



October 26, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2700
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: London Hydro Inc.
2013 Cost of Service Rate Application
Response to Board Staff Letter
Board File No. EB-2012-0146**

Please find accompanying this letter two hard copies of London Hydro's addendum in response to Ontario Energy Board Staff's letter of October 22, 2012, seeking additional information in relation to London Hydro 2013 Cost of Service Rate Application (EB-2012-0146).

Also, included in the addendum is the identification of an oversight discovered which impacts total revenue requirement. London Hydro is requesting that this additional information form part of its Cost of Service Rate Application (EB-2012-0146).

Electronic versions of this Addendum will be filed through the Board's Regulatory Electronic Submission System (RESS).

If further information is required, please contact the undersigned at 519-661-5800 ext. 5750 or chasem@londonhydro.com.

Yours truly,

Mike Chase
Director of Finance and Regulatory
London Hydro Inc.

1 **Addendum # 1**

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3 **Load Forecast**

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5 **Variance Analysis on Actual and Forecasted kWh by Billing Class:**

6 A new SAP Customer Information System was implemented in the second half of 2009 by
 7 London Hydro. During 2009 a portion of the usage was not billed until the first quarter of Year
 8 2010 due the implementation process. This delay in billing is reflected in the variances of 2009
 9 Actual versus 2009 Board Approved and the variance between 2010 Actual versus 2009 Actual.

10 The decrease in load growth is also affected greatly by the successful conservation and
 11 demand management initiatives, in spite of normal customer growth. Such programs were the
 12 Great Refrigerator Roundup along with coupons promoting energy conservation specifically for
 13 the Residential customer class. The Retrofit program designed for businesses had also
 14 significant impact on their consumption and load history.

15 The forecasted load for the 2012 Bridge Year and the 2013 Test Year is based on the growth in
 16 usage with the geometric mean applied, and the forecast is adjusted for weather and CDM
 17 effects.

Table 3-25A: Variance Analysis											
Customer Class	2009 Board Approved	2009 Actual	2009 Actual Variance from 2009 Board Approved	2010 Actual	2010 Actual Variance from 2009 Actual	2011 Actual	2011 Actual Variance from 2010 Actual	2012 Weather Normalized Bridge	2012 Bridge Weather Normalized Variance from 2010 Actual	2013 Weather Normalized Test	2013 Test Weather Normalized Variance from 2012 Bridge Weather Normalized
ACTUAL AND PREDICTED KWH PURCHASES BY BILLING CLASS											
Residential	1,091,392,572	1,067,772,436	-23,620,136	1,146,523,466	78,751,030	1,128,904,736	-17,618,730	1,093,900,394	-35,004,342	1,081,449,144	-12,451,250
GS<50	422,161,110	392,520,439	-29,640,671	407,650,011	15,129,572	408,115,902	465,891	396,446,167	-11,669,734	392,909,717	-3,536,451
GS>50	1,651,046,316	1,429,152,233	-221,894,083	1,551,605,457	122,453,224	1,518,546,599	-33,058,858	1,529,881,851	11,335,252	1,565,906,059	36,024,208
Large User	200,485,379	184,904,626	-15,580,753	195,126,020	10,221,394	193,549,148	-1,576,871	194,563,634	1,014,486	195,626,331	1,062,697
Cogeneration	36,489,491	42,590,885	6,101,394	45,965,216	3,374,331	37,918,668	-8,046,549	39,888,115	1,969,447	41,969,054	2,080,940
Street Lighting	23,921,899	23,394,430	-527,469	23,532,529	138,099	23,650,724	118,195	23,805,271	154,547	23,966,083	160,812
Sentinels	856,841	836,233	-20,608	831,089	-5,144	812,572	-18,517	796,502	-16,070	780,921	-15,581
Unmetered	5,326,529	5,569,256	242,727	5,524,132	-45,124	5,645,414	121,282	5,309,579	-335,834	4,994,818	-314,761
Total of Above	3,431,680,138	3,146,740,539	-284,939,599	3,376,757,921	230,017,382	3,317,143,763	-59,614,158	3,284,591,514	-32,552,249	3,307,602,128	23,010,614

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1 **Weather Normalized Consumption per Class for Historical 5 Years, Bridge and Test**

2 Reference located in Application in Exhibit 3, Page 10 Line 13-15

3 “London Hydro does not have a process to properly adjust weather actual data to a weather
4 normal basis.”

5 Weather normalized average historical actual consumption per customer for historical 5 years is
6 not available for London Hydro. The forecasted weather normalized consumption per customer
7 class for 2012 Bridge Year and 2013 Test Year is reflected in the following table (*reference:*
8 *Page 26 Line 4-5*):

9 **Table 3-21 – Alignment of Non-normal to Weather Normal Forecast**

Year	Residential	GS<50	GS>50	Large User	Cogeneration	Street Lighting	Sentinels	USL	Total
Non-normalized Weather Billed Energy Forecast (GWh)									
2012 Non-Normalized Bridge	1,136.1	411.7	1,577.9	195.7	40.1	23.9	0.8	5.3	3,391.7
2013 Non-Normalized Test	1,143.4	415.4	1,639.7	197.8	42.4	24.2	0.8	5.0	3,468.8
Weather Adjustment (GWh)									
2012	(35.9)	(13.0)	(39.3)	0.0	0.0	0.0	0.0	0.0	(88.1)
2013	(49.5)	(18.0)	(55.9)	0.0	0.0	0.0	0.0	0.0	(123.3)
CDM Adjustment (GWh)									
2012	(6.3)	(2.3)	(8.8)	(1.1)	(0.2)	(0.1)	(0.0)	(0.0)	(18.9)
2013	(12.5)	(4.5)	(17.9)	(2.2)	(0.5)	(0.3)	(0.0)	(0.1)	(37.8)
Weather Normalized Billed Energy Forecast (GWh)									
2012 Normalized Bridge	1,093.9	396.4	1,529.9	194.6	39.9	23.8	0.8	5.3	3,284.6
2013 Normalized Test	1,081.4	392.9	1,565.9	195.6	42.0	24.0	0.8	5.0	3,307.6

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Addendum # 2

1 Corporate Costs Allocation

2 Variances in Corporate Cost Allocation

	CGGAP						VARIANCES	
	2009 Approved	2009 Actual	2010 Actual	2011 Actual	2012 BRIDGE	2013 TEST	2009 OEB Approved to 2013 TEST	2011 Actual to 2013 TEST
Rental of surplus office and shop space	\$ 69,000	\$ 113,455	\$ 118,237	\$ 27,827	\$ -	\$ -	-\$ 69,000	-\$ 27,827
Provision of water billing services	3,050,000	3,025,000	3,025,000	3,337,989	3,300,000	3,750,000	700,000	412,011
Control Centre - After Hours Water Support	10,000	10,000	10,000	10,000	10,000	10,000	-	-
Land Rental	100,000	100,000	100,000	100,000	100,000	100,000	-	-
	\$ 3,229,000	\$ 3,248,455	\$ 3,253,237	\$ 3,475,816	\$ 3,410,000	\$ 3,860,000	\$ 631,000	\$ 384,184

Note: There is no difference between CGAAP and MFRS

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4 The Table above provides variances related to Corporate Cost Allocation as per the Filing
5 Requirements. The following commentary augments evidence provided in Exhibit 4 on Pages
6 99 – 102 as well as in the Navigant Consulting Inc. (“Navigant”) study, dated April 12, 2012,
7 related to London Hydro’s provision of water and sewage billing services to the City of London.
8 London Hydro has filed the Navigant study in confidence pursuant to the OEB’s *Practice*
9 *Direction on Confidential Filings* (the “Practice Direction”).

10 *Rental of surplus office and shop space*

11 The 2009 Board Approved cost allocation related to the rental of office and shop space to the
12 City of London was \$69,000. The 2011 Actuals and the proposed 2013 Test Year amounts are
13 \$27,827 and \$nil respectively. This is a decline of \$69,000 over the 2009 Board Approved Year
14 and \$27,827 over the 2011 Actuals.

15 The City of London will no longer be occupying office or shop space in 2013. The surplus space
16 has been utilized by London Hydro to alleviate overcrowding. It has also been utilized by the
17 Conservation and Demand Management function and appropriate rental revenue has been
18 recorded in OEB 4210. See Exhibit 3, Page 38 for discussion related to rent charged to the
19 OPA for the space occupied.

1 *Provision of water billing services*

2 The 2009 Board Approved Year included a cost allocation for the water billing services provided
3 on behalf of the City of London in the amount of \$3,050,000. The most current actuals for 2011
4 was \$3,337,989 and the proposed 2013 Test Year is \$3,750,000.

5 This is an increase of \$412,011 and \$700,000 over the 2011 Actuals and the 2009 Board
6 Approved Year.

7 In the OEB Decision and Order (EB-2008-0235) dated August 21, 2009 London Hydro was
8 directed to engage an independent third party to complete a full analysis of the cost of providing
9 this water billing service to the City of London.

10 In 2011, as an interim measure pending the completion of this study, London Hydro recovered
11 \$3,050,000 as per the existing agreement with the City of London and began retaining the late
12 payment charges related to unpaid water receivables. In 2011 this was an additional \$287,989.

13 The variance between the 2011 Actuals and the proposed 2013 Test Year (\$412,011) reflects
14 the findings of the current study.

15 The 2013 proposed Test Year reflects the results of the independent study which is \$700,000
16 higher than the 2009 Board approved amount. Please refer to the discussion provided in
17 Exhibit 4, starting on Page 100. The Confidential Filing provides this study completed by the
18 independent consultant, Navigant Consulting Inc.

Addendum # 3

1 **OM&A Revision**

2 Subsequent to filing, London Hydro has identified an error in the total OM&A costs submitted.
3 Due to an oversight, the recovery of costs in the proposed 2013 Test Year has been overstated
4 by \$200,000 and therefore total OM&A and the resultant revenue requirement has been
5 understated by that amount.

6 Total OM&A for the 2013 Test Year under MIFRS was submitted as \$33,744,563 and it should
7 have been \$33,944,563.

8 Please refer to Exhibit 4, and the sections entitled "*Cost Recoveries*" and "*Shared Services and*
9 *Corporate Cost Allocation*" starting on Page 77 and Page 100 respectively.

10 The discussion relating to the costs recovered from the City of London for the provision of the
11 water billing service on Page 77, line 7 states that "The proposed cost recovery for the 2013
12 Test Year is expected to be \$3,950,000". The cost recovery should be only \$3,750,000 as
13 discussed on Page 100. The correct cost recovery of \$3,750,000 reflects the findings of the
14 independent study related to the cost of providing water billing services to London Hydro's
15 affiliate, the City of London. This study is provided in the Confidential Filings of this Application.

16 Unfortunately the London Hydro budgets were not revised from original estimates to reflect the
17 final findings of the study when it was issued in February 2012.

18 London Hydro apologizes for any inconvenience this error may cause and proposes that this
19 item be dealt with during the review of the overall submission.

Addendum # 4

1 **Payment in Lieu of Taxes – Integrity Checks**

2 Pursuant to the Board’s Filing Requirements dated June 28, 2012 with respect to Integrity
3 Checks as listed under 2.7.8.2, the following confirmations have been provided:

- 4 • *Integrity Check:* The depreciation and amortization added back in the application’s
5 PILs model agree with the numbers disclosed in the rate base section of the
6 application.

7 *Confirmation:* A reconciliation between depreciation and amortization as reported in
8 the PILs model in comparison to that reported in continuity schedules is listed below.
9 Amounts agree with the exception of stranded meter amortization and account 1575
10 PP&E deferral account amortization, which expenses originate from regulatory asset
11 deferral accounts and are added back to income for income tax purposes.

Depreciation per Rate Base in comparison to PILs Model

<i>(in thousands)</i>	2011	2012	2013
	<u>CGAAP</u>	<u>MIFRS</u>	<u>MIFRS</u>
Depreciation/Amortization per continuity schedules	17,263	20,288	16,516
Add: amortization of stranded meters	374	437	
Add: amortization of 1575 PP&E deferral account			117
Depreciation/Amortization per PILs model	<u>(17,638)</u>	<u>(20,725)</u>	<u>(16,633)</u>
difference = rounding	<u>(1)</u>	<u>-</u>	<u>-</u>

12

- 13 • *Integrity Check:* The capital additions and deductions in the UCC/CCA Schedule 8
14 agree with the rate base section for historic, bridge and test years.

15 *Confirmation:* A reconciliation between capital asset additions for Rate Base in
16 comparison to that used for income tax purposes is provided below:

Capital asset additions per Rate Base in comparison to CCA/UCC Schedules

<i>(in thousands)</i>	2011	2012	2013
	<u>CGAAP</u>	<u>MIFRS</u>	<u>MIFRS</u>
Capital asset additions per continuity schedule	25,688	26,559	26,021
Less: roof replacement expensed for tax purposes	(530)		
Less: land rights not deductible for tax purposes	(6)		
Add: Smart meter additions through deferral accounts	2,823		
CCA additions - distribution assets	(24,814)	(26,559)	(26,021)
CCA additions - smart meters	(2,823)		
CEC additions	(338)		
	<hr/>		
difference	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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- 2 • *Integrity Check:* Schedule 8 of the most recent federal T2 tax return filed with the
 3 application has a closing December 31st historic year UCC that agrees with the
 4 opening bridge year UCC at January 1st. If the amounts do not agree, then the
 5 applicant must provide a reconciliation with explanations for the reasons.

6 *Confirmation:* The ending balance of CCA Schedule 8 at December 31, 2011
 7 represents the opening balance of CCA Schedule 8 at January 1, 2012 (the Bridge
 8 Year) after removing non-distribution assets in class 43.2 for removable generation
 9 equipment, as follows:

<i>(in thousands)</i>	
Schedule 8 closing balance December 31, 2011	224,864
Less: Renewable generation equipment (class 43.2)	(701)
Opening UCC balance January 1st of Bridge Year	<u>(224,162)</u>
difference = rounding	<hr/> <hr/> <u>1</u>

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- 11 • *Integrity Check:* The CCA deductions in the application’s PILs tax model for historic,
 12 bridge and test years agree with the numbers in the UCC schedules for the same
 13 years filed in the application.

14 *Confirmation:* The CCA deductions agree after removing non-distribution assets in
 15 class 43.2 for removable generation equipment, as follows:

CCA deduction in PILs model in comparison CCA Schedules

<i>(in thousands)</i>	2011 <u>CGAAP</u>	2012 <u>MIFRS</u>	2013 <u>MIFRS</u>
CCA deduction per Schedule 8	23,499	23,038	23,593
Less: Renewable generation equipment (class 43.2)	(234)		
CCA deduction per PILs model	<u>(23,265)</u>	<u>(23,038)</u>	<u>(23,593)</u>
difference	<u>-</u>	<u>-</u>	<u>-</u>

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2 • *Integrity Check:* Loss carry-forwards, if any, from the tax returns (Schedule 4) agree
3 with those disclosed in the application.

4 *Confirmation:* Not applicable. London Hydro Inc. has no loss carry-forwards.

5 • *Integrity Check:* CCA is maximized even if there are tax loss carry-forwards.

6 *Confirmation:* Maximum CCA is claimed and London Hydro Inc. has no loss carry-
7 forwards.

8 • *Integrity Check:* A statement is included in the application as to when the losses, if
9 any, will be fully utilized.

10 *Confirmation:* Not applicable. London Hydro Inc. has no loss carry-forwards.

11 • *Integrity Check:* Accounting OPEB and pension amounts added back on Schedule 1
12 reconciliation of accounting income to net income for tax purposes, must agree with
13 the OM&A analysis for compensation. The amounts deducted must be reasonable
14 when compared with the notes in the audited financial statements, FSCO reports,
15 and the actuarial valuations.

16 *Confirmation:* A reconciliation between employee future benefits as reported in
17 Exhibit 4, Table 4-23 in comparison to that recorded on Schedule 1 as non-
18 deductible company pension plans relating to the increase in the Company's
19 employee future benefits liability is provided below:

OPEB and pension amounts per benefits expense in comparison to T2 Schedule 1

(in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Employee future benefits per Exhibit 4, Table 4-23	817	880	1,198	1,043	1,072
Less: retiree benefits paid in the year	(440)	(430)	(422)	(518)	(547)
Less: increase in future benefits liability reported per T2S(1)	(377)	(450)	(776)	(525)	(525)
	<hr/>				
difference	-	-	-	-	-
	<hr/>				

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- 2 • *Integrity Check:* The income tax rate used to calculate the tax expense must be
 3 consistent with the utility's actual tax facts and evidence filed in the proceeding.

4 *Confirmation:* Actual tax rates have been used in the Application as displayed
 5 below:

Tax rate per Application in comparison to tax facts

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Federal - actual	16.50	15.00	15.00
Provincial - actual	11.75	11.50	11.50
Per PILs model/Application	(28.25)	(26.50)	(26.50)
	<hr/>		
difference	-	-	-
	<hr/>		

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Addendum # 5

1 **Deferral and Variance Accounts**

2 **Explanation if the continuity schedule differs from the trial balance reported through the** 3 **Electricity Reporting and Record-keeping Requirements and the Audited Financial** 4 **Statements.**

5 The deferral and variance account balances presented in the COS application in Exhibit 9, in
6 [Table 9-1 – Outstanding Deferral and Variance Accounts](#) and [Table 9-3 – Deferral and Variance Accounts](#)
7 [Submitted for Recovery with this Application](#) are the audited December 31, 2011 balances presented in
8 London Hydro's 2011 Audited Financial Statements, and reported in RRR 2.1.7 Trial Balance
9 for period ending on December 31, 2011. Each of the DVA balances submitted in the continuity
10 schedule agree with both London Hydro's 2011 Audited Financial Statements and the RRR
11 2.1.7 Trial Balances at December 31, 2011, except for account 1592 PILs and Tax Variance for
12 2006 and Subsequent Years - Sub-Account HST/OVAT Input Tax Credits (ITCs) for \$393
13 interest. This difference is presented with explanation on page 48 within Exhibit 9 Appendix 9A.
14 The interest on 1592 PILs and Tax Variance for 2006 and Subsequent Years - Sub-Account
15 HST/OVAT Input Tax Credits (ITCs) principal was not included in 2.1.7 RRR filing for Year
16 2011. The account balance was adjusted with the interest calculated on the principal during
17 Year 2012 using the quarterly Board prescribed rate.

18 **Also:**

19 Pg 2 line 5-7 – reference to outstanding balances reported under RRR 2.1.7:

20 “The following [Table 9-1 – Outstanding Deferral and Variance Accounts](#) lists all outstanding DVAs and
21 sub-accounts with balances reported pursuant to section 2.1.7 of the Board's Reporting and
22 Record-keeping Requirements (Trial Balance) on December 31, 2011.”

1 Page 14 lines 15-19 – reference to accounts are the audited December 31, 2011 balances:

2 “Table 9-3 – Deferral and Variance Accounts Submitted for Recovery with this Application reflects the DVA
3 balances in respect of which London Hydro is seeking disposition in this Application. The
4 account balances are the audited amounts for December 31, 2011, and include carrying
5 charges calculated to April 30, 2013.

6 The balances, proposed for disposition before forecasted interest, are as presented in London
7 Hydro’s Audited Financial Statements as at December 31, 2011.”

8 **Interest rates applied to calculate the carrying charges for each regulatory deferral**
9 **and variance account. The applicant must provide the rates by month or by quarter**
10 **for each year;**

11 London Hydro confirms that interest on DVA balances is calculated using the Board’s
12 prescribed rate for each quarter.

13 The quarterly Board Approved Prescribed Interest Rates for Deferral and Variance Accounts
14 used in calculation of carrying charges:

Quarter	Interest Rate
2009 QTR 1	2.45%
2009 QTR 2	1.00%
2009 QTR 3	0.55%
2009 QTR 4	0.55%
2010 QTR 1	0.55%
2010 QTR 2	0.55%
2010 QTR 3	0.89%
2010 QTR 4	1.20%
2011 QTR 1	1.47%
2011 QTR 2	1.47%
2011 QTR 3	1.47%
2011 QTR 4	1.47%
2012 QTR 1	1.47%
2012 QTR 2	1.47%
2012 QTR 3	1.47%
2012 QTR 4	1.47%
2013 QTR 1	1.47%
2013 QTR 2	1.47%

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1 The forecasted interest on December 31, 2011 principal balances of the DVA accounts is
2 calculated using the current Board's prescribed rate of 1.47% for the period of January 1, 2012
3 to April 30, 2013.

4 References: page 9-1 Line 10-12, and page 15 [Table 9-3 – Deferral and Variance Accounts Submitted for](#)
5 [Recovery with this Application.](#)

6

7 All of which is respectfully submitted.