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BY E-MAIL

January 24, 2008

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: London Hydro Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0844**

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

Original signed by

Laurie Reid
Senior Policy Advisor, Regulatory Policy Development

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Cambridge and North Dumfries Hydro Inc.

EB-2007-0900

January 24, 2008

INTRODUCTION

Cambridge and North Dumfries Hydro Inc. ("C&ND") submitted an application on November 6, 2007, seeking approval for changes to the rates that C&ND charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. The C&ND application included a proposal to correct errors subsequently discovered in the 2006 EDR rates as it relates to the delivery of low voltage services for embedded distributors. C&ND also proposed adjustments to its retail transmission service rates.

EMBEDDED DISTRIBUTOR RATES – LOW VOLTAGE WHEELING

Background

C&ND has two embedded distributors adjacent to its service area: Waterloo North Hydro Inc. and Hydro One Networks Inc. In its application, C&ND proposes rate adjustments to Embedded Distributor Rates for what it states are two errors in the 2006 EDR application (RP-2005-0020/EB-2005-0343). CN&D states that the "yearly line capacity or station capacity (Box 10) were interchanged between Waterloo North Hydro and Hydro One. Also, CN&D states that "the monthly calculated rate (Box 16) was inherently divided by 12 in error". C&ND is thus requesting approval to change the monthly rates associated with the delivery of Low Voltage Services – Embedded Distributors (Only). The proposed rates are as follows:

Embedded Distributor – Waterloo North Hydro = \$0.90 / kW

Embedded Distributor – Hydro One Networks = \$2.60 / kW

The current Embedded Distributor rates approved in EB-2007-0513 are:

Embedded Distributor – Waterloo North Hydro = \$0.2018 / kW

Embedded Distributor – Hydro One Networks = \$0.0706 / kW

Discussion

In reviewing the information filed by CN&D in response to Board staff interrogatories, Board staff remains unclear about CN&D's application.

Board staff acknowledges that, the figures entered for each embedded distributor in Box 10 (line capacity or station capacity used to provide LV services (kW)) of the tables filed as section 4 of the Manager's Summary in this application were interchanged in comparison to the corresponding tables that were submitted in the EB-2005-0343 proceeding in response to questions from the Board panel.

In its responses to Board staff interrogatories, it appears that CN&D added the monthly peak demand at the embedded connection point rather than average it to determine the line capacity or station capacity used to provide LV services. Thus CN&D refers to the "yearly line capacity" rather than the line capacity. Using a summation of monthly peak demand in Box 10 is equivalent to using an average monthly peak demand in Box 10 and dividing Box 16 by 12. Board staff believes that this is why C&ND refers to Box 16 (monthly rate) as being inherently divided by 12.

It is not clear to Board staff why the figures on the tables do not match the 2005 control room information provided. CN&D is asked to provide clarification on this point.

It is also not clear why the annual amount to be recovered from each embedded distributor are approximately the same (\$68,476.72 for Waterloo North Hydro and \$70,106.69 for Hydro One Networks) when the demand of Waterloo North Hydro as a share of the connection capacity is approximately three times that of the Hydro One Networks connection. It would also be useful if C&ND could provide clarification on this point.

Board staff calculates that the proposed rate change for Waterloo North Hydro and Hydro One Networks represent an increase of about 345% and 3580% respectively. C&ND is asked to comment on whether these proposed changes have been communicated to affected embedded distributors, and whether the Board should consider rate mitigation measures given the magnitude of these changes, and the likelihood that this increase in costs may not have been factored into in the distributors 2008 rate applications.

Board staff note that the total revenue from embedded distributors is consistent with the evidence and that this issue does not have any bearing on other customers.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

C&ND proposes to reduce its RTR — Network Service Rate by 18.4% and its RTR — Line and Transformation Connection Service Rate by 6.9% for all its rate classes. C&ND also proposes to make further adjustments to its RTR to dispose of the estimated balances in variance accounts 1584 and 1586 as of April 30, 2008. The disposition of accounts 1584 and 1586 would be amortized over a 24-month period.

Discussion and Submission

C&ND proposes to reduce its RTR — Network Service Rate by 18.4% and its RTR — Line and Transformation Connection Service Rate by 6.9% for all its rate classes.

The estimated balances in accounts 1584 and 1586 as of April 30, 2008 were derived by adding to the September 30, 2007 account balances, a forecast for October 2007 to April 2008. The forecast amounts to be accumulated in accounts 1584 and 1586 were derived by using a 3-year average of wholesale transmission network and connection costs for the period from October to April 30. Effective November 1, 2007, the 3-year average costs for connection and network were adjusted to reflect the IESO's new wholesale transmission rates based on the Board rate order dated October 17, 2007 (EB-2007-0759). Wholesale transmission connection and network costs were reduced by 6.9175% and 18.3746 respectively. These adjusted wholesale transmission network and connection costs were subsequently compared to revenue generated through existing RTR over the October 1, 2007 to April 30, 2008 period. The forecast balances in accounts 1584 and 1586 were then divided by 24 months and ratios of these amounts over average revenue per month were calculated. These ratios were used to further adjust the RTR — Network Service Rate and the RTR — Line and Transformation Connection Service Rate.

The usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances is also dealt generally with in aggregate rather than clearing discrete accounts. The Board also typically disposes of these accounts through rate riders that are not incorporated into the rate itself.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties may wish to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as C&ND applies for its distribution rates to be rebased, which is scheduled to occur in 2010.

Were the Board to consider the proposed disposition of account 1586 and 1584 in this application, the interest calculation should be adjusted coincident with the clearance of the accounts. Board staff is unclear if interest amounts are included in the balance provided for accounts 1584 and 1586, and if so, up to what period. Also, C&ND does not provide any evidence supporting the disposition of the balances over a 24 month period. How should the Board consider using the disposition period to mitigate adjustments to rates over time?

Finally, Staff is unclear on how C&ND calculated the reduction of 6.9175% applicable to connection costs. C&ND is asked to provide further clarification on its proposal.

All of which is respectfully submitted.