

London Hydro Inc.

2013 Cost of Service Rate Application (EB-2012-0146/ EB- 2012-0380) Response to Interrogatories

Calculation of Revenue Deficiency (Exhibit 6)

Board Staff Interrogatories Questions:

No Questions Submitted.

London Properties Management Association (LPMA) Interrogatories Questions:

No Questions Submitted.

School Energy Coalition (SEC) Interrogatories Questions:

No Questions Submitted.

Energy Probe (EP) Interrogatories Questions:

6.0-Energy Probe-27

Ref: *Exhibit 6, Table 6-5 and Pages 7-8*

- a) Please expand the list of factors to indicate the specific \$ increase (+) (decrease) (-) in the revenue requirement for each factor(s). Omit Cost of Capital drivers. Please provide expanded references.*
- b) Please reconcile the response to Table 6-5.*
- c) Please provide a history of bad debt expense (approved vs. Actual) 2009-2013F.*
- d) Comment on the factors driving bad debt expense e.g. higher electricity prices, market conditions (in London) amended Conditions of Service and LEAP.*

RESPONSE EP 27

- a) Please find modified Table 6-5 and Table 6-6 reflecting both expanded list of factors, omitting cost of capital drivers, and reflecting expanded references.

Combined Table 6-5 Calculation of Revenue Deficiency / Table 6-6 Drivers of Revenue Deficiency

London Hydro Inc.
 EB-2012-0146/EB-2012-0380
 Response to Interrogatories Questions
 Exhibit 6: Calculation of Revenue Deficiency
 February 4, 2013

London Hydro Inc. Revenue Deficiency Determination					
Under MIFRS					
Description	2012 Bridge Deemed	2013 Test Existing Rates	2013 Test - Required Revenue	Drivers for Total Deficiency	Reference
Revenue					
Revenue Deficiency			6,415,350	6,415	
Distribution Revenue	61,064,000	59,355,023	59,355,022	-433	Exhibit 3, Table 3-1 Summary of Operating Revenue, Sheet located below Sheet 6 - Test Year at 2012 Rates
Other Operating Revenue (Net)	3,344,289	3,397,982	3,397,982	-296	Exhibit 3, Table 3-26 Other Distribution Revenues
Total Revenue	64,408,289	62,753,005	69,168,353	-729	
Costs and Expenses					
OM&A	33,430,886	33,841,235	33,841,235		Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Salaries and Benefits					Exhibit 4, Table 4-10 Summary of OM&A Costs by Major Cost Category, pg. 19
Wage Settlements				2,080	Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Change in Employee Complement				3,548	Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Benefit Cost				2,109	Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Deployment of Resources				-3,556	Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Overtime				-34	Specific Details as to OM&A Cost Drivers Exhibit 4 pg 20-29.
Smart Meter/ TOU Billing OM&A Ongoing Costs				675	Exhibit 4, Table 4-8 Summary of Total Distribution Expenses, pg. 16
IFRS Transition -Overhead Burdens				496	Exhibit 4, pg 13, line 4.
Bad Debts Expense				465	Exhibit 4, Table 4-8 Summary of Total Distribution Expenses, pg. 16
Other				-230	Please review Exhibit 4, Tables 4-4 to 4-14.
Depreciation & Amortization	20,156,000	15,788,219	15,788,219	351	Exhibit 10, Table 10-1 MIFRS Impact on Rate Base and Exhibit 4, Table 4-50 Amortization Expense -Impact of Smart Meters and MIFRS
Difference PP&E IFRS and CGAAP Account 1575	0	117,981	117,981	118	Exhibit 10, pg 9 and Exhibit 4, pg 13, lines 21-25.
Deemed Interest	9,218,495	8,648,455	8,648,455		
Total Costs and Expenses	62,805,381	58,399,217	58,399,217	469	
Utility Income Before Income Taxes	1,602,908	4,353,787	10,769,137		

b) Please reference EP IR Response Question 27 a) for Table reconciliation.

c) and d)

Bad Debt expenses are forecasted to be \$1,000,000 in both the 2012 Bridge and the proposed 2013 Test Year. This is \$465,000 higher than the 2009 Board Approved level or an 86.9% increase.

The cost of service application for the last rebasing year of 2009 provided for an estimated bad debt of \$535,000. Actual results were significantly higher, with bad debt in 2009 of \$825,000. This was followed with \$1,120,000 in 2010 and \$800,000 in 2011. During this time customers were adversely affected by

the economy although some improvement in bad debt expense was experienced in 2011. Over the first three years following the rebasing, London Hydro has under recovered \$1,140,000 in bad debt expense. London Hydro continues to actively pursue recovery of these unpaid accounts with the use of external collection agency assistance.

London Hydro has improved systems and processes in order to minimize bad debt loss. Many factors in play are beyond London Hydro's control and all efforts are being made to minimize increases in bad debt.

Recent regulatory directions that impacts London Hydro's collection practice and bad debt include, among others:

- new customer option to carry forward balances into the new budget billing cycle year
- new directive to apply deposits to outstanding arrears prior to field collections
- new extended arrears re-payment options, with longer time extensions for low income customers
- new wait time (10 days) required between initial collection notice and actual disconnection action

Although the economy has slowly recovered, the collection action required year to date in 2012 indicates that bad debt will continue to be a significant issue. The impact of general price increases, TOU billing, as well as regulatory directives impacting London Hydro's collection practices and the level of security deposits allowed to be held, are all influencing the forecasted bad debt.

Statistics show continued high levels of field activity including the number of accounts "qualifying" for collection action, field collection notices (dropped cards), and disconnection action during the first six months of 2012. Past due receivables, requiring collection action during this period totaled 26,257 accounts or 10.2% higher than the same time period in 2011. Field collection calls made were 27,162 and are up 20.5% year over year, and actual disconnects have increased by 9.7% year over year.

Not all accounts requiring collection action result in bad debt, however these statistics are indicators that the collection action required to minimize bad debt expense remains high.

The total active customers increased over the four year period (2009 to 2013) by 4.4%.

Although London Hydro provides a full cycle water billing and collection service to the Corporation of the City of London, it is important to note that there is no bad debt impact due to the provision of this service to the City. All water accounts that are un-collectible are funded 100% by the City of London and are currently outside of the existing service level agreement between London Hydro and the City. For further information related to this agreement, refer to the section entitled: "*Shared Services & Corporate Cost Allocation*" which begins on Page 98.

Vulnerable Energy Consumers Coalition (VECC) Interrogatories Questions:

No Questions Submitted.

All Respectfully Submitted