



**London Hydro Inc.**

**ED-2002-0557**

**2011 3<sup>rd</sup> GIRM Electricity Distribution Rate Adjustment Application**

**Board File Number**

**EB-2010-0097**

## **ONTARIO ENERGY BOARD**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998, S.O. 1998, c15 (Sched. B)*, as amended;

**AND IN THE MATTER OF** an application by London Hydro Inc. for an Order or Orders pursuant to the *Ontario Energy Boards Act, 1998*, approving or fixing just and reasonable distribution rates and other charges for the distribution of electricity and related matters.

### **APPLICATION**

1. The Applicant is London Hydro Inc. (“London Hydro”). London Hydro is a licensed electricity distributor pursuant to license (ED-2002-0557) issued by the Ontario Energy Board (the “Board”). The Applicant distributes electricity to approximately 146,000 customers within the City of London.
2. Pursuant to section 78 of the *Ontario Energy Board Act, 1998*, as amended, (the “OEB Act”) London Hydro requests approval of its proposed distribution rates and other charges, effective May 1<sup>st</sup>, 2011 based on the 2011 incentive regulation mechanism (“IRM”) application.
3. London Hydro has prepared this Application in accordance with the following guidelines and directions established by the Board: Chapter 3 of the Board’s Filing Requirements for Incentive Regulation Mechanisms for Annual Rate Adjustments, dated July 9, 2010; Revision 2.0 of the Guidelines G-2008-001 – Electricity Distribution Retail Transmission Service Rates, dated July 8, 2010; Letter from the Board to Electricity Distributors – Process for 2011 Incentive Regulation Mechanism Distribution Rate Applications, dated August 20, 2010 (the “August 20<sup>th</sup> Letter”); Guideline (G-2008-0002) on Smart Meter

Funding and Cost Recovery, issued October 22, 2008; and the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), issued July 31, 2009.

4. In the preparation of this application, London Hydro has utilized the Excel models and work forms developed and provided by the Board and as listed in the Board's August 20<sup>th</sup> letter to Distributors. The applicable models and work forms are:
  - 2011 IRM3 Rate Generator
  - 2011 IRM3 Shared Tax Savings Work Form
  - 2011 IRM Deferral and Variance Account Work Form
  - Smart Meter Rate Calculation Model, and
  - 2011 RTSR Adjustment Work Form.
  
5. London Hydro is applying to the Board for approval of the following:
  - a. 2011 distribution rates that are based on 2010 approved rates adjusted for price cap adjustment;
  - b. a change in the monthly Smart Meter Funding Adder from \$1.00 to \$2.78 per metered customer;
  - c. an adjustment to the Retail Transmission Service and Connection rates;
  - d. a rate rider to refund shared tax savings;
  - e. a deferral and variance account disposition rate rider as calculated per the 2011 IRM Deferral and Variance Account Work Form;
  - f. the establishment of a rate rider subsequent to a generic hearing process for the recovery of one-time expenses related to late payment penalty litigation costs;
  - g. the continuation of existing specific service charges and loss factors as approved in London Hydro's 2009 Cost of Service rate application EB-2009-0235.
  
6. London Hydro requests that, pursuant to Section 34.01 of the Board's Rules of Practice and Procedures, this proceeding be conducted by way of written hearing.

7. The London Hydro requests that a copy of all documents filed with the Board in this proceeding be served on London Hydro as follows:

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Director of Finance and Regulatory Affairs  
London Hydro Inc.

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DATED at London, Ontario, this 28<sup>th</sup> day of October, 2010.

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Mike Chase  
Director of Finance and Regulatory Affairs  
London Hydro Inc.

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**Attachments**

- A Current Tariff of Rates and Charges
- B 2011 IRM3 Rate Generator
- C 2011 IRM3 Shared Tax Savings Work Form
- D 2011 IRM Deferral and Variance Account Work Form
- E Smart Meter Rate Calculation Model
- F 2011 RTSR Adjustment Work Form
- G Proposed Tariff of Rate and Charges
- H Schedule of Bill Impacts

## **MANAGER'S SUMMARY**

### **Introduction**

London Hydro is a licensed electricity distributor as defined in the *Ontario Energy Board Act, 1998* (the “Act”) and operates pursuant to license (ED-2002-0557). London Hydro distributes electricity to approximately 146,000 customers within the municipal boundaries of the City of London.

London Hydro is submitting its 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism (“3<sup>rd</sup> GIRM”) Electricity Distribution Rate Application in accordance with the filing requirements updated by the OEB on July 9, 2010 as Chapter 3 of the Board’s *Filing Requirements for Incentive Regulation Mechanisms for Annual Rate Adjustments* (“the filing Requirements”), in particular with Section 2.0 – IRM and IRM3 Common Adjustments and Section 4.0 – IRM3 Specific Adjustments, the Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors”, the “IRM Report”), issued on July 14, 2008, the “Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors” (“the Supplemental Report”), issued on September 17, 2008 and the Addendum to the Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario’s Electricity Distributors (“the Addendum to the Supplemental Report”), issued on January 28, 2009.

Other Board documents that were used in preparation of this application include *Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative* (EDDVAR), issued July 31, 2009; *Guidelines (G-2008-0001) on Retail Transmission Service Rates*, issued October 22, 2008 (and revised July 8, 2010); and *Guideline (G-2008-0002) on Smart Meter Funding and Cost Recovery*, issued October 22, 2008.

London Hydro has relied on applicable Board-issued Excel models listed in the August 20<sup>th</sup> letter. The applicable models and work forms are:

- 2011 IRM3 Rate Generator
- 2011 IRM3 Shared Tax Savings Work Form
- 2011 IRM Deferral and Variance Account Work Form
- Smart Meter Rate Calculation Model, and
- 2011 RTSR Adjustment Work Form.

### **Incentive Regulation Rate Adjustments**

The proposed rates submitted in this application are contained in the Schedule of Rates and Changes as provided in Attachment G. The requested rates reflect an adjustment to the rates as previously approved by the Board in the Rate Order issued by the Board on April 7, 2010, Board file EB-2009-0235.

London Hydro's proposed adjustments include:

- a. a price cap adjustment;
- b. a change in the monthly Smart Meter Funding Adder from \$1.00 to \$2.78 per metered customer;
- c. an adjustment to the Retail Transmission Service and Connection rates;
- d. a rate rider to refund shared tax savings;
- e. a deferral account disposition rate rider calculated as per the 2011 IRM Deferral and Variance Account Work Form;
- f. the establishment of a rate rider subsequent to a generic hearing process for the recovery of one-time expenses related to late payment penalty litigation costs;
- g. the continuation of existing specific service charges and loss factors as approved in EB-2009-0235.

### Price Cap Adjustment

London Hydro has used the Board's Model to calculate an interim price cap adjustment of 0.18 % to the monthly distribution service charge and volumetric rate for each rate class. This adjustment is calculated as the combination of:

- Price Escalator (GDP-IPI) = 1.3%
- Total Productivity Factor = - 0.72%
- Interim stretch factor = - 0.40%

London Hydro acknowledges that the GDP\_IPI escalator and the stretch factor may be adjusted by the Board before the final Rate Order is issued.

### Shared Tax Savings Adjustments

In its Supplemental Report, the Board has determined that a 50/50 sharing of the impact of currently known legislated tax changes is appropriate at this time, as applied to the tax level reflected in the Board approved base rates for a distributor. The Board's 2011 IRM3 Shared Tax Savings Work Form was used to determine the amounts to be used to calculate the applicable rate rider, resulting in the following:.

- Incremental Tax savings are calculated as \$1,009,042 (based on tax calculation differences between London Hydro's 2009 approved Cost of Service Application and the 2011 Tax Change Forecasted amounts as reflected in the 2011 IRM3 Shared Tax Savings Work Form)
- Forecasted tax changes include the elimination of Ontario Capital Tax, the Corporate Tax Rate changing from 33.0% (per London Hydro's approved 2009 Cost of Service Rate Application) to a forecasted rate for 2011 of 28.25%.

The 50% incremental tax savings amount to be allocated to ratepayers is \$504,521. The application proposes to provide these incremental tax savings to ratepayers through a rate rider for the period commencing May 1, 2011, with a sunset date of April 30, 2012. Volumetric Tax Change Rate Riders have been calculated and are included in the proposed Schedule of Tariff



Rates and Charges. Additional information to support this rate rider request can be found in Attachment C - 2011 IRM3 Shared Tax Savings Work Form. The proposed 2011 Tax Savings Volumetric Rates are reflected in Table 1 below.

Table 1: Proposed 2011 Tax Savings Volumetric Rate Riders

<b>Rate Class</b>	<b>Vol Metric</b>	<b>Distribution Volumetric Rate kW Rate Rider</b>
<b>Residential</b>	kWh	-0.0003
<b>General Service Less Than 50 kW</b>	kWh	-0.0002
<b>General Service Less Than 50 to 4,999 kW</b>	kW	-0.0253
<b>General Service Less Than 50 to 4,999 kW (CoGeneration)</b>	kW	-0.0585
<b>Standby Power</b>	kW	-0.0203
<b>Large User</b>	kW	-0.0305
<b>Unmetered Scattered Load</b>	kWh	-0.0001
<b>Sentinel Lighting</b>	kW	-0.1090
<b>Street Lighting</b>	kW	-0.0822

Retail Transmission Service Rates (RTSR's)

London Hydro's existing RTSR's as approved by the Board in its Rate Order issued on September 22, 2009 (EB-2008-0235), have been adjusted for the changes to the wholesale transmission rates effective July 1, 2009. Using the Board's 2011 RTSR Adjustment Work Form, London Hydro has adjusted its RTSR's based on a comparison of historical transmission costs for new UTR levels (Schedule C1.1 Historical Wholesale) and revenues generated from

existing RTSR's (Schedule E1.1 Adjustment Network to Forecast Wholesale). The RTSR Adjustment Workform model calculates the expected billing for 2011 by taking the forecasted 2011 UTR applied against historical (2009) transmission units.

Based on Adjustment Work Form F1.1 IRM RTSR Adjustment Network and F1.2 IRM RTSR Adjustment Connection, London Hydro is proposing a decrease of 6.4% in Network Transmission Rates and a decrease of 6.2% in Line and Transformation Connection Service rates. Additional information to support this request can be found in Attachment F: 2011 RTSR Adjustment Work Form.

London Hydro understands that the Board will be updating the UTRs of each distribution rate application, adjusting the proposed RTSR's, once the actual UTR's are determined. The proposed RTSR rates for 2011 are reflected in Table 2 below.

Table 2: Proposed 2011 RTSR Rate Riders

Rate Class	Volumetric Metric	Current RTSR - Network	Proposed RTSR - Network	Current RTSR - Connection	Proposed RTSR - Connection
Residential	kWh	0.0061	0.0057	0.0051	0.0048
General Service Less Than 50 kW	kWh	0.0057	0.0053	0.0045	0.0042
General Service 50 to 4,999 kW	kW	2.0071	1.8783	1.6556	1.5537
General Service 50 to 4,999 kW - Interval Metered	kW	2.5738	2.4086	2.3070	2.1651
General Service 50 to 4,999 kW (CoGeneration)	kW	2.9712	2.7805	2.4403	2.2902
Large Use	kW	2.6355	2.4664	2.3070	2.1651
Unmetered Scattered Load	kWh	0.0057	0.0053	0.0045	0.0042
Sentinel Lighting	kW	1.7697	1.6561	1.4596	1.3698
Street Lighting	kW	1.7673	1.6539	1.4578	1.3681

### Deferral Account Rate Rider

In London Hydro's 2009 cost of service rate application (EB-2008-0235), the application incorporated a proposal to dispose of certain deferral and variance account balances. The Board made its Decision with respect to the application on August 21, 2009, and on page 49 of that Decision, the Board provided the following Board's Findings.

### **Board Findings**

*While the Board has announced an initiative to consider on a generic basis certain of the deferral and variance accounts, that process is still in the early stages. The RSVA balances are large and the Board finds that these amounts should be disposed of at this time. A rebasing application is an appropriate time at which to consider disposition of each account. The Board finds it appropriate to dispose of all the accounts, except the two PILS accounts (which are subject to a review in a separate proceeding), account 1590 (which the Board has typically not disposed of until the final balance can be verified), and the smart meter and CDM tracking accounts (which will be reviewed at a later date).*

*The Board finds that the balances at December 31, 2008 shall be disposed of, plus projected interest to the effective date of the 2009 distribution rates.*

*The Board finds that a period from the implementation date through to April 30, 2011 is appropriate.*

The rate riders for the disposition of these balances were implemented effective October 1, 2009, and as indicated in the Board Decision, has a sunset date of April 30, 2011.

On July 31, 2009 the Board issued its *Report on Electricity Distributors' Deferral and Variance Account Review Initiative ("EDDVAR Report")*. The Board Report sets out a framework for the review and disposition of deferral and variance accounts for electricity distributors. Further, the

Report includes the Board’s decision to review certain deferral and variance accounts within a distributor’s IRM application. Those certain accounts to be included in an IRM application were classified as Group 1 accounts and include accounts 1550, 1580, 1586, 1588, 1590, and 1595.

The schedules supporting this application are presented in the 2011 IRM Deferral and Variance Account Work Form (Attachment D). As per the *EDDVAR Report*, the distributor is required to file a proposal for the disposition of all Group 1 accounts, when the disposition threshold of \$0.001 / kWh is exceeded (whether credit or debit position). As reflected in the Deferral and Variance Account Work Form (sheet E 1.1 Threshold Test) London Hydro is below the .001 / kWh threshold. The Threshold Test, reflected below in Table 3 has calculated a Total Claim per kWh of (0.000261) for London Hydro.

Table 3: Threshold Test

<b>Rate Class</b>	<b>Billed kWh</b>
Residential	1,067,984,894
General Service Less Than 50 kW	392,901,741
General Service 50 to 4,999 kW	1,473,388,442
General Service 50 to 4,999 kW (CoGeneration)	43,212,712
Large Use	186,745,206
Unmetered Scattered Load	5,570,493
Standby Power	0
Sentinel Lighting	836,233
Street Lighting	23,394,430
	3,194,034,151
Total Claim	(834,624 )
Total Claim per kWh	0.000261

The balances reported in the 2011 IRM Deferral and Variance Account Work Form and reflected in Table 4 below, agree with those reported in the Board’s Reporting and Record-keeping Requirements (“RRR”) and the London Hydro 2009 Audited Financial Statements.

Table 4: Group 1 Summary of Account Balances Considered for Disposition

<b>Account Description</b>	<b>Account Number</b>	<b>Balanace</b>	<b>Carrying Charges</b>	<b>Total</b>
LV Variance Account	1550	\$ (622)	\$ 616	\$ (6)
RSVA - Wholesale Market Service Charge	1580	(207,826)	(436,082)	(643,908)
RSVA - Retail Transmission Network Charge	1584	133,708	206,849	340,557
RSVA - Retail Transmission Connection Charge	1586	(370,062)	(75,558)	(445,620)
RSVA - Power (Excluding Global Adjustment)	1588	(907,537)	(782,853)	(1,690,390)
RSVA - Power (Global Adjustment Sub-account)	1588	1,147,038	(907)	1,146,131
Recovery of Regulatory Asset Balances	1590	0	458,614	458,614
	<b>Total</b>	<b>\$ (205,301)</b>	<b>\$ (629,323)</b>	<b>\$ (834,624)</b>

Specific Service Charges and Loss Factors

London Hydro is applying to continue its Specific Service Charges and loss factors unchanged from those currently approved by the Board, in London Hydro’s 2009 cost of service rate application EB-2008-0235.

Smart Meter Funding Adder

Pursuant to the Decision in the proceeding EB-2008-0235 and to the requirements of OEB *Guideline G-2008-002: Smart Meter Funding and Cost Recovery*, London Hydro is requesting in its application for a 2011 a utility specific Smart Meter Funding Adder as determined through the use of the Boards Smart Meter Rate Rider Calculation Model:

- A smart meter Cost Recovery Rate Rider of \$1.00 per month per metered customer was approved (EB-2009-0235) effective May 1, 2010 until April 30, 2011.
- Section 1.5 of the *Guideline G-2008-002: Smart Meter Funding and Cost Recovery* states that: *“The Board also expects that only two applications will need to be made for the recovery of smart meter costs. The first is when the distributor achieves at least 50% penetration of the smart meters within its service area. The second is when the distributor installs 100% of the meters.”*

Based on these guidelines, and as London Hydro has currently installed approximately 95% of the required 142,000 residential and small general service smart meters, London Hydro is applying for a new Smart Meter Funding Adder.

- London Hydro proposes a 2011 Smart Meter Funding Adder of \$2.78 per metered customer per month to replace the current generic Board-approved Smart Meter Funding Adder of \$1.00 per metered customer per month. The Board’s Smart Meter Rate Calculation Model was used to determine the proposed 2011 Smart Meter Funding Adder. Additional information to support this request can be found in Attachment E - Smart Meter Rate Calculation Model.
- London Hydro acknowledges that approval of the Board for this requested utility specific smart meter rate rider is not an approval or Decision by the Board with respect to the prudence of these expenditures. Such Decision will be made by the Board at the time that London Hydro applies for recovery of these costs.

#### Recovery of Late Payment Penalty Litigation Costs

As part of this application, London Hydro requests approval from the Board for recovery of late payment penalty litigation costs in the amount of \$459,534.69 which a IRM3re to be paid on June 30, 2011. This payment is to resolve a long-standing litigation against all former municipal electric utilities (“MEUs”) in the Province in relation to late payment penalty (“LPP”) charges

collected pursuant to, first, Ontario Hydro rate schedules and, after industry restructuring, Ontario Energy Board rate orders (the "LPP Class Action").

On July 22, 2010, The Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice approved a settlement of the LPP Class Action, the principal terms of which are the following:

- (a) Former MEUs collectively pay \$17 million in damages;
- (b) Payment is not due until June 30, 2011; and
- (c) Amounts paid, after deduction for class counsel fee, will be paid to the Winter Warmth Fund or similar charities.

Under this settlement, London Hydro is required to pay \$459,534.69 by June 30, 2011. This amount represents London Hydro's share of the settlement, applicable taxes and legal fees. London Hydro believes that the settlement is in its best interest and the best interest of its ratepayers and that the payment in connection with the settlement is prudent and the least cost option for it to pursue under this class action lawsuit.

The settlement of this class action lawsuit affects virtually all electric distributors in Ontario. London Hydro, proposes that the Board hold a generic industry hearing at its earliest opportunity with respect to this issue, to approve for recovery the costs to be paid under this settlement by Ontario electric distributors. Through this generic hearing process, electric distributors would collectively file written evidence to address the prudence of the settlement, the costs incurred, the methodology of allocating total settlement costs amongst the LDCs, the proposed method of recovery, and any other matters that the Board may determine appropriate.

In the interim, and prior to the finalization of this generic hearing process, London Hydro requests approval from the Board to establish a deferral account to record its liability of \$459,534.69 under this class action settlement agreement.

Pending further Board direction and the results of the proposed generic proceeding, London Hydro has not included the recovery of these late payment penalty litigation costs in the Board's rate models or Bill Impact results with this application.

### Summary of Bill Impacts

Appendix G reflects the proposed Tariff of Rates and Charges, which incorporate the effects of the 2011 price cap adjustment, the tax sharing rate rider, changes to the Smart Meter Rate Adder,

and new Retail Transmission Service Rates. The application is not proposing to disposition Deferral and Variance Accounts.

Appendix H reflects the Bill Impacts, as calculated through the Board’s Rate Generator model. In Table 5 a summary of Bill Impacts, as calculated by the Board’s Rate Generator model, is reflected below.

Table 5: Summary of Bill Impacts

Rate Class	Consumption kWh	Demand kW	Current \$	Proposed \$	Difference \$	Total Bill Impact
Residential	800		114	117	2.46	2.2%
General Service Less Than 50 kW	2,000		275	279	3.79	1.4%
General Service Less Than 50 to 4,999 kW	995,000	2,480	117,137	118,098	960.73	0.8%
General Service Less Than 50 to 4,999 kW (CoGeneration)	995,000	2,480	131,746	131,464	(282.86)	-0.2%
Large User	13,000,000	25,000	1,548,610	1,559,581	10,970.65	0.7%
Unmetered Scattered Load	2,000		249	250	1.95	0.8%
Sentinel Lighting	180	0.5	28	28	0.18	0.7%
Street Lighting	37	0.1	6	6	0.01	0.2%

A Residential customer consuming 800 kWhs per month would see an increase of \$2.46 or 2.2% on a total monthly bill. A General Service less than 50 kW customer consuming 2,000 kWhs per month would see an increase of \$3.79 or 1.4% on a total monthly bill. Industrial classed customers reflect increases between 0.2% and 0.8% with General Service 50 to 4,999 kW (CoGeneration) reflecting a reduction of \$282.86 or 0.2% on a total monthly billing.

As rates are well under the 10% Bill Impact allowance, rate mitigation is not necessary for this application.



