Ontario Energy Board | Commission de l'énergie de l'Ontario

BY E-MAIL

November 1, 2021

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

Re: London Hydro Inc. (London Hydro)
Application for 2022 Electricity Distribution Rates
OEB Staff Interrogatories
Ontario Energy Board File Number: EB-2021-0041

In accordance with Procedural Order No. 1, please find attached OEB staff's interrogatories in the above noted proceeding. London Hydro and all intervenors have been copied on this filing.

London Hydro's responses to interrogatories are due by November 19, 2021.

Yours truly,

Jerry Wang
Digitally signed by Jerry Wang
Date: 2021.11.01 15:34:06 -04'00'

Jerry Wang
Advisor, Electricity Distribution: Major Rate Applications & Consolidations

Attach.

*Responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

OEB Staff Interrogatories
London Hydro Inc.
2022 Cost of Service Application

Exhibit 1

1-Staff-1
Updated Revenue Requirement Workform (RRWF) and Models

Upon completing all interrogatories from Ontario Energy Board (OEB) staff and intervenors, please provide an updated RRWF in working Microsoft Excel format with any corrections or adjustments that the Applicant wishes to make to the amounts in the populated version of the RRWF filed in the initial applications. Entries for changes and adjustments should be included in the middle column on Sheet 3 (Data_Input_Sheet). Sheets 10 (Load Forecast), 11 (Cost Allocation), and 13 (Rate Design) should be updated, as necessary. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note. Such notes should be documented on Sheet 14 (Tracking Sheet) and may also be included on other sheets in the RRWF to assist understanding of changes.

In addition, please file an updated set of models, as applicable, that reflects the interrogatory responses, including an updated Tariff Schedule and Bill Impact model for all classes at the typical consumption/demand levels (e.g. 750 kWh for residential, 2,000 kWh for GS<50, etc.).

1-Staff-2
Responses to Letters of Comment

Following publication of the Notice of Application, the OEB received 65 letters of comment. Section 2.1.7 of the Filing Requirements states that distributors will be expected to file with the OEB their response to the matters raised within any letters of comment sent to the OEB related to the distributor's application. If the applicant has not received a copy of the letters, they may be accessed from the public record for this proceeding.

Please file a response to the matters raised in the letter of comment referenced above. Going forward, please ensure that responses to any matters raised in subsequent

comments or letter are filed in this proceeding. All responses must be filed before the argument (submission) phase of this proceeding.

1-Staff-3
Ref 1: Exhibit 1, p. 31-32

London Hydro is participating in the West 5 net-zero community project. The first part involves a pilot project funded in part by NRCAN.

a) What are London Hydro's responsibilities in relation to this project?
b) What is the current status of this project, and when is it expected to be completed?
c) Have any amounts related to this project been included in rate base, and are any amounts included in London Hydro's capital/OM&A forecasts?

1-Staff-4
Ref 1: Exhibit 1, p. 33
Ref 2: Exhibit 2, p. 131

For smart metering operations, London Hydro uses an "in-sourcing" strategy, one aspect of which is to own and operate its own Regional Network Interface and Smart Meter head-end system. London Hydro estimates $610k in annual cost savings from its strategy.

a) Please provide further details on this strategy; what are the other aspects aside from the Regional Network Interface and Smart Meter head-end system?
b) How did London Hydro calculate the estimate of $610k in cost savings?

In reference 1, it's noted that, as part of its in-house capabilities, London Hydro offers services to external clients for meter testing, certification and resealing, which results in $40k annually in cost recoveries.

c) In reference 2, London Hydro states that its revenue from meter sealing services is $100k annually. Please reconcile the two amounts.

1-Staff-5
Ref 1: Exhibit 1, p. 155
Ref 2: London Hydro Scorecard (2020)

London Hydro's most recent scorecard shows that London Hydro experienced three serious electrical incidents in each of 2018, 2019 and 2020.

a) Please provide further details on what steps London Hydro has taken to address these incidents and to prevent them going forward.

1-Staff-6
Ref 1: O. Reg. 633/21
Ref 2: Exhibit 1, p. 41-43

O. Reg. 633/21 (Energy Data) under the *Electricity Act, 1998* comes into force on November 1, 2021 and mandates that all energy providers (electricity and natural gas) meet its requirements by November 1, 2023, among which include certification by the Green Button Alliance.

a) Given that all Ontario distributors must adopt Green Button compliant platforms by November 1, 2023, please discuss why an exception under s. 71(4) of the OEB Act should be extended to May 1, 2027.
b) Does London Hydro expect the province-wide adoption of the Green Button platform (by Nov. 1, 2023) to be sufficient to allow it to re-evaluate its framework for the continued provision of Green Button services?

1-Staff-7
Ref 1: EB-2018-0118, Decision, p. 7

As noted in the OEB's previous decision granting London Hydro's Green Button exception, London Hydro's existing customers contributed to the initial development of Green Button services. London Hydro's customers should therefore retain the prospect of benefits gained from service expansion, such as economies of scale or spreading the costs across a larger customer base.

Under London Hydro's proposed framework, net profits under its expanded Green Button services are ring-fenced and, while no net incremental costs are attributable to London Hydro's customers, net profits are not shared either.

a) Please explain why this framework is appropriate when London Hydro's customers will not get any benefit from the increased customer base for Green Button services.

b) Please discuss if it would be more appropriate to adopt an asymmetrical earnings sharing mechanism, under which customers would share in net profits, but be insulated from any net losses.

1-Staff-8
Ref 1: EB-2018-0118, Decision, p. 4

In the Decision noted above granting London Hydro's Green Button exemption, the OEB indicated that it was satisfied that in this case there were "special circumstances" within the meaning of section 71(4) of the OEB Act that warranted an exemption, including the fact that London Hydro's proposed business activities were to be undertaken on a temporary basis.

a) In London Hydro's view, what are the "special circumstances" that warrant the extension of the exception?

1-Staff-9
Ref 1: Exhibit 1, p. 41-43

a) Please provide London Hydro's ring-fenced net profits/losses from its expanded Green Button services in each year since 2018.

b) Given that a province-wide implementation of Green Button is due by November 1, 2023, does London Hydro expect any material net profits/losses within the forecast period (May 1, 2022 to May 1, 2027)?

c) Please provide a forecast of net profits/losses and forecast ROE (ring-fenced and non-ring-fenced) for the next five years.

d) Please quantify how much London Hydro has spent to date on the development of Green Button for its own customers. Please also quantify how much London Hydro has spent to date to expand its Green Button services for its business activities under its s. 71(4) exception.

e) Please provide a forecast of the costs associated with Green Button over the next five years to be recovered through London Hydro's distribution customers and the costs to be ring-fenced.

1-Staff-10
Ref 1: Exhibit 1, p. 41-43

Has London Hydro considered providing the Green Button services through an affiliate? If so, please explain why providing the services through an affiliate would not be a viable option.

1-Staff-11
Ref 1: EB-2018-0118, Decision, p. 2

In its EB-2018-0118 application, London Hydro explained that it wanted "to expand the scope of the Company's GB Services to include services relating to utilities other than electricity, to expand the customer base to whom the Company provides expanded GB Services to include non-electricity utilities and customers as well as customers outside of Ontario, and to provide Green Button Directory Services to enable customers/service providers/utilities of all kinds to access and share utility related data." That application covered the "incubation period" that would end at the expiry of London Hydro's five-year rate plan.

a) Please describe in detail the Green Button services that London Hydro has actually introduced during the incubation period pursuant to the approval granted in EB-2018-0118.
b) Please provide any internal or external reports that may have been prepared (e.g. for London Hydro's board of directors or senior management) that assess London Hydro's Green Button services during the incubation period.
c) Please describe in detail the Green Button services that London Hydro intends to provide over the next five years if its request for an extension of the EB-2018-0118 relief is granted.
d) Who are London Hydro's main competitors in this space?

1-Staff-12
Ref 1: Report to the OEB, New Developments in Activities and Program Benchmarking, March 9, 2021 (revised May 11, 2021)

The OEB has released the report on Activities and Program Benchmarking.

a) Has London Hydro reviewed this report?
b) Please discuss London Hydro's performance in the areas evaluated in Activities and Program Benchmarking.

c) Please discuss if London Hydro has taken any actions or is planning to take in response to the report.

1-Staff-13
Ref 1: Exhibit 1, Appendix D 2019 Audited Financial Statements, p. 16-19
Ref 2: Exhibit 2, p. 133
Ref 3: Exhibit 2, DSP Attachment Q London Hydro Remote Operations Assessment by Verve
Ref 4: Chapter 2 Appendices, Appendix 2-BA Fixed Assets Continuity Schedule

Note 3 of London Hydro's 2019 Audited Financial Statements states that London Hydro adopted the amendments to IFRS 16 Leases effective January 1, 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The reconciliation of the statement of financial position on the 2019 Audited Financial Statements (AFS) shows that London Hydro recognized a transitional addition to Property, Plant and Equipment of $2,319k with $58k of accumulated amortization for the leased asset as of December 31, 2018.

In Reference 2, London Hydro states that:

> General Plant spending for the historical period is expected to be around 18% or $8M higher than anticipated. The largest single variance was in 2018 with an accounting entry of $2.3M for "land acquisition" to account for the value of the land lease agreement with the City of London for the property at 111 Horton Street.

The report in Reference 3 states that:

> LHI is located at 111 Horton Street, London, ON N6A 4H6. LHI's offices and operations are in a centralized location within the City... LHI owns the buildings, while the land upon which the LHI resides is owned by the City. LHI leases the land from the City for $100,000 annually; there is no formal lease agreement in place.

OEB staff notes from Appendix 2-BA Fixed Asset Continuity Schedule that $2,319k was recorded in USoA 2005 Property Under Finance Leases in the 2018 fixed asset continuity schedule and annual amortization of $58k has been recorded for this asset since 2018. As a result, $2,029k of net book value of the leased asset is included in the 2022 test year's fixed asset continuity schedule.

a) Please confirm that the $2,029k Property under Finance Leases corresponds to the land lease at 111 Horton Street that had been capitalized since 2018 due to the adoption of the amendments to IFRS 16 Leases.

b) Please explain how the land lease was treated in rates (including the quantum) in London Hydro's last rebasing application?

c) Please explain how London Hydro calculated the initial capitalized amount of $2,319k for the land lease in 2018 and how London Hydro determined the annual amortization amount of $58k, given there is no formal lease agreement in place.

d) Please confirm that London Hydro still pays the city of $100,000 for the land lease and explain if London Hydro expects any changes in the payment amount in the future.

e) From rates perspective, please provide London Hydro's view on the expensing vs. capitalization of the leased land in this application.

1-Staff-14
Ref 1: Exhibit 1, Appendix F Reconciliation of Financial Statements
Ref 2: Chapter 2 Appendices, Appendix 2-BA Fixed Asset Continuity Schedule

London Hydro has provided a reconciliation of the 2020 regulatory trial balance to the 2020 AFS in Reference 1. In reviewing the reconciliation of the accounts in the trial balance for Property, Plant and Equipment to the 2020 AFS, OEB staff notes the following discrepancies between the reported 2020 trial balances for two accounts and the 2020 reported RRR 2.1.7 balances for these accounts, as below:

USoA	OEB Account Name	2020 Trial Balance per the Reconciliation	RRR 2.1.7 Reported to OEB	Difference
2055	Construction Work in Progress - Electric	12,535,396	13,466,895	(931,500)
2105	Accumulated Depreciation of Electric Utility Plant - Property, Plant and Equipment	(209,431,075)	(207,264,637)	(2,166,438)

OEB staff notes that the net book value of fixed assets as per the 2020 fixed asset continuity schedule filed in Appendix 2-BA is $325,183k while the net book value of PP&E as per the 2020 AFS is $352,992k.

a) Please explain the discrepancies noted by OEB staff in the table above.

b) Please provide a reconciliation between the net book value of fixed assets as of December 31, 2020 in the fixed asset continuity schedule and the values in the 2020 AFS.

1-Staff-15
Ref 1: Exhibit 1, p. 166
Ref 2: Exhibit 1, Appendix C 2020 Annual Report
Ref 3: London Hydro's 2020 Scorecard posted on the OEB's website

London Hydro has provided the 2019 achieved return on equity (ROE) performance as part of the 2019 scorecard. London Hydro states that:

> London Hydro submitted an IRM application for new rates effective May 1, 2019. The approved application resulted in a modest right sizing of our return on equity (ROE) achieved in 2019 of 8.82% down from the 2018 value of 10.08%. The achieved ROE is above the deemed ROE of 8.78%.

Note 14 Long-term debt in the 2020 AFS (and included in the 2020 Annual Report) states that:

> The swap agreements entered into with Royal Bank of Canada and Toronto Dominion Bank do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2020 was $6.6 million (2019 – $0.4 million).

The OEB has posted Electricity Distributors' 2020 scorecards on the OEB's website. OEB staff notes that London Hydro's 2020 achieved ROE is calculated as 7.90%.

a) Please confirm whether the 2019 and 2020 achieved ROE percentages have adjusted out the unrealized loss on interest swaps of $6.6 million and $0.4 million, respectively.

   i) If not, please explain why not and provide a revised achieved ROE for 2019 and 2020 by removing the impact of the unrealized losses on interest swaps.

Exhibit 2

2-Staff-16
Ref 1: Exhibit 2, Appendix 2-4 Capitalization Policy
Ref 2: London Hydro's 2017 Cost of Service Application EB-2016-0091, Exhibit 2, Appendix 2-2 Capitalization Policy

Section 4.8 Major Inspections/Overhauls of Item of PP&E of London Hydro's capitalization policy states that:

> If regular "major" inspections are instituted on an item or items of PP&E, regardless if the parts of the item are replaced, this cost is recognized in the carrying amount of the item of PP&E. (IAS 16.13). If the PP&E item is derecognized the remaining carrying amount of the cost of the previous major inspection is also derecognized.
>
> The cost of the major inspection or overhaul included in the amount initially recognized for an item of PP&E should be allocated to the major inspection or overhaul component and amortized separately over the useful life of this component so that it is fully depreciated before the next major inspection occurs.

Section 4.8 Major Inspections/Overhauls of Item of PP&E from London Hydro's capitalization policy presented in its 2017 cost of service rate application stated that:

> The Company does not normally realize regular major inspections on its PP&E, and therefore does not anticipate having a separate component for major inspection costs.

OEB staff notes that the above quote is not reflected in the capitalization policy underpinning this current application.

a) Please explain why the capitalization policy presented in this application excludes this quote.
b) Has London Hydro revised its capitalization policy since it last rebased? If so, how does London Hydro propose to treat the impact, from a rates perspective, of expensing the major inspection costs throughout one rate-setting term, and then capitalizing them into opening rate base in a subsequent term?
c) Please explain if London Hydro has capitalized regular major inspections on its PP&E in the 2022 test year. If so, please provide the details for the capitalized components for the regular major inspections (i.e., capital projects where the

major inspections are capitalized, the quantum of the major inspections included in the capital project and the depreciation periods for these capitalized major inspections).

2-Staff-17
Ref 1: Chapter 2 Appendices/Appendix 2-D Overhead Expenses
Ref 2: London Hydro's 2017 Cost of Service Application EB-2016-0091/Chapter 2 Appendices filed at settlement proposal/Appendix 2-D Overhead Expenses

Based on Reference 1, OEB staff reproduced part of the Appendix 2-D for the capitalized OM&A% filed in this application as below:

	Historical Years			Bridge Year	Test Year
	2018	**2019**	**2020**	**2021**	**2022**
% of Capitalized OM&A	22.1	21.9	24.0	26.3	25.8

Based on Reference 2, OEB staff reproduced part of the Appendix 2-D for the capitalized OM&A% filed in London Hydro's last rebasing application as below:

	Historical Years			Bridge Year	Test Year
	2013	**2014**	**2015**	**2016**	**2017**
% of Capitalized OM&A	22.0	22.1	22.0	22.4	24.9

a) Please provide the actual percentage of capitalized OM&A in 2016 and 2017, compared to the forecasted percentage filed in London Hydro's 2017 rebasing application, and explain the differences.

b) Please confirm that London Hydro has not changed its overhead capitalization methodology since its last rebasing application.

c) Please explain the pattern of the increased percentage of capitalized OM&A in the test year in both applications.

2-Staff-18
Ref 1: Exhibit 2, p. 89

London Hydro's SAIFI metric has a peak in 2018. Whether MEDs/LOS are included or excluded, the 2018 SAIFI performance is significantly worse than the other historical years.

a) What is the cause of the increase in SAIFI (excluding MED and LOS) for 2018?

2-Staff-19
Ref 1: Exhibit 2, p. 42

In discussing system renewal spending, London Hydro notes that, since 2017, it has made significant investments to increase the available capacity of the 27.6kV distribution system.

a) Please elaborate on the investments described here.
b) Please explain why these investments to increase available capacity have been designated as system renewal spending, as opposed to system service spending.

2-Staff-20
Ref 1: Chapter 2 Appendices, Appendix 2-AB

London Hydro's 2019 actual general plant capital expenditures were significantly higher than originally forecast.

a) What is the reason for the variance between 2019 forecast and actual general plant spending?

2-Staff-21
Ref 1: DSP, p. 63

As part of its capital expenditure prioritization process, London Hydro's Board of Directors and senior management annually review and adjust the yearly capital budget along with a rolling five-year forecast for capital spending. Potential projects are then reviewed and ranked so that the overall list of projects meet the overall financial targets set by the Board of Directors and senior management.

If the annual financial target for capital spending is found too restrictive, senior management reviews the overall budget or makes a request to the Board of Directors to change the financial target.

a) When the Board of Directors and senior management initially set the annual budget, does this include any input provided by London Hydro's engineering, operations and IT staff on the expected capital need for the year?

b) Please provide any materials/presentations provided to the Board of Directors.

c) What information is provided to the Board of Directors when requesting a change to the financial target? Please provide a copy of all materials provided to the Board of Directors, if any, related to any requests for changes to the financial target for the test year or any historical years.

2-Staff-22
Ref 1: DSP, p. 123-124

As shown in the reference, there is a peak in spending in 2022 and 2023, which recedes in 2024 onwards. It's been noted that this is in large part due to increased road relocation spending and the CIS refresh project.

On a net basis, London Hydro's capital expenditures for 2022 is $47.5M, which is 21% higher than the average net capital expenditures over the forecast period (2022-2026) of $39.1M.

a) What steps has London Hydro considered to defer spending from the test year into future years as part of its capital budgeting process so as to smooth out spending and limit the rate impact to customers?

b) Please provide a list of projects that have been deferred as part of this process, if any.

2-Staff-23
Ref 1: Exhibit 2, p. 43, 48
Ref 2: Exhibit 2, section 2.2.1
Ref 3: DSP, Appendix J

The gross assets recorded within 1908 – Buildings and Fixtures have increased from $23.1M 2017 OEB-approved to $28.1M in the 2022 test year.

As noted in section 2.2.1 and p. 48, much of this spending is to renovate London Hydro's offices to accommodate the changing needs of its workforce while updating fixtures. Appendix J of the DSP contains the scope of the $1.6M spending for 2022.

a) Does London Hydro have a facilities plan/study that provides the strategy and guidelines for the upkeep and renovation of its facilities?

b) How does London Hydro determine the scope of work to be completed in any given year?

c) How did London Hydro determine the 2022 budget of $1.6M?

2-Staff-24
Ref 1: Exhibit 1, p. 36, 60
Ref 2: Exhibit 2, p. 12, 43

As noted in various sections of the application (e.g. reference 1), London Hydro is moving towards cloud solutions for many of its IT systems and has already done so for many of its systems in the past five years. The transition to cloud computing reduces hardware/software in rate base as cloud costs are recorded as OM&A.

However, as shown on p. 12, London Hydro's gross assets within 1920 Computer – Hardware and 1611 Computer – Software have not decreased since 2017, which was $23.5M, and have increased to $29.0M for the 2022 test year.

As well, London Hydro's capital spending on Hardware/Software for the 2022 test year has not decreased relative to 2017 spending.

a) Please explain why London Hydro's IT assets have increased significantly rather than decreased despite the transition to cloud.
b) Please explain why London Hydro's Hardware/Software expenditures remain unchanged despite the transition to cloud.

2-Staff-25
Ref 1: Exhibit 2, p. 43
Ref 2: DSP, p. 153
Ref 3: DSP, Appendix I, 22B2

London Hydro's subdivision rebuilds spending increased significantly from $4.4M in 2019 to $9.0M in 2020. This increased level of spending continues into the 2022 test year.

As shown in reference 2, subdivision rebuild spending decreases and levels off starting in 2023 around $6.5M.

a) Please explain the increased spending between 2020-2022 for subdivision rebuilds.
b) Please explain why the test year spending is higher than the latter half of the forecast period. Has London Hydro considered deferring capital to later years to smooth out its capital spending?

Appendix I shows that the estimated spending in 2022 for the “subdivisions conversions/rebuild” subcategory is $5.8M. This is significantly higher than all prior years.

c) Please explain why spending in 2022 is significantly higher than prior years.

d) The scope of work for 2022 is 6 subdivisions at a cost of $5.8M. The scope of work for 2021 is 11 subdivisions at $3.4M. Please explain how London Hydro forecasts its cost estimates and why 2022 spending is higher than 2021 despite a fewer number of subdivisions.

2-Staff-26
Ref 1: DSP, Appendix I, 22E1-5

Under 22E1, London Hydro notes that it does not have any details on expansion or relocation projects but has based its spending in this category on historical spending.

a) Which historical years is the test year budget based on? Please explain how London Hydro arrived at $1,838,000 for the test year.

As noted in the project description, new subdivision and commercial distribution services projects (E3, E4, E5) are driven directly by customer applications to install services. The application notes that, from a budgeting perspective, annual expenditures are estimated using a number of factors, including past history and various forecasts.

b) For the 2022 test year, please confirm whether the budget allocated to these projects are based on actual customer requests for 2022, or an estimate based on past history and market forecasts. If the latter, please provide all assumptions, data and methodology.

c) Please explain how London Hydro calculates the capital contributions forecasts for these projects.

d) The cost estimate for E5 shows only “cost” but does not indicate whether this is the gross cost or net cost after including capital contributions. Please explain whether the costs here are on a gross or net basis. If there are no capital contributions forecasted, please explain why not.

2-Staff-27
Ref 1: DSP, Appendix J, 22H2, 22H4, 22H5

For 2022, London Hydro has a budget of $795k for SCADA enhancements. For comparison, the 2017 budget was $288k. Appendix J notes that “most of the SCADA

enhancement projects are part of programs that have successfully been completed in previous years."

a) Please explain how London Hydro determines the scope and budget of work to be completed each year under this program.

b) If most SCADA enhancement projects are part of programs that have been completed in prior years, please explain why the program budget has increased significantly over 2020-2022.

2-Staff-28
Ref 1: Exhibit 2, p. 49

London Hydro notes that its capital spending for application development is to meet the needs of its current and evolving information technology environment and regulatory requirements. The test year budget is $4.4M compared to 2017 OEB-approved budget of $3.3M.

a) What regulatory requirements are driving the spending in this category, particularly the increase in spending from 2017 to 2022?

b) What portion of this budget is to address regulatory requirements, and what portion of this budget is discretionary spending?

2-Staff-29
Ref 1: Exhibit 2, p. 41, 57, 66
Ref 2: DSP, p. 25, 91
Ref 3: DSP, Appendix J, E2021-01, E2022-01

London Hydro has upgraded a number of its IT systems and increased automation in the distribution system. OEB staff has found a number of references that describe these enhancements/upgrades as drivers of efficiency, some examples of which include:

- CIS refresh that would improve operational efficiencies
- JD Edwards upgrade that allows the automation of processes
- Upgrades to protection and control devices
- Self-serve customer service options

a) Are these efficiencies reflected in London Hydro's OM&A forecasts? Please provide an analysis of the impact on OM&A spending.

b) Given London Hydro's continued spending in IT and distribution automation, please discuss the expected impact this will have on London Hydro's OM&A.

2-Staff-30
Ref 1: DSP, p. 97-101

In the Reference 1, London Hydro provides the sustainment strategy for each of its asset classes (proactive vs. reactive).

a) For assets that are reactively replaced, does London Hydro forecast a budget in each year for their replacement? If yes, how does London Hydro forecast the budget required in each year?

2-Staff-31
Ref 1: Exhibit 2, p. 77
Ref 2: ACM Model, tab 9a

Distributors are required to fill out their forecasted capital expenditures in tab 9a of the ACM model. This is used in conjunction with the materiality threshold to calculate the maximum eligible incremental capital.

The threshold calculation is to determine the amount of capital the utility is expected to be able to fund through base rates. Therefore, the forecasted amount should be on a net basis because capital contributions help fund a portion of the capital expenditures.

a) London Hydro has used gross capital expenditures in tab 9a as opposed to net capital expenditures. Please explain whether London Hydro agrees with the preamble above and please provide an updated ACM Model using forecasted net capital expenditures.

2-Staff-32
Ref 1: Exhibit 2, Appendix 2-3

The EY report on London Hydro's potential CIS upgrade options provides a rough cost estimate (+/- 30%) of $14.5M - $18.5M one-time implementation costs for migrating to SAP S/4 HANA.

a) How did London Hydro forecast the total ACM cost of $18.5M? Please explain how London Hydro arrived at the highest end of the range provided by the EY report.
b) Please provide a breakdown of each component of this project.
c) Has London Hydro obtained quotes or any engaged in any competitive pricing process for the materials/labour required for this project?

d) The EY report notes $0.4M - $0.5M in ongoing operating costs. Are these amounts included in London Hydro's 2022 OM&A budget?

e) What is the anticipated support lifetime for the S/4 HANA platform?

f) Has London Hydro considered the option of jointly developing a CIS solution with another electricity distributor so as to share the costs?

2-Staff-33
Ref 1: DSP, Appendix J, CIS2022-01-J

As part of the 2022 work on the CIS refresh project, London Hydro will be selecting an external system integrator through an RFP to work with London Hydro's project team.

a) Aside from the system integrator, are there any other third-parties that London Hydro intends to contract to work on this project?

b) What is the breakdown of costs allocated to external parties versus London Hydro's internal costs?

c) Since London Hydro's RFP for a system integrator won't be completed until 2022, how did London Hydro's forecast the cost for the system integrator?

d) What are London Hydro's processes for evaluating and approving any variances to project scope, schedule and cost?

e) What steps has London Hydro taken to mitigate the risk of cost overruns and the resulting impacts on rates to customers?

2-Staff-34
Ref 1: DSP, Information System Plan, p. 8-9, 14

As noted in London Hydro's Information System Plan, support for its existing CIS is expected to end in 2027. The expected lead time to design, deploy and test the new CIS (S/4 HANA) is 12-15 months.

a) Given that the support for the existing CIS will continue until 2027 and the lead time for the new system is only slightly more than a year, please discuss why it is necessary to upgrade the system now, as opposed to some later year.

b) What is the annual cost to operate and maintain London Hydro's current CIS?

c) Has London Hydro conducted a present value analysis of upgrading its CIS now versus in a later year?

d) Has London Hydro conducted a risk analysis to delaying the upgrade of its current CIS to a later year?

2-Staff-35
Ref 1: DSP, Information System Plan, p. 48

Reference 1 notes multiple enhancements made to the JD Edwards platform in 2021.

a) Given that the JD Edwards platform was only recently implemented in 2018, what are these further enhancements being made?

2-Staff-36
Ref 1: DSP, Information System Plan, p. 47, 50
Ref 2: Chapter 2 Appendices, 2-AB

The Information System Plan notes that upgrading its CIS in the future would likely result in higher costs due to demand for resources supporting other utilities' upgrades. The estimate is a cost increase of 15-20%.

a) Please explain how London Hydro came to an estimate of 15-20%.
b) Why is likely that demand would be higher in the future for resources to upgrade other utilities' upgrades?

2-Staff-37
Ref 1: DSP, DSP Customer Feedback Survey Summary, Large Commercial & Industrial

London Hydro posed the following question in its survey to large commercial & industrial customers: "Average C&I customers will see an increase in the Delivery portion of their bill of 0.9%."

a) OEB staff is unable determine what bill impact the 0.9% corresponds to – it does not match any value in the bill impacts model. Please explain what the 0.9% represents.

2-Staff-38
Ref 1: DSP, UtilityPulse Customer Satisfaction Survey, p. 37
Ref 2: Exhibit 2, p. 33

When asked to prioritize the most important aspects for improvement, it seems most customers prioritized "better prices / lower rates." As shown in the survey, lower rates

were considered most important for 44% of customers. By comparison, the next item on the list is “restore power faster” with 13%.

Customer communications, such as “Improve / simplify / clarify billing”, “better communications / be pro-active", and customer self serve options such as “create an online mobile APP” appear to be far less important to customers and were less than 10% each.

a) How has London Hydro incorporated customer feedback in its budgeting process for customer communications spending and customer engagement software spending (e.g. Trickl)?
b) Has London Hydro canvassed customers specifically on preferences and cost vs. benefits for customer engagement efforts, such as corporate communications, or self-serve apps like Trickl? If so, please provide a reference to the customer engagement conducted on these topics.
c) How did London Hydro determine the amount of annual budget to dedicate to customer communications and customer engagement related software development?

2-Staff-39
Ref 1: DSP, Appendix I, 22B2

Although the Kinectrics asset condition assessment flags 40km of underground to be replaced annually, London Hydro has scoped out 29.5km of cable to be replaced under the 22B2 project for 2022.

a) How did London Hydro determine 29.5km of cable for replacement in 2022?
b) How did London Hydro estimate the budget required for this scope of work?

2-Staff-40
Ref 1: DSP, Appendix I, 22C1

22C1 refers to the main feeder supply system renewal project, which for 2022 involves the construction of a new feeder.

a) From the description, it appears to OEB staff that this is a new build of a new feeder. Please explain why this project is considered system renewal.

2-Staff-41
Ref 1: DSP, Appendix I, 22G1
Ref 2: DSP, Appendix I, 22G3

22G1 is a program to replace 120 poles per year that have been identified as needing replacement.

22G3 is a program aimed at rebuilding specific parts of London Hydro's system that are in an advanced state of deterioration.

a) Both programs will replace deteriorated poles – how does London Hydro determine which program will address which poles?

2-Staff-42
Ref 1: DSP, Appendix I, RS2022-01

Within this project is a budget of $400k towards "regulatory changes", which is "designed to ensure that regulatory requirements from the OEB and Measurement Canada are delivered in a timely and efficient manner."

a) What regulatory requirements is this project intended to address for the test year?

2-Staff-43
Ref 1: DSP, Appendix K, Asset Sustainment Plan, Executive Summary

The asset sustainment plan details London Hydro's strategy for the renewal/replacement of its assets. On page 2 of the executive summary, it's noted that this plan focuses only on the natural lifecycle of assets and does not account for accelerated retirement due to external drivers like city or developer related projects.

OEB staff notes that the 2022 test year contains a significant amount of spending towards road relocation projects driven by the City of London. These projects involve the relocation of assets such as poles, transformers and underground assets.

a) In London Hydro's system renewal programs, has London Hydro accounted for assets that are expected to be replaced as part of road relocation projects? That is to say, is there any overlap in scope between what has been budgeted in London Hydro's system renewal programs and road relocation (or other externally driven) projects?

2-Staff-44
Ref 1: DSP, Appendix K, Asset Sustainment Plan, p. 76

The asset sustainment plan proposes replacing approximately 455 wood poles per year. OEB staff notes that there are multiple programs that involve replacing poles (e.g. 22G1, 22G3).

a) What is the total number of poles London Hydro expects to replace in 2022 across all programs?
b) How many poles have been replaced annually in each of the past five years?

2-Staff-45
Ref 1: DSP, Appendix K, Asset Sustainment Plan, p. 97, 102

The asset sustainment plan notes that London Hydro acquired new cable testing equipment in 2020 and that "cables previously identified as being in 'very poor' condition might, as a result of cable testing, be deferred from replacement…"

a) Has London Hydro been able to integrate the use of its new cable testing equipment when budgeting for cable renewal/replacement programs?
b) For the underground cables that London Hydro plans to replace in the test year, have these cable populations been tested using the new cable testing methodology? If yes, what has been the impact of the new testing results on the scope of cables to be replaced?

The asset sustainment plan suggests that London Hydro replace an average of 40km of polymeric cables per year. However, it also notes that "preliminary cable testing is giving an indication that some of the cable rated 'very poor' is, in real life, performing better than expected."

c) Does the suggested pace of 40km / year take into consideration the new cable testing, which is showing that the actual conditions of some cables do not necessitate an immediate replacement?
d) What is the total km of cables forecasted to be replaced in the 2022 test year across all projects and programs?

2-Staff-46
Ref 1: DSP, Appendix L, Asset Condition Assessment

a) Does London Hydro conduct any back testing of the ACA methodology on previous years' data to see if assets in very poor or poor condition did indeed fail or required greater than average maintenance? If yes, please provide such analysis.

b) Does London Hydro analyze any of its failed assets to determine the root causes of failure?

Exhibit 3

3-Staff-47
Ref 1: Exhibit 3, p. 9-10

London Hydro states that:

> London Hydro experienced significant load loss between 2008 and 2010 as a result of the global recession, and any recovery post-recession has been steadily eroded to below recession levels. As shown in Chart 3-1 below, London Hydro's recovery from the recession reveals that the load has leveled off and London Hydro is now experiencing a more consistent load profile over the last four years.

OEB staff notes that a typical 10 years ending in December 2020 would begin January 2011, after the 2008-2010 period of significant load loss.

a) Please provide 10 years of historical load from January 2011 to December 2020.

b) Is there a longer subset of data longer than four years that could be used, even if the full 10 years does not produce a good fit?

c) What does London Hydro believe has caused any erosion in load from 2011-2016?

d) Did London Hydro attempt to use any explanatory variables to capture the impact of the loss of load and use a full ten years of historic data? If so, which ones?

e) As a scenario, please provide a load forecast where a full ten years of historic data is used.

3-Staff-48
Ref 1: Exhibit 3, p. 10-13

The proposed load forecast includes variables for HDD, CDD, Stat Days, Month Days, Peak Days, Ontario GDP and London Population. Of these, Peak Days and Ontario GDP have t Stat values below 1.0, and London Pop and Stat Days have coefficients less than 2.0. London Pop has a negative coefficient, which seems counter-intuitive to OEB staff.

a) Please explain why all of these variables were used together when several have low t stats indicating statistical insignificance.
b) Why does London Hydro believe that London Pop has a negative coefficient? Please comment on the observation that as population increases, wholesale purchases decrease.
c) Please test the variables used for multi-collinearity and provide the results.
d) As a scenario, please provide a load forecast where Peak Days and Ontario GDP are omitted. If the resulting coefficients of any remaining variables falls below 1.0, please remove those as well.

3-Staff-49
Ref 1: Exhibit 3, p. 11
Ref 2: Load Forecast Generator Model, sheet Normalized Monthly Data

London Hydro states that it used the Ontario Government budget which forecasts Real GDP growth of 4.0% in 2021 and 4.3% in 2022. It also states that it used a City of London forecasted population growth rate of 0.59% in 2021 and 0.78% in 2022.

OEB staff have calculated total values for the explanatory variables used in 2020, 2021, and 2022 as follows:

	Ontario GDP	GDP Growth	Population	Population Growth
2020	13.631	N/A	13.260	N/A
2021	13.553	(0.57%)	13.470	1.58%
2022	14.118	4.16%	13.698	1.69%

a) Please confirm OEB staff's calculations as described or provide a correction with explanation.

b) As a scenario, please provide the load forecast that would result where the total annual GDP increases by 4.0% in 2021 and by 4.3% in 2022, and where the population increases by 0.59% in 2021 and by 0.78% in 2022. A method to achieve this would be to adjust the forecast for each month by the annual growth rate relative to the same month a year prior.

3-Staff-50
Ref 1: Exhibit 3, p. 8-33

The provided load forecast does not make explicit reference to the COVID-19 pandemic. The historic data provided includes the historic years 2017 to 2020, approximately 10 months of which coincides with the ongoing pandemic.

a) To what extent was London Hydro's historic load affected by the COVID-19 pandemic?
    i) In aggregate at a wholesale purchases level?
    ii) At a rate class level?

b) To what extent does London Hydro expect load to normalize in 2022, and through the remaining four years of the normal IRM term?

c) How is the provided load forecast reflective of the responses provided to part a) and b)?

3-Staff-51
Ref 1: Exhibit 3, p. 16

A new customer is expected in the Large Use rate class in the summer of 2022. London Hydro indicates that it will have more information as 2021 closes.

a) Please provide any information London Hydro has on the expected peak demand and connection date of the new customer.

b) Is this a new customer, or an existing customer expected to increase usage enough to move up from a lower volume rate class?

c) If this is related to the growth of an existing customer, please indicate the customer's current class and historic kW and kWh for all months from January 2017 to the most recent data available. In responding to this question, please consider whether confidential treatment is required.

3-Staff-52
Ref 1: Exhibit 3, p. 17

The provided load forecast does not contain any adjustments for CDM. London Hydro indicates that it does not expect any future significant impacts.

The normalized forecast predicts a decline from 3,199 MWh to 3,188 MWh from 2017 to 2020, and a further decline to 3,130 MWh in 2022.

a) Please provide historic verified and estimated savings in each of the 2017-2020 years.
b) To what extent are the explanatory variables capturing the effect of declining load over the historic period and projecting the continued decline into the forecast period?

3-Staff-53
Ref 1: Exhibit 3, p. 19-20

London Hydro has calculated a geometric mean annual growth rate of energy use per customer for each rate class. It appears to have applied this to 2020 energy use per customer to forecast 2021 and 2022 energy use per customer. From there, forecast energy per rate class is derived.

a) As a scenario, please calculate the growth rate using the geometric mean methodology but excluding the 2020 historic year.
b) Continuing the scenario above, please apply the growth rates to 2019 to forecast 2021 (2 years of growth) and 2022 (3 years of growth).
c) Please provide the resulting load forecast by rate class.

3-Staff-54
Ref 1: Exhibit 3, p. 41

London Hydro's pole rental revenues are forecasted to increase in the 2022 test year because the 2022 forecast is budgeted at the OEB-approved rate of $44.50 / pole, as opposed to $22.35 / pole previously. The increase from $22.35 to $44.50 is about double; however, London Hydro's forecasted revenue for 2022 of $793k is only a 60% increase over the 2021 amount of $495k.

a) Please provide London Hydro's pole rental revenue calculations. Does London Hydro expect a fewer quantity of pole rentals in 2022?

Exhibit 4

4-Staff-55
Ref 1: Exhibit 4, p. 35

In total, London Hydro's proposed 2022 OM&A contains the full increase attributable to inflation, wage escalations and customer growth as well as some additional cost drivers as noted in the reference above.

a) Given that London Hydro's customer base is increasing, what economies of scale and cost savings has London Hydro been able to achieve since 2017?
b) What efficiencies in OM&A spending has London Hydro achieved since 2017, and where are these efficiencies reflected? In particular, please discuss why these efficiencies have not kept London Hydro's OM&A cost increases below inflation, wage escalations and customer growth.

4-Staff-56
Ref 1: Exhibit 4, p. 44

Increased advertising and consulting fees contribute to the increase in London Hydro's corporate communications budget.

a) What aspects of London Hydro's corporate communications require external consulting? Could these activities be completed in-house?

4-Staff-57
Ref 1: Exhibit 4, p. 45

London Hydro has recently established a Green Button Marketing Strategy and has directed funds towards Green Button related endeavors.

a) Do these Green Button related expenses overlap with any of London Hydro's non-distribution related Green Button services? That is, are any of the marketing or Green Button applications also offered to London Hydro's non-distribution related customer base under its exception under s. 71(4)? If yes, how have London Hydro allocated costs between its distribution customers and non-distribution customers under s. 71(4)?

4-Staff-58
Ref 1: Exhibit 4, p. 46

London Hydro notes that labour costs within the Asset Management department have decreased due to the increased volume in capital projects, which result in more costs being capitalized.

a) Please explain why an increase in capital projects would reduce the OM&A costs in this department. Does this imply that this department is completing less work that are not attributable to specific capital projects (e.g. reliability analysis, system planning)?

4-Staff-59
Ref 1: Exhibit 4, p. 111, 125, 129, 131

London Hydro notes that the overall budget in metering increased particularly between 2019-2020 due to a large number of meters installed during 2009-2010 requiring their ten-year seal renewal.

a) Given that these meters have now been resealed, please explain why there is no corresponding decrease in overall costs from 2020 to the 2022 test year.

London Hydro notes that 2022 revenues from meter resealing services remain lower than prior years due to the need to redirect internal resources on London Hydro's own needs with respect to expiring smart meter seals and the replacement of demand meters with interval meters.

As above, OEB staff notes that the large population of meters due for seal refresh was in 2019-2020. Furthermore, London Hydro notes that it has completed replacing all demand meters to interval MIST meters for GS>50kW customers.

b) Please explain why cost recoveries in 2022 remain lower than 2017 OEB-approved.

4-Staff-60
Ref 1: Exhibit 4, p. 20-21, 145, 265-268

Moving to cloud IT solutions has the benefit of reducing the amount of investment required for on-premises hardware, as well as the costs to maintain and operate such hardware.

a) Given London Hydro's transition to cloud for many of its IT services, what cost savings has London Hydro achieved in avoiding the need for maintaining and operating on-premises solutions?
b) Please indicate where cost savings, if any, are recorded in London Hydro's IT program costs.
c) Please explain why London Hydro has experienced CAGR of 2.7% in IT program costs (which does not include cloud costs as those have been segregated) despite significant progress in moving to cloud solutions.

4-Staff-61
Ref 1: Exhibit 4, p. 268
Ref 2: Chapter 2 Appendices, Appendix 2-AA

Despite the increase in IT solutions being moved to the cloud, it does not appear London Hydro's Hardware/Software capital spending has decreased as much as cloud costs are increasing. The 2022 Hardware/Software capital spending is a decrease of $212k over 2017 spending, while cloud OM&A costs are increasing by $887k from 2017 to 2022.

a) What capital costs have London Hydro been able to reduce as a result of moving IT solutions to the cloud? Please provide an analysis on the impact of moving to the cloud on capital spending.
b) For IT solutions that have been moved to the cloud, please provide a comparison of costs to customers prior to moving to cloud, and after moving to the cloud.

4-Staff-62
Ref 1: Exhibit 4, p. 173

In customer service and collections, net OM&A labour has increased by $393k (CAGR 2.0%) and contractor services have increased by $174k (CAGR 6.8%) since 2017 OEB-approved.

London Hydro notes that net OM&A labour has decreased due to the increasing number of customer self-serve options but that decrease is offset by an addition of three staff.

a) Given London Hydro's increasing number of customer self-serve options (website, mobile app, etc.) and IT solutions (IVR, etc.), please explain why contractor services for call centres have not decreased but increased.
b) What reductions in net OM&A labour for customer service and collections has London Hydro achieved through the increase in customer self-serve options?

London Hydro notes that the three new staff are to help provide expert advice on energy related matters.

c) Prior to the addition of these three staff, how did London Hydro provide this business function to its customers?
d) How did London Hydro determine the appropriate size of this team of three? Annually, how much work does London Hydro receive related to customer requests for expert advice on energy related matters?

4-Staff-63
Ref 1: Exhibit 4, p. 173, 180

London Hydro is forecasting $900k in bad debt expenses for 2022.

a) How did London Hydro forecast a bad debt expense of $900k?

4-Staff-64
Ref 1: DSP, UtilityPulse Customer Satisfaction Survey, p. 37
Ref 2: Exhibit 4, p. 193

Based on the UtilityPulse survey, it appears that few customers ranked "better communications" as a top priority, while a significant portion of customers felt that "better prices / lower rates" is the most important priority.

London Hydro has hired two new FTEs within corporate communications.

a) Has London Hydro surveyed customers on preferences with respect to increased corporate communications spending and provided context to customers on the corresponding rate increase as a result of the increased costs? If so, please provide a reference to the survey results.

b) Please discuss how customer preferences, particularly with reducing rates, have influenced London Hydro's budget planning in corporate communications, particularly with its decision to increase costs in this program.

4-Staff-65
Ref 1: Exhibit 4, p. 230

Within Corporate Services, for net OM&A labour, there is a significant increase of $370k from 2019 to 2020 that accounts for the bulk of the increase in net OM&A labour between 2017 and 2022.

a) What is the cause of this increase?

4-Staff-66
Ref 1: Exhibit 4, p. 240

a) How many locate requests does London Hydro forecast for 2022 and how many actual locate requests were received in the previous historical years?

4-Staff-67
Ref 1: Exhibit 4, p. 320

London Hydro's management FTEs has increased from 53 (2017 OEB-approved) to 64 (2022 test year). This represents an increase of 20%.

For non-management employees, London Hydro's 2017 OEB-approved FTE count was 258.7, but 2017 actuals were 240.5. The 2022 forecast is 255.7.

a) Please provide a list of the management positions hired and explain why London Hydro required an increase of 20% in management FTEs.
b) Please explain why 2017 actuals for non-management FTEs were so much lower than 2017 OEB-approved.

4-Staff-68
Ref 1: Exhibit 4, p. 18-19
Ref 2: London Hydro's 2017 Cost of Service Application EB-2016-0091, Settlement Proposal, p. 11, 13
Ref 3: Exhibit 4, p. 372

In Reference 1, London Hydro states that:

> London Hydro submitted its Cost of Service Application (EB-2016-0091) on August 26, 2016 for rates effective May 1, 2017. At the time of London Hydro's application, the decision regarding the proper treatment of Pension and Other-Post-Employment Benefit ("OPEBs") (cash versus accrual) was pending with the OEB. As part of London Hydro's settlement, London Hydro agreed to include in its distribution rates only the cash portion of OPEB costs.

Page 13 of London Hydro's 2017 settlement proposal stated that:

> The Parties have also agreed that LH will move to recording OPEB costs on a cash basis rather than its current practice to record them on an accrual basis pending the OEB's decision in EB-2015-0040, the impact of this is a reduction of $216,300 in the OM&A Test Year.

Regarding capital expenditures, Page 11 of London Hydro's 2017 settlement proposal included the following adjustment:

> An adjustment of $92,700 to account for the removal of capitalized amounts related to the change in accounting for OPEBs costs from an accrual basis to a cash basis pending the Board resolution in EB-2015-0040.

In Reference 4, London Hydro provides the following table for OPEB costs:

OPEB and pension amounts

OPEB (non deductible company pension plans	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Bridge Year	2022 Test Year
OPEB liability, beginning of year	(14,481,000)	(15,213,100)	(13,894,700)	(15,534,600)	(16,100,100)	(16,232,600)
OPEB liability, end of year	15,213,100	13,894,700	15,534,600	16,100,100	16,232,600	16,410,900
	732,100	(1,318,400)	1,639,900	565,500	132,500	178,300
Actuarial gain / loss through OCI	(584,000)	1,549,600	(1,581,300)	(244,400)	-	
	148,100	231,200	58,600	321,100	132,500	178,300
Non deductible pensions per Schedule 1	148,100	231,200	58,600	321,100	132,500	178,300
	-	-	-	-	-	-

OEB staff notes that the actual OPEB costs of $321,100 in 2020 matches the actuarial valuation report as of December 31, 2020.

a) Please provide the forecast cash amount for OPEBs that was embedded in London Hydro's 2017 rates.

b) Please confirm that the originally forecast accrual cost of OPEBs in London Hydro's 2017 application was $309,000 ($216,300 included in OM&A and $92,700 included in capital).

c) Please confirm that the actual accrual cost of OPEBs in 2017 was $148,100.

    i) If confirmed, please explain the difference between the 2017 forecasted accrual of $309,000 compared to the 2017 actual accrual of $148,100 for OPEB costs.

    ii) If not confirmed, please provide the actual accrual cost of OPEBs with a breakdown of the expensed and capitalized portions.

d) Please explain if London Hydro conducts the actuarial valuation of its OPEBs liability on an annual basis.

    i) If so, please confirm that the OPEB accrued costs from 2017 to 2019 match to the costs on the annual actuarial valuation report.

    ii) If not, please explain how London Hydro estimated the OPEB costs from 2017 to 2019.

e) Please explain how London Hydro estimated the OPEBs cost of $132,500 in the 2021 bridge year and the OPEBs cost of $178,300 in the 2022 test year.

f) Please provide a breakdown of the annual OPEB costs into the capitalized and expensed portions from 2017 to 2022.

4-Staff-69
Ref 1: PILs model
Ref 2: the OEB's Letter "Accounting Direction Regarding Bill C-97", July 25, 2019

London Hydro has applied accelerated capital cost allowance (CCA) in the PILs model, in accordance with the Accelerated Investment Incentive Program (AIIP). In the OEB's July 25, 2019 letter titled Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance, it stated that:

> The OEB recognizes that there may be timing differences that could lead to volatility in tax deductions over the rate-setting term. The OEB may consider a smoothing mechanism to address this.

a) Please confirm that all of London Hydro's capital additions in the 2022 test year are forecasted to be eligible for the AIIP.

b) Please discuss whether London Hydro has considered smoothing accelerated CCA for its capital additions and, if so, what its position is on that matter.

c) Please provide a calculation showing how London Hydro would smooth CCA over the IRM period, and what the impact to PILs would be under a smoothed scenario.

d) Assuming the current proposed capital additions are approved in this rate application, please provide the balance in Account 1592 Sub-account CCA Changes as at end of the IRM term, i.e. 2027, including the full revenue requirement impacts of the phasing out of the AIIP starting in 2024.

4-Staff-70
Ref 1: Exhibit 4, p. 366
Ref 2: PILs Model

In Table 4-57: Reconciliation of Regulatory Taxable Income 2017 to 2020 of Reference 1, OEB staff notes that London Hydro had a regulatory taxable loss in 2019 of ($1,369,384).

OEB staff notes that London Hydro did not fill out “schedule 4 loss carryforward – historical” sheet in the PILs model.

In addition, OEB staff notes that the loss carry forward of ($3,000,320), generated in the 2021 bridge year, is not carried forward to the 2022 test year’s loss carry forward tab.

a) Please explain why the 2019 loss of ($1,369,384) is not carried into the 2020 year.

b) Please explain why the bridge year’s loss of ($3,000,320) is not carried forward into the 2022 test year.

4-Staff-71
Ref 1: Exhibit 4, p. 369
Ref 2: London Hydro's 2017 Cost of Service Application EB-2016-0091, Settlement Proposal, PILs workform

In Reference 1, London Hydro provides the 2017 to 2020 (Scientific Research and Experimental Development) SR&ED tax credit totals in the table below (notably, $523,206 in 2017):

SR&ED Income Tax Credits	
Year	Credit
2017	523,206
2018	507,273
2019	569,477
2020	683,801
Average	570,939

In Reference 2, OEB staff notes that the forecast 2017 SR&ED tax credit in 2017 rebasing application is $335,000.

a) Please explain the variance between the forecast and actual SR&ED tax credit in 2017.

b) Please confirm that the SR&ED tax credits from 2017 to 2020 were actual credits received by London Hydro.

    i) If not, please explain.

c) Please provide the actual SR&ED claim amounts that have been deducted in London Hydro's tax returns from 2017 to 2020.

4-Staff-72
Ref 1: Exhibit 4, p. 370
Ref 2: Exhibit 4, p. 374
Ref 3: PILs Model

In Reference 1, London Hydro states that:

> Expenditures such as labour and contractor services used in the calculation of the SR&ED claim are removed from Capital Cost Allowance ("CCA") additions and deducted as an expense for the current year, for income tax purposes only. This adjustment has been forecasted at $2,400,000 for both the 2021 Bridge Year and 2022 proposed Test Year based on actual amounts deducted for the four years from 2017 to 2020.

In Reference 2, London Hydro states that:

> We have followed the OEB's standard procedure in formulating our revenue requirement in our application; however, we kindly request that consideration be given to reverse the offset in our revenue requirement equivalent to our annual SRED benefit of $500k. Such an action by the OEB, would provide us with continued encouragement for more innovation as well as be a symbol of the OEB's endorsement of their encouragement to seek increasing innovation from the utility.

OEB staff notes from the PILs model that $2.4M SR&ED cost capitalized for accounting purposes was deducted from 2021 and 2022 taxable income, respectively, which reduces the taxable incomes for both years.

a) Please explain why the SR&ED claims are removed from CCA additions and deducted as an expense for the current year, given that the tax impacts of CCA additions and expenses are different.
b) Please clarify if London Hydro would reverse the CCA adjustment of $2.4 M in the bridge year and test year, if the OEB ultimately approves the reversal of the SR&ED tax credit from revenue offsets in the test year.
    i) If so, what would be the impact to the revenue requirement?
    ii) If not, why not?
c) Please provide any precedent to support London Hydro's request for the reversal of the SR&ED tax credit from revenue offsets.

4-Staff-73
Ref 1: Exhibit 4, p. 373

a) For the projects/investments that London Hydro received (or is currently receiving) SR&ED tax credits on, please confirm whether these projects were (or currently are) funded through revenues collected through London Hydro's customers.

b) With respect to employee incentives, has London Hydro budgeted for incentives to provide to its employees within the proposed OM&A budget in this application?

c) Please explain what financial or business risks fall to London Hydro's shareholders when London Hydro, the company, invests in these projects that are eligible for SR&ED tax credits.

Exhibit 5

5-Staff-74
Ref 1: Exhibit 5, p. 6, 9

On page 6 of exhibit 5, London Hydro states that it has entered into a future swap agreement in the amount of $125 million to take effect in June 2022 with an effective all-in rate of 2.13% to replace the existing swap agreements with RBC.

On page 9, in the table for the 2022 year, the line item that appears to correspond to the new swap agreement at 2.13% has a principal of only $62.5 million, which is half of $125 million, and has a start date of Dec. 4, 2020. The other half appears to remain as RBC swap agreements.

a) Please reconcile the table with the statement on page 6.

Exhibit 7

7-Staff-75
Ref 1: Exhibit 7, p. 11
Ref 2: Load forecast Model, sheets Monthly Data, Forecasting Data

London Hydro states that the data used for updated load profiles consists of hourly consumption during 2020 for the Residential, GS < 50 kW, GS > 50 kW, Large User, Co-Gen, Backup, and Standby customers. It also indicates that a small number of GS > 50 kW customers remained to be converted to interval metering in 2020.

London Hydro acknowledges that 2020 was an anomalous year due to COVID-19.

The 2020 total HDD was 3,576.9, 5.8% less than the 10-year average of 3,796.9. The 2020 total CDD was 355.7, 13.4% more than the 10-year average of 313.8.

a) Please confirm that the remaining GS>50 kW customers were converted in 2020.
b) Please comment on when London Hydro expects to update its load profiles using 2021 data.
c) What proportion of total metered energy and demand in the GS > 50 kW class were measured by interval meters in each of 2019 and 2020?
d) As a scenario, please provide the load profiles that would result if 2019 were used, using the same methodology to address gaps in GS > 50 kW data that was used for 2020.
e) Please explain why London Hydro didn't attempt to weather normalize with one year of historic load data.
f) Please perform a linear regression for each of the Residential, GS < 50 kW, and GS > 50 kW rate classes (three linear regressions). Please use the rate class load as the dependent variable. For the explanatory variables, please include variables for HDD and CDD.

7-Staff-76
Ref 1: Cost Allocation Model, sheet I6.2 Customer Data, I8 Demand Data

In the Customer Data worksheet, it is indicated that no Co-Gen customers use Line Transformation or Secondary Distribution. However, the Demand Data worksheet includes demand served using London Hydro provided transformation, and load connected to the secondary distribution system.

The Demand Data worksheet indicates that most, but not all, Standby load is served using London Hydro provided transformation, and that a relatively small portion of Standby load connected to the secondary distribution system.

a) Please reconcile the apparent discrepancy in the Co-Gen rate class and correct the worksheets as required.
b) How many Standby customers rely on London Hydro to provide each of Primary Distribution, Line Transformation, and Secondary Distribution?
c) Please confirm that all the Standby customers are customers of both Standby, and another rate class, and their connection is counted in the other rate class.

7-Staff-77
Ref 1: Exhibit 7, p. 14

London Hydro indicates that two rate classes, Co-Gen and Sentinel have status quo revenue-to-cost ratios that are outside the OEB's policy range. It states that it intends to "maintain the rate classes that have the status quo allocation within the OEB target range to remain in place." However, the proposed revenue to cost ratios reflect an adjustment for every rate class. In most cases, the adjustments bring revenue to cost ratios closer to unity, but in the case of GS > 50 kW, the adjustment is away from unity, and in the case of Large Use, the proposal is to decrease from 101% to 91.6%. This reflects a movement across, and meaningfully away from unity.

a) Is London Hydro proposing to maintain revenue-to-cost ratios, or make the movements indicated in Table 7-8?
b) If movements away from unity are being proposed, please explain why.
c) If movements not related to moving Co-Gen and Sentinel within the range are being proposed, please explain why.

Exhibit 8

8-Staff-78
Ref 1: Exhibit 8, p. 27

London Hydro has forecasted $717,510 for transformer ownership allowance for 2022.

a) Please provide the calculations behind this forecast.

8-Staff-79
Ref 1: Exhibit 8, p. 9

London Hydro is proposing to maintain the fixed-to-variable proportion for its rate design for all rate classes. This proposal results in fixed charges for the GS < 50 kW, GS > 50 kW and Large Use rate classes being increased even though the existing fixed charges are above the ceiling.

a) Please provide the variable charge that would result form maintaining the fixed charge at the current level for these rate classes.

8-Staff-80
Ref 1: Exhibit 8, p. 15

London Hydro proposes to maintain Retail Service charges at current levels at this time. It indicates that the OEB will adjust rates effective January 1, 2022.

a) If rates are updated by the OEB, will London Hydro update its application, at that time, including for the related revenue?

8-Staff-81
Ref 1: Exhibit 8, p. 24
Ref 2: Chapter 2 Appendices, Appendix 2-R

The RRR supply volumes (wholesale plus embedded generation) do not match the line loss calculation.

	Appendix 2-R A(1)	Appendix 2-R A(2)	RRR
2016	3,282,508,272	3,270,156,925	3,298,886,924
2017	3,177,607,929	3,165,986,997	3,195,491,862
2018	3,311,288,330	3,298,999,125	3,326,260,132
2019	3,211,599,473	3,200,665,345	3,226,177,665
2020	3,162,685,497	3,141,771,533	3,177,782,024

London Hydro observed that its losses were higher in 2016 and 2017 due to billing estimates.

London Hydro is proposing to keep the current loss factors as the current total loss factor of 1.0315 is not materially different from the calculated loss factor of 1.0313.

a) Please reconcile the difference between the historic losses RRRs.
b) Would the billing estimates responsible for increasing loss estimates have the effect of making corresponding reductions in loss estimates for 2017 and 2018 respectively?
c) Does London Hydro view the 2018-2020 period as more representative of losses going forward into the 2022-2026 period?

d) At what difference between the calculated loss factor and current approved loss factor would London Hydro consider it appropriate to perform an update?

8-Staff-82
Ref 1: Exhibit 8, p. 12

London Hydro proposes to introduce RTSR charges on a kWh basis for GS>50kW, Co-Gen and Large User net-metering/community net metering customers. London Hydro notes that: "… a net metered customer should not incur RTSR on the basis that they do not in essence use transmission-based electricity in the same way as all other consuming customers."

a) Please confirm if the intent of London Hydro's proposal is to allow net-metered/community net-metered customers avoid paying RTSR charges altogether.
b) Please explain why RTSR charges are unique and require this special treatment given that GS<50kW customers receive generation credits on a consumption basis for their monthly service charges as well, but not GS>50kW, Co-Gen and Large User demand billed customers.
c) How has London Hydro ensured that its UTR costs are appropriately cost allocated to net-metering customers and non-net metering customers?
d) Please explain how the way net-metering customers uses transmission-based electricity is different than all other consuming customers. Specifically, please consider the scenario where a net-metered customer's generation does not reduce its peak demand (e.g. the generation occurs at a different time than when the load consumes electricity), but does, on a net-basis, convey more kWh to London Hydro's distribution system than it consumes. Under this scenario, if there is no reduction on London Hydro's peak demand from the transmission grid, wouldn't London Hydro incur the same UTR costs regardless of whether this particular customer had generation behind the meter?

8-Staff-83

For demand billed customers, any generation behind the meter should have the effect of reducing the demand on London Hydro's distribution system at the time of generation. Since current RTSR charges for demand billed customers are on a kW basis, the reduction in demand should correspondingly reduce the amount of RTSR charges billed, if it occurs at a time of the customer's peak demand.

a) Does London Hydro agree with the above statement? If so, please explain why demand billed net metering customers require additional relief from RTSR charges, and how this is fair from a cost allocation perspective.

8-Staff-84

London Hydro's RTSR proposal would result in two separate RTSR charges for the GS>50kW, Co-Gen and Large User classes.

a) Please explain how London Hydro would ensure a fair cost allocation, particularly when customers could theoretically self-select their RTSR charge of choice to minimize their amounts billed (e.g. by introducing a nominally sized generator just to be billed on a kWh basis as a net-metering customer).

8-Staff-85
Ref 1: Exhibit 8, p. 12

a) If London Hydro's proposal for kWh RTSRs for net-metering customers is approved, please confirm if London Hydro's Conditions of Service will be updated to reflect this change.

Exhibit 9

9-Staff-86
Ref 1: Exhibit 9, p. 7
Ref 2: DVA continuity schedule

Regarding Account 1508 sub-account Pole Attachment Revenue Variance, London Hydro states that:

> The forecasted revenue variance for the period of January 1, 2021 to April 30, 2022 is added to the December 31, 2020 balance as principal adjustment in the model in order to dispose the full amount and close the account upon disposition.

Based on Table 9-4 in Reference 1, London Hydro forecasts a $(411,536) revenue variance in 2011 and $(137,179) revenue variance for four months of 2022.

a) Please confirm whether any of the carrying costs in the DVA continuity schedule were calculated on the forecast revenue variance from January 1, 2021, to April

30, 2022. If so, please update the DVA continuity schedule by removing the carrying costs associated with the 2021 and 2022 forecasted balances.

b) Please explain how London Hydro has estimated the forecast revenue variance in 2021 and four months in 2022.

9-Staff-87
Ref 1: London Hydro's 2017 Cost of Service Application EB-2016-091, Accounting Order - OPEB Forecast Cash versus Forecast Accrual Differential Deferral Account
Ref 2: Exhibit 9, p. 27

The accounting order included in London Hydro's 2017 decision and order stated that:

> London Hydro shall establish the "OPEB Forecast Cash versus Forecast Accrual Differential Deferral Account" for the purpose of recording the difference in revenue requirement each year between both the capitalized and OM&A components of OPEBs accounted for using a forecasted cash basis (as to be reflected in rates if this settlement is accepted by the Ontario Energy Board) and the capitalized and OM&A components of OPEBs accounted for using a forecasted accrual basis.

London Hydro proposes the disposition of $891,000 in OPEB forecast cash versus accrual differential deferral account in this application.

In Reference 2, London Hydro states that:

> London Hydro intends to discontinue the account upon disposition and therefore, forecasted the 2021 differential in the amount of $132,000 and included in the disposition request. London Hydro notes that this estimate will likely be updated when the actuarial valuation report is received from Mercer in mid-January 2022.

a) Please confirm that London Hydro will update the 2021 estimated OPEB costs based on the 2021 actuarial valuation report. If not, please explain how London Hydro will address the variance between the estimated 2021 OPEB costs and the updated 2021 OPEB costs based on the actuarial report.

9-Staff-88
Ref 1: Exhibit 9, p. 9-10
Ref 2: OEB's Report for Impacts Arising from the COVID-19 Emergency, June 17, 2021 (COVID Report)
Ref 3: Exhibit 9, p. 28-33
Ref 4: OEB's letter re "Enhanced Funding for LEAP Emergency Financial Assistance for 2020", June 17, 2020

London Hydro provides a reconciliation table between the requested balance in Account 1509 COVID-19 Impacts accounts and the reported balance in RRR 2.1.7 as below:

Account Description	Account Number	Principal Net Accruals / Variances Dec. 31, 2020	Carrying Charges to Dec. 31, 2020	Audited Ending Balances at Dec. 31, 2020	As filed in RRR 2.1.7 as of Dec. 31, 2020	Variance RRR vs. 2020 Balance (Principal + Interest)
Impacts Arising from the COVID-19 Emergency						
COVID-19 Impacts - Postponing Rate Implementation	1509	$ 507,421	$ 1,396	508,817	$ 508,817	$ -
Adjustment to record recoveries in 2021	1509	$ (496,157)		(496,157)		$ 496,157
COVID-19 Impacts - Government/OEB Initiated Customer Relief Impacts	1509	$ 1,645,397	$ 5,199	1,650,595	$ 1,650,595	$ -
COVID-19 Impacts - Bad Debts	1509	$ 422,553	$ 1,705	424,258	$ 424,258	$ -
COVID-19 Impacts - Other Costs	1509	$ 502,919	$ 1,703	504,621	$ 504,621	$ -
Adjustments based on OEB Report: Regulatory Treatment of Impacts Arising from the COVID-19 Emergency - EB-2020-0133	1509	$ (1,264,919)	$ (4,246)	(1,269,165)		$ 1,269,165
TOTAL Account	**1509**	**$ 1,317,214**	**$ 5,756**	**$ 1,322,970**	**$ 3,088,292**	**$ 1,765,322**

London Hydro states that:

> Balances in Sub-accounts Government/OEB initiated Customer Relief Impacts, Bad Debts and Other Costs were adjusted based on OEB Report of Regulatory Treatment of Impacts Arising from the COVID-19 Emergency - EB-2020-0133.

Page 38 of OEB's Report of Regulatory Treatment of Impacts Arising from the COVID-19 Emergency (the Report), dated June 17, 2021, states that:

> The OEB will maintain the effective date of March 24, 2020 indicated in the accounting orders establishing this Account. The OEB does not expect utilities to have incurred material, if any, incremental costs from the pandemic prior to this date. The OEB confirms that the Account will remain in effect until the utility's subsequent rebasing application, when it is reasonable to presume that rates may be reset reflecting the revised operating conditions facing the utility.

In Reference 3, London Hydro states that as of July 31, 2021, there was an uncollected balance in the sub-account Postponing Rate Implementation of $13,455 and London Hydro is requesting disposition of this amount.

London Hydro is requesting the disposition of additional three sub-account balances as below:

COVID-19 EMERGENCY DEFERRAL ACCOUNT				
Description	Gov./OEB Initiated Customer Relief Impacts	Bad Debts	Other Costs	Total Amounts to Dec. 31, 2020
Waived late payments charges	683,397			683,397
Bad debts		422,553		422,553
LEAP funding			200,000	200,000
Carrying charges (to April 30, 2022)	7,417	4,906	1,929	14,251
	690,814	**427,459**	**201,929**	**1,320,201**

Regarding the Leap funding, London Hydro states that “London Hydro provided an additional contribution of $200,000, double the Company’s usual payment.

In Reference 4, the OEB states that:

> Distributors may make a one-time increase to LEAP EFA funding by a maximum of 50% of their 2020 fiscal year funding amount. The additional funding is to be made available to agencies for use in the LEAP EFA for 2020.
>
> Distributors that choose to increase funding that will be tracked in the Impacts Arising from the COVID-19 Emergency Account are required to advise the OEB that they are doing so, including the additional funding amount. Distributors are also reminded that they may continue, at their choice, to provide additional (non-recoverable) donations to supplement their LEAP EFA funds.

a) For Account 1509 sub-account Postponing rate impacts, please explain the adjustment of $496,157, citing any relevant section of the OEB’s Report.
b) Please provide a break down for the adjustment of ($1,264,919) to the adjustments in each sub-account and explain each adjustment by linking to the relevant criteria in the OEB’s Report.

i) Please discuss London Hydro's eligibility to claim amounts for the remaining balances in these three sub-accounts, in particular the means test and the applicable recovery rates for these accounts.

c) Please confirm that all costs recorded in the four sub-accounts under Account 1509 were incurred after March 24, 2020. If not confirmed, please list the costs in each sub-account that were incurred prior to March 24, 2020.

d) For the leap funding of $200,000 requested in the sub-account, please discuss:

i) Whether London Hydro has advised the OEB of the increased funding. If not, why not?

ii) Whether the additional funding made by London Hydro meets the requirements by the OEB in its letter dated July 17, 2020. If not, please update the requested balance in accordance with the OEB's letter.

9-Staff-89
Ref 1: Exhibit 9, p. 11-12

London Hydro states that:

> The principal balance of Account 1592 PILs and Tax Variance for 2006 and Subsequent Years – Sub-account CCA Changes was adjusted with the difference resulted from the change in the method of calculation of the amounts due to customers. The difference was entered as principal adjustment in Year 2020.

OEB staff notes that the adjustment entered is ($114,178).

a) Please elaborate on the adjustment of ($114,178) for the change in the method of calculation of the amounts due to customers.

9-Staff-90
Ref 1: GA Analysis Workform
Ref 2: OEB's Letter of Accounting Guidance for IESO Charge Type 2148

London Hydro's GA Analysis workform contains three reconciling items as follows:

#	Reconciling Item	$	Explanation
4	CT 2148 for prior period corrections	$(103,276)	IESO Inv
5	Impacts of GA deferral	$(254,144)	Line loss volume variance for April - June 2020
8	Differences in GA IESO posted rate and rate charged on IESO invoice	$(377,075)	Difference between paid GA rate and published Final GA Rate

In Reference 2, the OEB states that:

> All prior period adjustments to global adjustment, which are charged to Wholesale Market Participants for Class B load quantities, are captured in charge type 148 and are expected to be reflected in the actual global adjustment price posted by the IESO. The invoiced global adjustment price (charge type 148 only) will generally equal the posted global adjustment price. An exception to this would be when there are consumption changes between preliminary and final settlement statements due to meter data updates and/or IESO system issues. These changes are not expected to be significant, but if they are significant, the IESO will provide a reconciliation between the posted and invoiced global adjustment price.

The OEB's letter in Reference 2 further states that "Distributors are expected to incorporate the portion of RPP global adjustment from charge type 2148 in their RPP settlement claims".

a) Please provide the supporting calculation (including the rates and consumption totals) for the impact of GA deferral of $(254,144) by month from April to June 2020.
b) Please confirm that London Hydro has reflected the RPP potion of the CT2148 in the RPP settlement claims.

c) The OEB's letter indicated that the CT 2148 is to deal with the differences between the IESO posted GA rates and the actual charged rates to distributors. Please explain how the reconciling item of $(377,075) is different than the reconciling item for the CT 2148.

d) Please provide a calculation showing how the reconciling item of ($377,075) is derived.

9-Staff-91
Ref 1: DVA continuity schedule

London Hydro requests the disposition of $233,271 in Account 1508 sub-account OEB cost assessment, comprising of $216,377 for the 2016 cost assessment variance and $16,894 carrying charges.

a) Please provide the calculation for the 2016 cost assessment variance of $216,377.

9-Staff-92
Ref 1: Exhibit 9, p. 49
Ref 2: Exhibit 2, p. 82
Ref 3: EB-2017-0059

London Hydro's actual JD Edwards project cost is $2.6M, which is contributing a positive (debit) variance to its ACM revenue requirement variance because it is higher than the original forecast cost of $2.0M.

In Exhibit 2, London Hydro notes that the JD Edwards project was over budget because it chose to implement additional functionality that was not included in the scope of what was originally presented to the OEB. In its 2017 rebasing application, the OEB approved the ACM projects including the JD Edward upgrade which has an estimated cost of $2.0M. In its 2018 IRM application, London Hydro presented a project cost of $2.0M to calculate the ACM rate riders.

a) Please confirm that the additional functionality of the JD Edwards system was not included in London Hydro's 2017 rebasing application nor approved by the OEB in that proceeding.

b) Please confirm that the additional functionality was not presented, nor the scope of the project revised, in London Hydro's 2018 IRM application.

c) If a) and b) are confirmed, please confirm that the spending on the additional functionality is not in the scope of the ACM. Please estimate the cost of the JD

Edwards project by excluding the additional functionality and recalculate the ACM true-up variance in Account 1508.

d) If no to any of the questions above, please provide more information.

9-Staff-93
Ref 1: Exhibit 9, p. 49
Ref 2: Exhibit 2, p. 81
Ref 3: EB-2017-0059

London Hydro was approved to recover $7.17M through an ACM for the Nelson TS project. There was originally forecasted to be an additional $1.45M to be paid to Hydro One in 2021 as a final reconciliation amount after Hydro One finished related decommissioning work at Nelson TS. However, it was determined in 2021 that Hydro One would be instead returning $1.75M to London Hydro for this project because actual costs were much lower than originally forecast.

For the purpose of calculating the ACM true-up, London Hydro has calculated the revenue requirement on this project based on an initial capital addition of $7.3M in 2018 for the years 2018-2020. For 2021, London Hydro included a capital offset of $1.75M to reflect the refund from Hydro One.

a) Please explain whether the reduction in project costs is attributable to the rebuild of Nelson TS (i.e. the $7.17M amount) or the decommissioning work at Nelson TS (i.e. the $1.45M amount).

b) Please explain when Hydro One communicated to London Hydro that it would be refunding London Hydro $1.75M and provide a copy of the document(s) for these communications.

c) Please explain why London Hydro chose to not calculate the actual revenue requirement of this project by including the $1.75M refund as an offset in 2018, rather than 2021, since the actual cost of the project, which went in-service in 2018, is now lower.

d) Please discuss London Hydro’s view on the appropriateness of recovering a higher return on equity, as part of the revenue requirement, from customers on the $1.75M additional amount from 2018-2021 because the $1.75M refund was recorded as an offset to the asset in 2021 instead of being accrued as an offset to the asset in 2018.

9-Staff-94
Ref 1: Exhibit 9, p. 37-38
Ref 2: Exhibit 2, p. 81-82

London Hydro is requesting disposition of last audited balances as of December 31, 2020 in Account 1592 sub-account CCA changes. London Hydro is also requesting that this account remain open to capture upcoming savings for the year ending December 31, 2021 as well as incremental income tax costs for the forthcoming years ending December 31, 2024 to December 31, 2026 as a result of the AIIP phase-out during the period 2024 to 2027.

Table 9-20: Summary of Tax Savings Due to Customers

CCA CHANGES TAX SAVINGS DUE TO CUSTOMERS					
Taxation period	CCA including Accelerated CCA Incentive	CCA excluding Accelerated CCA Incentive	Accelerated CCA Incentive Savings	Income Tax @ 26.5%	Grossed Up / 73.5%
	$	$	$	$	$
Jan 1 to Dec 31, 2018 (effective Nov 1, 2018)	23,438,737	22,267,776	1,170,961	310,305	422,183
Jan 1 to Dec 31, 2019	28,548,208	23,983,163	4,565,045	1,209,737	1,645,901
Jan 1 to Dec 31, 2020	27,297,536	24,658,604	2,638,932	699,317	951,452
Balance December 31, 2020	79,284,481	70,909,543	8,374,938	2,219,359	3,019,536
Jan 1 to Dec 31, 2021 (projection)	27,053,237	25,080,389	1,972,848	522,805	711,299
	106,337,718	95,989,932	10,347,786	2,742,163	3,730,835

London Hydro has two approved ACM projects in its 2017 rebasing application: JD Edward software and Nelson TS project. Both projects went into service in 2018. London Hydro paid Hydro One approximately $7.2M for Nelson TS in 2018 and received $1.75M as a refund from Hydro One in 2021.

a) Please confirm that the CCA tax savings in the table above are based on London Hydro's actual capital additions in the respective period since November 2018.
    i) If so, as an example, please also provide the full revenue requirement impact of CCA changes using London Hydro's 2017 approved capital additions as the underlying basis.
b) Please confirm that the CCA including AIIP and CCA excluding AIIP in the table above are calculated using the capital additions in the period of November 21, 2018 to December 31, 2018.
c) Please provide London Hydro's position with respect to the calculation of the full revenue requirement impact for the CCA changes:
    i) using 2017 approved capital additions, and;

ii) disposing the 2021 balances in this proceeding.

d) Please explain how London Hydro has accounted for the revenue requirement impact of CCA changes on the JD Edward software based on its actual costs in the Account 1592 sub-account CCA Changes.

e) Please explain how London Hydro has accounted for the 2018 contribution to Hydro One for Nelson TS and 2021 refund from Hydro One in Account 1592 sub-account CCA Changes.

9-Staff-95
Ref 1: Exhibit 9, p. 49
Ref 2: EB-2014-0219, Report of the Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 14, 2014, p. 26
Ref 3: Exhibit 1, p. 76
Ref 4: ACM Capital Disposal Workbook

London Hydro is proposing to recover $113k for the variances of two ACM projects.

The OEB's ACM report notes that:

> Where there is a material difference between what was collected based on the approved ACM/ICM rate riders and what should have been recovered as the revenue requirement for the approved ACM/ICM projects(s), based on actual amounts, the Board may direct that over- or under-collection be refunded or recovered from the distributor's ratepayers. [emphasis added]

In the ACM Capital Disposal workbook, London Hydro has the following table for the net book value of the projects that are to be transferred to rate base:

		Asset Cost	Accumulated Depreciation	Net Book Value
Advanced Capital Module Projects				
	Nelson TS Capital Contribution	$5,507,706	$(486,243)	$5,021,464
	JD Edwards	$2,591,309	$(1,727,540)	$863,770
	Transfer into Rate Base	**$8,099,016**	**$(2,213,782)**	**$5,885,234**

London Hydro states that:

> The JD Edwards software asset has a five-year asset life. The return on rate base and a five-year straight amortization related to the software capital asset is calculated. The TS Nelson Capital Contribution is amortized over 45 years.

In this application, London Hydro is also requesting an ACM for its plan to upgrade the Computer Information System to the SAP S/4 HANA system at a one-time cost of $18.50M.

a) Given that London Hydro's materiality threshold is $397k, please explain why the variance of $113k, which is below the threshold, should be recovered.
b) Please confirm that the net book value of $863,770 for JD Edwards software represents the remaining useful life of one year and eight months. If so, please explain why London Hydro proposes to include the net book value of $863,770 in its rate base, resulting in an annual depreciation and return on capital inclusion in revenue requirement in each of the next five years, despite the asset fully depleting shortly into the IRM term.

9-Staff-96
Ref 1: Exhibit 9, p. 58
Ref 2: OEB's Report for Impacts Arising from the COVID-19 Emergency, June 17, 2021 (COVID Report)

In Reference 1, London Hydro states that:

> Transfer of Asset into Rate Base, 1509 COVID-19 Impacts and 1592 PILs and Tax Variance for 2006 and Subsequent Years – Sub-Account CCA Changes balances is based upon of the forecasted 2022 kWh energy consumption by customer class for simplicity and consistency.

Pages 48 and 49 of the OEB's Report states that:

> For electricity distributors, the OEB has determined that it is appropriate to use the general rate design used in past Z-factor proceedings. Amounts disposed will be allocated based on the distribution revenue by rate class approved by the OEB in the utility's last cost-based rate case, rather than based on which rate class contributed to these amounts. Amounts in the Account eligible for recovery will also be recovered based on a monthly fixed charge, using the most recent calendar year-end actual number of customers for each rate class as the denominator.

a) Please update the cost allocation and rate design for COVID rate riders in accordance with the policy set out in the OEB's Report.

9-Staff-97
Ref 1: Exhibit 9, p. 65-67
Ref 2: Draft Accounting Order for Account 1508 Broadband Pole Attachment Variance Account

London Hydro is proposing a new variance account under Account 1508 for Ontario's Broadband and Cellular Action Plan. London Hydro states that:

> While there are many unknowns with respect to how this venture will impact London Hydro up until its next Cost of Service Rate Application in 2027, there is a likelihood that this will result in changes in costs and/or revenues. Accordingly, London Hydro is requesting that this new mandated requirement be considered going forward. Specifically, London Hydro is proposing that the OEB make available any necessary deferral accounts for impacts including uncompensated lost revenues and new incremental expenditures such as locates and engineering services.

OEB staff notes from the draft accounting order that London Hydro proposes recording the incremental revenues/costs in accounts payable/receivable accounts.

a) Please provide evidence on how this new account meets the OEB's eligibility criteria (causation, materiality, and prudence), with particular emphasis on materiality given the uncertainties at this time.
b) Please clarify if London Hydro has forecasted the revenue/costs related to this work in the revenue requirement of this application.
    i) If so, please provide the details where the revenue/cost are included.
c) Has London Hydro incurred any costs/received any revenue regarding the broadband pole attachment in 2021? If so, please provide the details.
d) Please provide any precedent/applications where a similar account has been approved by the OEB or requested by any distributors for this initiative.