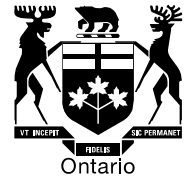


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**BY EMAIL**

February 17, 2011

Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: London Hydro Inc.  
2011 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2010-0097**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to London Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind London Hydro Inc. that its Reply Submission is due by March 7, 2011.

Yours truly,

*Original Signed By*

Christiane Wong  
Analyst, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2011 ELECTRICITY DISTRIBUTION RATES

LONDON HYDRO INC.

EB-2010-0097

**FEBRUARY 17, 2011**

**Board Staff Submission  
London Hydro Inc.  
2011 IRM3 Rate Application  
EB-2010-0097**

**Introduction**

London Hydro Inc. ("London Hydro") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 29, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that London Hydro charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by London Hydro.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by London Hydro. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, London Hydro confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to London Hydro's model at the time of the Board's decision on the application.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by London Hydro. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

In response to interrogatory #6 from Board staff, London Hydro provided a revised Sheet F1.1 Z-Factor tax changes. The Regulatory Taxable Income entry for 2010 was revised to \$5,808,413 to agree with the Revenue Requirement Work Form ("RRWF") corresponding to the Board's cost of service Decision in EB-2008-0237. This results in changing the amount to be returned to customers from \$504,521 to \$517,365. Board staff notes that the use of the RRWF data is consistent with the Board's instructions for the 2011 IRM3 model issued on August 20, 2010. The intent of the instructions is to adjust for any savings flowing from tax changes as compared to the income tax rate and

capital tax assumptions that underpin a distributor's current base rates. Staff submits that using the RRWF data as revised by London Hydro is the correct approach because this revised data is based on assumptions that underpin London Hydro's current base distribution rates.

Board staff will make any necessary corrections to London Hydro's models resulting from the Board's findings on this matter.

London Hydro is not proposing to dispose of its Group 1 deferral and variance account balances as of December 31, 2009 since the preset disposition threshold of \$0.001/kWh set forth in the EDDVAR Report was not exceeded. The balance in the account as of December 31, 2009 plus interest to April 30, 2012 is a credit \$834,624.

Board staff makes detailed submissions on the following matter:

- Smart Meter Funding Adder

### **Smart Meter Funding Adder**

#### **Proposed Smart Meter Funding Adder**

##### *Discussion*

In its original Application, London Hydro proposed an increase in its Smart Meter Funding Adder from \$1.00 to \$2.78 per month, applicable to all metered customers.

In response to Board staff interrogatory # 7, London Hydro submitted a revised Smart Meter Model correcting for errors in the calculations of PILs, Net Income and Amortization. London Hydro revised the proposed Smart Meter Funding Adder to \$3.50 per month per metered customer.

Board staff has reviewed the Smart Meter Model filed in response to Board staff IR # 7, and has noted that there are issues remaining with the model. Some of the issues are due to some computational inaccuracies in the model; these have been observed in 2011 IRM applications for other distributors, and were required to be corrected. Board staff has revised the model to correct for certain data input errors and computational inaccuracies in the model, as follows:

1. On Sheet 3, London Hydro is using an aggregate Federal and Provincial corporate income tax rate of 30.5% for 2011. The 2011 tax rate should be 28.25% (28.50% for Jan.1 to June 30, and 28.00% for July 1 to Dec. 31, averaging 28.25%);
2. The original Smart Meter Model does not reflect the deemed short-debt capitalization in determining the incremental revenue requirement for installed smart meters. In the case of London Hydro, this affects calculations for 2009 (when London Hydro last rebased) to 2011; and
3. On sheet 6, in determining the average net fixed assets, for the years 2008 to 2011, the model was pulling data from one year ahead (i.e. 2009 capital for 2008). This computational error was the reason for the blank information in 2011 which London Hydro corrected in the response to Board staff IR # 7. Unfortunately, the error also applies to the years 2008, 2009 and 2010. This is easily seen by the fact that in the model filed in response to Board staff IR # 7, sheet 6 shows smart meter capex of over \$4M in 2008 (cell E9) while sheet 3 shows that this increased capex occurred in 2009. This resulted in a significant deferred revenue requirement being calculated in 2008, even though London Hydro only incurred significant capital expenditures in 2009.

A copy of the model revised with Board staff's suggested corrections, with altered cells shaded in yellow, is attached with this submission. Board staff's suggested corrections would result in a revised Smart Meter Funding Adder of \$1.46 per month per metered customer.

### *Submission*

In general, it appears that London Hydro has complied with the Guideline in completing the Smart Meter Model, subject to the corrections that London Hydro and Board staff have noted. Board staff submits that the correct revised smart meter funding adder for the 2011 rate year (i.e. from May 1, 2011 to April 30, 2012) of \$1.46 per month per metered customer is reasonable.

All of which is respectfully submitted.