**London Hydro – 2018 IRM + ACM**

**Supplementary IRs**

**2-Staff-1 Ref: OEB Staff-5**

In this response, London Hydro “confirms” its approved ROE of 5.08% from its 2017 Cost of Service application (EB-2017-0091) [sic]. The response provides the following table, taken from sheet 7 of the final Revenue Requirement Work Form.



OEB staff have added arrows pointing to two numbers, referring to the rates of return on common equity and to the total cost of capital. Please explain why London Hydro believes that its approved ROE is 5.08% from its 2017 rebasing application EB-2016-0091.

**London Hydro Response**

**London Hydro would confirm the ROE approved for London Hydro in its most recent cost of service application to rebase rates in 2017 (EB-2016-0091) as 8.78%.**

**2-Staff-2 Ref: OEB staff-5**

In this interrogatory, London Hydro was requested to explain its rationale for proposing that the ACM rate riders be fixed monthly charges for all customer classes.

London Hydro pointed to the adoption of fully fixed charges for Residential customers and the ongoing consultation on Rate Design for Commercial & Industrial Customers, and submitted the following:

With respect to the issue raised with respect to certain commercial demand-billed classes, such as GS 50-4,999 kW and the GS > 50 kW Co-generation classes exhibiting heterogeneity in the consumption and demand profiles, London Hydro would submit that overall impact between the options may be materially insignificant to individual customers bill. Under the scenario of using fixed/variable the average GS 50-4,999 kW may see a charge of $0.0347/kW which would equate to $7.88 per month. (3,814,310 kW X $0.0347/kW / 1,556 customers / 12 months)

London Hydro then provided the following analysis:







1. Regardless of the choice of recovery through monthly fixed, volumetric, or a combination of fixed and volumetric riders, the total qualifying annual revenue requirement and the allocation to customer classes will be the same. Subject to rounding for the number of decimal places for each rate rider, the amount to be recovered through calculated rates will recover the same amount. What is the pertinence of the above tables?

**London Hydro Response**

**London Hydro would concede that there is no true pertinence to the above table other than to that in each formulation the majority of the ACM amount is collected via fixed charge applied to the residential class.**

**London Hydro still submits it chose the fully fixed service charge option based on the simple fact that the OEB is engaged in a C&I rate redesign activity to which it’s proclaimed end result is to determine if fully fixed service charge rates can be applied to the C&I rate classes. Incumbent in that is the fact that the residential class is already directed in the model to apply a fully fixed service charge rate. Hence London Hydro has requested this rate rider to be applied fully on a fully fixed service charge rate.**

1. The wording that “[the] overall impact between the options may be materially insignificant to individual customers[‘] bill[s]” suggests that London Hydro has not performed this analysis.  
     
   London Hydro’s ACM is based on three qualifying projects reviewed in the EB-2016-0091 proceeding, with the following amounts as shown on sheet 10b of the revised ACM model dated 20171231:

|  |  |
| --- | --- |
| Project | Capital Cost |
| **Nelson TS Capital Contribution** | **$ 7,165,590** |
| **JD Edwards** | **$ 2,000,000** |
| **HONI CCRA True-up's Talbot and Buchanan** | **$ 500,000** |

Given the nature of the projects, particularly the Nelson TS Capital Contribution and the CCRA True-up for Talbot and Buchanan TSes, please provide London Hydro’s views with respect to cost causality as to whether costs should be borne through fixed only, variable only, or a combination of fixed and variable charges within a customer class, excluding the Residential class where charges are solely recovered through fixed charges.

**London Hydro Response**

**London Hydro would suggest that the determination of cost causality between the application of fixed and/or variable is not pertinent to this discussion. The simple formulation applied in this model does not remotely address the correct cost allocation of these particular assets. London Hydro would suggest that the proper allocation of cost causality will take place in the next cost of service.**

1. While London Hydro did not examine the rate recovery options in detail in the response to Staff IR-5, the details are provided in the Excel spreadsheet “ACM by Rate Type” filed along with the interrogatories. OEB staff have prepared the following summary based on that spreadsheet:



1. Please confirm of correct this table.

**London Hydro Response**

**London Hydro would confirm the correctness of this table**

1. Based on these rate riders, OEB staff estimates the following bill impacts for GS < 50 kW and GS 50-4,999 customers:

  
OEB staff have not addressed other classes, as the small number of customers or the small dollars or rates involved, or greater homogeneity with classes such as USL or streetlighting make the bill impacts less of a concern.

However, for the GS < 50 kW and GS 50-4,999 kW classes, individually, please provide London Hydro’s views on whether the monthly bill impacts for customers with different consumption or demand profiles would be “materially insignificant to individual customers[‘] bill[s]”.

**London Hydro Response**

**London Hydro would agree that there are winners and losers within the rate classes but using Board staff’s examples the % differences would be less than 2.5% for some customers for distribution cost increase, well less than the OEB’ s class impact threshold of 10% for rate mitigation purposes. On a total bill basis the highest % increase would be less than .5%.**







1. Please provide London Hydro’s views on the appropriateness and practicality (with respect to London Hydro’s billing system) of a scenario whereby the ACM rate rider is recovered through fixed and variable rate riders for GS < 50 kW and GS 50-4999 kW customer classes, and through monthly fixed rate riders for all other customer classes.

**London Hydro Response**

**London Hydro has no objection to applying the above fixed variable scenario. However London Hydro still submits on principle that it chose the fully fixed service charge option based on the simple fact that the OEB is engaged in a C&I rate redesign activity to which it’s proclaimed end result is to determine if fully fixed service charge rates can be applied to the C&I rate classes. Incumbent in that is the fact that the residential class is already directed in the model to apply a fully fixed service charge rate. Hence London Hydro had requested this rate rider to be applied fully on a fully fixed service charge rate.**