

Board Staff Supplemental Interrogatories

Exhibit 10

BoardStaff – 72 s

Consolidation of Corrections and/or Modifications in the Revenue Requirement Work Form (“RRWF”)

References:

- Exh 1 – BdStaff # 2;
- Exh 1 – LPMA # 1(e);
- Exh 4 – SEC # 30

London Hydro has provided updates to the RRWF in its responses to Board Staff # 2 and LPMA # 1(e). It appears that an update is required from London Hydro’s response to SEC # 30 with respect to Miscellaneous Revenue. The Board has recently sent a letter to distributors, dated February 14, 2013, with updated cost of capital parameters to be used in rates such as those in this application.

Request:

Upon completion of all interrogatories, please provide an update of the RRWF, modifying the middle column with the updated inputs identified above and such additional updates as may be required by corrections and/or modifications accepted by London Hydro.

RESPONSE 72

Please find below both a Log of Proposed Correction and Adjustments as well a copy of London Hydro’s Revenue Requirement Work Form (“RRWF”), reflecting modifications and updates as accepted by London Hydro.

The Revenue Requirement Work Form (“RRWF”), in excel format, is to be filed as a separate spreadsheet on the OEB web site (for London Hydro Cost of Service files). London has not provided an update as to its Bill Impacts as the approximate \$83,000 in Base Revenue Requirement reductions will not be of significant impact to rates (from rates that are already provided in the Application).

Log of Proposed Corrections and Adjustments

Topic	Description	Referenced	Base Revenue Change
Water Billing Contract	In Original Sept 25, 2012 Application London Hydro recovery for water billing services was \$3,950,000. This correct amount is in fact \$3,750,000, a difference of \$200,000 in OM&A.	Board Staff # 35 a) Cost Recovery	\$ 201,865 increase
Non-regulated Business Interest Rate Charge	The 2013 interest rate charged by regulated company to non-regulated company (solar-generation) is to be charged at 3 percent (Prime Business rate) OMA reduction of \$78,000.	SEC # 30 Affiliate Interest	\$78,605 decrease
Cost of Capital Parameter Updates for 2013 Cost of Service Applications for Rates Effective May 1, 2013	Return on Equity (Deemed) established at deemed rate of 8.98%.	OEB Communicate issued on February 14, 2013.	Base Revenue Requirement drop of \$205,222 (with no other adjustments identified on this listing)

Notes as to Propose Adjustments:

A) Water Billing Contract (Referenced Board Staff Q #35)

#35. Cost Recovery

References: Exh 4, pp. 77 and 102

In Exhibit 4 the forecast cost recovery from London Hydro’s services provided to the City of London for water billing is described at p. 77, with a forecast amount of \$3,950,000. At p. 102, forecast price is shown at \$3,750,000, against an incremental cost of \$1,030,000

Corrected cost recovery from Water Billing Services is in fact \$3,750,000 and not \$3,950,000 as reflected in the original Application. OM&A adjusted to increase \$200,000.

Loss of Water Billing Contract - Impact to OM&A	2013 TEST Year
Cost Recovery from Water Billing Services	\$ 3,750,000
Avoidable Cost if LH no longer provides service	(1,030,000)
Increase in Rate Base	\$ 2,720,000

B) Non-Regulated Interest Charge - Response SEC #30

London Hydro concurs that based on the Affiliate relationship code section 2.4.2 “the loan should be charged at a rate that is no more favourable than what the affiliate would be able to obtain on its own from the capital markets” and as such has recalculated the “interest” owed from 2010 to the 2013 test year based on the revised interest rate utilized.

The interest rate charged is variable and will therefore be adjusted on a yearly basis based on the bank prime rate as posted on the Bank of Canada website. The Prime Business rate over the past 3 years has remained at 3% each month. London Hydro has used the rate as of December, 2012 for the expected 2013 rate.

Interest is calculated on the Due to/from balance at the end of each year using simple interest to calculate the interest expense.

As a result of this revised calculations, the 2013 interest charge should be about \$128,500 rather than \$50,500. This has an impact of about \$78,000.

C) Cost of Capital Parameter Updates for 2013 Cost of Service Applications for Rates Effective May 1, 2013

The Board has determined that the updated Cost of Capital parameters for 2013 cost of service rate applications for rates effective May 1, 2013 are:

Cost of Capital Parameter	Value for 2013 Cost of Service Applications for May 1, 2013 rate changes
ROE	8.98%
Deemed LT Debt rate	4.12%
Deemed ST Debt rate	2.07%

London Hydro's Revenue Requirement Work Form ("RRWF")



Data Input ⁽¹⁾

	Initial Application	(2)	Adjustments	Interrogatory Responses	(6)	Adjustments	Per Board Decision
1	Rate Base						
	Gross Fixed Assets (average)	\$421,406,711		\$ 420,034,789			\$420,034,789
	Accumulated Depreciation (average)	(\$194,026,004)	(5)	(\$194,026,004)			(\$194,026,004)
	Allowance for Working Capital						
	Controllable Expenses	\$33,664,562		\$ 33,666,562			\$33,666,562
	Cost of Power	\$335,786,210		\$ 335,786,210			\$335,786,210
	Working Capital Rate (%)	11.42%	(9)	11.42%	(9)		11.42% (9)
2	Utility Income						
	Operating Revenues:						
	Distribution Revenue at Current Rates	\$59,365,023		\$59,365,023			
	Distribution Revenue at Proposed Rates	\$65,770,371		\$65,687,019			
	Other Revenue:						
	Specific Service Charges	\$2,264,982		\$2,264,982			
	Late Payment Charges	\$1,133,000		\$1,133,000			
	Other Distribution Revenue						
	Other Income and Deductions						
	Total Revenue Offsets	\$3,397,982	(7)	\$3,397,982			
	Operating Expenses:						
	OM&A Expenses	\$33,664,562		\$ 33,666,562			\$33,666,562
	Depreciation/Amortization	\$15,786,210	(10)	\$ 15,906,200			\$15,906,200
	Property taxes						
	Other expenses						
3	Taxes/PiLs						
	Taxable Income:						
	Adjustments required to arrive at taxable income	(\$6,496,114)	(3)	(\$6,496,114)			
	Utility Income Taxes and Rates:						
	Income taxes (not grossed up)	\$696,656		\$656,196			
	Income taxes (grossed up)	\$394,484		\$880,231			
	Federal tax (%)	15.00%		15.00%			
	Provincial tax (%)	10.45%		10.45%			
	Income Tax Credits	(\$153,297)		(\$153,297)	(1)		
4	Capitalization/Cost of Capital						
	Capital Structure:						
	Long-term debt Capitalization Ratio (%)	56.0%		56.0%			
	Short-term debt Capitalization Ratio (%)	4.0%	(8)	4.0%	(8)		(8)
	Common Equity Capitalization Ratio (%)	40.0%		40.0%			
	Preferred Shares Capitalization Ratio (%)	0.0%		0.0%			
		100.0%		100.0%			
	Cost of Capital:						
	Long-term debt Cost Rate (%)	5.58%		5.58%			
	Short-term debt Cost Rate (%)	2.08%		2.07%			
	Common Equity Cost Rate (%)	9.12%		8.98%	(4)		
	Preferred Shares Cost Rate (%)	0.00%		0.00%			
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS (\$)	\$117,981	(11)	(\$85,891)		\$264	\$32,354 (11)

Notes:

- General** Data inputs are required on Sheets 3. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.
- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%).
- (2) Data in column E is for Application as originally filed. For updated revenue requirement as a result of interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I.
- (3) Net of addbacks and deductions to arrive at taxable income.
- (4) Average of Gross Fixed Assets at beginning and end of the Test Year.
- (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (6) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
- (7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement.
- (8) 4.0% unless an Applicant has proposed or been approved for another amount.
- (9) Starting with 2013, default Working Capital Allowance factor is 13% (of Cost of Power plus controllable expenses). Alternatively, WCA factor based on lead-lag study or approved WCA factor for another distributor, with supporting rationale.
- (10) Depreciation Expense should include the adjustment resulting from the amortization of the deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.
- (11) Adjustment should include the adjustment to the return on rate base associated with deferred PP&E balance as shown on Appendix 2-EA or Appendix 2-EB of the Chapter 2 Appendices to the Filing Requirements.
- a). Water Billing Services adjustment: from \$3,050,000 to \$3,750,000 as per agreement, for difference in OM&A of \$200,000.
- b). Adjustment of \$297 to correct PiLs calculate factor differences (PiLs calculate different PiLs worksheet and the RRWF).
- c). Adjustment for interest charged on non-regulated business (solar generation) \$78,000 reduction OM&A.
- d). Cost of Capital parameters changed for May 1, 2013 to 8.98% deemed ROE, from proxy of 9.12%. Short Term deemed to 2.07%, from 2.08%.
- e). Requested OEB changes as to recording 1575 Difference CGAAP and IFRS PP&E Account.



Revenue Requirement Workform

Utility Income

Line No.	Particulars	Initial Application	Adjustments	Interrogatory Responses	Adjustments	Per Board Decision
Operating Revenue:						
1	Distribution Revenue (at Proposed Rates)	\$65,770,371	(\$83,352)	\$65,687,019	\$ -	\$65,687,019
2	Other Revenue (1)	\$3,397,982	\$0	\$3,397,982	\$ -	\$3,397,982
3	Total Operating Revenues	\$69,168,353	(\$83,352)	\$69,085,001	\$ -	\$69,085,001
Operating Expenses:						
4	OM+A Expenses	\$33,844,562	\$122,000 a/b	\$33,966,562	\$ -	\$33,966,562
5	Depreciation/Amortization	\$15,788,219	\$117,981 c)	\$15,906,200	\$ -	\$15,906,200
6	Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
7	Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other expense	\$ -	\$ -	\$ -	\$ -	\$ -
9	Subtotal (lines 4 to 8)	\$49,632,781	\$239,981	\$49,872,762	\$ -	\$49,872,762
10	Deemed Interest Expense	\$8,648,455	(\$15,769)	\$8,632,687	\$1,077	\$8,633,763
11	Total Expenses (lines 9 to 10)	\$58,281,236	\$224,212	\$58,505,449	\$1,077	\$58,506,525
12	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	\$117,981	(\$85,891)	\$32,090	\$264	\$32,354
13	Utility income before income taxes	\$10,769,136	(\$221,674)	\$10,547,462	(\$1,341)	\$10,546,122
14	Income taxes (grossed-up)	\$934,484	(\$54,252)	\$880,231	\$ -	\$880,231
15	Utility net income	\$9,834,652	(\$167,421)	\$9,667,231	(\$1,341)	\$9,665,891

Notes

Other Revenues / Revenue Offsets

(1)	Specific Service Charges	\$2,264,982	\$0	\$2,264,982		\$2,264,982
	Late Payment Charges	\$1,133,000	\$ -	\$1,133,000		\$1,133,000
	Other Distribution Revenue	\$ -		\$ -		\$ -
	Other Income and Deductions	\$ -		\$ -		\$ -
	Total Revenue Offsets	\$3,397,982	\$0	\$3,397,982	\$ -	\$3,397,982

- a Water billing adjustment \$200,000 Increase in OM&A
b. Interest rate adjustment charged to non-regulated business (solar generation)
c. Requested OEB changes to recording 1575 Account.



Revenue Requirement Workform

Rate Base and Working Capital

Line No.	Particulars		Initial Application	Adjustments	Interrogatory Responses	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	\$421,406,711	(\$471,922)	\$420,934,789	\$ -	\$420,934,789
2	Accumulated Depreciation (average)	(3)	(\$194,026,004)	\$ -	(\$194,026,004)	\$ -	(\$194,026,004)
3	Net Fixed Assets (average)	(3)	\$227,380,707	(\$471,922)	\$226,908,785	\$ -	\$226,908,785
4	Allowance for Working Capital	(1)	\$42,209,550	\$13,932	\$42,223,483	\$ -	\$42,223,483
5	Total Rate Base		\$269,590,257	(\$457,990)	\$269,132,268	\$ -	\$269,132,268

Allowance for Working Capital - Derivation

(1)

6	Controllable Expenses		\$33,844,562	\$122,000	\$33,966,562	\$ -	\$33,966,562
7	Cost of Power		\$335,766,210	\$ -	\$335,766,210	\$ -	\$335,766,210
8	Working Capital Base		\$369,610,772	\$122,000	\$369,732,772	\$ -	\$369,732,772
9	Working Capital Rate %	(2)	11.42%	0.00%	11.42%	0.00%	11.42%
10	Working Capital Allowance		\$42,209,550	\$13,932	\$42,223,483	\$ -	\$42,223,483

Notes

- (2) Some Applicants may have a unique rate as a result of a lead-lag study. Default rate for 2013 cost of service applications is 13%.
 (3) Average of opening and closing balances for the year.



Revenue Requirement Workform

Taxes/PILs

<u>Line No.</u>	<u>Particulars</u>	<u>Application</u>	<u>Interrogatory Responses</u>	<u>Per Board Decision</u>
<u>Determination of Taxable Income</u>				
1	Utility net income before taxes	\$9,834,653	\$9,667,231	\$9,817,945
2	Adjustments required to arrive at taxable utility income	(\$6,496,114)	(\$6,496,114)	(\$6,496,114)
3	Taxable Income	<u>\$3,338,539</u>	<u>\$3,171,117</u>	<u>\$3,321,831</u>
<u>Calculation of Utility Income Taxes</u>				
4	Income taxes	\$696,658	\$656,196	\$656,196
6	Total taxes	<u>\$696,658</u>	<u>\$656,196</u>	<u>\$656,196</u>
7	Gross-up of Income Taxes	<u>\$237,826</u>	<u>\$224,035</u>	<u>\$224,035</u>
8	Grossed-up Income Taxes	<u>\$934,484</u>	<u>\$880,231</u>	<u>\$880,231</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$934,484</u>	<u>\$880,231</u>	<u>\$880,231</u>
10	Other tax Credits	(\$153,297)	(\$153,297)	(\$153,297)
<u>Tax Rates</u>				
11	Federal tax (%)	15.00%	15.00%	15.00%
12	Provincial tax (%)	10.45%	10.45%	10.45%
13	Total tax rate (%)	<u>25.45%</u>	<u>25.45%</u>	<u>25.45%</u>

Notes



Revenue Requirement Workform

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
Initial Application					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$150,970,544	5.58%	\$8,424,156
2	Short-term Debt	4.00%	\$10,783,610	2.08%	\$224,299
3	Total Debt	60.00%	\$161,754,154	5.35%	\$8,648,455
	Equity				
4	Common Equity	40.00%	\$107,836,103	9.12%	\$9,834,653
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$107,836,103	9.12%	\$9,834,653
7	Total	100.00%	\$269,590,257	6.86%	\$18,483,108
Interrogatory Responses					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$150,714,070	5.58%	\$8,409,845
2	Short-term Debt	4.00%	\$10,765,291	2.07%	\$222,842
3	Total Debt	60.00%	\$161,479,361	5.35%	\$8,632,687
	Equity				
4	Common Equity	40.00%	\$107,652,907	8.98%	\$9,667,231
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$107,652,907	8.98%	\$9,667,231
7	Total	100.00%	\$269,132,268	6.80%	\$18,299,918
Per Board Decision					
		(%)	(\$)	(%)	(\$)
	Debt				
8	Long-term Debt	56.00%	\$150,714,070	5.58%	\$8,409,845
9	Short-term Debt	4.00%	\$10,765,291	2.08%	\$223,918
10	Total Debt	60.00%	\$161,479,361	5.35%	\$8,633,763
	Equity				
11	Common Equity	40.00%	\$107,652,907	9.12%	\$9,817,945
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	40.00%	\$107,652,907	9.12%	\$9,817,945
14	Total	100.00%	\$269,132,268	6.86%	\$18,451,708

Notes (1)

Data in column E is for Application as originally filed. For updated revenue requirement as a result of Interrogatory responses, technical or settlement conferences, etc., use column M and Adjustments in column I





Revenue Requirement Workform

Revenue Requirement

Line No.	Particulars	Application	Interrogatory Responses	Per Board Decision
1	OM&A Expenses	\$33,844,562	a) \$200,000 b) (78,000)	\$33,966,562
2	Amortization/Depreciation	\$15,788,219		\$15,906,200
3	Property Taxes	\$ -		
6	Income Taxes (Grossed up)	\$934,484		\$880,231
8	Other Expenses	\$ -		\$880,231
7	Return			
	Deemed Interest Expense	\$8,648,455	c)	\$8,632,687
	Return on Deemed Equity	\$9,834,653	c)	\$9,667,231
	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from CGAAP to MIFRS	\$117,981	d)	\$32,090
8	Service Revenue Requirement (before Revenues)	<u>\$69,168,354</u>		<u>\$69,085,001</u>
9	Revenue Offsets	\$3,397,982		\$ -
10	Base Revenue Requirement (excluding Transformer Ownership Allowance credit adjustment)	<u>\$65,770,372</u>		<u>\$69,237,055</u>
11	Distribution revenue	\$65,770,371		\$65,687,019
12	Other revenue	<u>\$3,397,982</u>		<u>\$3,397,982</u>
13	Total revenue	<u>\$69,168,353</u>		<u>\$69,085,001</u>
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	<u>(\$0)</u>	(1)	<u>(\$152,054)</u> (1)

Notes

(1) Line 11 - Line 8

a). Water Billing Services recovery adjusted from \$3,950,000 to corrected amount of \$3,750,000, for a difference in OM&A of \$200,000.

b). Adjust interest rate charged to non-regulated business (solar generation), \$78,000 decrease in OM&A.

c). Cost of Capital Parameters changed to agree OEB notice for deemed (Issued February 14, 2013).

d). Requested changes by OEB for recording of 1575 account.



Revenue Requirement Workform

Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application		Interrogatory Responses		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$6,414,951		\$6,328,795		\$6,532,305
2	Distribution Revenue	\$59,355,023	\$59,355,420	\$59,355,023	\$59,358,224	\$59,355,023	\$59,154,714
3	Other Operating Revenue	\$3,397,982	\$3,397,982	\$3,397,982	\$3,397,982	\$3,397,982	\$3,397,982
	Offsets - net						
4	Total Revenue	\$62,753,005	\$69,168,353	\$62,753,005	\$69,085,001	\$62,753,005	\$69,085,001
6	Operating Expenses	\$49,632,781	\$49,632,781	\$49,872,762	\$49,872,762	\$49,872,762	\$49,872,762
8	Deemed Interest Expense	\$8,648,455	\$8,648,455	\$8,632,687	\$8,632,687	\$8,633,763	\$8,633,763
7	Adjustment to Return on Rate Base associated with Deferred PP&E balance as a result of transition from C/GAAP to MIFRS	\$117,981 (2)	\$117,981	\$32,090 (2)	\$32,090	\$32,354 (2)	\$32,354
8	Total Cost and Expenses	\$58,399,217	\$58,399,217	\$58,537,539	\$58,537,539	\$58,538,879	\$58,538,879
9	Utility Income Before Income Taxes	\$4,353,787	\$10,769,136	\$4,215,466	\$10,547,462	\$4,214,126	\$10,546,122
10	Tax Adjustments to Accounting Income per 2013 PILs model	(\$6,496,114)	(\$6,496,114)	(\$6,496,114)	(\$6,496,114)	(\$6,496,114)	(\$6,496,114)
11	Taxable Income	(\$2,142,327)	\$4,273,022	(\$2,280,648)	\$4,051,348	(\$2,281,988)	\$4,050,008
12	Income Tax Rate	25.45%	25.45%	25.45%	25.45%	25.45%	25.45%
13	Income Tax on Taxable Income	(\$545,222)	\$1,087,484	(\$580,466)	\$1,031,142	(\$580,807)	\$1,030,801
14	Income Tax Credits	(\$153,297)	(\$153,297)	(\$153,297)	(\$153,297)	(\$153,297)	(\$153,297)
16	Utility Net Income	\$5,052,306	\$9,834,652	\$4,949,230	\$9,667,231	\$4,948,230	\$9,665,891
18	Utility Rate Base	\$269,590,257	\$269,590,257	\$269,132,268	\$269,132,268	\$269,132,268	\$269,132,268
17	Deemed Equity Portion of Rate Base	\$107,836,103	\$107,836,103	\$107,652,907	\$107,652,907	\$107,652,907	\$107,652,907
18	Income/Equity Portion of Rate Base)	4.69%	9.12%	4.60%	8.98%	4.60%	8.98%
18	Target Return - Equity on Rate Base	9.12%	9.12%	8.98%	8.98%	9.12%	9.12%
20	Deficiency/Sufficiency in Return on Equity	-4.43%	0.00%	-4.38%	0.00%	-4.52%	-0.14%
21	Indicated Rate of Return	5.08%	6.86%	5.05%	6.80%	5.05%	6.80%
22	Requested Rate of Return on Rate Base	6.86%	6.86%	6.80%	6.80%	6.86%	6.86%
23	Deficiency/Sufficiency in Rate of Return	-1.77%	0.00%	-1.75%	0.00%	-1.81%	-0.06%
24	Target Return on Equity	\$9,834,653	\$9,834,653	\$9,667,231	\$9,667,231	\$9,817,945	\$9,817,945
26	Revenue Deficiency/(Sufficiency)	\$4,782,346	(\$0)	\$4,718,001	\$0	\$4,869,715	(\$152,054)
28	Gross Revenue	\$6,414,951 (1)		\$6,328,795 (1)		\$6,532,305 (1)	
	Deficiency/(Sufficiency)						

Notes:

(1) Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)

(2) Treated as an adjustment pre-tax to avoid an impact on taxes/PILs and hence on revenue sufficiency deficiency