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July 16, 2009

Delivered by E-mail & Courier

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

Dear Ms. Walli:

Re: OEB File No. EB-2008-0235
London Hydro Inc. 2009 Electricity Distribution Rate Application

We are counsel to London Hydro Inc. ("London Hydro") with respect to the above-captioned matter. Please find accompanying this letter two copies of London Hydro's Reply Submission, being delivered pursuant to Procedural Order No. 3.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original signed by James C. Sidlofsky

James C. Sidlofsky
JCS/dp

cc: David Williamson, London Hydro
Susan Casciano, London Hydro
Bernie Watts, London Hydro
Bruce Bacon, BLG
Intervenors of Record

EB-2008-0235

IN THE MATTER OF the *Ontario Energy Board Act,* 1998, S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF an Application by London Hydro Inc. to the Ontario Energy Board for an Order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2009.

LONDON HYDRO INC.

2009 ELECTRICITY DISTRIBUTION RATE APPLICATION

REPLY SUBMISSION

FILED: JULY 16, 2009

A. INTRODUCTION

1. London Hydro Inc. ("London Hydro") owns and operates the electricity distribution system located in the City of London.

2. On December 5, 2008, London Hydro filed its 2009 rebasing application with the Ontario Energy Board (the "Board"), under section 78 of the *Ontario Energy Board Act, 1998, S.O. 1998*, c. 15, (Schedule B), seeking approval for changes to the rates that London Hydro charges for electricity distribution, to be effective May 1, 2009. The Board has assigned the File Number EB-2008-0235 to this Application (the "Application").

3. The Board issued a Notice of Application and Hearing on December 24, 2008. The Consumers Council of Canada ("CCC"), Energy Probe Research Foundation ("Energy Probe"), London Property Management Association ("LPMA"), the School Energy Coalition ("SEC"), and the Vulnerable Energy Consumers Coalition ("VECC") applied for intervenor status and cost eligibility. No objections were received and the Board allowed all interventions.

4. The Board issued Procedural Order No. 1 on January 26, 2009 to allow for discovery. In accordance with Procedural Order No. 1, Board Staff issued interrogatories to London Hydro on February 13, 2009 and intervenors issued interrogatories to London Hydro on February 20, 2009.

5. On March 4, 2009, counsel for London Hydro sent a letter to the Board requesting an extension of the deadline for replies to interrogatories until March 20, 2009. In a letter issued on March 6, 2009, the Board granted the extension. London Hydro filed its interrogatory responses on March 20, 2009.

6. On April 23, 2009 The Board issued Procedural Order No. 2, which allowed for a supplemental round of interrogatories. Board Staff and intervenors posed interrogatories to London Hydro by May 8, 2009, and London Hydro filed responses to the supplemental interrogatories on May 26, 2009.

7. Procedural Order No. 2 also invited parties to make submissions on the need for an oral proceeding to consider the Application. Intervenors filed their submissions on June 2, 2009 and London Hydro filed its reply submission on June 5, 2009.

8. The Board issued Procedural Order No. 3 on June 10, 2009. In Procedural Order No. 3, the Board confirmed that there would be no oral hearing. Additionally, the Board confirmed that a settlement process that had been suggested by one intervenor would not be required. The Board directed London Hydro to file an Argument-in-Chief ("AIC") or similar document with the Board and deliver it to intervenors by June 15, 2009. The Board indicated that "the document should summarize the Application as of June 15, 2009 and highlight the revisions to the Application that have occurred as a result of the interrogatory processes." Board Staff submissions were due by June 24, 2009; intervenor submissions were due by June 29, 2009; and London Hydro's reply submission was due by July 16, 2009.

9. This document represents London Hydro's reply submission in accordance with Procedural Order No. 3.

B. THE APPLICATION

10. As instructed in Procedural Order # 3 and included with its AIC filed on June 15, 2009 London Hydro submitted a summary of the adjustments to the Application arising from the first and second round of interrogatory responses.

11. In its revised Application, London Hydro requested a total revenue requirement of $63,895,430 which represents a 17.6% increase over the 2006 Board Approved amount of $54,316,008. As the 2006 Board Approved amount was based on 2004 actual amounts, this represents an annual average increase of 3.5% over the 2004 to 2009 period.

12. Customer total bill impacts in the revised application range from 4.9% for the Residential customer class to 1.5% for the General Service Less Than 50 kW customer class. A Residential customer using 1,000 kWh per month would have a total bill increase of 3.9%, while a General Service Less Than 50 kW customer using 2,000 kWh per month would have a total bill increase of 2.2%.

13. As indicated by Board Staff, and in response to the Board's Letter of May 27, 2008 which sought assistance from electricity distributors in managing the Board's workloads, London Hydro advised the Board by letter dated June 17, 2008 that it would defer the filing of the Application from August 15, 2008 to December 1, 2008 with the understanding that implementation of 2009 rates could be delayed until September 1, 2009. As advised by Board Staff, London Hydro is not seeking recovery of the incremental revenue for the period of May 1, 2009 through August 31, 2009 of approximately $2,560,000.

Issues Outstanding from Previous Board Decisions

14. As submitted by Board Staff, London Hydro was authorized in a previous decision of the Board (EB-2007-0677) to establish deferral account 1508 – Other Regulatory Assets – to track costs related to London Hydro's Earth Day 2007 CDM program. London Hydro confirms, in response to Board Staff comments, that it will not seek recovery of $143,000 in actual costs incurred for this purpose in this or any future rate application.

C. LOAD FORECAST

Methodology and Model

15. London Hydro reviewed the various processes used by the 2008 cost of service applicants and adopted a weather normalization forecasting method similar to the one used by Toronto Hydro-Electric System Limited in its 2008, 2009 and 2010 rate application (EB-2007-0680).

16. London Hydro's weather normalized load forecast was developed in a three-step process. First, a total system weather normalized purchased energy forecast was developed based on a multifactor regression model that incorporated historical load, weather, and economic data.

17. Second, the weather normalized purchased energy forecast was adjusted by a historical loss factor to produce a weather normalized billed energy forecast.

18. Finally, the forecast of billed energy by rate class was developed based on a forecast of customer numbers and historical usage patterns per customer.

19. For the rate classes that have weather sensitive load, their forecasted billed energy was adjusted to ensure that the total billed energy forecast by rate class was equivalent to the total weather normalized billed energy forecast that had been determined from the regression model.

20. The forecast of customers by rate class was determined using time-series econometric methodologies. For those rate classes that use kW for the distribution volumetric billing determinant an adjustment factor was applied to class energy forecast based on the historical relationship between kW and kWh.

21. The forecast as filed by London Hydro was further adjusted in response to VECC IRs # 15(d) and 15(e) to correct for certain weather sensitive load percentages used by customer classes. The adjustments as filed in the AIC reflect the impact of these changes.

22. London Hydro is requesting Board approval for a 2009 Test Year forecast of 3,431,680,137 kWh. The 2009 forecast represents a 1.3% increase from 2007 actual and a 3.1% increase from the 2008 actual of 3,327,049,201 kWh provided in response to LPMA IR # 14.

London Hydro's proposed load forecast for 2009

	2009 Weather Normal GWh
Residential	1,091
General Service < 50 kW	422
General Service > 50 kW	1,651
Large User	200
Cogeneration	36
Streetlights (connections)	24
Sentinel Lights (connections)	1
Unmetered Loads (connections)	5
Total	3,432

Board Staff and Intervenor Submissions

23. Board Staff submitted that the reduction in kWh growth from 3,432.7 GWh to 3,431.7 GWh from the 2008 weather normal forecast to the 2009 forecast was consistent with the usage reduction in the residential class, and appeared reasonable in light of current macroeconomic conditions. Furthermore, Board Staff concurred with the adjustments proposed by London Hydro in the AIC.

24. Board Staff compared the 10-year average weather normal method used by London Hydro to a 20-year trend method that is currently used for large natural gas utilities and noted that a load forecast developed using the 20-year trend weather normalization method would increase the proposed forecast by 0.3%. Board Staff did not submit any proposed revisions to London Hydro's load forecast as a result of this observation.

25. Energy Probe in its IR # 3 questioned the projected increased consumption of 1.7% in the commercial/industrial classes and stated that under current economic conditions, historical information might not be an accurate predictor of short term consumption. In the absence of any better method of forecasting consumption, Energy Probe stated that it had no issue with the predictions.

26. LPMA expressed a number of concerns with respect to the load forecast methodology used by London Hydro. LPMA proposed that adjustments should be made to the forecast as detailed by LPMA in part (b) of its submission. The adjustments referred to in part (b) of LPMA's submission are the adjustments that London Hydro has submitted in paragraph 28 of its AIC. LPMA submits that the Board should accept these adjustments and recommends that for future forecasts the methodology should be revised, but does not propose any further revisions to the 2009 forecast as adjusted in the AIC.

27. LPMA provided extensive commentary on what it believes to be the shortcomings or flaws in the methodology used by London Hydro but did not propose any further revisions to the 2009 forecast. LPMA recommended to the Board that for future forecasts London Hydro should apply a different methodology in line with the methodology proposed by LPMA.

28. VECC expressed a number of concerns with respect to the methodology used by London Hydro to develop its weather normalized load forecast and suggested a number of revisions to the methodology. As indicated in response to VECC IR # 15, London Hydro revised the relative weather sensitivity factors by customer

class to reflect those prepared by Hydro One for London Hydro for the cost allocation study. These revisions are incorporated into the table of proposed adjustments submitted with London Hydro's AIC.

29. VECC submits that while it has a number of concerns with respect to the methodology employed by London Hydro, the Board should accept the 2009 forecasted load by customer class as submitted by London Hydro and adjusted in the AIC for purposes of setting 2009 rates.

30. VECC notes that its acceptance of the values for 2009 rate setting purposes does not signify its acceptance of London Hydro's methodology and submits that similar to OEB direction in the Toronto Hydro case, London Hydro should be directed to work with other distributors to develop a more comprehensive and integrated approach to load forecasting.

31. London Hydro submits that the forecast load growth in 2009 of 3.1% over the 2008 actual amounts appears overly optimistic, and requests that the Board not consider any further upward revisions to those forecasts.

32. London Hydro has considered the comments of Board Staff and intervenors and recommends that the Board should consider the creation of an industry wide initiative involving all stakeholders to develop a generic load forecasting methodology. Through such a process, VECC, LPMA and other stakeholders would have the opportunity to present their proposed methodologies and have them fully tested and either accepted or rejected by the industry task force.

33. An initiative of this nature could have an objective of producing a product similar in concept to the Cost Allocation model whereby all applicants would have the assurance of submitting data in their applications in accordance with an approved methodology that has been fully tested. It is London Hydro's observation from this application process that such an initiative could contribute

significantly to the efficiency and cost effectiveness of the rate application and hearing process.

D. CUSTOMER FORECAST

34. The forecast of customers by rate class was determined using time-series econometric methodologies. The customer/connection forecast was based on reviewing historical customer/connection data that was available from 1996 to 2007. Data for Streetlights, Sentinel Lights and Unmetered Loads was available after 1999.

35. From the historical customer/connection data the growth rate in customers/connections was evaluated for each class, and from this the geometric mean growth rate was derived. The growth rate and the geometric mean were not determined for the Large User and Cogeneration rate classes as London Hydro has only three customers in both of these classes in 2009. For all other classes, the geometric mean approach was used as it provides the average growth rate on a compounding basis.

36. In most cases where the geometric mean was determined, the resulting geometric mean was applied to the 2007 customer/connection numbers to determine the forecast of customer/connections in 2008 and 2009. However, for the General Service > 50 kW class, the 2007 customer numbers were held constant for 2008 and 2009 as in London Hydro's view this is the appropriate forecast for this class considering the highly oscillating growth rate from 1996 to 2007.

37. For the Residential customer class, the forecast annual growth rate in number of new customers resulted in a projected increase of 1,872 new customers in 2008 and 1,900 new customers in 2009.

38. These numbers corresponded very closely to the projections for the period 2006 to 2011 of 2,030 new annual housing completions predicted in the most recent

external consulting report prepared for the City of London by Clayton Research Associates.

39. London Hydro is requesting Board approval for a 2009 Test Year customer forecast of 182,388 customers and connections. This forecast is 3.1% higher than 2007 actual and 1.7% higher than the 2008 actual of 179,247 provided in response to LPMA IR # 14.

London Hydro's proposed customer forecast for 2009	
	2009 No. of Customers / Connections
Residential	131,936
General Service < 50 kW	12,349
General Service > 50 kW	1,595
Large User	3
Cogeneration	3
Streetlights (connections)	34,187
Sentinel Lights (connections)	734
Unmetered Loads (connections)	1,581
Total	182,388

Board Staff and Intervenor Submissions

40. Board Staff submit that the forecasted growth in customer and connection numbers is reasonable when compared with the historical growth rate. Board Staff did not propose any revisions to the 2009 customer forecast.

41. Energy Probe, in its IR # 4, questioned the estimates of 2008 housing starts used in part to develop the 2009 customer forecast. As 2008 starts exceeded CMHC predictions on which estimates were partly based, Energy Probe stated that they took no issue with the 2008 estimates for housing starts. Energy Probe did not propose any revisions to the 2009 customer forecast.

42. LPMA provides extensive commentary on what it believes are flaws in the forecasting methodology, but does not make any recommendations to the Board for revisions to the 2009 customer forecast as submitted.

43. VECC's submission, at section 3.2, outlines the four step process used by London Hydro to develop its customer and load forecasts. Step 3 in that process was the forecast customer count by class. VECC's submission does not indicate any concerns or issues with respect to step 3, and VECC has not proposed any revisions to the customer forecast as submitted by London Hydro.

44. London Hydro submits that its proposed customer forecast as set out above should be accepted by the Board.

E. OPERATIONS, MAINTENANCE AND ADMINISTRATION

45. For the 2009 Test Year, London Hydro is requesting Board approval of $28,151,763 in OM&A expenses, excluding income and capital taxes, donations and amortization expenses. This represents a 31% increase over the 2006 Board approved OM&A amounts which were based on the 2004 historical actual amounts. The OM&A amount for the 2009 Test Year reflects an annual average increase of 6.2% over the period 2004 to 2009. As reported in London Hydro's response to LPMA IR # 31 a), the actual OM&A for 2008 was $26,378,691 versus the Bridge Year forecast amount of $26,270,467. The requested OM&A for the 2009 Test Year of $28,151,763 represents an increase of 6.7% over the 2008 actual amount of $26,378,691.

46. Information contained in the annual OEB Yearbooks of Electricity Distributors for the years available, 2005 to 2007, indicates that on an industry wide basis, the average OM&A per customer increased from $219.95 in 2005 to $259.00 in 2007. While not all costs are driven by customer numbers, this information suggests that the industry as a whole experienced cumulative OM&A cost increases of approximately 17.8% over that period or 8.9% per year. By comparison, and as provided in response to VECC IR # 47, London Hydro's OM&A cost per customer increased over the same time frame from $156.00 to $177.00 for a cumulative total of 13.5% or 6.8% per year.

47. As indicated in response to VECC IR # 47, London Hydro's OM&A costs per customer are below its cohort averages for the period 2005 to 2007. Cohort data for 2008 and 2009 is not available. London Hydro's OM&A cost per customer increased by 3.6% in 2008 and 5.3% in 2009.

Board Staff and Intervenor Submissions

Inflation

48. Board Staff submitted an analysis that indicated for the period 2003 to 2007, London Hydro's OM&A expenses increased by approximately 4.45% annually. By applying this percentage to the 2009 Test year, Board Staff concluded that the 2009 OM&A budget should be approximately $27,480,000 or $670,000 less than what is requested.

49. London Hydro submits that Board Staff's analysis back to 2003 encompasses a period prior to the period of the 2006 Board Approved amounts, and prior to the specified detailed filing requirements for the 2006 cost of service rate applications. The Staff analysis fails to reflect the more current and relative state and condition of the Electricity Distributor operating environment in Ontario since the 2006 EDR rate application process.

50. As indicated in paragraphs 46 and 47 above, the trend analysis presented by Board Staff is out of date and not reflective of what the Board has been reporting in its annual industry Yearbook since 2005.[1] London Hydro submits that its OM&A cost increases over the period 2005 to 2007 are in line with and below industry averages. Additionally, the OM&A cost increases for 2008 and 2009 are reasonable and have been fully substantiated in the Application.

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[1] The OEB has published a Yearbook of Electricity Distributors for each of the years 2005, 2006 and 2007. These Yearbooks are available on the Board's web site, at:
http://www.oeb.gov.on.ca/OEB/About+the+OEB/Energy+Statistics+and+Maps/Energy+Statistics+and+Maps

51. Board Staff state in their submission that the average annual increase in OM&A over the period 2007 to 2009 is about 5.8% which is significantly higher than the 1.5% average annual increase in the number of residential and general service customers over the same period. Board Staff states that if the inflation rate was assumed to be 3% over this period, then London Hydro's OM&A increased by about 1.3% annually over what would be expected from the impact of customer additions. With this analysis, Board Staff suggest that 2009 OM&A should be reduced by about $670,000.

52. Board Staff's statement is based on two assumptions. The first assumption is that all cost increases are directly proportional to changes in the customer base, and the second assumption is that the inflation rate was 3% for all costs.

53. Board Staff's suggestion that OM&A should be reduced by $670,000 is flawed for the following reasons: Not all OM&A costs vary in direct proportion to the number of customers. There is no such thing as a single inflation rate that can be applied unilaterally to all OM&A costs within a utility. The concept of a single inflation rate is simply a tool that is used to facilitate the IRM rate application process used between rebasing years. There are numerous other cost drivers in the business environment, including economic, governmental and regulatory changes that may have significant influences on cost changes year over year. Board Staff have not provided any indication that these factors have been considered in their analysis.

54. Board Staff suggested that a single inflation rate of 3% could be used on all expense items including labour and benefits to determine an appropriate level of OM&A for 2009. Board Staff referred to VECC IR # 47 and LPMA IR # 35 in which VECC and LPMA asked London Hydro to perform a calculation of OM&A cost adjustments that would occur if various levels of inflation were used to forecast the 2009 OM&A in the absence of other relevant cost drivers.

55. To accommodate VECC and LPMA, and for the purpose of responding to the IRs, London Hydro performed these calculations on their behalf using their assumptions, but to clarify, London Hydro does not concur with the VECC and LPMA assumptions or agree to the calculations resulting from those assumptions.

56. As indicated by Board Staff in their submission VECC requested an inflation rate of 2.3% for all OM&A excluding labour and benefits and LPMA asked London Hydro to quote the Ontario CPI for 2008 which was 2.5%. Board Staff further suggested that the use of a generic inflation factor may be more appropriate than using the specific cost increase factors obtained by London Hydro from its suppliers for each service or commodity.

57. CCC submitted that London Hydro did not apply a uniform inflation rate when developing its 2009 OM&A budget and referred to the specific supplier cost increases for 2009 that London Hydro provided in response to Board Staff IR # 16.

58. CCC submitted that London Hydro had not justified the 7.25% increase in OM&A but excluding its discussion on regulatory costs, did not reference any specific cost element that it felt was not fully justified.

59. CCC referred to the final argument of LPMA which suggested an OM&A cost reduction of approximately $500,000 and recommended that the Board should reduce London Hydro's OM&A costs by $500,000 to bring it in line with other LDCs.

60. SEC indicated concerns with respect to the increases in OM&A costs per customer over the period 2006 to 2009. SEC provided a table that indicated OM&A costs per customer for London Hydro increased by 14.89% from 2006 to 2009. SEC suggested the use of specific inflation factors of 3% and 3.25% for

certain cost elements that will be discussed in this submission on the specific items.

61. SEC stated that changes in OM&A per customer provided a useful barometer of the extent to which growth in spending is caused by expansion of the system, as opposed to other inflationary factors. London Hydro assumes that SEC's comments with respect to expansion of the system refer to customer growth and the related increase in the size of the distribution system.

62. LPMA submits that London Hydro's historical increases in OM&A from 2004 to 2008 are above the average Ontario CPI index for that period of 2.2% as indicated in the information in LPMA IR # 35. While this statement is correct, the CPI average of 2.2% is substantially below the average OM&A cost increases for the utility industry as a whole in Ontario as indicated in paragraph 46 of this submission. The information as published annually in the OEB Yearbook indicates that there is no direct relationship between the Ontario CPI and the historical actual cost increases experienced in this industry over the 2004 to 2008 time frame.

63. LPMA suggests that London Hydro's average cost increase of 5.7% for the period 2004 to 2008 should be applied to the 2009 Test Year and OM&A should be reduced by $287,124. LPMA suggests that further reductions should occur and those specific items will be addressed on the specific topics in this submission.

64. LPMA provides a summary table for the Board suggesting that OM&A costs should be reduced in total by $549,112. The table is composed of specific items that will be addressed individually in this submission.

65. VECC, in paragraph 4.9 of its submission, suggests that the Board should apply an overall constraint of 3.5% on London Hydro's OM&A increase. This position

is based on applying an envelope approach to OM&A rather than a detailed line by line comparison of historic years.

66. As requested by VECC in IR # 3, London Hydro provided the OM&A cost per customer and OM&A cost per megawatt hour for its peer group for the period 2005 to 2007. Additionally, and as requested by VECC, London Hydro provided its data for the period 2008 and 2009. The information is not currently available for its comparators for the 2008 and 2009 period.

67. The OM&A cost per customer provided in London Hydro's response to VECC IR # 3 demonstrated that London Hydro compared very favorably within its peer group for the 2005 to 2007 period. As the 2008 and 2009 information for the peer group has yet to be published by the Board, London Hydro's relative standing for 2008 and 2009 is unknown. VECC states in paragraph 4.6 of its submission that "*over the 5 years London's OM&A per customer has gone from below average to higher than average.*" Given that the Board has not yet published the comparative information for 2008 and 2009, London Hydro cannot determine what data has been used by VECC to make this statement.

68. VECC submits in paragraph 4.7 of its submission that as per the analysis presented in VECC IR # 3, London Hydro has the highest cost per MWh and that this result is consistent with the analysis that indicates that London Hydro also has the lowest consumption per customer of the cohort group.

69. VECC further states in paragraph 4.8 that "*This comparison does not paint a picture of a utility exercising constraint in the current difficult economic times. Rather it shows a utility continuing to spend money without regard to the difficulties facing its customers.*"

70. VECC implies with its comments in paragraphs 4.7 and 4.8 that OM&A cost per MWh is a valid indicator of cost management or cost control and as such suggests that energy quantities are a legitimate cost driver for OM&A costs.

71. As London Hydro explained in response to VECC IR # 3, customer consumption levels and energy throughput are driven and influenced by customer mix, type of industry, energy conservation and a host of other factors outside of the control of management. OM&A cost per MWh can be significantly affected by the introduction of or the elimination of large consumption customers into or from a distributor's service territory. London Hydro is of the opinion that OM&A cost per MWh is not a valid cost measurement tool in this industry, and energy quantities are not a valid cost driver.

72. In response to VECC's statements in paragraph 4.8 of its submission, London Hydro advises that it is and always has been extremely concerned with the difficulties facing its customers, and as detailed in its AIC, London Hydro has taken significant measures to mitigate the rate impacts on its customers. Additionally, London Hydro is one of the most successful utilities in Ontario in implementing energy conservation programs and initiatives for the benefit of its customers, who continue to receive the significant financial cost savings accruing from reduced energy consumption. In fact, London Hydro received the 2007 and 2009 Energy Star Utility of the Year – Regional Award for the success achieved in its energy conservation initiatives that benefit all customers, but have been highly focused on the low income and assisted and social housing sectors of the London Hydro community.

73. Intervenors in this Application have made various submissions that certain fixed inflation rates or an envelope approach should be taken by the Board to determine an overall reduction to total OM&A. London Hydro submits that these proposals may be appropriate to use in certain applications where the evidence provided in the application has been incomplete or not fully explained and supported. These approaches may also be appropriate where the evidence suggests that the applicant's OM&A costs are out of line with its peers or the industry in general.

74. London Hydro submits that the evidence in its Application is complete and has been fully explained and documented. Additionally, the evidence shows that London Hydro's OM&A costs are in line with or below its peers and the industry in general.

75. In accordance with the Board's filing requirements for cost of service rate applications, London Hydro has provided detailed and extensive documentation and justification of all of its costs as provided in the Application. Changes in costs have occurred for many varied reasons including inflation, customer growth, regulatory and other industry changes, changes in specific utility programs, succession planning, benefit cost changes resulting from Federal or Provincial legislation and a number of other factors. As provided in the Application and subsequent interrogatory responses, London Hydro has justified all of its cost increases based upon the specific cost component and the specific cost drivers affecting that cost component.

76. London Hydro submits that its proposed OM&A costs for 2009 as submitted in its Application and adjusted in its AIC are reasonable and that they have been fully explained and supported by the evidence and interrogatory responses. Accordingly, London Hydro requests that the Board approve those costs as submitted.

Labour and Benefits Costs

77. Board Staff submit that the increase in fulltime equivalent employees (FTE's) between 2006 and 2009 was 7.4% of London Hydro's workforce. Of the total increase, about half was related to London Hydro's succession/apprenticeship plan and adjusting for this, the increase from 2006 to 2009 is about 3.6%. Board Staff submit that this is consistent with customer growth and have no further comments or recommendations to the Board with respect to labour and benefit costs.

78. Energy Probe, in its IR # 22, questioned labour costs relative to other similar sized distributors and the response indicated wage increases are below those of comparators for the past 5 years and the 5.2% increase in base labour costs over the period is partly due to the need to train new apprentices to replace the baby boomer workforce. Energy Probe found these explanations reasonable and took no issue with the increased OM&A cost impact with respect to labour costs.

79. Energy Probe, in its IR # 27, questioned the post retirement benefit plans of London Hydro. Based on the response provided by London Hydro, Energy Probe submits that the post retirement benefit plans are reasonable and responsible in comparison to some other distributor's plans that have been examined in applications before the Board, and therefore Energy Probe took no issue with these costs.

80. SEC, in paragraphs 10 to 17 of its submission, presents an analysis based largely on the response provided by London Hydro to SEC IR # 7 which suggests that London Hydro has failed to demonstrate that its 2009 OM&A labour cost forecast is justified.

81. In paragraph 14 of its submission, SEC presents an analysis that begins with the labour and benefits costs component of OM&A taken from table 9, exhibit 4, page 12 in the amount of $15,660,468 and applies an assumed inflation rate of 3% from 2005 to 2008 and 3.25% for 2009, and from that analysis calculates what it believes should be the labour and benefit component for the 2009 test year.

82. SEC's analysis in paragraph 14 of its submission creates a value that is $1,194,860 less than the 2009 Test Year and from that SEC concludes in paragraph 17 of its submission that London Hydro has failed to demonstrate that its 2009 OM&A labour cost forecast is justified.

83. The analysis presented by SEC in paragraph 14 of their submission is incorrect in that it assumes a 3% and 3.25% inflation rate for the combined labour and benefits, when it has been clearly indicated in the evidence in Table 14 at Exhibit 4, page 19 that the actual cost of benefits over the period of 2004 to 2009 has risen by 32.2% or an average of 6.44% per year. The difference calculated by SEC is due primarily to the assumption of an incorrect inflation factor for benefits.

84. In paragraphs 10 to 16 of its submission, SEC presents an argument that attempts to reconcile information presented in SEC IR # 7, to their calculation of an apparent difference of $1,194,860. It has been explained why the value in SEC paragraph 14 is incorrect, but additionally the values reported in paragraph 14 are composed of both labour and benefits, whereas the values reported in SEC IR # 7 are for base labour only, which excludes benefits and premium pay. Additionally, the table presented in SEC IR # 7 is an analysis of new and deleted positions over the 2004 to 2009 time frame which is only one component of the total change in base labour over the period 2004 to 2009.

85. As illustrated in Table 11 at Exhibit 4, page 15 of the Application, the analysis of changes in base labour over the period is composed of many elements, and new or deleted positions shown in SEC IR # 7 is one component of that overall analysis.

86. The submissions made by SEC with respect to labour differences and unreconciled variances are incorrect in that they are based upon incorrect assumptions and incorrect comparisons of the evidence that was submitted in the Application.

87. London Hydro submits that the extensive detailed analysis presented in the Application and the subsequent responses to interrogatories have fully explained and supported the labour and benefit costs that are submitted in both OM&A and capital activities.

88. VECC, in paragraph 4.12 of its submission, recommends to the Board that London Hydro should maintain overall head count at or close to 2008 levels. London Hydro has provided extensive evidence, in particular on pages 13, 14 and 16 of Exhibit 4, to show that one of the most significant issues being faced by the electricity sector and London Hydro is the aging baby boomer workforce and the need to plan for and replace that workforce with qualified staff.

89. As evidenced in the article presented on pages 13 and 14 of Exhibit 4, it is generally accepted that in this industry succession planning is a critical issue that must be managed and planned for. London Hydro's labour cost submission incorporates its plans for proper and essential succession planning to maintain the safety and reliability of the distribution system. This plan includes essential and required staffing level increases for that purpose.

90. VECC, in paragraph 4.13 of its submission, recommends that in line with its recommendation provided in paragraph 4.12 of its submission, the Board should restrict the overall increase in OM&A labour costs to 3.5% of the 2008 levels. London Hydro submits that the Board should reject this proposal as it removes London Hydro's ability to undertake required succession planning measures, and 3.5% is insufficient to provide for negotiated wage settlements and benefit cost increases for the existing workforce even in the absence of succession planning.

91. LPMA submits that if an inflation rate of 2.3% was applied to the average base wage levels for all employees, then the overall labour costs would be reduced by $174,808 and the amount allocated to OM&A would be reduced by $131,106. LPMA further argues that 2.3% was the value used by the Board for the 2009 IRM rate application process.

92. London Hydro submits that the suggestions made by LPMA for base labour increases of 2.3% do not account for the fact the Ontario utility industry operates in a unionized environment in which wage scales have been determined through

negotiated contracts and it is those negotiated wage levels that have been used by London Hydro in its Application.

93. LPMA's suggestion that the 2.3% used in the IRM process should also be used in the rebasing process ignores the purpose of a rebasing application which is to quantify in detail and provide the supporting evidence as to what the current costs and revenue requirement of a utility are and what those costs and revenue requirement are expected to be for the Test Year.

94. As with its OM&A costs, London Hydro submits that its proposed labour costs for 2009 are reasonable and that they have been fully explained and supported by the evidence and interrogatory responses. Accordingly, London Hydro requests that the Board approve those costs as submitted.

Office Equipment, Services and Maintenance

95. Board Staff suggest that 2009 OM&A should be reduced by an amount reflecting average annual efficiencies that are expected to be realized due to investments in the new Customer Information System. London Hydro has explained that such amounts cannot be quantified, but system efficiencies and improvements will enable improved customer service, improved workflows and should allow for greater productivity with the existing workforce. Future savings will occur from a reduced requirement for increases in future staffing levels. It is not expected that savings will occur through existing staffing level reductions over the next few years.

96. CCC submits that an arbitrary adjustment of $500,000 should be made to the 2009 OM&A costs to reflect a perceived cost reduction flowing from efficiencies that will result from the new Customer Information System. Over the course of 4 years this would amount to $2 million in savings that CCC believes will occur. As London Hydro has explained in paragraph 95 of this submission, savings are anticipated to accrue in the form of reduced demand for staffing level increases;

it is not expected that savings will occur through existing staffing level reductions over the next few years.

97. LPMA submits that London Hydro has failed to provide adequate evidence related to the increases in office equipment, services and maintenance and specifically to the increased costs associated with the SAP customer information system. London Hydro would refer LPMA to the detailed evidence and documentation submitted in response to Board Staff IR # 27.

98. London Hydro submits that its proposed office equipment, services and maintenance costs for the 2009 Test Year are reasonable and that they have been fully explained and supported by the evidence and interrogatory responses. London Hydro requests that the Board approve those costs as submitted.

Corporate Training and Employee Expenses

99. Board Staff submit that corporate training costs in the amount of $115,000 for development and supervisory training programs could be cut back to mitigate the overall increase in OM&A. London Hydro has provided extensive evidence for these costs at pages 48 to 50 of Exhibit 4. As noted in the evidence, in addition to training programs related to the apprenticeship program, supervisory and management training programs will be required for existing senior staff who will be assuming the senior positions vacated through upcoming retirements. The corporate training budget as submitted is what is required to fund these activities.

100. SEC refers to LPMA IR # 33 in its submission, and argues that since the 2008 actual costs are lower than forecast, that the 2009 expenses should be reduced as they were likely based on 2008 forecast. The development of a forecast for training is dependent on staff availability and timing of hiring of related staff. It is expected that any budget shortfall related to training in 2008 will be incurred in the 2009 actual costs. The analysis of 2008 actual costs to 2008 Bridge amounts as shown in LPMA IR # 33 indicates that in total there is an extremely high

degree of forecasting accuracy between total OM&A forecast and actual OM&A for the 2008 Bridge Year.

101. LPMA suggests in its submission that based upon the actual corporate training costs incurred in 2008 the forecast amount for 2009 should be reduced by $199,280. London Hydro submits that as explained in paragraphs 99 and 100 of this submission, these variances are related primarily to timing and staff availability, and the actual costs will be incurred as required to train apprentices and senior staff who will assume the positions of those retiring.

102. London Hydro submits that its proposed corporate training and employee expense costs for the 2009 Test Year are reasonable and that they have been fully explained and supported by the evidence and interrogatory responses. London Hydro requests that the Board approve those costs as submitted.

Regulatory Costs

103. CCC submits that in the absence of an oral hearing process, London Hydro's projected total regulatory costs of $220,854 should be reduced by a further amount of $50,000. London Hydro provided a detailed analysis of its current and remaining regulatory hearing costs in response to LPMA IR # 53. Based upon that analysis, the projected total costs of $220,854 may be understated by approximately $52,520. London Hydro submits that its forecast cost of $220,854 is appropriate, and as indicated in the evidence may be understated by $52,520.

104. LPMA accepts the revised forecast of regulatory hearing costs of $220,854 amortized over four years in the amount of $55,213 per year, as submitted, and submits that the Board approve this amount.

105. London Hydro submits that its proposed regulatory costs for the 2009 Test Year, including hearing costs, are reasonable and that they have been fully explained and supported by the evidence and interrogatory responses. London Hydro requests that the Board approve those costs as submitted.

Insurance

106. LPMA argues in its submission that due to the fact that actual information is now available that indicates 2009 actual insurance costs will be $56,103 less than what was forecast, the OM&A forecast should be reduced by this actual information that is now available.

107. SEC in their submission presents the same argument as LPMA and recommends that the Board reduce insurance costs by $56,103.

108. London Hydro cannot dispute the fact that it now knows actual 2009 insurance costs will be lower than forecast by $56,103 but London Hydro would submit that if accepted regulatory practice is to make ongoing revenue requirement adjustments up to the date of the final submissions of parties involved, based upon actual information that becomes available to that date, then this practice should not be restricted solely to those revenue requirement adjustments that result in reductions.

109. London Hydro is not condoning or supporting the concept of last minute updates for actual information but it would point out to the Board that the Application currently contains the following:

- ➢ Revenue offsets currently include $450,000 of interest on surplus funds based on a forecast bank deposit rate of 3.4% for 2009. It is now commonly known that actual short term bank rates on 30-day deposits are less than 1%, and the $450,000 is overstated by approximately $318,000.

- ➢ Both insurance companies and the OMERS pension fund incurred significant financial losses during the latter part of 2008 and early 2009 and it is fully anticipated that they will significantly increase rates during 2010 and thereafter to recoup these losses.

- London Hydro's actual energy quantities for 2009 to the end of May are lower than forecast in the Application.

London Hydro submits that the Board should not adjust for the variance in insurance costs as suggested by LPMA and SEC unless it is also prepared to adjust for the significant shortfall indicated above for interest income.

Celebration Expenses

110. LPMA submits that the Board should not approve $30,000 forecast by London Hydro for its 100th anniversary celebration. LPMA argues that there is no evidence to support London Hydro's contention that additional information will be provided to ratepayers on safety and energy conservation as part of this celebration.

111. London Hydro submits that the Board should approve this expenditure as requested and that this opportunity will be fully exploited to convey safety and conservation information to London Hydro ratepayers. London Hydro has a well established track record on conservation initiatives within London and there is no reason to believe that this will not continue with the 100th anniversary celebration.

Charitable Donations

112. LPMA submits that the Board should direct London Hydro to increase its charitable donation forecast from $50,000 to $75,000 based upon the recommendations of the Report of the Board in EB-2008-0150.

113. London Hydro notes that the actual donations in 2008 were $100,000 and the amount for 2009 will be $50,000 for a two year average of $75,000. London Hydro submits that if the Board directs London Hydro to increase its charitable donation amount, then the revenue requirement should also be increased by an equivalent amount.

Cost Recoveries

114. LPMA, in its submission under “Cost Recoveries – 1” submits that actual 2008 cost recoveries indicated in LPMA IR # 33 were $120,000 higher than 2008 forecast and due to that the 2009 forecast is understated. London Hydro submits that this variance in actual 2008 cost recoveries was due to a one-time non-recurring recovery of $108,472 related to year 2005 and 2006 refunds of Scientific Research and Experimental Development costs and appropriately should not affect the calculation of 2009 revenue forecasts.

115. LPMA in its submission under “Cost Recoveries – 2” submits that due to revisions in the March 2009 Provincial budget, revenue offsets for apprenticeship tax credits should be increased from $28,000 to $70,000. In London Hydro’s AIC this increase has been reflected in the revised PILs calculation but it appears that it was not adjusted in the revenue offset amounts. London Hydro agrees with the submission by LPMA that revenue offsets for 2009 should be increased by $42,000 to reflect the March Provincial budget change.

116. In LPMA’s submission London Hydro is asked to clarify why various parts of the evidence refer to 16 apprentices versus the 7 apprentices used in the calculation of Apprenticeship Tax Credits calculated for revenue offset purposes. The differences between the number of employees noted when discussing training costs in response to Board Staff Interrogatory #28 (16 employees) and those referred to in discussions regarding Apprenticeship Training Tax Credits (7 employees) relates to learner or apprentice positions that are not eligible for this credit, as indicated in the following analysis:

ATTC eligible positions	
Lineworkers	5
Instrumentation and Control Technicians	2
	7
Other positions	
Lineworker (Journeyman)	1
Underground Cable Maintainers	5
Electric Meter Technicians	3
	9
	16

Cost Recoveries – Water Billing Services

117. As indicated in the Application at Exhibit 4, pages 57, 58, 67 and 68, London Hydro provides water billing services to its sole shareholder, the City of London. These services performed by the utility result in benefits that accrue to the distribution ratepayers through the utilization of available systems and capacities. The charges imposed on the City of London for these services offset costs related to those systems and capacities that would otherwise be fully borne by distribution ratepayers.

118. Historically, London Hydro had not undertaken any detailed costing analysis to calculate the exact costs associated with these services, and as such applied a general allocation of costs between electric and water billing activities to derive a charge for these services.

119. In 2004, the City of London hired an external consultant to do a detailed analysis and costing of the water billing services being provided to the City of London, to assess what the appropriate market value of the services should be and to consider options for the future provision of that service.

120. In response to SEC IR # 21, London Hydro filed, in confidence, the detailed consultant's report that was undertaken in 2004. Based upon the detailed costing analysis in the report and an extensive comparison to rates charged by

numerous other utilities in the province, the report concluded that the rates charged by London Hydro in the amount of $3.5 million and proposed for 2004 in the amount of $4.5 million were substantially in excess of and approximately twice the market rate.

121. As indicated in response to SEC IR # 21, the consultant's report concluded that an appropriate cost based and market based rate for 2004 would be approximately $2.1 million. As a result of these findings, London Hydro adjusted its 2005 recovery amount to $3.0 million and continued that rate for 2006 and 2007. The 2008 rate was adjusted to $3.025 million and 2009 is set at $3.05 million.

122. Based upon the consultant's findings in 2004 that determined a market rate of $2.1 million, if London Hydro was to project an annual increase of 6.2% to that amount over the 2005 to 2009 timeframe that would produce a current 2009 market rate of approximately $2.8 million for 2009. London Hydro's recovery for 2009 of $3.05 million is 8% higher than this estimated current market value.

123. In response to CCC IR # 15, London Hydro provided a current calculation of the 2009 OM&A costs associated with providing the water billing services based on a review of the associated cost elements. The analysis is not based upon the type of detailed costing analysis undertaken by the consultant in 2004, but it does indicate that the 2009 recovery amount of $3,050,000 is still in excess of the estimated cost of approximately $2.7 million to provide the service and as indicated in paragraph 122 of this submission, the evidence suggests that the $3,050,000 is still in excess of market rates. The table below is taken from CCC IR # 15. A detailed breakdown of the water-related labour and benefit component in the amount of $1,277,600 was provided in response to VECC IR # 35.

Costs Related to the Provision of Water Billing Service to the City of London

	2009 BUDGET		
Information Services	2,543,700		
Customer Services	8,755,700		
	11,299,400		
Less			
Business Activities not Related to Water Services			
Wholesale & Retailer Settlement	402,100		
Energy & Key Account Management	210,800		
Energy Management	134,300		
	10,552,200		
Major Cost Category	**Total**	**Electric**	**Water**
Labour & benefits	6,159,100	4,881,500	1,277,600
Purchase Services			
Contract Meter Reading Service	1,060,900	530,450	530,450
Collection Agency Fees	90,000	45,000	45,000
Contract Collection Services	250,000	125,000	125,000
Other Purchase Services	870,500	775,125	95,375
Materials & supplies	181,800	143,275	38,525
Bad Debts	535,000	535,000	-
Office equipment services & maintenance	159,600	144,600	15,000
Postage	975,000	487,500	487,500
Fleet operations & maintenance	30,600	30,600	-
Corporate training and employee expenses	211,400	174,850	36,550
Rental Regulatory & other expenses	28,300	26,800	1,500
	10,552,200	7,899,700	2,652,500
Allowance for Cost of Capital and Return on assets			397,875
			3,050,375
Total Cost Recovery for Water Services			**3,050,000**

124. SEC in its submission presents certain arguments that question the detailed costing methodologies used by the consultant and argues that, although there may be a reasonably competitive market for water billing services, London Hydro has not provided evidence of a market price, and has indicated that its price is cost-based. Therefore, in SEC's submission, the cost that is used should be fully allocated cost. SEC further submits that the fee for 2009 should be $3.94 million, or $890,000 higher.

125. London Hydro submits that extensive evidence was provided in the consultant's report which proved that London Hydro's recovery for water billing services in

2004 was approximately twice the average market rate. Furthermore, as indicated in paragraph 122 of this submission, the current recovery amounts for 2009 are still in excess of market rates. The analysis from CCC IR # 15, presented in the table in paragraph 123 of this submission provides further evidence of the fact that 2009 recoveries are in excess of fully allocated costs.

126. London Hydro submits that the Board should reject the proposal by SEC to increase the 2009 recovery amount by $890,000 as it is unjustified and would place the fees at approximately 39% above current estimated market rates.

127. SEC in paragraphs 24 and 25 of its submission seeks clarification on certain information. The following information is provided. As shown in response to VECC IR # 35, water meter accounts for 2007 are 101,342 and for 2009 are 112,242. As stated in exhibit 4, page 67 lines 23 and 24, based on 2007 volumes the cost recovery is approximately $2.50 per bill or $30.00 per year per customer. (2007 – 101,342 * $30.00 = $3,040,260) (2009 – $3,050,000 /112,242 = $27.17 per customer annually or $2.26 per bill). As indicated at Exhibit 4, page 67, line 26 to 28, current 2008 market rate was approximately $2.00 per bill. London Hydro's 2009 rate of $2.26 is $0.26 or 13% above market rate, as further supported by the analysis in paragraph 122 of this submission.

128. VECC submits in paragraph 4.15 that water billing services recoveries are not increasing at the same rate as other OM&A costs; there is no ARC-compliant Cost Allocation methodology; major IT Capital upgrades are not allocated to the costs; and movement of staff providing water billing services has increased costs by $200,000.

129. London Hydro submits, in response to these VECC comments:

  a. due to water billing recoveries being in excess of market and fully allocated cost based calculations as shown in this submission, rates cannot be increased any more than they have been;

b. the costing methodology is ARC compliant as shown in this submission;

c. IT Capital spending is due to changing requirements of the electricity industry and as such these expenditures are not chargeable to the water billing service; the costing analysis in paragraph 123 of this submission includes IT labour and benefit recoveries and a return on IT assets; and

d. the rental space vacated with the loss of $200,000 in rental income has no connection to the water billing activities nor was it occupied by water billing staff. This space was rented by the City of London for other municipal service activities unrelated to the water billing activities.

130. VECC in paragraph 4.16 of its submission argues that an independent review of costing methodology should be undertaken and cost recoveries for 2009 should be increased by $125,000. VECC suggests that the Board should require an independent review of the costing methodology but does not indicate any specific time frame for such a review. Given the time lines associated with any such review, if it were to occur, it is London Hydro's assumption that VECC is not suggesting that this review be conducted for the 2009 Application.

131. London Hydro submits that ratepayers should not be burdened with the cost of unnecessary consulting expenditures for a costing review that is clearly unsubstantiated. The evidence in this Application fully supports the fact that costs are properly allocated, recovery fees are in excess of market rates and distribution ratepayers continue to receive substantial benefits from the existing shared services agreement. The explanations and information provided in this submission demonstrate that the costing methodology and the recovery amounts for 2009 are appropriate, and as such the Board should reject VECC's suggestion with respect to an independent review.

132. VECC in paragraph 4.17 of its submission argues that cost recoveries as presented in Board Staff IR # 32 should increase for 2009 by an additional

$220,000 to correspond with the increase in inflation. This same argument is presented by Board Staff in their final submission. The explanation as to why these cost recoveries are not increasing at the rate of inflation is due to the fact that 83% of these recoveries are for the water billing services and as illustrated in this submission, these recoveries have been substantially above market rates and fully allocated costs since 2004. Cost recoveries excluding water billing services for the 2008 Bridge year are $580,000 and $650,000 for the 2009 Test Year, after adjusting for the increase of $42,000 in apprenticeship tax credits indicated in paragraph 115 of this submission. This is an increase of 12% from 2008 to 2009.

133. London Hydro submits that its proposed cost recoveries, as increased by $42,000 in relation to apprenticeship tax credits as discussed in paragraph 115, are appropriate and should be approved by the Board with no other increases.

Depreciation

134. Board Staff submit that they are satisfied that London Hydro has correctly applied its amortization/depreciation policies in the calculation of depreciation expense and accumulated depreciation expense in this application. London Hydro concurs with that submission.

Payments in Lieu of Taxes ("PILs")

CCA Normalization on Non-Recurring Information Systems Capital Expenditures

135. As noted by Board Staff on pages 19 and 20 of their submission, London Hydro began development of a new SAP CIS system in 2007. The total cost of this system from 2007 to 2009 is $9.3 million and it is entered as a capital addition to London Hydro's rate base in 2009. The previous CIS system was put into service during 2001 and 2002. This type of non-recurring expenditure will not occur again prior to London Hydro's next rebasing in 2013.

136. For purposes of PILs calculations, the SAP CIS system is categorized as a Class 12 asset, which means that it may be written-off for taxes purposes at a rate of 100%. Due to the half-year rule, this asset will be written off for tax purposes at a rate of 50% in 2009 and 50% in 2010 with no further tax deduction in 2011 or 2012.

137. The impact of the write-off of the non-recurring SAP CIS expenditures on the calculation of PILs over the years 2009 to 2012 is dramatic. As indicated by Board Staff, the cost of the SAP CIS system was $9.3 million. London Hydro has determined in its application and in response to Board Staff IR # 46 that $6.7 million of the $9.3 million is the non-recurring component of these expenditures.

138. The tax deduction related to this $6.7 million non-recurring expenditure will be $3.35 million in 2009 and $3.35 million in 2010 and $0 in 2011 and 2012. As detailed in response to LPMA IR # 42, the impact of this write-off is that actual PILs payable for 2009 and 2010 will be $829,910 lower than actual PILs payable for 2011 and 2012 resulting in an overall revenue shortfall through distribution rates of $1,659,820.

139. In its Application, London Hydro has incorporated into its PILs calculation for revenue requirement purposes, an adjustment to the CCA tax write-off of this $6.7 million SAP CIS system which effectively spreads the write-off evenly over 4 years and results in revenue neutrality to London Hydro through the proposed distribution rates.

140. Board Staff in their submission argue that the PILs normalization adjustment proposed by London Hydro is contrary to Board policy and practice. Board Staff submit that while the concept of normalization is sometimes used for the benefits of projects or for regulatory costs, to the best of their knowledge the principle of normalization has not been used to date for PILs expense.

141. London Hydro submits that with the exception of annual capital expenditures, the principle and concept of normalization is a generally accepted and commonly applied principle in the derivation of the revenue requirement for rebasing applications. Regardless of whether the revenue requirement component is OM&A or PILs, the application of the normalization principle should not be selective in its application and as such restricted solely to adjustments that reduce the revenue requirement. As London Hydro has illustrated in this submission, to ignore the Board's policy of normalization in this specific circumstance will result in severe financial penalties to the Applicant due to circumstances that are completely outside of management's ability to control.

142. Board Staff, CCC and LPMA in their submissions argue that the Board should reject London Hydro's proposal to achieve revenue neutrality over the period 2009 to 2012 through the normalization treatment of the write-off of the non-recurring portion of SAP CIS systems expenditures. London Hydro submits that the normalization proposal made by London Hydro is consistent with the Board's policy and practice of normalization of revenue requirement components, and recommends that the Board accept the proposal made by London Hydro.

143. At page 15 of their submission, Board Staff seek clarification with respect to how the 2009 Federal Budget will affect assets in Class 50. London Hydro would refer Board Staff to the information provided in response to LPMA IR # 43 which provides that clarification.

144. In LPMA's submission, LPMA refers to various tax rates and tax measures that are expected to be implemented in 2010 and thereafter that may have future impacts on PILs payable. London Hydro cannot speculate on future tax policy changes and how those changes might impact the calculation of future PILs, it can only state what it knows the impacts will be from the tax write-off of its SAP CIS system based on the evidence submitted in this Application. London Hydro believes the positions taken by Board Staff and Intervenors with respect to PILs

normalization for the SAP CIS system write-off and the treatment of regulatory application costs to be inconsistent. Board Staff and Intervenors fully embrace the concept of normalization for one rate recovery component, but assume an opposite argument for the PILs rate recovery component.

F. RATE BASE

Capital Expenditures

145. Board Staff in its submission provides a very detailed and extensive commentary on the capital expenditure programs and asset management approach utilized by London Hydro and documented in extensive detail in the Application.

146. Board Staff take no issue with any planned capital expenditures of London Hydro and submit that London Hydro's Asset Management approach is appropriate, given the size of the utility, its operating environment, and challenges and opportunities it faces to operate and maintain its system to deliver electricity safely and reliably to customers while also accommodating growth in residential and commercial/industrial customers. London Hydro concurs with the submissions of Board Staff.

147. Energy Probe in its submission provides comments and observations on certain capital spending categories, but concludes that it takes no issue with capital expenditure projections. Thus Energy Probe makes no recommendations to the Board for capital expenditure adjustments. London Hydro concurs with the submissions of Energy Probe in this respect.

148. CCC in its submission provides comments and observations on the computer hardware and software expenditures but takes no issue with the IT capital spending. CCC comments on OM&A benefits are referred to under the discussion of OM&A. CCC makes no recommendations to the Board for capital expenditure adjustments. London Hydro concurs with CCC in this respect.

149. VECC in its submission in paragraph 2.5 states that VECC has not examined London Hydro's overall 2009 Capital spending in detail, but that it has taken an overall "CAPEX envelope" approach and as a result determined that expenditures seem reasonable with the exception of 2009 City and Developer Works.

150. VECC submits in paragraphs 2.6, 2.7 and 2.8 that City and Developer Works budget should be reduced by $2.0 million to reflect historic/2008 levels.

151. London Hydro has provided in its Asset Management plan detailed support for the 2009 City and Developer Works forecast. Further support was provided in response to Board Staff IR # 2 and Energy Probe IR # 29. As indicated in Energy Probe IR # 29, London Hydro's capital spending projections are fully supported by the City Works programs for 2009 that will be undertaken through the 2009 announced Government Infrastructure initiatives for municipal infrastructure improvements in Canada.

152. London Hydro submits that it has provided complete and sufficient support for its 2009 City and Developer Works spending forecast, and recommends that the Board should reject the proposal by VECC that this forecast be reduced by $2.0 million.

153. LPMA in its submission makes certain observations with respect to the level of capital expenditures for 2009 versus historical and future year forecasts. LPMA states that most of the increase in capital expenditures in 2009 from the 2008 levels are related to computer software which is forecast at $9.3 million. As noted in paragraph 135 of this submission, this increase relates to the new SAP CIS system that was implemented in 2009, which London Hydro has explained is a non-recurring capital expenditure in the sense that it may only happen every 7 or 8 years.

154. LPMA makes the observation that the 2009 capital spending is $3 to $4 million higher than forecast for 2010 and 2011 and that the average of the 2009 through 2011 forecast is $25.061 million. LPMA states that the 2009 forecast is $2.369 million above this average and submits that the Board should reduce the capital expenditures for 2009 by $2.369 million to reflect the average for 2009 through 2011 of $25.061 million.

155. London Hydro submits that capital spending by its very nature is subject to annual fluctuations when significant non-recurring expenditures such as a new CIS system or a new substation occur. Fluctuations in year over year capital spending have been fully explained and documented in the Aapplication, in the interrogatories and in this final submission, and London Hydro recommends that the Board reject LPMA's proposal to reduce 2009 capital spending levels by $2.369 million.

Working Capital Allowance

156. London Hydro has applied the Board's standard methodology using 15% of OM&A costs and cost of power in deriving its working capital allowance.

157. Board Staff accept the methodology used by London Hydro in calculating its working capital allowance but submit that in updating the allowance for final adjustments London Hydro should reflect the most current estimate of the RPP commodity price of $0.6072/kWh as well as the current retail transmission prices.

158. London Hydro has expressed its opinion in LPMA IR # 11 d) with respect to the appropriate RPP price to be used, and believes that the RPP price at the time of filing the Application should remain unchanged, but London Hydro will accept the Board's final directions on this matter.

159. In their final submissions, LPMA, VECC, CCC and Energy Probe accept, subject to final adjustments, the approach and methodology used by London Hydro to calculate its working capital allowance for the 2009 Test Year.

160. LPMA, VECC and Energy Probe submit that based on the relative size of London Hydro, the Board should direct London Hydro to undertake a lead/lag study for its next rebasing application. CCC submits that a lead/lag study should be undertaken for its next rate proceeding, which London Hydro assumes to be the next rebasing rate proceeding.

161. Intervenor submissions with respect to lead/lag studies are supported by reference to studies performed by Toronto Hydro and Hydro One Networks. London Hydro submits that these two distributors are many times larger than London Hydro and virtually every other distributor in Ontario, and as such are not a valid comparator.

162. London Hydro submits that there is no evidence to suggest that lead/lag studies undertaken in these two unique distributor environments will have any comparability to the operations of the remaining distributors in the Province. Lead/lag studies, if undertaken by any individual distributor, can be very costly and like load forecasting, can be subject to many different methodologies and approaches.

163. London Hydro does not concur with the need for a lead/lag study, but if the Board should determine that such studies would benefit future rate proceedings, then London Hydro would recommend that a generic industry wide methodology be developed and approved for use, to avoid duplication of costs in the industry and to avoid the future use of multiple approaches by distributors, with the ensuing complexities and costs that they would introduce into the rate hearing process.

G. COST OF CAPITAL

164. In its AIC, London Hydro has provided the Board with a summary of the Cost of Capital requested in its adjusted application. All intervenors accept the calculations and submission by London Hydro of the interest on short term debt and the return on equity component in the cost of capital submission, but Board

Staff, CCC, SEC, Energy Probe, VECC and LPMA do not concur with London Hydro's submission with respect to the interest on long term debt.

165. All intervenors argue that London Hydro has a promissory note of $70 million held by its shareholder at a rate of 6% and that 6% should be applied to the total deemed long term debt amount of $126,069,467 to calculate the long term debt interest component of the cost of capital.

166. In support of their arguments, all intervenors refer to the Board's Decision (EB-2008-0232) with respect to Hydro One Remote Communities' 2009 distribution rates. In the Board Decision in EB-2008-0232, Hydro One Remote Communities' long term debt was not callable on demand, and was indicated as third party debt issued to public debt investors. London Hydro has no third party arm's length debt, it has only affiliate debt, and thus there is very little relevancy between the Decision of EB-2008-0232 and that of London Hydro. As stated in that Decision "the deemed long term debt rate is intended to apply in the absence of an appropriate market determined cost of debt, such as affiliate and variable rate debt situations."

167. Intervenors have argued that London Hydro's $70 million affiliate debt is not callable on demand based on the statement that the note provides for "callable on demand with 367 days notice". This argument is presented by CCC, Board Staff, VECC and LPMA. LPMA further submits that with 367 days notice required, the note cannot be payable during the 2009 test year and thus it cannot be considered callable. London Hydro submits that the term callable relates to the fact that the note has a specific due date of Oct 31, 2010 but the note holder may call for payment prior to that due date.

168. London Hydro would refer the Board to several Decisions that it has issued to date, on the matter of callable or demand notes held by an affiliate that were determined to be subject to the Board's deemed rate.

169. In the Board's Decision issued on June 17, 2009 for West Coast Huron Energy Inc. (EB-2008-0248), the Board stated that "callable or demand notes held by an affiliate (or a shareholder) were to be subject to a deemed rate". In that Decision the Board reiterated its Policy that: "*For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.*"

170. In that Decision the Board further stated that it recognized in that case that the note holder had indicated that it had no intention of calling the note or otherwise disturbing what is seen by it, and the Utility, as an ongoing financing arrangement. In this Decision the Board stated that the Note was a loan from the sole shareholder, callable on demand. The fact that the note was not payable or callable within a one-year time frame was further evidenced by the applicant's audited financial statements in which that note was classified as a long-term liability.

171. In the Board's Decision issued on April 29, 2009 for Centre Wellington Hydro Ltd. (EB-2008-0225) the circumstances and resulting Decision are virtually identical to the West Coast Huron Energy Decision. Again, the Board acknowledged that the note holder had indicated that it had no intention of calling the note or otherwise disturbing what is seen by it, and the Utility, as an ongoing financing arrangement and again the applicant's audited financial statements clearly indicate that the note is a long-term liability indicating that it is not payable in the current year.

172. In the Board's Decision for COLLUS Power Corp. (EB-2008-0226), the Board further affirmed its policy and practice that the deemed long term debt rate will be applied to all callable affiliate debt. Again in this application, the audited financial statements classified this debt as a long term liability not payable within the current year.

173. In the Board's Decision for Welland-Hydro Electric System Corp. (EB-2008-0247), the Board further affirmed its policy that callable or demand notes held by an affiliate (or a shareholder) were to be subject to a deemed rate.

174. London Hydro submits that if the Board is to be consistent in the application of its stated policy in Decision EB-2008-0248, and consistent with the its Decisions issued in EB-2008-0248, EB-2008-0225 , EB-2008-0226 and EB-2008-0247, the Board's deemed long term debt rate of 7.62% should be applied to London Hydro's total deemed long term debt amount of $126,069,467.

175. As London Hydro has indicated in its AIC, it is offering for the benefit of ratepayers to accept a rate of 6% on its actual affiliate callable debt amount of $70 million and has requested that the deemed rate of 7.62% be applied to only the remaining portion of its $126,069,047 deemed long term debt.

H. COST ALLOCATION AND RATE DESIGN

Loss Factors

176. London Hydro has proposed a decrease in its total loss factor ("TLF") from 4.21% to 4.19% for secondary metered customers < 5000 kW and a similar decrease of 0.02% for other customers. The loss factors are based on averages over a 5 year period.

177. Board Staff submits that it would be reasonable to use 6 year averages to produce a TLF of 4.09% which is .1% lower than that proposed by London Hydro and by extension of this methodology, TLF factors for other customer categories would be reduced by a similar amount.

178. LPMA in its submission argues that the TLF should be based upon the averages for the past 3 years for both supply facilities and distribution losses. Based on this methodology LPMA submits that the TLF would be 3.93%.

179. London Hydro submits that the loss factors as calculated by London Hydro and included in the Application are based on the appropriate application of historical data. The 5 year average for distribution system losses is the average that has been used by the Board for rate setting since the original rate unbundling filings of 2001, and prior to that 5 years was the standard period used by Ontario Hydro for calculation purposes. Supply facility losses were not calculated until after market opening in 2002 and thus less historical experience exists for this loss calculation. For this reason, London Hydro applied a 3 year average for supply facility losses to factor out year 2004 which appeared abnormal. London Hydro's system loss factors are substantially lower than the 5% threshold established by the Board, and London Hydro requests that the Board approve these loss factors as submitted.

Low Voltage Costs

180. London Hydro has a small balance in Account 1550, Low Voltage Variance Account representing charges incur with respect to long term load transfer activities. Board Staff submit that this balance of approximately $6,525 should be disposed of and the account should not be used unless London Hydro's status changes. London Hydro concurs with that submission.

Smart Meters

181. London Hydro is planning to have 80,000 smart meter units installed by the end of 2009, with the remainder of approximately 55,000 units installed by the end of 2010 (in order to meet the Provincial mandate). Capital spending for 2009 is estimated to be $17 million and $10 million in 2010 (with an estimated average installation cost of $150 to $200 per installed smart meter). The Smart Meter rate adder being requested in London Hydro's application is $1.00.

182. VECC in its submission states that "…given $27 million in CAPEX over 2009/2010 and annual operating costs of around $2.7 million, a huge liability is

being deferred and will require a major recovery from residential customers in future." VECC submits that "the Board should direct London to bring forward a plan to amortize the SM costs over a reasonable period and adjust its 2009 rate adder accordingly". This submission was further supported by CCC.

183. Board Staff have submitted "that London Hydro has complied with the policies and filing requirements of the Smart Meter Guideline and is becoming authorized under regulation". Further, "actual expenditures will be subject to review when London Hydro makes application for disposition of the account balances in a subsequent proceeding. Hence, Board Staff takes no issue with London Hydro's proposal to increase smart meter funding adder to $1.00 per month per metered customer."

184. London Hydro has filed its Application for the smart meter adder in compliance with the October 22, 2008 Board-issued Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the "Smart Meter Guideline"). In complying with the Smart Meter Guideline, for the $1.00 rate adder, London Hydro is intending to install meters in the 2009 Test Year. London Hydro has advised that sufficient actual cost information based on actual spending is not available at this time to enable a request for a utility-specific rate adder. This information will be brought forward in a future application when it is available.

185. It is the intension of London Hydro to maintain compliance with the Smart Meter Guidelines by filing for Utility-Specific Smart Meter Funding Adder once actual and/or estimated costs in total and on a per meter basis can be accurately determined. At this point in time it is anticipated that such a filing may be made in conjunction with the filing of the IRM application prepared in 2010 for 2011 rates. This filing will be dependent upon the achievement of a 50% penetration of smart meters within the London Hydro service area.

186. While complying with OEB Guideline requirements, London Hydro has also considered the additional rate impacts that would be passed on to it is customers

in conjunction with other increases flowing from rebasing adjustments, and does not concur with the proposals made by VECC to further adjust its 2009 rate adder at this point in time. London Hydro submits that the recommendations made by VECC and supported by CCC should be rejected by the Board.

Revenue to Cost Ratios

187. London Hydro filed, as part of its Application, its proposal to adjust the revenue to cost ratios in accordance with the Board's approved cost allocation methodology and in compliance with the Report of the Board on *Application of Cost Allocation for Electricity Distributors, EB-2007-0667* (the "Cost Allocation Report").

188. Subsequent to the development of the 2007 distributor cost allocation filings, and subsequent to the development of the cost allocation methodology and the Board's Cost Allocation Report, VECC has presented its opinion on what it perceives to be an incorrect handling of the transformer discounts in the cost allocation model and methodology.

189. VECC has proposed in London Hydro's rate submission and in several other rate submissions that the cost allocation methodology should be revised and that the starting point for cost allocation adjustments should be revised to accommodate an alternate proposed treatment for transformer discounts in the cost allocation model.

190. In Board Staff's final submission, Staff present a table of London Hydro's proposed revenue to cost ratios and compare those ratios to what VECC believes should be the adjusted ratios based upon VECC's revised cost allocation methodology. As this table indicates, the ratios are relatively comparable with the exception of the Large Use customer class.

191. As noted by VECC in paragraph 8.8 of its submission, the cost allocation filing and subsequent revenue to cost ratios submitted by London Hydro compare large user revenues before any transformer discounts to large user costs that

also exclude any costs associated with transformation. This is an appropriate and correct comparison of revenues versus associated costs being recovered by those revenues. As VECC further indicates in paragraph 8.8, and due to the fact that all Large Users are required to provide their own transformation, London Hydro's submission includes a proposal to eliminate the transformer discount for Large Users since the revenues being collected do not have any recovery component for transformation. London Hydro submits that this is the correct treatment.

192. In response to Board Staff IR # 114, London Hydro has explained why it is not adopting VECC's proposed revisions to the cost allocation methodology and explains the distortions and incorrect revenue to cost ratios that this alternate approach creates, most notably in the Large User class. In the cost allocation model, the "costs" of transformation are allocated to all customer classes that use London Hydro's transformers but are not allocated to the Large Use customers since they do not use the London Hydro transformers. All Large User customers in London Hydro own their transformers which means there are no "costs" of transformation allocated to them in the cost allocation model. To adopt VECC's alternate methodology, Large User revenues would be reduced for the transformation allowance discounts but costs would remain the same as there are no transformation costs included in the Large User class to be taken out. The result is that the revenue to cost ratio is changed in the alternate method from 80.8% to 62.0%. London Hydro submits that this results in a mismatching of revenue and cost in the VECC alternative. VECC offers no explanation as to how this will be corrected and how that correction might impact other customer classes. The cost allocation results as filed by London Hydro demonstrate that Large User revenues before transformer discounts produce a revenue to cost ratio of 80.8%. The filing also shows that these same Large User revenues contain no recovery component for transformation costs, and thus the Large User customers are not entitled to any transformer discounts. London Hydro's proposed rates for this class eliminate the transformer discount for this class.

193. Both VECC and Board Staff in their submissions provide tables comparing the revenue to cost ratios submitted by London Hydro versus the recalculated ratios using the alternate cost allocation methodology proposed by VECC. For the reasons indicated in this submission, London Hydro does not concur with the proposed alternate methodology suggested by VECC, and submits that at this time it is more appropriate for distributors to apply a consistent Board-approved methodology until such time as any alternative approaches have been fully tested and approved by the Board.

194. Therefore, it is London Hydro's submission that the Board should approve the Transformer Allowance method used in the London Hydro Cost Allocation Information Filing, and the resulting revenue to cost ratios as proposed in the Application at Exhibit 8, Table 4, for use in the 2009 Application. The proposed revenue to cost ratios are as follows:

Customer Class	Target Ranges Low	Target Ranges High	London Hydro CA Results	Proposed 2009	Proposed 2010
Residential	85%	115%	108.6%	107.0%	105.9%
GS <50 kW	80%	120%	126.3%	120.0%	120.0%
GS 50 to 4,999 kW	80%	180%	75.9%	80.0%	80.0%
GS 50 to 4,999 kW (Co-Generation)	80%	180%	247.0%	213.5%	180.0%
Standby Power	80%	180%	84.8%	84.8%	84.8%
Large Use >5MW	85%	115%	80.8%	85.0%	85.0%
Street Light	70%	120%	16.7%	43.4%	70.0%
Sentinel	70%	120%	14.2%	42.1%	70.0%
Unmetered Scattered Load	80%	120%	56.6%	68.3%	80.0%

195. Board Staff in their submission support the proposed revised methodology of VECC and indicate in their table of revenue to cost ratios the differences between London Hydro's methodology and VECC's methodology. London Hydro notes that excluding the Large User class, the ratios are very similar, and to adopt one over the other would be to imply an element of precision in cost allocation that simply does not exist, as is fully evidenced by the adoption of the Board of acceptable ranges as indicated in the table in Board Staff's submission.

196. Board Staff submit from their observations that there appears to be a large percentage increase in distribution rates for Large User customers due to the elimination of the transformer discount that is not reflected in the bill impact calculations. London Hydro refers Board Staff to Exhibit 9, page 30 and to the information submitted at paragraphs 60 and 61 of the AIC, which illustrates that the elimination of the transformer discount is reflected in the bill impact calculation.

197. Board Staff question whether distribution revenue generated by the proposed rates would yield revenue to cost ratios above 62%. London Hydro submits that the proposed rates with the elimination of transformer discounts will generate revenue to cost ratios of 85% as fully documented and explained in Exhibit 8.

198. LPMA submits, as do VECC and Board Staff, that the proposed starting point for adjusting revenue to cost ratios should be from the second column of the table provided on page 28 of Board Staff's submission, which is the proposed alternate methodology used by VECC. Based upon this submission, LPMA advises that the Board should direct London Hydro to adjust the revenue to cost ratios for certain customer classes. For reasons outlined and set out in this reply submission, London Hydro submits that the Board should reject this recommendation by LPMA.

199. LPMA submits that London Hydro should allocate the revenue to cost ratio revenue adjustments in a manner that reduces the amount allocated to the Residential class and increases the amounts allocated to certain commercial classes. London Hydro rejects this submission, and recommends that the Board reject this submission for the following reasons:

    a. London Hydro's proposed revenue to cost ratios will bring all ratios in line with the Board's target ranges by 2010;

b. It is generally acknowledged that cost allocation is an imprecise activity and this is further evidenced by the establishment of the Board's target ranges for revenue to cost ratios; and

c. Given that the Residential customer class represents approximately 90% of the customer base, London Hydro is of the opinion that it is appropriate to allocate the majority of any net revenue adjustments required to that class.

Monthly Fixed Charges

200. Board Staff submits that London Hydro's proposal for monthly fixed charges is reasonable in terms of the fixed/variable proportions of revenues, and is consistent with Board policy as articulated in the Board's Cost Allocation Report and in previous decisions. London Hydro concurs with Board Staff's submission.

201. VECC in its submission argues that the current monthly customer charge exceeds the ceiling established by the Board's guidelines. VECC indicates that the value should be increased by no more than the cost adjustment arising from the 2009 Rate Application. London Hydro would refer VECC to Exhibit 9, page 4 of the Application and the reference to the Norfolk Power Distribution Decision (EB-2007-0753) in which the Board effectively determined that a ceiling on the monthly customer service charge has not been established and that the matter will be determined through the Rate Design initiative currently undertaken by the Board.

202. SEC in its submission argues that due to the fact that London Hydro's fixed charges for GS<50kW and GS>50kW are above the "Upper Bound" defined in the Board's Cost Allocation Report, there is a significant intra-class subsidy. London Hydro submits that the respective level of fixed versus variable rates are issues of rate design that the Board has determined will be deferred to the Rate Design initiative currently underway.

203. SEC submits that fixed charges for GS<50kW and GS>50kW should be frozen at their existing levels. London Hydro submits that this suggestion will not alter the total revenue requirement for those classes, it will only result in changes to the fixed/variable splits and fixed and variable rates within the class, and result in varying rate impacts at various consumption levels. As indicated in the AIC, total customer bill impacts for these two rate classes are less than 3%. London Hydro submits that its proposed rates, including its proposed fixed charges, are in accordance with Board policy and should be approved as proposed, and that any revisions to rate design and structure should be deferred to the Board's Rate Design review process.

Rate Design – Co-Generation

204. Board Staff in their submission suggest that there may be a flaw in the cost allocation model as it applies to customers with their own generation and that the Board should require London Hydro to address this question when it next files a cost allocation study at its next distribution rate rebasing.

205. London Hydro submits that if there is a flaw in the cost allocation model, this flaw would presumably affect any distributor with Co-Generation customers, and that a generic industry wide process to review the model would be more appropriate, and would ensure that all affected distributors were included in the review.

Rate Design – Transformer Ownership Allowance

206. Board Staff question in their submission whether the proposed variable rate for Large Users submitted by London Hydro should be $1.7634 per kW or $1.7634 less the $0.60 transformer discount. London Hydro confirms that the proposed rate is $1.7634 as submitted in the AIC. As explained in paragraphs 191 and 192 of this submission, transformer discounts are no longer provided to Large Use customers.

207. Board Staff in their submission question whether London Hydro will maintain the existing fixed/variable revenue splits for the Large User class. As illustrated in Exhibit 9, tables 5, 7 and 10, London Hydro is maintaining the current fixed/variable splits for this class.

Retail Transmission Service Rates

208. Board Staff and all intervenors make no recommendations to the Board in their final submissions for any revisions to the transmission service rates as submitted by London Hydro.

209. Board Staff observe that in London Hydro's calculations of total bill impacts, the calculation assumes that customers who pay the Standby Rate would also pay the RTSR on the same billing demand. Board Staff submit that the customers billing demand should only be for the power delivered to the customer by London Hydro. Board Staff's comments are correct and London Hydro confirms that the customer's actual bill is calculated in that manner. For the purposes of illustration only, the two amounts have been assumed to be the same for the 2008 and 2009 comparative presentation and as such the comparisons are not distorted.

I. DEFERRAL AND VARIANCE ACCOUNTS

210. London Hydro filed in its submission its calculations of deferral and variance accounts based upon the information available at the time of filing and proposed disposition of those balances based upon the directions provided by the Board as of that date.

211. Subsequent to that filing and during the course of first and second round interrogatories, Board Staff requested additional analysis and updated information with respect to these balances.

212. Based upon this additional information and further review of account balances, Board Staff have made certain submissions to the Board with respect to the deferral and variance accounts that should be disposed of and how those dispositions should occur.

213. In London Hydro's AIC it has requested disposition of certain account balances as submitted in the Application, but London Hydro submits that it will accept the recommendations of Board Staff as provided in their submission with respect to disposition of deferral and variance accounts and comply with the directions provided by the Board in that respect.

J. CONCLUSION

214. As submitted in its AIC, London Hydro has proposed distribution rates that result in minimal total bill impacts. In the case of the Street Light and Sentinel Light customer classes, impacts are larger as a result of adjustment of revenue to cost ratios toward the Board's approved ranges.

215. Also as discussed in its AIC, London Hydro has been conscious of the importance of minimizing impacts on its rate payers, particularly in light of current economic circumstances, and has undertaken various mitigation measures, including the deferral of the filing of the Application from August 15, 2008 to December 1, 2008 with the understanding that the effective date of revised rates from this Application may be deferred until September 1, 2009. While this election was initially made to assist the OEB with its regulatory workloads, London Hydro also notes that revised rates and impacts to the ratepayers may be deferred for up to a 4 month time frame. Because London Hydro is not seeking recovery of incremental revenue for the period of May 1, 2009 through August 31, 2009, London Hydro will have forgone up to approximately $2,560,000 in incremental revenue (at approximately $640,000 per month). Other measures include, but are not limited to, London Hydro's decision to not request recoveries of a Lost Revenue Adjustment or Shared Savings Mechanism

with this Application (thereby forgoing approximately $617,000 in lost revenue related to CDM); and to permanently forgo the recovery of costs related to London Hydro's Earth Day 2007 program notwithstanding the Board's previous authorization to track those one-time 2007 costs.

216. London Hydro submits that its proposed revenue requirement, subject to certain adjustments set out in the AIC and this reply submission, has been determined appropriately; that its proposed capital and OM&A programs for the 2009 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates, which will allow it to recover its 2009 revenue requirement and maintain its high level of safe and reliable distribution service to its customers, while yielding average total bill impacts of less than 5%, are just and reasonable.

217. London Hydro submits that in approving this Application, the Board will have met its objective, set out in section 1 of the *Ontario Energy Board Act, 1998*, as amended, "to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

218. London Hydro respectfully requests that the Board approve its Application based upon its proposed 2009 revenue requirement as modified through the IR process (as summarized in the AIC) and as modified in this reply submission, and that the Board direct London to prepare a rate order that implements the modified revenue requirement effective no later than September 1, 2009. While London Hydro had requested a rate order effective May 1, 2009 in its Application, as noted above, London Hydro understands that the effective date of revised rates from this Application may be deferred until September 1, 2009. Ideally, the effective date of the rate order would be prior to September 1, 2009. However, London Hydro remains concerned about the prospect of an effective date later than September 1, 2009. As London Hydro stated at page 28 of Exhibit 1 of the Application:

> “While London Hydro will not request a rate rider to cover incremental distribution revenues that would otherwise be recovered during the May-August 2009 period, London Hydro is concerned that the effective date of its new Schedule of Rates and Charges be no later than September 1, 2009, and requests that, in the event that the OEB is not able to issue a final Rate Order for implementation September 1, 2009, the OEB provide for the recovery of incremental revenues for the period of September 1, 2009 to the effective date of the final Rate Order, either by way of a further interim Order approving the proposed distribution rates and other charges, effective September 1, 2009, which may be subject to adjustment based on its final Decision and Order, as requested above, or an appropriate rate rider that would be in effect from the effective date of the Rate Order through April 30, 2010.”

219. London Hydro reiterates this request in the event that the Board is not able to issue a final Rate Order for implementation September 1, 2009.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 16TH DAY OF JULY, 2009.

Original Signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to London Hydro Inc.

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