forecast may tend to over-estimate inflationary increases in materials and costs, particularly in aggregate. In such case, some reduction in 2009 OM&A may be warranted.

Labour and Benefits Costs

Net of inflation, Labour and Benefits expenses increase by $1.14 million, or 6.7%, between 2006 actuals and the 2009 Test Year. During this period, the number of Fulltime Equivalent employees ("FTEs") increased by 19.4 (7.4% of London Hydro's workforce), as documented in the table below.. Of the 19.4 FTEs, about half are related to London Hydro's succession/apprenticeship plan.[15] Adjusting for these 10 FTEs, the increase from 2006 to 2009 is about 3.6%; this is consistent with customer growth.

Employees (FTE)	**2006**	**2007**	**2008**	**2009**
Executive	5	5	5	5
Directors	7	8	8.8	9
Management	32.9	31.8	31.2	34
Non-Union	38	42.4	46.7	45.5
Union	167.2	160	156.7	165.6
Union PT	9.5	15.8	18.9	19.9
TOTAL	**259.6**	**263**	**267.3**	**279**

Source: Exhibit 4 (updated) / p. 46 / Table 17

Office Equipment, Services and Maintenance

Net of inflation, London Hydro's expenditures on office equipment, services and maintenance increased annually by 6% in 2008, and a further 25.5% in 2009 (increases of $56,000 and $263,000, respectively). London Hydro explained these increases as being largely due to increased hardware and software maintenance costs, associated with a new Customer Information System ("CIS") and other improvements.[16] In response to Board staff IR # 18, London Hydro indicated that the new CIS system is expected to allow efficiency improvements that, over time, may reduce staffing level requirements. In that 2009 establishes the base rates going into three years of rate adjustments under 3rd generation IRM, Board staff submits that London Hydro's 2009 OM&A should be reduced by an amount reflecting the average annual efficiencies that it expects to realize over the

[15] See Exhibit 4 p.11 lines 8-11.

[16] Source: Exhibit 4 pp.41-42

four year period by these investments for which ratepayers will pay through rates. If not, for the period 2009 to 2012, the customers will pay for but not financially benefit from the resulting efficiencies.

Corporate Training and Employee Expenses

Net of inflation, London Hydro's Corporate Training and Employee Expenses increased annually by 15.2% in 2007, 14.6% in 2008 and 11.6% in 2009 ($89,000, $101,000 and $94,000, respectively). This increase is attributed to the apprenticeship and other development programs. Based on London Hydro's responses to interrogatories,[17] about $80,000 of the increase between 2007 and 2009 is related to the apprenticeship program (16 staff at $5,000 each) and the balance of $115,000 is for professional development and supervisory training programs. Board staff submits that this increase of $115,000, which is over and above that incurred in 2007 for the development and training of management and supervisory staff, could be cut back to mitigate the overall increase in OM&A.

Cost Recoveries

The level of cost recovery is largely constant at $3,642,000 in 2007, $3,605,000 in 2008 and $3,658,000 in 2009. London Hydro provided a detailed break-out of cost recovery components in the response to Board staff IR # 32. Board staff submits that, at least directionally and all other things being equal, the level of Cost Recovery should correspond (increase) with at least the rate of inflation. This would result in an increase of $220,000 to the Cost Recovery budget estimate for 2009.

Regulatory Costs and IFRS

In response to Board staff IR # 33, London Hydro indicated that, while the 2009 budget (in account 5630) contains $25,000 for IFRS-related costs, it appears that London Hydro may actually incur costs between $50,000 to $75,000. In response to SEC supplementary IR # 22, London Hydro confirmed that it is not updating its 2009 revenue requirement from the $25,000 proposed.

[17] Responses to Board staff IR #28 and Board staff supplementary IR #106

Depreciation

Background

In Exhibit 4 / pages 69-74, London Hydro has documented its depreciation expenses and depreciation rates. Further, it has documented deviations, with explanations, from the depreciation/amortization rates documented in Appendix B of the *2006 Electricity Distribution Rate Handbook*.

In response to Board staff supplemental IR #102, London Hydro states that it adds assets to rate base and starts booking depreciation expense when the assets actually enter service.

Discussion and Submission

London Hydro's approach of adding assets to rate base, and starting depreciation when the assets go into service, is different than that employed for most distributors whereby assets that go into service in a year are assumed to go in using a ½ year rule. London Hydro's approach is more exacting as it differentiates between assets entering service in February in contrast to those that enter service later in the year, say July or October. The standard ½ year approach used by most other distributors assumes that assets, on average, enter service mid-year.

London Hydro's approach is more accurate, and requires more book-keeping, but does not, in Board staff's submission, result in a material difference from the standard Board approach. Board staff submits that London Hydro's explanations of its deviations from Appendix B of the 2006 EDRH are reasonable and would not result in any material difference. Board staff is satisfied that London Hydro has correctly applied its amortization/depreciation policies in the calculation of depreciation expense and accumulated depreciation expense in this application. As such, Board staff takes no issue with London Hydro's methodology and determination of amortization/depreciation expense.

Payments in Lieu of Taxes ("PILs")

Background

London Hydro is requesting a PILs allowance of $4,288,828.[18] The amount represents a significant reduction ($1.64 million) or -27.7% compared to 2008 and historical actuals. London Hydro's proposed PILs allowance for 2009 is composed of $3,816,043 for combined Federal and Provincial Income Taxes (including gross-up) and $472,785 in Capital Taxes.

PILs Summary

Exhibit 4 / page 4 / Table 4

Table 4 - Summary of Income Taxes (PILs)

LCT, OCT and Income Taxes	2006 Board-approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Tax Rates					
Income Tax	36.12%	36.12%	36.12%	33.50%	33.00%
Large Corporations Tax	1.25%	0.00%	0.00%	0.00%	0.00%
Ontario Capital Tax	0.300%	0.300%	0.285%	0.225%	0.225%
Amount					
Income Tax	$ 5,254,243	$ 5,516,714	$ 5,405,477	$ 5,487,929	$ 3,816,043
Large Corporations Tax	$ 130,133	$ -	$ -	$ -	$ -
Ontario Capital Tax	$ 569,289	$ 583,885	$ 556,911	$ 442,724	$ 472,785
Taxes payable	$ 5,953,665	$ 6,100,599	$ 5,962,388	$ 5,930,653	$ 4,288,828
Year-over-year variance		$ 146,934	-$ 138,211	-$ 31,735	-$ 1,641,825
% Change		2.47%	-2.27%	-0.53%	-27.68%

The Applicant explains the reduction as being due to: tax rate reductions; increased deemed interest due to: deemed capital structure change; lower ROE; and the impacts of class 47 CCA deductions beginning in 2005.

With respect to 2009, London Hydro notes that significant non-recurring computer software additions being put in 2009, combined with the class 12 100% CCA deduction, would result in significant variances in regulatory PILs calculations from 2009 to 2012. London Hydro has proposed to address this by normalizing the 2009 PILs provision by reducing the class 12 CCA in 2009 from $6,739,874 to $1,684,969. The impact is thus amortized over four years (2009 rebasing and three years of 3rd-generation IRM).

[18] Exhibit 4 / page 4 and pages 79-84.

In its AIC, London Hydro provided updated calculation of PILs.[19] London Hydro has revised its proposed PILs to $3,969,317, composed of $3,496,538 grossed up Federal and Provincial Income Taxes and $472,779 Capital taxes. London Hydro has explained that the revisions to PILs reflect a correction to CCA of $12,097 (LPMA IR #43), and adjustments to Apprenticeship and Scientific Research tax credits (LPMA IR #59). Changes to net income due to cost of capital also factors into the revisions to PILs.

Discussion and Submission

With the exception of the proposed amortization of PILs related to the new CIS system, Board staff submits that London Hydro's proposed PILs methodology and estimate is reasonable and compliant with Board practice and policy.

For the new CIS system, London Hydro has proposed an approach that would "amortize" or average the PILs allowance for 2009 and over the next few years of IRM.[20] This would be done by using a proxy capital cost allowance in 2009, equal to 1/4 of the overall amount. London Hydro's use of a lower CCA than actual would result in a PILs allowance that is higher than what it may pay to the Ministry of Finance in 2009; however, in 2010 and later, when the accelerated CCA would be used up, London Hydro would pay higher PILs than the amount embedded in the rebased rates and adjusted by the IRM formula. Over the IRM plan term, the "averaging" may result in PILs paid in aggregate being close to what is factored in rates, assuming no material changes in tax law or tax rates.

With respect to taxes and PILs, Board staff observes that London Hydro's proposed treatment is contrary to Board policy and practice. A utility is supposed to make its best estimate of its tax or PILs liability for the test year. For example, utilities that have a loss carry-forward that they intend on using in the test year to reduce taxes have this treatment applied in calculating their tax or PILs allowance that is recoverable in rates. In a subsequent year, if the loss carry-forward is no longer available to reduce tax liability and actual taxes or PILs would materially exceed the amount recoverable in rates, the utility can apply for new rates to reflect the changed tax situation.

Board staff notes that the Board has sometimes allowed the amortization of costs and even benefits of projects or one-time expenses, such as regulatory costs for Cost of

[19] AIC, p. 14, para. 35 to p. 16, para. 40 and p. 22, para. 53 and p. 23, Exhibit 4 – Table 37 Tax Calculations

[20] Exhibit 4 / pp.79-80

Service applications, over a period of time such as the length of the IRM term. However, Board staff submits that, to the best of its knowledge, this approach has not been used for calculating tax or PILs allowance; taxes or PILs in the test year are supposed to approximate, as closely as possible, the taxes or PILs that the utility will actually pay in the test year.

The recently-passed Federal Budget has provisions which impact on a corporation's tax liability for 2009. Specifically, capital expenditures for computer equipment, including related systems software, that have been recorded in Capital Cost Allowance ("CCA") Class 50 have been eligible for amortization at a 55% declining balance, after applying the half-year rule to the current year's expenditures. The Federal Budget provided that qualifying expenditures that meet the criteria for CCA Class 50 after January 27th 2009 but before February 2011 can be amortized at a rate of 100%, and there is no requirement to apply the half-year rule. Staff notes that London Hydro's new CIS system would probably not qualify – in large part – due to the timing of the system purchases. London Hydro should clarify if there are any amounts in its 2009 application for which the provisions of the 2009 Federal Budget would apply.

Board staff notes that other changes to London Hydro's revenue requirement are possible, due to the Board's decision on London Hydro's rate base, capital and operating expenditures. These changes also have a flow-through effect on the PILs allowance which should be recoverable in rates. London Hydro should flow through applicable changes in operating and capital costs, and update the PILs allowance to determine the revenue requirement and rates resulting from the Board's Decision.

RATE BASE

Background

London Hydro is requesting approval of $225.1 million for its 2009 rate base. This is an increase of $17.2 million (or 8.3%) from 2007 actuals and an increase of $20.5 million (10.0%) from 2006 actuals. London Hydro's historical and proposed rate bases are summarized in the following table[21]:

[21] Exhibit 2 / p.1 – Summary of Application

Summary of Rate Base

	2006 Board-approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Gross Fixed Assets (average)	$ 290,217,072	$ 300,641,289	$ 313,341,230	$ 328,916,491	$ 347,025,897
Accumulated Depreciation (average)	-$ 127,657,458	-$ 136,146,120	-$ 146,538,000	-$ 157,591,887	-$ 166,116,161
Net Fixed Assets (average)	**$ 162,559,614**	**$ 164,495,169**	**$ 166,803,230**	**$ 171,324,604**	**$ 180,909,736**
Allowance for Working Capital	$ 37,203,328	$ 40,133,253	$ 41,104,171	$ 40,441,617	$ 44,216,959
Rate Base	**$ 199,762,942**	**$ 204,628,422**	**$ 207,907,401**	**$ 211,766,221**	**$ 225,126,695**
Year over Year Variance		2.44%	1.60%	1.86%	6.31%

London Hydro has not included any smart meter spending in rate base.[22]

In its AIC, London Hydro has acknowledged a reduction in rate base to $225,124,049, corresponding to adjustments to distribution expenses which in turn affect the Working Capital Allowance ("WCA").[23]

Discussion and Submission

The following table summarizes capital additions to London Hydro's fixed assets from 2005 to the 2009 test year[24]:

	Summary of Capital Additions 2005 Actual – 2009 Test Year ($)					
	2005	**2006**	**2007**	**2008**	**2009**	**Total**
Distribution and General Plant	14,595,062	13,155,725	18,813,409	22,729,000	23,728,000	93,021,195
Computer Hardware and Software	2,300,313	2,560,385	3,116,498	948,378	10,046,905	18,972,479
Total Additions before Contributed Capital	16,895,375	15,716,110	21,929,906	23,677,378	33,774,905	111,993,674
Contributions and Grants	(2,772,280)	(2,233,198)	(3,325,389)	(3,145,119)	(3,202,900)	(14,678,886)
Total	**14,123,095**	**13,482,911**	**18,604,518**	**20,532,259**	**30,572,005**	**97,314,788**

In response to an interrogatory from LPMA[25], London Hydro provided the following reconciliation of fixed assets, capital additions and capital expenditures.

[22] Smart Metering is discussed elsewhere in this submission.

[23] AIC, p. 8, para. 18, p. 9, para. 22

[24] Exhibit 2 / p. 18

[25] Response to LPMA IR # 9

Reconciliation of London Hydro Fixed asset Additions to Actual Capital Spending:

	2005	2006	2007	2008 Forecast	2008 Actual	2009 Test
Fixed Asset Additions (incl. contrib. cap)	14,123,095	13,482,911	18,604,518	20,532,259	23,358,935	30,572,005
Add back: Contributed Capital	2,772,280	2,233,198	3,325,389	3,145,119	3,478,094	3,202,900
Fixed Asset Additions (excluding contributed capital)	16,895,375	15,716,110	21,929,906	23,677,378	26,837,029	33,774,905
Less: Change in WIP	(183,312)	1,316,412	3,088,662	3,399,622	1,472,131	(6,344,905)
Capital spending	16,712,063	17,032,522	25,018,568	27,077,000	28,309,160	27,430,000

Staff notes that the increase in London Hydro's rate base is due to various capital additions. London Hydro has documented, particularly in its Asset Management plan in Exhibit 2 / Appendix A, capital projects on its distribution network, and provided additional information on its capital projects in responses to numerous interrogatories from Board staff and intervenors.

Distribution network-related projects deal with both expansion of its network to meet customer growth as well as refurbishment and replacement of existing infrastructure; London Hydro has documented increases in fleet and facilities capex as well, with the CIS replacement being the largest single component for the increase. Board staff's comments on London Hydro capital expenditures and capital additions are made under Capital expenditures, and its observations on the proposed Working Capital Allowance are made later in this submission. Subject to Board staff's comments in following sections, Board staff takes no issue with London Hydro's proposed rate base.

Capital Expenditures

Background

Increases in capital expenditures in 2009 (and recent years) are largely due to the installation of a new CIS system as well as infrastructure-related projects such as rebuilding substations and refurbishing overhead systems, and the replacement of vehicles and major equipment. As previously noted, smart meter-related capital expenditures are treated separately from "distribution" capital expenditures.

London Hydro has provided a 3 year Gross Capital Expenditure Plan as part of its Asset Management Plan[26]. Board staff observes that the major increases in assets occur in

[26] Exhibit 2 / Appendix A / page 133

2008 and 2009. 2009 planned capital expenditures are also higher than projected 2010 and 2011 forecasts by $2 million and $3 million respectively. This is shown in the following table.

3 Year Gross Capital Expenditure Plan **Exhibit 2 / Appendix A / page 133**

	2008 Budget	2008 Projected	2009 Budget	2010 Budget	2011 Budget	Total
Substation Rebuilds - A	$ 2,140,000	$ 2,140,000	$ 3,110,000	$ 500,000	$ 500,000	*$ 4,110,000*
Substation Rebuilds - B	$ 2,300,000	$ 2,300,000	$ 1,825,000	$ 2,500,000	$ 2,500,000	*$ 6,825,000*
Main Feeders - C	$ 4,100,000	$ 4,100,000	$ 1,050,000	$ 2,000,000	$ 1,000,000	*$ 4,050,000*
Projects Resulting from City Works - D	$ 1,000,000	$ 1,000,000	$ 750,000	$ 1,000,000	$ 1,000,000	*$ 2,750,000*
Projects Resulting from Developer Works - E	$ 5,690,000	$ 5,690,000	$ 7,900,000	$ 5,600,000	$ 5,600,000	*$ 19,100,000*
Networks - F	$ 1,410,000	$ 1,410,000	$ 1,250,000	$ 2,000,000	$ 2,000,000	*$ 5,250,000*
Overhead Line Works - G	$ 2,700,000	$ 2,700,000	$ 3,455,000	$ 3,500,000	$ 3,500,000	*$ 10,455,000*
Automation - H	$ 450,000	$ 450,000	$ 610,000	$ 400,000	$ 400,000	*$ 1,410,000*
Total Projected Capital spending	***$ 19,790,000***	***$ 19,790,000***	***$ 19,950,000***	***$ 17,500,000***	***$ 16,500,000***	**$ 53,950,000**
Total Engineered Projects	$ 13,100,000	$ 13,100,000	$ 11,300,000	$ 10,900,000	$ 9,900,000	$ 32,100,000

Discussion and Submission

Board staff submits that the following projects show a noted increase in capital expenditure for the 2009 test year. However, other than the following observations and comments, Board staff takes no issue with these expenditures.

Distribution and General Plant - Infrastructure

2009 capital expenditures include $11.3 million for distribution infrastructure-related projects. These projects are mainly for rebuilding substations and refurbishing overhead wiring. The major expenditure ($3.1 million) for rebuilding substations will be spent on the Nelson transformer station (9A1). This station and the associated distribution system supply load to the core area of the city and have been in service for many years. London Hydro is installing a backup substation in the downtown area[27], a project started in 2007 and expected to be in service in 2009.

Total expenditures for seven different overhead systems projects are about $3.5 million. These projects focus on replacement or refurbishment of poles, primary and secondary cables, and associated equipment that are assessed as being in poor condition.

[27] Exhibit 2 / p. 59

Distribution and General Plant - City and Developer Works

Total projected expenditure for city and developer works total $7.8 million. This amount is divided between five development driven projects and a road relocation project of the City of London for $459,000, net of projected cost recovery.[28]

Staff observed that London Hydro's total budget for projects resulting from Developer Works – E shows an increase of $2.2 million or 38% from the 2008 budget for a total of $7.9 million in the 2009 test year[29]. In response to Board staff IR #2, London Hydro explained that the increase for this project in 2009 is largely due to project 9E1 – Expansion and Relocation. This project consists of a 27.6 kV line extension to service new industrial development in London's "Innovation Park". The 27.6 kV line extensions represent expenditures of $2.3 million, out of the $2.8 million budget for the overall project[30]. Board staff makes no submission on the 2009 forecasted expenditures for this category of capital projects.

Computer Hardware and Software

London Hydro is implementing a new SAP-based Customer Information System, Geographic Information System, Document Management System, and an Enterprise Resource Planning system to replace London Hydro's seven year-old legacy system.

This new system is a multi-year project, started in 2007 and expected to go in service this year. The total cost from 2007 to 2009, entered as a capital addition to London Hydro's rate base in 2009, is $9.3 million. [31] In 2007 and 2008, capital expenditures were added to Work-in-Progress. This project is approximately 95% complete at this time and represents over 30% of London Hydro's capital budget for 2009.[32]

The proposed 2009 capital program cost for the new CIS system is $3,702,000, which is comprised of $1.04 for infrastructure and hardware related projects and $2.66 million for application development projects. This follows similar expenditures of close to $3 million per annum in 2007 and 2008 as the replacement system was being developed.

[28] Exhibit 2 / p. 59 and Exhibit 2, p. 56
[29] Exhibit 2 / Appendix A / page 133
[30] Responses to Board Staff IR #2 and Energy Probe IR #6
[31] Exhibit 2 / p. 18 and Response to LPMA IR # 9
[32] Response to LPMA IR # 12 c)

The total investment between 2004 and 2009 for hardware, software and application development will amount to $18.9 million. The new SAP CIS system was purchased as a complete integrated system, not a modular system[33].

London Hydro has provided detailed information through its Information Technology Strategy[34] and its responses to interrogatories posed by Board staff and intervenors.[35] Board staff notes that this new CIS system is a significant capital addition to London Hydro's rate base, but does not take issue with London Hydro's documentation on the need for, or its multi-year project management of, this project.

Fleet and Facilities Program

Staff observed that London Hydro's capital expenditure for its transportation equipment has increased by $1.5 million in the 2008 actual and $1.7 million for the 2009 test year, compared to 2007 actuals. London Hydro stated that the "time shift" of the replacement program for vehicles and major equipment is due to a change in evaluation criteria from a mileage-based system to a more stringent assessment of unit condition[36]. This resulted in extending the useful life and operations of vehicles, but, by 2008 and 2009, it was no longer deemed economical or safe to keep the older vehicles. London Hydro states that the replacement cycle has normalized within the new approach and a more cost effective program has evolved. London Hydro's spending for vehicles and major equipment is forecasted at $1.9 million in 2010 and $2 million in 2011.

London Hydro has documented that it is also proposing to purchase some vehicles at the end of lease. In response to Board staff supplementary IR #103, London Hydro noted that these are currently leased low-mileage and low-usage vehicles and the lease payments were expensed. With purchase of the vehicles, London Hydro will amortize the purchase price of these vehicles over the expected remaining life of five years. Board staff takes no issue with London Hydro's proposals in this category.

In its 2009 Asset Management Plan, London Hydro has included a budget of $1,130,000 for building and fixture improvements which include the following: replacement of the roof for its operations building roof; yard environmental protection projects; additional HVAC equipment; repaving of the lower operations yard due to deterioration; and the

[33] Response to VECC IR # 36
[34] Exhibit 2 / Appendix B
[35] Responses to Board Staff IR # 5, VECC IRs # 9 and 36, LPMA IR # 12, EP IR #2, CCC IRs # 6 and 7
[36] Response to Board staff IR # 101

refurbishment, including door, windows, curbing and asphalt of various substations.[37] Board staff takes no issues with London Hydro's proposals in this category.

Asset Management

Background

London Hydro has documented its Asset Management in Exhibit 2 / Appendix A. In addition, Exhibit 2 / Appendix B documents London Hydro's Information Technology Strategy. Given the significance of London Hydro's CIS in its 2009 capital additions in this application, the IT strategy is a significant component of London Hydro's asset management approach.

The documents provided in Exhibit 2, Appendices A and B, serve as extensive documentation of London Hydro's capital projects in recent years and for the 2009 test year. In addition, the Asset Management report also provides medium-term forecasts of London Hydro's forecasted distribution capital budget for five years from 2008 to 2012.

Discussion and Submission

Board staff submits that London Hydro's Asset Management approach is appropriate, given the size of the utility, its operating environment, and challenges and opportunities it faces to operate and maintain its system to deliver electricity safely and reliably to customers while also accommodating growth in residential and commercial/industrial customers.

Working Capital Allowance

London Hydro has used 15% of OM&A and cost of power in the calculation of working capital. No lead/lag study was provided. London Hydro has requested a working capital allowance of $44.2 million for the 2009 test year. Working capital has increased by approximately 3.3% annually from 2006 actual to 2009. The largest increase occurred in 2009 (9.3%) which correlates to the large increase in OM&A during that time period. London Hydro provided the following summary of its WCA in its application[38]:

[37] Exhibit 2 / Appendix A / p. 208

[38] Exhibit 2 / page 2

Working Capital Allowance

	2006 Board-approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Controllable Expenses					
Operation	$ 5,460,125	$ 5,686,720	$ 6,465,055	$ 6,870,259	$ 7,180,864
Maintenance	$ 5,279,935	$ 5,448,857	$ 5,779,162	$ 6,068,492	$ 6,323,653
Billing and Collections	$ 3,881,150	$ 4,308,856	$ 4,350,723	$ 4,577,567	$ 4,927,700
Community Relations	$ 105,666	$ 357,778	$ 380,305	$ 295,558	$ 316,579
Administrative and General Expenses	$ 6,767,375	$ 7,613,711	$ 8,189,160	$ 8,458,591	$ 9,420,604
Sub-total	$ 21,494,251	$ 23,415,922	$ 25,164,405	$ 26,270,467	$ 28,169,400
Donations	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Total Controllable Expenses	$ 21,544,251	$ 23,465,922	$ 25,214,405	$ 26,320,467	$ 28,219,400
Cost of Power (COP)	$ 226,477,918	$ 244,089,097	$ 248,813,404	$ 243,290,310	$ 266,560,324
Working Capital Base	$ 248,022,169	$ 267,555,019	$ 274,027,809	$ 269,610,777	$ 294,779,724
Working Capital Allowance (15% of Working Capital Base)	$ 37,203,325	$ 40,133,253	$ 41,104,171	$ 40,441,617	$ 44,216,959
Annual Percentage Increase		7.88%	2.42%	-1.61%	9.34%
Percentage increase 2009 over 2006 actual					10.18%

In its AIC, London Hydro notes that the 2009 proposed WCA is reduced by $2,646 to $44,214,313, as a result of a reduction in its proposed controllable distribution expenses of $17,637.[39]

Discussion and Submission

Board staff takes no issue with London Hydro's methodology for calculating the WCA. However, Board staff submits that London Hydro should update the WCA in determining the revenue requirement and associated distribution rates to recover it in preparing its draft Rate Order, to reflect any changes in controllable expenses of load forecasts a determined by the Board in its Decision. In updating the WCA, London Hydro should reflect the most current estimate of the RPP commodity price of $0.06072/kWh, from the Board RPP Report of April 15, 2009, as well as current retail transmission prices. Further, London Hydro should provide sufficient detail and discussion to aid other parties in understanding the derivation of the WCA update.

Cost of Capital

Background

The Cost of Capital is the cost to compensate investors and lenders for the monies provided to fund the assets that the firm uses to produce the goods and services to its customers, and relates to the return on the rate base of the regulated firm. There are

[39] London Hydro, AIC, p. 9, para. 22

several parameters that comprise the Cost of Capital for the Board's rate-making purposes:

1) Capital structure (the proportion of rate base financing through debt (long- or short-term) or equity (common shares or preferred shares);
2) Long-term debt rate;
3) Short-term debt rate;
4) Return on Equity ("ROE"); and
5) Return on preferred shares.

These components combine together to determine the weighted average cost of capital ("WACC"). Multiplied by the rate base, this produces the net income relating to the expected profitability of the firm, and also influences directly the tax or PILs expense borne by the firm and to be recovered in rates.

The Board has documented its guideline Cost of Capital methodology in the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"), issued December 20, 2006. The Board Report is a guideline, but departures from the methodology in the Board Report are expected to be adequately supported.

In Section 6 of its Application, London Hydro has proposed its requested Cost of Capital. This is summarized in the following table.

Cost of Capital Parameter	**London Hydro's Proposal**
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	4.47%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.00%, reflecting the rate of a long-term promissory note due to the City of London. In response to LPMA IR #30, London Hydro also requested that incremental "unfunded long-term debt" should attract the Board's deemed debt rate, and updated the proposed "blended" LT debt rate to 6.72% in its AIC (p. 20, para. 51)
Return on Equity	8.57%, but to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	6.96% as proposed, but subject to change as the short-term and long-term debt rates and ROE are updated per the Board Report at the time of the Board's Decision.

As noted, London Hydro has affirmed that the Return on Equity deemed Short-term Debt Rate and deemed Long-Term Debt Rate, as applicable, would be updated based on Bank of Canada, *Consensus Forecasts*, and TSX data for January 2009 in accordance with the methodologies documented in the Board Report.

In response to LPMA IR #30, London Hydro revised its proposed Cost of Capital and stated that "unfunded long-term" debt should attract the updated deemed long-term debt rate of 7.62%. London Hydro defined "unfunded long-term debt" as that portion of the deemed debt capitalization which is not represented by actual or embedded debt. Board staff and intervenors probed this in supplementary interrogatories.[40] In particular, Board staff and intervenors questioned London Hydro's amended proposal in light of the Board's recent decision on the Hydro One Remote Communities 2009 distribution rates application (EB-2008-0232). In that decision, the Board stated:

> *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.*

In its reply to Board staff IR #109, London Hydro referenced the third sentence in the quote above, and stated that it believed that this only pertained to affiliated debt.

In response to LPMA supplementary IR #49, London Hydro indicated that allowing notional debt to attract the 7.62% rate would increase its revenue requirement by $908,349.

In its AIC, London Hydro states that it is requesting a debt rate of 6.0% on the $70 million debt due to its shareholder, but that this is a demand note that should attract the 7.62% in accordance with the policies of the Board Report and the Board's decisions in other applications.[41]

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[40] Board staff IR #109, VECC IR # 37, SEC IR # 26, LPMA IR # 49

[41] AIC, p. 7, para. 14, p. 19, para. 48 to p. 21, para. 51

Discussion and Submission

With the exception of the treatment of "unfunded" (or "notional") long-term debt, Board staff submits that London Hydro's proposals for Cost of Capital, as amended through discovery, comply with the guidelines documented in the Board Report.

Board staff submits that London Hydro has misconstrued the reasons in the Board's decision on Hydro One Remote Communities Inc.'s 2009 rates quoted above. In particular, London Hydro has ignored the final sentence which reads: "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." The Board does not qualify the statement as one which applies only to situations of affiliated or variable debt. To the contrary, the Board has consistently used embedded debt to refer to actual debt, regardless of whether the debt holder is affiliated or not.

Board staff also observes that, since 2006 EDR when the Board first started to use embedded debt costs in setting rates for electricity distributors (where available), the general approach of the Board has been to calculate the cost of debt based on embedded or actual instruments and to apply the deemed debt rate only where necessary. The calculated cost of debt, whether based on actual or deemed debt rates or a combination thereof, is applied uniformly to the deemed debt capitalization. This approach is taken regardless of whether actual debt capitalization is larger or smaller than the deemed debt rate.

Board staff also submits that the treatment of "notional" long-term debt as proposed by London Hydro is illogical.. Symmetry of treatment would imply that to determine the weighted debt cost and the WACC where a utility's actual debt was higher than the deemed debt capitalization, the deemed long-term debt rate would be applied to a negative incremental debt component. While unfunded short-term debt can be a small negative amount to true up actual to deemed capitalization in gas regulation, this has not been applied to the electricity sector. Given the nature of long-term debt which is, by definition, not short-term or temporary, applying this treatment for long-term debt would be illogical.

London Hydro's proposed Cost of Capital, set out in its December 8, 2008 application in Exhibit 6 and updated for the Cost of Capital parameters announced on February 24, 2008, is consistent with the guidelines in the Board Report. London Hydro's proposed

treatment of unfunded or notional long-term debt, set out in the response to LPMA IR #30, is inconsistent with the Board's policy and practice for electricity rate-setting as articulated in the recent Hydro One Remote Communities decision, and should not be approved.

Board staff takes no issue with London Hydro's proposal that the existing affiliated debt would attract a rate of 6.0%; however, Board staff understood that this was the actual or embedded rate. In its Application, London Hydro has documented[42] that this promissory note is callable with 367 days notice, but has a fixed term, maturing on October 31, 2010. The debt rate documented on the evidence is 6%. It is not clear from the record why London Hydro states in its AIC that this debt would otherwise attract the current deemed long-term debt rate of 7.62%. Board staff submits that this is embedded debt that should attract the lower of the actual rate of 6% and the deemed debt rate. Board staff submits that London Hydro's proposal of allowing a 6% rate for this debt is appropriate and consistent with the guidelines in the Board Report.

COST ALLOCATION AND RATE DESIGN

Loss Factors

Background

London Hydro has proposed a small decrease to its total loss factor ("TLF") from the current approved 4.21% to 4.19% for secondary metered customers < 5000 kW. A similar decrease of 0.02% is also proposed for other customers.

London Hydro provided historical data for its Distribution Loss Factors ("DLF") and Supply Facilities Loss Factor ("SFLF") from 2003 to 2007. The DLF and SFLF are multiplied together to yield the TLF. In response to LPMA IR # 41, London Hydro provided 2008 actual data. The proposed factors are equal to the respective averages over the initial 5-year period.

There is considerable year-to-year variation in both the DLF and the SFLF. Along with its update, the Applicant provided calculations of various three and five-year averages of both DLF and SFLF to omit outliers.

[42] Exhibit 6 / p. 2, l. 20 to p. 3, l. 2.

Discussion and Submission

Board staff submits that it would be reasonable to base the TLF on the six-year averages based on available data, covering 2003 – 2008. This approach is straightforward, and the impact of outliers is reduced because of the longer time series.

Board staff submits that the six-year average of DLF applicable to secondary-metered customers < 5000 kW is 1.0366 and the SFLF is 1.0041, yielding a TLF at 1.0409. This is 0.12% below the existing approved TLF. In addition, Board staff submits that the TLF for primary-metered customers < 5000 kW should be decreased by this amount to 1.0305. By extension of this approach using the six-year average, Board staff submits that the TLF for primary-metered customers > 5000 kW should equal the SFLF, at 1.0041, and the TLF for secondary-metered customers > 5000 kW at 1.0141.

Low Voltage Costs

Background

London Hydro is not an embedded or a host distributor, subject to the Board's decision on the joint application of London Hydro and Hydro One Networks to eliminate Long-term Load Transfers. London Hydro is not proposing an LV adder.

Discussion and Submission

Board staff notes that London Hydro has a small balance in account 1550 – Low Voltage Variance Account. Board staff submits that this balance should be disposed of, and the account should not used in the future unless London Hydro's status changes.

Customer Classes

Background and Submission

London Hydro has nine rate classes, comprising the usual seven classes (Residential, GS < 50 kW, GS 50–4999 kW, Large Use, Unmetered Scattered Load, Sentinel Lighting, and Street Lighting), together with Standby Power and GS 50–4999 kW Cogeneration. It is not proposing any changes to the structure of its existing rate classes. Board staff takes no issue with London Hydro's proposal on this matter.

Revenue-to-Cost Ratios

Background

London Hydro filed its Informational Filing (EB-2007-0002) in March 2007. It included ratios in this Application which differ slightly from those in the original filing. London Hydro has documented that these changes are due to a correction to revenue from the Standby Power subclass. The ratios are shown in the first column of the table shown below.

Revenue to Cost Ratio [%]

	Existing Ratios		Proposed Ratios (Application: Exhibit 8 / Table 4)		Board Policy Range
	Application Exhibit 8 / Table 1	Response to VECC 42a	2009	2010	
Customer Class	%				
	1	**2**	**3**	**4**	**5**
Residential	108.6	110.7	107.0	105.9	85 – 115
GS < 50 kW	126.3	129.2	120.0	120.0	80 – 120
GS 50-4999 kW	75.9	71.2	80.0	80.0	80 – 180
GS 50 – 4999 kW Co-generation	247.0	239.7	213.5	180.0	80 – 180
Standby Power	84.8	80.0	84.8	84.8	80 – 180
Large Use > 5 MW	80.8	62.0	85.0	85.0	85 - 115
Street Lighting	16.7	17.3	43.4	70.0	70 – 120
Sentinel Lighting	14.2	14.7	42.1	70.0	70 – 120
Unmetered Scattered Load	56.6	58.3	68.3	80.0	80 – 120

In response to a series of interrogatory requests from VECC and Board staff[43], London Hydro made additional corrections to data on revenue from the Standby Power subclass. In addition, London Hydro has made an adjustment in which the annual transformer ownership allowance of $1,129,656 is removed from total cost and from the revenue attributed to the affected classes. The adjustments and corrections are found together in

[43] Responses to Board staff IR # 43, VECC IRs # 24 a) and b) and VECC supplementary IR # 42 a)

the response to VECC supplementary IR # 42 a). The resulting ratios are shown in the second column of the above table.

London Hydro's application involves a re-balancing of class revenues to better reflect the results of the cost allocation model. The strategy described in the application is, where necessary, to move ratios by equal amounts over two years (columns 3 and 4), from outside of the Board's policy range (column 5) to the nearer boundary of the range. As there are more and bigger classes with ratios below the applicable range, it is possible to lower the ratio of the Residential class within the range.

Discussion and Submission

Board staff submits that the adjustment to the Informational Filing model to report cost and revenues net of the Transformer Ownership Allowance removes an inconsistency that affected the ratios in the original model. Further, London Hydro has provided more accurate information about the Standby Power subclass. Board staff submits that the ratios in the second column of the table above provide a better starting point from which to re-balance London Hydro's distribution rates.

The proposed ratios are all within the range of ratios outlined in the Report of the Board: *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667, issued November 28, 2007. London Hydro proposes to attain the nearer boundary of the range in two years, whereas the Board has approved convergence to the range over three years in a number of decisions. Board staff takes no issue with accelerated rebalancing so long as there are not significant rate impacts on customers in the affected classes; Board staff observes that this seems to be the case for London Hydro except possibly for some particularly low-usage customer profiles.

The proposed ratios are designed as adjustments from those in the first column. If starting from the ratios in the second column, London Hydro may wish to propose, in its reply submission, whether the ratios for 2009 should be modified to maintain the strategy of two equal changes in 2009 and 2010. In particular, the Large Use class is affected by excluding the Transformer Ownership Allowance, because an increase from 62% to 85% is calculated from a lower base amount as well as being a considerably larger percentage increase. To a lesser extent, the same is true for the GS 50–4999 kW class.

The bill impacts on Large Users submitted by London Hydro with its Argument-in-Chief are based on distribution rates that increase by nearly the same percentage as other

classes. Board staff questions whether the distribution revenue generated by these proposed rates would yield a revenue-to-cost ratio substantially above 62%. Board staff suggests that higher Large User rates may be required to move substantially toward the lower boundary of 85%, and suggests that London Hydro might, in its reply submission, suggest a revised Large User bill impact calculation consistent with higher distribution rates.

Monthly Fixed Charges

Background

London Hydro proposes to maintain its fixed/variable split for six classes, and to decrease the fixed portion slightly for two classes. (Exhibit 9 / Table 7) It proposes to increase the fixed portion for the Unmetered Scattered Load ("USL") class from 15% to 30%.[44]

Discussion and Submission

Board staff submits that London Hydro's proposal is reasonable in terms of the fixed/variable proportions of revenues, and is consistent with Board policy as articulated in the Board's Cost Allocation report and in previous decisions.

Board staff observes that the bill impacts calculated by London Hydro[45] are, in most classes, larger percentages for the smallest customers in the class and lower percentages for the largest customers. It appears that this is a result of the Smart Meter adder increasing the effective fixed charge, in combination with the proposed rebate on deferral and variance accounts decreasing the effective volumetric charge, for many customer classes. These additional charges are outside of the policy on the fixed/variable split of distribution revenue.

London Hydro proposes to increase the fixed/variable ratio for the USL class by increasing the fixed charge by 186%; however, the proposed Monthly Service Charge is $1.20 per connection, which is still much lower than the corresponding rate for General Service class loads of comparable size, and within the range calculated in the cost allocation study[46].

[44] Exhibit 9 / pg. 2 / Table 3 – Rate Design Overview
[45] Exhibit 9 / Appendix A / page 27 / Schedule 1
[46] Response to Board staff IR # 43 a)

Rate Design – Co-Generation

London Hydro is proposing a slight decrease in the distribution rates for the General Service 50–4999 kW Co-Generation subclass. Even with this decrease, the Monthly Service Charge is more than ten times as high as the charge proposed for a comparable customer without co-generation. Similarly, the volumetric rate is nearly three times higher, and the volumetric Standby Charge is considerably higher as well. While this apparent disparity will be ameliorated somewhat as the revenue-to-cost ratios move toward their policy ranges, Board staff nevertheless questions whether there may be a flaw in the cost allocation model as it applies to customers with their own generation, such as double-counting with the cost of providing standby service.

Board staff submits that the Board should require London Hydro to address this question when it next files a cost allocation study at its next distribution rate re-basing.

Rate Design – Standby Power

London Hydro is requesting approval of this rate on an interim basis, which is a continuation of its status for a number of years. This situation also prevails for other electricity distributors with a Standby Power subclass.

Rate Design – Transformer Ownership Allowance

Background

London Hydro proposes to discontinue the transformer ownership allowance for the Large Use class, on the basis that all Large Use customers provide their own transformers. In such case, there is no point in continuing the gross rate when all such customers pay the net rate. London Hydro's Conditions of Service do not provide for transformation service at 5 MW or above. The Applicant notes that it would request that a customer would pay the full cost of providing transformer service. It has not received requests for service on this basis and does not anticipate any such requests.[47]

[47] Response to Board staff IR #45

Discussion and Submission

Board staff submits that London Hydro's proposal is reasonable. Board staff observes that the volumetric rate proposed by London Hydro in its AIC is $1.7634 per kW, which is approximately 21% higher than the existing rate gross of the Transformer Ownership Allowance, and questions whether London Hydro intended to propose $1.1634 (i.e. $1.7634 less the $0.06 Transformer Ownership Allowance credit that London Hydro is proposing to eliminate for this class) instead. Board staff also questions whether London Hydro will maintain the existing fixed/variable split for the Large User class, as the fixed rate appears to be increasing by a larger percentage than the volumetric rate, when calculated on a consistent basis whether gross or net of the Transformer Ownership Credit.

Retail Transmission Service Rates

Background

London Hydro is proposing to increase its 2009 Retail Transmission Network Service Rates ("RTSRs") by 11.3% and to increase to its Retail Line and Transformation Connection Service Rates by 5.5%. These changes parallel increases in Uniform Transmission Rates ("UTRs") that came into effect on January 1, 2009.

The proposed rates are found in the Application, at Exhibit 9 / p. 14 / Table 12. London Hydro provided an analysis of monthly variances during the period May 2008 to January 2009, in response to Board staff IR # 40. During that period, its current RTSRs were in effect along with the previous UTRs. In aggregate, the variances over that period were close to 0%.

Discussion and Submission

Board staff submits that it is appropriate to increase the class-specific Network RTSR by 11.3% and the class-specific Connection RTSR by 5.5%, as proposed by London Hydro.

As a rate design matter, Board staff noted that, within the General Service 50–4999 kW class, there has been a distinction between interval-metered and non-interval-metered customers with respect to RTSRs. London Hydro provided information in its responses to Board staff IR # 41 and supplementary IR # 115 to the effect that the rate differential reflects an underlying cost difference. Interval-metered customers, on average, add 69 kW to London Hydro's transmission billing demand with the IESO for each 100 kW that can be billed by London Hydro, whereas the non-interval-metered customers on average

add only 31 kW per 100 kW that they are, in turn, billed for by London Hydro. Board staff submits that London Hydro's proposal to continue the rate differential by increasing each of the existing rates by the same percentage is reasonable.

Board staff observes that London Hydro's calculation of bill impacts assumes that customers who pay the Standby Rate would also pay the RTSR rates on the same billing demand.[48] Board staff submits that the customer's billing demand should be only for the power delivered to the customer, because London Hydro does not have any cost from the IESO corresponding to the Standby Demand.

REVENUE OFFSET

Background

Revenue offsets decrease the need for revenue from distribution rates. London Hydro provided a breakdown of its revenue offsets in Exhibit 3 / page 24 / Table 23 – Operating Revenue Summary table. London Hydro is forecasting $3,707,148 in revenue offsets for 2009. The 2009 forecast is down significantly from 2007, mostly due to Rent from Electric Property. The following table summarizes London Hydro's revenue offsets:

Revenue Offsets

	2009 Test as filed	Adjustments	2009 Test Revised
Other Distribution Revenue	$ 1,074,500		$ 1,074,500
Late Payment Charges	$ 1,000,000		$ 1,000,000
Specific Service charges	$ 832,800		
Adjustment - re-occupancy revenue		$ 15,000	$ 847,800
Other Income and Deductions	$ 799,848		
Ajdustment - re: smart meter deferral account interest income		-$ 331,000	
Adjustment - re: RSVA and other deferral account interest expense		$ 350,000	
Adjustment - re: other deferral account interest income		-$ 47,048	$ 771,800
	$ 3,707,148	-$ 13,048	$ 3,694,100

The 2009 forecast is down significantly from the 2007 actual amount, and the 2008 amount projected in the Application. In response to LPMA interrogatory # 21, London Hydro provided 2008 actual amounts, which in aggregate are considerably lower than the projected amount but still larger than the forecast for 2009.

[48] AIC, Bill Impacts – Detail, p. 8

London Hydro originally filed, in Account 4405 – Interest Income, a balance of ($19,000) in the sub-account for interest on deferral and variance accounts. In its response to Board staff interrogatory # 14 (d, London Hydro revised the amount by ($350,000) to exclude the interest on the Smart Meter deferral and variance accounts (Accounts 1555 and 1556); this interest is to be included in sub-accounts of Accounts 1555 and 1556.

Discussion and Submission

In general, London Hydro's forecast of revenue from sources other than distribution rates is reasonable; however, Board staff wishes to address comments on certain aspects of London Hydro's proposed Other Revenues.

Specific Service Charge revenue

London Hydro proposes to continue with all of its currently approved Specific Service Charges. In response to SEC Supplementary Interrogatory # 18, London Hydro provided its actual revenues. The 2008 forecast revenue of $832k is a small increase above the 2008 actual amount. London Hydro also acknowledged that it had made an error of some $15k in its projection of Occupancy Charges, and has made the correction in the revised Table 23 in its AIC. Board staff submits that London Hydro's revenue forecast from Specific Service Charges is reasonable, with the correction for revenue from Occupancy Charges.[49]

Rental revenue

Revenue from Pole Rentals is forecast at a level slightly higher than previous years. Other Rent from Electric Property is forecast to decrease by nearly $200k from the 2008 actual amount. This is due to the City of London ending its rental of office space in London Hydro's offices; London Hydro explained the increase in its own space requirements in its Application.[50]

Interest revenue

Revenue from Interest and Dividend Income was originally forecast to decrease to approximately $488K from the 2008 projected amount of $809k. The actual 2008 was closer to the projected amount, at $632K.

[49] Response to Board staff IR #14 b)
[50] Exhibit 3 / p. 27

The interest associated with deferral and variance accounts remains part of these account balances until they are disposed of in rates through the regulatory asset rate rider process. In the Board's decision on Niagara-on-the-Lake Hydro Inc.'s 2009 EDR application, the Board stated:

> *The Board finds that any interest associated with deferral and variance accounts does not form part of the calculation of the revenue requirement as it remains in and forms part of those accounts until cleared. Although the amounts are not large, as this is a matter of principle, the Board directs [Niagara-on-the-Lake Hydro Inc.] to remove these amounts from its distribution revenue.*[51]

In its response to Board staff supplementary interrogatory[52], London Hydro agreed that the inclusion of the interest on deferral and variance accounts in revenue offset was incorrect. London Hydro reduced its interest and dividend income to $460,000 from $488,048, as shown at p. 13 of the AIC. Board staff takes no issue with London Hydro's revised proposal.

Standard Supply Administration revenue

LPMA questioned why the revenue from the Standard Supply Administration fee is not forecast to increase along with a considerable increase in the number of customers[53]. London Hydro's responses to LPMA IRs #19 and # 22 e) show that most of the apparent increase is due to a transfer of customers from retailers to standard supply, and that there is an offsetting loss in revenue from providing bill services to retailers. Board staff submits that London Hydro's projected revenues from these two items is reasonable.

Deferral and Variance Accounts

Background

London Hydro provided the account balances representing principal balances to December 31, 2007 and projected interest to alternatively April 30 and August 31, 2009 in its Application. The accounts were split into those that London Hydro is submitting for disposition and recovery of in this rate order[54], and those that it is not requesting

[51] Niagara-on-the-Lake Hydro Inc. Decision and Reasons, (EB-2008-0237), page 7
[52] Response to Board staff supplementary IR # 104
[53] Response to LPMA IR #22 e)
[54] Exhibit 5 / p. 5 / Table 2

disposition of.[55] London Hydro's Audited Financial Statements as of December 31, 2007 include an itemization of Regulatory Assets and Liabilities[56].

London Hydro has proposed rate riders that would rebate the requested balances to customers over a two year period.[57] It provided the calculations for the proposed rate riders in response to Board staff IR # 37 a). In addition, in response to parts b) and c) of the same interrogatory, London Hydro provided calculations for hypothetical rate riders that would dispose of additional deferral and variance account balances under two alternative scenarios.

In response to an interrogatory, London Hydro submitted a continuity table of the account balances starting from January 1, 2005.[58] The balances differ from those provided earlier in very minor amounts, with the exception of account 1590 – Recovery of Regulatory Asset Balances. The account balance has been brought up to date to reflect the sizable recoveries, from the previous rate rider, during 2008.

The 2007 year-end balances plus projected interest to April 30, 2009 are shown in the following table.

	Acct. Number	Account Description	Total ($)
1	1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	461,647
2	1508	Other Regulatory Assets – Sub-Account – Pension Contributions	1,710,720
3	1525	Miscellaneous Deferred Debits	30,810
4	1580	RSVA – Wholesale Market Service Charge	(6,462,160)
		Sub-Total (rows 1 – 4)	**(4,258,783)**
5	1518	Retail Cost Variance Account – Retail	(151,636)
6	1548	Retail Cost Variance Account – STR	105,853
7	1550	Low Voltage Variance Account	6,525
8	1582	RSVA - One-time Wholesale Market Service	358,861
		Sub-Total (rows 5 – 8)	**319,603**

[55] Exhibit 5 / p. 4 / Table 1
[56] Exhibit 1 / p. 77
[57] Exhibit 5 / p. 70 / Table 3
[58] Response to Board staff supplementary IR #110, Appendix

9	1584	RSVA – Retail Transmission Network Charge	2,165,403
10	1586	RSVA – Retail Transmission Connection Charges	(63,102)
11	1588	RSVA – Power (including Global Adjustment)	(1,763,765)
		Sub-Total (rows 9 – 11)	**338,536**
12	1555	Smart Meter Capital and Recovery Offset	(457,812)
13	1556	Smart Meter OM&A	40,514
14	1562	Deferred PILs	673,052
15	1563	Deferred PILs Contra Account	
16	1565	CDM Expenditures and Recoveries	0
17	1566	CDM Contra Account	
18	1590	Recovery of Regulatory Asset Balances	3,283,469
19	1592	2006 PILs and Taxes Variance	(143,127)
		Sub-Total	**3,396,096**

In its AIC, London Hydro provides rate riders that would dispose of accounts 1508, 1525, and 1580, at the projected balances as of August 31, 2009. The balance provided for account 1580 in the updated interrogatory response is ($8,291,252), which is the projected balance at April 30, 2009 and is considerably different from the audited balance in the table above. The balance at August 31, 2009 would in turn be somewhat different than either of the balances provided to date. The rate riders provided by London Hydro are adjusted to match the revised load forecast, and would have a 20-month recovery period to April 30, 2011.

Discussion and Submission

Board Staff notes that London Hydro's methodology for the proposed disposition of accounts 1508, 1525 and 1580 is consistent with similar disposition of such costs as determined by the Board in recent decisions of other distribution rate applications.

In order to allow the Board to evaluate the reasonableness of disposing certain of the remaining accounts, Board staff posed interrogatories in which London Hydro provided calculations for two additional scenarios. In one scenario, the balances in the rows 1-8 (in the table above) would be disposed of. In the other scenario, the balances in rows 1-11 would be disposed of.

Board staff did not request analysis of the other remaining account balances, shown in lines 12-19, as these accounts have separate processes for disposition or, in the case of account 1590, have been largely disposed of since 2007.

In all scenarios considered, including the one provided by London Hydro in its AIC, the rate riders are rebates to London Hydro's customers. The size of the rebate to each class is not much different under each scenario. As can be seen in the above table, the sub-totals for rows 5-8 and rows 9-11 are small compared to the sub-total for rows 1- 4, the latter of which is London Hydro's proposed disposition in this application.

The Board has undertaken a separate initiative for the disposition of deferral and variance accounts. This initiative will provide a framework for the review and the timing of the disposition of these account balances. As part of this initiative, a Board staff Discussion Paper entitled *Electricity Distributors' Deferral and Variance Account Review Initiative* (EB-2008-0046), was issued on April 1, 2009. Board staff's paper proposed that distributors that file cost-of-service rebasing rate applications should be required to include a proposal to dispose of all account balances, with a few exceptions such as PILs and CDM accounts. While the Board has made no final determination on this initiative, respondents to the Discussion Paper overwhelmingly supported this proposal to review and disposition all account balances in a rebasing year application.

Board staff submits that the Board should consider altering London Hydro's application to dispose of all of the balances in rows 1 – 11 in the table above, and should direct London Hydro to provide the calculations for rate riders that would come into effect as soon as possible and to expire on April 30, 2011.

Smart Meters

Background

London Hydro is not a distributor explicitly or implicit named in regulation as being previously authorized to deploy smart meters. However, on June 25, 2008, the Government enacted O. Reg. 235/08 amending O. Reg. 427/06, authorizing: "[m]etering activities conducted by a distributor that has procured its smart meters pursuant to and in compliance with the parameters and process established by the *Request for Proposal for Advanced Metering Infrastructure (AMI) – Phase 1 Smartmeter Deployment* dated

August 14, 2007, together with any amendments to it, issued by London Hydro Inc."[59] Board staff acknowledges the leadership role that London Hydro has taken, on behalf of the majority of Ontario electricity distributors, to implement the Government's smart meter policy.

In its original Application, London Hydro proposed to increase the smart meter funding adder, current approved at $0.27 per month per metered customer to $1.00, and stated that it was becoming authorized under the amended regulation pursuant to and in compliance with the London Hydro RFP process.[60]

On October 22, 2008, the Board issued *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* (the "Smart Meter Guideline") to establish guideline policies and filing requirements on cost tracking and applications for cost recovery in light of the amended regulations.

In its application, London Hydro filed supporting documentation in accordance with section 1.4 of the Smart Meter Guideline. London Hydro states that it plans on starting smart meter deployment in 2009, and that it intends to deploy about 81,000 smart meters this year and continue deployment in 2010. London Hydro estimated that smart meter capital expenditures in 2009 will range between $12 million and $16 million, with an estimated average installation cost of $150 to $200 per installed smart meter. The costs will depend on the final negotiation with its selected vendor pursuant to the London Hydro RFP process. In response to an interrogatory[61], London Hydro indicated that it did not have, at this time, any more exact estimate of aggregate and per meter costs for the 2009 planned installations.

London Hydro is not seeking approval for capital and operating costs incurred to date or in 2009 in this application, but will track actual costs, and revenues received for the funding adder, in established deferral accounts for review and disposition in a subsequent application.

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[59] O. Reg. 427/06, *Smart Meters: Discretionary Metering Activity and Procurement Principles*, s. 1 (1) 8, as amended by O. Reg. 235/08, June 25, 2008.
[60] Exhibit 9 / p. 14 / l. 3 to p. 15 / l. 21
[61] Response to Board staff IR #8

Discussion and Submission

Board staff submits that London Hydro has complied with the policies and filing requirements of the Smart Meter Guideline and is becoming authorized under regulation. While it would be preferable if London Hydro had better estimates of its 2009 smart meter capital expenditures, this does not impact on the rates proposed in this application. Further, actual expenditures will be subject to review when London Hydro makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with London Hydro's proposal to increase the smart meter funding adder to $1.00 per month per metered customer.

- All of which is respectfully submitted -