

**LONDON HYDRO RESPONSE
TO
ONTARIO ENERGY BOARD
STAFF SUBMISSION OF FEBRUARY 1, 2010**

**2010 ELECTRICITY DISTRIBUTION RATES
London Hydro Inc.
EB-2009-0235**

POTENTIAL TAX SHARING RATE RIDER

Board Staff Submission

Board staff notes that as a result of having kWh Tax Sharing rate adders of \$(0.0000) when rounded to the fourth decimal place and kW Tax Sharing rate adders of \$(0.00) when rounded to the second decimal place, the refund amount of \$251,005 will not be returned to ratepayers, which defeats the intent of tax sharing process. Board staff submits that the Board may wish to consider directing London Hydro to record the Tax Sharing refund amount of \$251,005 in the variance account 1595 for disposition in a future rate setting.

London Hydro Response

Board Staff's submission proposes that the Board implement revised accounting processes to address potential rate adjustments that do not meet a certain threshold of materiality. As Board Staff have demonstrated, the potential rate riders do not meet a level of materiality required to produce a rate rider for billing purposes.

Board Staff have suggested one mechanism to overcome this issue. London Hydro would suggest to the Board that the overall issue of materiality should be considered in this instance as it has been in other rate setting parameters that have been established by the Board for matters such as Z-factor adjustments.

London Hydro submits that due to the immateriality of the calculated Tax Sharing Rate Rider Adjustment, the Board should determine that a rate rider adjustment is not required. The Board should not accept Board Staff's accounting proposal as a mechanism to override the materiality concept that it has utilized for other rate setting purposes.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Board Staff Submission

Board staff submits that London Hydro has complied with the filing requirements of the 2010 Deferral Variance Account Workform and has demonstrated that it is not required to dispose of its Group 1 account balances.

London Hydro Response

London Hydro concurs with Board Staff's submission.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Board Staff Submission

Board staff submits that London Hydro has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with London Hydro's revenue to cost ratio adjustments.

London Hydro Response

London Hydro concurs with Board Staff's submission.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Board Staff Submission

Board staff notes that London Hydro affected in their 2009 rates the July 1, 2009 level of UTRs. Board staff submits that London Hydro RTSR rates may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff submits that the applicant's proposed rates be revised to reflect the incremental change from July 1, 2009 to January 1, 2010 values by applying an adjustment of 11.7% for Network and 7.5% for Connection RTSR rates.

London Hydro Response

London Hydro accepts and will comply with Board Staff's recommendations to revise its transmission network and connection rates to reflect the adjustments at January 1, 2010.

The revised rates are presented in the following table.

Calculation of Revised Retail Transmission Rates				
	Monthly Rate (\$ per kW)		Rate Increase	
	Starting 2010/01/01	Ending 2009/12/31		
New Wholesale Transmission Rates				
Network Service Rate	2.97	2.66	11.7%	
Line Connection Service Rate	0.73	0.70		
Transformation Connection Service Rate	1.71	1.57		
Total Connect Service Rate	2.44	2.27	7.5%	

Customer Class	Current Board Approved Rate Sept 1/09	Adjustment for Jan 1/10 rate change	Revised Rated Jan 1/10	
Residential				
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0055	11.7%	0.0062
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0047	7.5%	0.0051
General Service Less Than 50 kW				
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0051	11.7%	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0042	7.5%	0.0045
General Service 50 to 4,999 kW				
Retail Transmission Rate – Network Service Rate	\$/kW	1.7969	11.7%	2.0064
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.5401	7.5%	1.6554
Retail Transmission Rate – Network Service Rate - Interval Metered	\$/kW	2.3042	11.7%	2.5727
Retail Transmission Rate – Line and Transformation Connection Service Rate - Interval Metered	\$/kW	2.1460	7.5%	2.3067
General Service 50 to 4,999 kW (CoGeneration)				
Retail Transmission Rate – Network Service Rate	\$/kW	2.6600 rates		2.9700
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	2.2700 equal		2.4400
Retail Transmission Rate – Network Service Rate - Interval Metered	\$/kW	2.6600 wholesale		2.9700
Retail Transmission Rate – Line and Transformation Connection Service Rate - Interval Metered	\$/kW	2.2700 rates		2.4400
Large Use				
Retail Transmission Rate – Network Service Rate - Interval Metered	\$/kW	2.3603	11.7%	2.6353
Retail Transmission Rate – Line and Transformation Connection Service Rate - Interval Metered	\$/kW	2.1460	7.5%	2.3067
Unmetered Scattered Load				
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0051	11.7%	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0042	7.5%	0.0045
Sentinel Lighting				
Retail Transmission Rate – Network Service Rate	\$/kW	1.5843	11.7%	1.7689
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3578	7.5%	1.4595
Street Lighting				
Retail Transmission Rate – Network Service Rate	\$/kW	1.5822	11.7%	1.7666
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3561	7.5%	1.4577

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

Board Staff Submission

Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization.

Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like London Hydro could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until London Hydro's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level.

To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement.

Tracking of these amounts would continue in the deferral account until London Hydro's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

London Hydro would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

London Hydro Response

In its earlier response to Board Staff interrogatories on this issue, London Hydro attempted to inform Board Staff of the complexity and magnitude of this matter. Based on Board Staff's submission, it would not appear that Board Staff have a full understanding or appreciation of the implications of their recommendations.

Distributors have no historical financial records that have been maintained to determine how much of the 8% PST would have been incorporated into the rates that the Board approved in the past. When the 8% PST is eliminated on July 1,

2010 there is now way of accurately determining if the 8% PST that is now part of the 13% HST was ever incorporated in the rates that are currently being charged.

Additionally, the tax change has different implications for those distributors that rebased prior to 2010 vs. those rebasing in 2010. For those distributors that rebased prior to 2010, the tax change will have no impact on the calculation of the 2009 rate base used to set rates. This impact will not occur until the next rebasing, and as such, there would be no purpose in attempting to calculate PST savings associated with capital spending after 2009. These savings will naturally occur in the amounts submitted with the next rebasing application.

To add to the complexity of this issue, there will be items taxable under that HST that were exempt under the PST regime and vice-versa. There are specialized tax treatments for “real property” vs. “personal property” transactions and there are many services that were formally PST tax included.

What London Hydro is attempting demonstrate for the Board is that unlike other deferral and variance accounts that have been established in the past, this particular item is not a simple “before” and “after” type of analysis. There are and will be numerous complexities associated with any attempts to try to quantify this item for a future rate adjustment.

Due to the complexity and numerous issues surrounding this matter, London Hydro would advise the Board to undertake a stakeholder input process to inform the Board of these matters before making any accounting proposals or recommendations on this issue.

If distributors are to be directed by the Board to establish a deferral account, a significant amount of clarity and direction developed through an industry wide consultation process, will be necessary to define issues such as:

- what administrative costs can be charged to the account
- what form of evidence is needed to support entries in the account and to support submissions of amounts in future rate applications
- in the absence of any historical information on the PST content in rates, how does one determine the PST content in existing rates
- for “real property transactions” how does one determine if costs that formerly included the PST have now been reduced by the PST equivalent
- what differing accounting treatment and process will apply to distributors depending upon the year in which they rebase
- how will distributors calculate the costs associated with the 8% increase in accounts receivable resulting from the 13% HST on billings