

**Board Staff Comments
London Hydro Inc.
2009 Cost of Service
(EB-2008-0235)**

Draft Rate Order (“DRO”) documentation

On August 21, 2009, the Board issued its Decision and Order (the “Decision”) on London Hydro Inc.’s (“London’s”) 2009 cost of service application. The Decision required London to submit its Draft Rate Order within fourteen days of the issuance of the Decision. London submitted its Draft Rate Order and supporting documentation on August 27, 2009. The following are staff’s comments regarding London’s Draft Rate Order. Board staff is also aware of the comments submitted by the London Property Management Association (“LPMA”).

Re: Rate Rebalancing

Board staff submits that London’s rebalancing implements the Board’s Decision and Order in the major adjustments required to put the ratios of all classes within their respective ranges.

Board staff does not make a submission on London Hydro’s rebalancing of the ratios of the Residential and GS < 50 kW classes. The rebalancing involves decreases in the ratios of both classes, and are adjustments in the right direction within their respective ranges. Staff provides the following observations about the rebalancing as proposed by London in the Draft Rate Order.

The Board Decision reads, at p. 41:

“The Board accepts LPMA and VECC’s proposal that any additional revenue arising from the rebalancing should be allocated equally to the Residential and GS<50 kW classes.”

The relevant parts of LPMA’s submission are as follows (p. 36 of 37):

“In 2009, LPMA submits that the incremental revenue generated should first be used to bring the GS < 50 kW ratio down to 120% (as proposed by London Hydro) and to reduce the ratio for the Co-Generation class to

209.9%. Any remaining incremental revenue would then be used to reduce the residential ratio. LPMA submits that the Board should direct London Hydro equally split the incremental 2010 revenue between the residential and GS < 50 kW customers to reduce ratios for both classes. Based on the information provided in Table 3 of Exhibit 8, the LPMA proposal would still provide a reduction in the revenue to cost ratio for the residential class of about 0.6, from 107.0% in 2009 to 106.4% in 2010. At the same time, the ratio for the GS < 50 kW class would decline from 120.0% in 2009 to about 117.5%.”

VECC’s submission is not as specific as LPMA’s. It appears that VECC’s submission was intended to apply to the 2010 rebalancing, starting from the 2009 ratios that were mentioned by LPMA, which are 107% and 120% for Residential and GS < 50 kW respectively.

Board staff notes that London Hydro’s draft rate order makes an equal adjustment in 2010 of (\$284,618), but that the 2009 ratios would be 109% and 112.7% respectively. These ratios are the outcome of adjustments in initial year that are not equal in either absolute or percentage terms. Board staff notes also that the revenue-to-cost ratios of the two classes in 2010 would be close to being equal, at 108.1% and 108.8% according to Exhibit 8 – Table 4. These ratios also differ somewhat from LPMA’s earlier estimates.

It is not fully certain how London has interpreted or implemented the direction in the Decision to allocate the additional revenue between the Residential and GS < 50 kW over the two years. However, the ratio movements are directionally correct and the end-state by 2010 would seem satisfactory, based on the current Cost Allocation methodology and data.

In summary, Board staff does not make a submission on the Residential and GS < 50 kW class ratios. Board staff notes that LPMA did not make a submission on London Hydro’s Draft Rate Order, despite the differences between draft and LPMA’s earlier detailed submission.

Re: Total Loss Factors

Board staff notes that Total Loss Factors have not been changed in the Draft Rate Order (p. 87) and remain at the previous approved amounts. The correct factors appear to have been used elsewhere in the Draft Rate Order filing, in particular in the bill impact calculations (pp. 47 – 58). The final Rate Order should include the corrected Total Loss Factors as documented in the Board's Decision and Order.

- All of which is respectfully submitted. -