



January 28, 2011

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. box 2319
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: London Hydro Inc.
Response to Board Staff Interrogatories
2011 Electricity Distribution Rate Application (EB-2010-0097)**

Please find attached the London Hydro Inc. response to Board Staff interrogatories regarding the above application.

Two copies of this letter and response to Board Staff interrogatories filing have been forwarded to your attention via courier.

If you require any additional information or clarification, please do not hesitate to contact either myself, at (519) 661-5800 Ext. 5750 or Dave Williamson at (519) 661-5800 Ext. 5745.

Yours truly,

Original Signed by

Mike Chase, CMA. MBA
Director of Finance and Regulatory Compliances
London Hydro (chasem@londonhydro.com)

CC Ms. Susan Smith
David Williamson, CFO and Secretary (williamd@londonhydro.com)

1. Ref: 2011 IRM3 Rate Generator Model

A portion of Sheet B1.1 Current and Applied for Rate Classes is reproduced below.

Current and Applied For Rate Classes

Rate Group	Rate Class	Fixed Metric	Vol Metric
RES	Residential	Customer- 12 per year	kWh
GSLT50	General Service Less Than 50 kW	Customer- 12 per year	kWh
GSGT50	General Service 50 to 4,999 kW	Customer- 12 per year	kW
GSGT50	General Service 50 to 4,999 kW (CoGeneration)	Customer- 12 per year	kW
SB	Stand-By	Customer- 12 per year	kW
LU	Large Use	Customer- 12 per year	kW
USL	Unmetered Scattered Load	Customer- 12 per year	kWh
Sen	Sentinel Lighting	Customer- 12 per year	kW
SL	Street Lighting	Customer- 12 per year	kW

The rate class for General Service 50 to 4,999 kW (CoGeneration) is different from the version on London's current Tariff Sheet.

- a) If the above rate class is correct, please provide evidence supporting the new description. If the description is incorrect, please re-file sheet B1.1 with the correct descriptions and Board staff will make the necessary changes to the model.

Response:

- a) **London Hydro is not proposing for a new description for the Co-Generation rate class. We would ask if Board staff could make this change to Sheet B1.1, to permit approved description "General Service 1,000 to 4,999 kW (Co-Generation) Service". Unfortunately, our attempts to correct this description in the model results in making the model unworkable or unable to utilize. Further, we are unable to make this description change within the 2011 IRM3 Shared Tax Savings form.**

2. Ref: 2011 IRM3 Rate Generator Model

Portions of Sheet C4.1 Current Rates & Charges General are reproduced below.

- a) The descriptions for all rate classes for the three rates identified below are different from the version on London's current Tariff sheet:

Service Charge Smart Meters

Distribution Volumetric Def Var Disp 2009 – effective until Saturday, April 30, 2011

Distribution Volumetric Tax Change – effective until Saturday, April 30, 2011

If the above descriptions are correct, please provide evidence supporting the new descriptions. If the descriptions are incorrect, please re-file sheet C4.1 with the correct descriptions and Board staff will make the necessary changes to the model.

Response:

- a) **London Hydro is not proposing for new descriptions. We would request that Board staff make the necessary changes to the model. Therefore, Sheet C4.1 "Current Rates & Charges General" should reflect proper descriptions of:**

**Smart Meter Funding Adder,
Rate Rider for Tax Change –effective until April 30, 2011, and
Rate Rider for Deferral Variance Account Disposition (2009) –effective until April 30, 2011.**

b) Stand-By Rate Class

The descriptions for Stand-By rate class identified below are different from the version on London's current Tariff sheet:

Monthly Rates and Charges – Delivery Component

Service Charge

Distribution Volumetric Def Var Disp 2009 – effective until Saturday, April 30, 2011

Distribution Volumetric Tax Change – effective until Saturday, April 30, 2011

- i) If the above descriptions are correct, please provide evidence supporting the new descriptions. If the descriptions are incorrect, please re-file sheet C4.1 with the correct descriptions and Board staff will make the necessary changes to the model.

Response:

b) i) London Hydro is not proposing for new descriptions. We would request that Board staff make the necessary changes to the model. Therefore, Sheet C4.1 should reflect proper descriptions as follows.

Incorrect:

Rate Class			
Stand-By			
Rate Description	Metric	Rate	
Service Charge	\$	2.37	
Distribution Volumetric Rate	\$/kwh	0.0000	
Distribution Volumetric Def Var Disp 2009 - effective until Saturday, April 30, 2011	\$/kwh	(0.25520)	
Distribution Volumetric Tax Change - effective until Saturday, April 30, 2011	\$/kwh	(0.01380)	
Retail Transmission Rate - Network Service Rate	\$/kwh	0.0000	
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kwh	0.0000	
Wholesale Market Service Rate	\$/kwh	0.0052	
Rural Rate Protection Charge	\$/kwh	0.0013	
Standard Supply Service - Administrative Charge (if applicable)	\$	0.25	

Corrected:

Rate Class +
Stand-By

Rate Description	Metric	Rate
Standby Charge - for a month where standby power is not provided. The charge is applied to the contracted amount (e.g. nameplate rating of generation facility).	\$/kW	2.3733
Rate Rider for Tax Change – effective until April 30, 2011	\$/kW	-0.0138
Rate Rider for Deferral/Variance Account Disposition (2009) – effective until April 30, 2011	\$/kW	-0.2552

In preparing our response to this interrogatory, London Hydro has determined an error in sheet C4.1 “Current Rates Charges General” of the 2011 IRM3 Rate Generator, associated with the Stand-By Rate Class. The Standby Charge is in fact not a Service Charge but a Volumetric Rate.

Therefore, please find re-filed sheet C4.1 “Current Rates Charges General” of the 2011 IRM3 Rate Generator with correct data, and request Board staff will make the necessary changes to the model.

- ii) Board staff notes that in London’s current Tariff sheet, no rates are shown in the Stand-By rate class for “Monthly Rates and Charges – Regulatory Component - Wholesale Market Service Rate, Rural Rate Protection Charge and Standard Supply Service – Administrative Charge (if applicable).” Please confirm whether the inclusion of the rates shown in the extract above is an error and Board staff will remove them from the model.

Response:

b) ii) The inclusions of Wholesale Market Service Rate, Rural Rate Protection Charge, and Standard Supply Services- Administration Charges are incorrect. We would request that Board staff make the necessary changes to the model. Therefore, Sheet C4.1 should reflect the rates descriptions and rates as reflected in Board staff’s

comments. The example as reflected in response b) i) identifies corrected accounts and rates.

c) Current Specific Service Charges

The descriptions for current specific service charges are different from the version on London's current Tariff sheet:

The current tariff shows:

Disconnect/Reconnect at meter – After regular hours	\$185.00
Meter Interrogation Charge	\$5.50
Install/Remove load control device – After regular hours	\$185.00

These three charges are shown in the filed IRM Model as below:

Collection of account charge – no disconnection – after regular hours	\$185.00
Interval Meter Interrogation	\$5.50
Owner Requested Disconnection/Reconnection – after regular hours	\$185.00

- i) This would suggest that changes in three charges on the current tariff sheet are being proposed. Please state whether this is the case or whether this is an error. If London Hydro is requesting the replacement of the three charges on the existing tariff with those shown above, please provide the necessary justification.

Response:

c) i) London Hydro is not proposing for either new specific service charges or changes in descriptions. We would request that Board staff make the necessary changes to the model (2011 IRM3 Rate Generator model - Sheet P2.1 "Current & Applied For Specific Service Charges").

Correct descriptions:

Disconnect/Reconnect at meter –After regular hours	\$185.00
Meter Interrogation Charge	\$5.50
Install/Remove load control devise – After regular hours	\$185.00

ii) Board staff notes that under "Current Specific Charges, Other", the "Special Meter Reads - \$30.00" rate does not appear as found on London's current Tariff sheet. Please confirm if this rate should be included in the 2011 IRM3 Rate Generator and Board staff will make the necessary change to the Model.

Response:

d) ii) London Hydro would like to request that Board staff include in the 2011 IRM3 Rate Generator model (Sheet P2.1 "Current & Applied For Specific Service Charges"), under the Current Specific Charges, Other "Special Meter Reads - \$30.00".

**3. Ref: 2011 IRM3 Transmission Service Rates (“RTSR”) Adjustment Workform
 Ref: 2011 IRM3 Rate Generator Model**

A portion of Sheet F1.2 RTSR Adjustment Calculation – Connection is reproduced below.

IRM RTSR Adjustment Calculation - Connection

The purpose of this sheet is to update re-aligned RTSR-Network rates to recover forecast wholesale Network costs.

Rate Class	Vol Metric	Current RTSR - Connection	Proposed RTSR - Connection	RTSR - Network Adjustment
		(A) Column J Sheet B1.1	(B) Column S Sheet E1.2	C = B - A
Residential	kWh	0.0051	0.0048	-0.000313746
General Service Less Than 50 kW	kWh	0.0045	0.0042	-0.000276834
General Service 50 to 4,999 kW	kW	1.6556	1.5537	-0.101850453
General Service 50 to 4,999 kW – Interval Metered	kW	2.3070	2.1651	-0.141923771
General Service 1,000 To 4,999 kW (co-generation)	kW	2.4403	2.2902	-0.150124221
Standby Power	kW	-	-	0
Large Use	kW	2.3070	2.1651	-0.141923771
Unmetered Scattered Load	kWh	0.0045	0.0042	-0.000276834
Sentinel Lighting	kW	1.4596	1.3698	-0.089792777
Street Lighting	kW	1.4578	1.3681	-0.089682043

A portion of Sheet L2.1 Applied for RTSR – Connection is reproduced below.

Rate Class	Applied to Class
Sentinel Lighting	Yes

Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.459600	0.000%	-0.089733	1.369867

a) Please explain why “Sentinel Lighting in Column C” on Sheet F1.2 is not identical with “\$ Adjustment” on Sheet L2.1. Please explain the discrepancies or in the alternative,

please re-file the Workform with the correct classes and Board staff will make the relevant correction.

Response:

- a) **London Hydro acknowledges an error in transferring the amount for Sentinel Lighting \$ Adjustment data from Sheet F1.2 “RTSR Adjustment Calculation- Connection” to Sheet L2.1 “Applied for RTSR- Connection”. Corrections had been made to the re-filed model, and request Board staff to make the relevant correction.**

Incorrect:

Rate Class	Applied to Class
Sentinel Lighting	Yes

Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.459600	0.000%	-0.089733	1.369867

Corrected:

Rate Class	Applied to Class
Sentinel Lighting	Yes

Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.459600	0.000%	-0.089793	1.369807

**4. Ref: 2011 IRM3 Transmission Service Rates (“RTSR”) Adjustment Workform
Ref: 2011 Deferral/Variance Account Model**

A portion of Sheet D1.1 Adjust RTSR – Network to Current Network Wholesale is reproduced below.

Rate Class	Vol Metric	Current RTSR - Network	Loss Adjusted Billed kWh	Billed kW	Billed Amount	Billed Amount %	Current Wholesale Billing
		(A) Column H Sheet B1.1	(B) Column O Sheet B1.2	(C) Column I Sheet B1.2	(D) = (A) * (B) or (A) * (C)	(F) = (D) / (E)	(H) = (G) * (F)
Residential	kWh	\$ 0.0061	1,111,665,476	0	\$ 6,781,159	34.21%	\$ 6,345,953
General Service Less Than 50 kW	kWh	\$ 0.0057	408,971,422	0	\$ 2,331,137	11.76%	\$ 2,181,528
General Service 50 to 4,999 kW	kW	\$ 2.0071	402,123,339	1,216,576	\$ 2,441,790	12.32%	\$ 2,285,079
General Service 50 to 4,999 kW – Interval Metered	kW	\$ 2.5738	1,131,526,690	2,707,861	\$ 6,969,493	35.16%	\$ 6,522,200
General Service 1,000 To 4,999 kW (co-generation)	kW	\$ 2.9712	43,389,884	37,861	\$ 112,493	0.57%	\$ 105,273
Standby Power	kW	\$ -	0	154,800	\$ -	0.00%	\$ -
Large Use	kW	\$ 2.6355	187,510,861	392,524	\$ 1,034,497	5.22%	\$ 968,104
Unmetered Scattered Load	kWh	\$ 0.0057	5,798,326		\$ 33,050	0.17%	\$ 30,929
Sentinel Lighting	kW	\$ 1.7697	870,435	2,278	\$ 4,031	0.02%	\$ 3,773
Street Lighting	kW	\$ 1.7673	24,351,262	65,643	\$ 116,011	0.59%	\$ 108,565
			3,316,207,696	4,577,543	\$ 19,823,661	100.00%	\$ 18,551,404

A portion of Sheet D1.6 Deferral Variance – Continuity Schedule Final is reproduced below.

Deferral Variance - Continuity Schedule Final

Account Description	Account Number	Opening Interest Amounts as of Jan-1-10 D	Interest on Board-approved 2008 amounts prior to transfer Jan-1, 2010 to Date of Transfer E	Adjustments - Please explain F	Projected Interest on Dec 31 -09 balance from Jan 1, 2010 to Dec 31, 2010 G	Projected Interest on Dec 31 -09 balance from Jan 1, 2011 to April 30, 2011 H	Interest Amounts to be disposed I = D + E + F + G + H	Total Claim J = C + I
LV Variance Account	1550	622			(4)	(2)	616	(6)
RSVA - Wholesale Market Service Charge	1580	(433,975)			(1,499)	(608)	(436,082)	(643,908)
RSVA - Retail Transmission Network Charge	1584	205,493			965	391	206,849	340,557
RSVA - Retail Transmission Connection Charge	1586	(71,806)			(2,670)	(1,083)	(75,558)	(445,620)
RSVA - Power (Excluding Global Adjustment)	1588	(773,651)			(6,547)	(2,855)	(782,853)	(1,690,390)
RSVA - Power (Global Adjustment Sub-account)		(12,538)			8,275	3,356	(907)	1,146,131
Recovery of Regulatory Asset Balances	1590	458,614			0	0	458,614	458,614
Residual Balance Disposition and recovery of Def/Var Balances Account (2008)	1595	0			0	0	0	0
Total		(627,241)	0	0	(1,481)	(601)	(629,323)	(834,624)

- a) In the former, column D is less than column H which indicates an over-recovery of the RTSR Network charge. In the latter, Account 1584 shows an under-recovery as of December 31, 2009. Please explain this apparent discrepancy

Response:

- a) Account 1584, as identified in Sheet D1.6 “Deferral Variance-Continuity Final”, currently has a claim balance of \$340,557 (debit balance or in an under-recovery position). This figure represents the balance as a result of activity in 2009, as well as interest projections to April 30, 2011. The activity in 2009 reflects the difference between 2009 billing to customers and the 2009 wholesale charges from the IESO. In other words, attributable to the RTSR Network charge rate differences between the rate charged to customers and that charged by the IESO (Hydro One revenue pass through).**

The Sheet D1.1 “Adjust RTSR –Network to Current Network Wholesale workform” indicates London Hydro should be in an over-recovery position (in review of columns D and H). However, the Boards RTSR workform assumes that the RTSR rates were effective for the entire calendar year, when in fact they were not implemented until May 1, 2010.

Board approved rates effective for the period January 1 to April 30 were approximately 11% lower than the May 1, 2010 rates. The revenue calculated in column D of the Boards workform which applies May 1, 2010 rates to the entire calendar year is significantly overstated and does not represent a proper analysis of the activity in this account.

5. Ref: 2011 Tax Sharing Model

Sheet B1.1 Rate Class and Re-Based Billing Determinants & Rates is reproduced below.

Rate Class and Re-Based Billing Determinants & Rates

				2009		EB-2008-0235				
Last COS Re-based Year										
Last COS OEB Application Number										
Rate Group	Rate Class	Fixed Metric	Vol Metric	Re-based Billed Customers or Connections A	Re-based Billed kWh B	Re-based Billed kW C	Rate ReBal Base Service Charge D	Rate ReBal Base Distribution Volumetric Rate kWh E	Rate ReBal Base Distribution Volumetric Rate kW F	
RES	Residential	Customer	kWh	131,936	1,091,392,572		12.68	0.0143		
GSL150	General Service Less Than 50 kW	Customer	kWh	12,349	422,161,110		30.34	0.0094		
GSG150	General Service 50 to 4,999 kW	Customer	kW	1,595	1,651,048,316	4,093,815	289.12		1.6023	
GSG150	General Service 50 to 4,999 kW (CoGeneration)	Customer	kW	3	36,489,491	43,849	2,667.75		4.6542	
SB	Standby Power	Connection	kW	0	0	154,800			2.3733	
LU	Large Use	Customer	kW	3	200,485,379	383,763	17,479.04		1.9302	
USL	Unmetered Scattered Load	Connection	kWh	1,581	5,326,529		1.13	0.0094		
Sen	Sentinel Lighting	Connection	kW	734	856,841	2,342	1.82		5.9054	
SL	Street Lighting	Connection	kW	34,187	23,921,899	67,170	0.86		4.3630	

- a) Please explain why rates in columns D, E and F are not identical with rates from Sheet "E1.1 Rate Reb Base Dist Rts Gen" of the 2011 IRM3 Rate Generator. If the data provided is correct, please provide evidence supporting the data entered for a). If the data is incorrect, please re-file B1.1 with the correct data and staff will make the necessary changes to the model.

Response:

- a) In preparing our response to this interrogatory, London Hydro has determined that, in error, Rate Rebalanced Based rates (as per Sheet E.1.1 "Rate Reb Base Dist Rts Gen" of the 2011 IRM3 Rate Generator) were not entered on Sheet B1.1 of the 2011 IRM3 Shared Tax Savings workform, but rather the rates as approved for 2010 (effective May 1, 2010).**

Therefore, please find re-filed B1.1 with correct data, and request Board staff will make the necessary changes to the model.

Corrected:

Rate Class and Re-Based Billing Determinants & Rates

Last COS Re-based Year	2009
Last COS OEB Application Number	EB-2008-0235

Rate Group	Rate Class	Fixed Metric	Vol Metric	Re-based Billed	Re-based	Re-based	Rate ReBal Base	Rate ReBal Base Distribution	Rate ReBal Base Distribution
				Customers or Connections	Billed kWh	Billed kW	Service Charge	Volumetric Rate kWh	Volumetric Rate kW
				A	B	C	D	E	F
RES	Residential	Customer	kWh	131,936	1,091,392,572		12.59	0.0142	
GSLT50	General Service Less Than 50 kW	Customer	kWh	12,349	422,161,110		29.27	0.0091	
GSGT50	General Service 50 to 4,999 kW	Customer	kW	1,595	1,651,048,316	4,093,815	289.64		1.6052
GSGT50	General Service 50 to 4,999 kW (CoGeneration)	Customer	kW	3	36,489,491	43,849	2,272.27		3.9642
SB	Standby Power	Connection	kW	0	0	154,800	0.00		2.3733
LU	Large Use	Customer	kW	3	200,485,379	383,763	20,421.99		2.2552
USL	Unmetered Scattered Load	Connection	kWh	1,581	5,326,529		1.41	0.0117	
Sen	Sentinel Lighting	Connection	kW	734	856,841	2,342	3.10		10.0297
SL	Street Lighting	Connection	kW	34,187	23,921,899	67,170	1.38		7.0355

Please find adjusted F1.3 "Calc Tax Chg RRider Var" of the 2011 Tax Sharing Savings workform. These Calculate Tax Change Rate Rider figures have been transferred to re-filed 2011 IRM3 Rate Generator (sheet J 2.7 "Tax Change Rate Rider").

Revised

Calculate Tax Change Rate Rider Volumetric



Rate Class	Total Revenue \$ by Rate Class A	Total Revenue % by Rate Class B = A / \$H	Total Z-Factor Tax Change\$ by Rate Class C = \$I * B	Billed kWh D	Billed kW E	Distribution Volumetric Rate kWh Rate Rider F = C / D	Distribution Volumetric Rate kW Rate Rider G = C / E
Residential	\$35,430,665.4024	59.92%	-\$302,323	1,091,392,572	0	-\$0.0003	
General Service Less Than 50 KW	\$8,179,129	13.83%	-\$69,791	422,161,110	0	-\$0.0002	
General Service 50 to 4,999 KW	\$12,115,101	20.49%	-\$103,376	1,651,048,316	4,093,815		-\$0.0253
General Service 50 to 4,999 KW (CoGeneration)	\$255,628	0.43%	-\$2,181	36,489,491	43,849		-\$0.0497
Standby Power	\$367,387	0.62%	-\$3,135	0	154,800		-\$0.0203
Large Use	\$1,600,654	2.71%	-\$13,658	200,485,379	383,763		-\$0.0356
Unmetered Scattered Load	\$89,071	0.15%	-\$760	5,326,529	0	-\$0.0001	
Sentinel Lighting	\$50,794	0.09%	-\$433	856,841	2,342		-\$0.1851
Street Lighting	\$1,038,711	1.76%	-\$8,863	23,921,899	67,170		-\$0.1320
	\$59,127,141	100.00%	-\$504,521				
	H		I				

Enter the above value onto Sheet
 "J2.7 Tax Change Rate Rider"
 of the 2011 IRM3 Rate Generator.



6. Ref: 2011 Tax Sharing Model

Sheet F1.1 Z-Factor Tax Changes is reproduced below.

Z-Factor Tax Changes

Summary - Sharing of Tax Change Forecast Amounts

	2009	2010	2011
1. Tax Related Amounts Forecast from Capital Tax Rate Changes			
Taxable Capital	\$ 225,325,979	\$ 225,325,979	\$ 225,325,979
Deduction from taxable capital up to \$15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000
Net Taxable Capital	\$ 210,325,979	\$ 210,325,979	\$ 210,325,979
Rate	0.225%	0.150%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	<u>\$ 473,233</u>	<u>\$ 156,448</u>	<u>\$ -</u>
2. Tax Related Amounts Forecast from Income Tax Rate Changes			
Regulatory Taxable Income	\$ 5,420,533	\$ 5,420,533	\$ 5,420,533
Corporate Tax Rate	33.00%	30.99%	28.25%
Tax Impact	\$ 1,788,776	\$ 1,679,932	\$ 1,531,192
Grossed-up Tax Amount	<u>\$ 2,669,815</u>	<u>\$ 2,434,401</u>	<u>\$ 2,134,006</u>
Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ 473,233	\$ 156,448	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 2,669,815	\$ 2,434,401	\$ 2,134,006
Total Tax Related Amounts	<u>\$ 3,143,048</u>	<u>\$ 2,590,849</u>	<u>\$ 2,134,006</u>
Incremental Tax Savings		-\$ 552,199	-\$ 1,009,042
Sharing of Tax Savings (50%)		-\$ 276,100	-\$ 504,521

- a) Please explain why "Taxable Capital" is not identical with "Total Rate Base" per the Revenue Requirement Work Form from the Board Decision in EB-2008-0235.

Response:

a) Please find below Revenue Requirement Work Form (Appendix A, Page 3) as per Board File Number EB-2008-0235 London Hydro Inc. – 2009 Rate Rebasing Application, Pursuant to the Board Decision of August 21, 2009.



Revenue Requirement Work Form

Name of LDC: London Hydro Inc.
 File Number: EB-2008-0235
 Rate Year: 2009

Line No.	Particulars	Rate Base		
		Application	Adjustments	Per Board Decision
1	Gross Fixed Assets (average) (3)	\$347,025,897	\$ -	\$347,025,897
2	Accumulated Depreciation (average) (3)	(\$166,116,161)	\$ -	(\$166,116,161)
3	Net Fixed Assets (average) (3)	\$180,909,736	\$ -	\$180,909,736
4	Allowance for Working Capital (1)	\$44,216,959	\$199,284	\$44,416,243
5	Total Rate Base	\$225,126,695	\$199,284	\$225,325,979

The “Taxable Capital” as reflected in Sheet F1.1 “Z-Factor Tax Changes” is identical with “Total Rate Base” as per Approved Revenue Requirement Work Form (Appendix A, Page 3). Both amounts agree to \$225,325,979.

b) Please explain why “Regulatory Taxable Income” is not identical with “Taxable Income” per the Revenue Requirement Work Form from the Board Decision in EB-2008-0235.

Response: b) Please find below Revenue Requirement Work Form (Appendix A, Page 5) as per Board File Number EB-2008-0235 London Hydro Inc. – 2009 Rate Rebasing Application, Pursuant to the Board Decision of August 21, 2009.



Revenue Requirement Work Form

Name of LDC: London Hydro Inc.
 File Number: EB-2008-0235
 Rate Year: 2009

Taxes/PILs

Line No.	Particulars	Application	Per Board Decision
<u>Determination of Taxable Income</u>			
1	Utility net income	\$7,714,642	\$7,219,444
2	Adjustments required to arrive at taxable utility income	\$208,840	(\$1,411,031)
3	Taxable income	<u>\$7,923,482</u>	<u>\$5,808,413</u>
<u>Calculation of Utility income Taxes</u>			
4	Income taxes	\$2,556,749	\$1,788,776
5	Capital taxes	\$472,785	\$473,233
6	Total taxes	<u>\$3,029,534</u>	<u>\$2,262,009</u>
7	Gross-up of Income Taxes	\$1,259,294	\$881,039
8	Grossed-up Income Taxes	<u>\$3,816,043</u>	<u>\$2,669,815</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$4,288,828</u>	<u>\$3,143,048</u>
10	Other tax Credits	(\$58,000)	(\$128,000)
<u>Tax Rates</u>			
11	Federal tax (%)	19.00%	19.00%
12	Provincial tax (%)	14.00%	14.00%
13	Total tax rate (%)	<u>33.00%</u>	<u>33.00%</u>

“Taxable Income” as per Approved Revenue Requirement Work Form (Appendix A, Page 5) is \$5,808,413. With regard to the “Regulatory Taxable Income” as filed in the 2011 IRM rate application, in Sheet F1.1 “Z-Factor Tax Changes” the amount reflected is \$5,420,533. This difference in Taxable Income amounts is attributable to allowing the calculated “Total Tax Related Amounts” shown in Sheet F1.1 “Z-Factor Tax Changes” model to agree with the PILSI tax Allowance as reflected in the Board Approved Revenue Requirement Work Form (Appendix A, Page 5). The difficulty in utilization of the F1.1 “Z-Factor Tax Changes” sheet is that it does not permit the inclusion of Tax Credits, which were included in the Board Approved Decision.

Therefore, in order to permit the F1.1 “Z-Factor Tax Changes” sheet Total Tax Related Amounts to agree with the Board Decision amount of \$3,143,048, the sheet requires to the inclusion of Other Tax Credits, an amount of \$128,000 (again as per Board Decision). Reflected below is a revised F1.1 “Z-Factor Tax Changes” sheet created by London Hydro that demonstrates the adjustments needed to allow proper agreement of “Total Tax Related Amount” to PILSI tax Allowance”.

London Hydro would respectfully request if Board staff could make the necessary changes to model, F1.1 “Z-Factor Tax Changes” sheet that would permit Regulatory Taxable Income and Total Tax Related Amounts to agree with Board Decision. Sharing of Tax Savings (50%) would then be calculated as \$517,365 for 2011.

Revised:

Name of LDC: London Hydro Inc.
File Number: IRM3
Effective Date: Sunday, May 01, 2011
Version: 1.0

Z-Factor Tax Changes

Summary - Sharing of Tax Change Forecast Amounts

1. Tax Related Amounts Forecast from Capital Tax Rate Changes

	2009	2010	2011	2012	2013	2014
Taxable Capital	\$ 225,325,979	\$ 225,325,979	\$ 225,325,979	\$ 225,325,979	\$ 225,325,979	\$ 225,325,979
Deduction from taxable capital up to \$15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000
Net Taxable Capital	\$ 210,325,979	\$ 210,325,979	\$ 210,325,979	\$ 210,325,979	\$ 210,325,979	\$ 210,325,979
Rate	0.225%	0.150%	0.000%	0.000%	0.000%	0.000%
Ontario Capital Tax (Deductible, not grossed-up)	\$ 473,233	\$ 156,448	\$ -	\$ -	\$ -	\$ -

2. Tax Related Amounts Forecast from Income Tax Rate Changes

	2009	2010	2011	2012	2012	2012
Regulatory Taxable Income	\$ 5,808,413	\$ 5,808,413	\$ 5,808,413	\$ 5,808,413	\$ 5,808,413	\$ 5,808,413
Corporate Tax Rate	33.00%	30.99%	28.25%	26.25%	25.50%	25.00%
Tax Impact	\$ 1,916,776	\$ 1,800,143	\$ 1,640,761	\$ 1,524,650	\$ 1,480,913	\$ 1,452,103
less Other Tax Credit	-\$ 128,000	-\$ 128,000	-\$ 128,000	-\$ 128,000	-\$ 128,000	-\$ 128,000
Adjusted Tax Impact	\$ 1,788,776	\$ 1,672,143	\$ 1,512,761	\$ 1,396,650	\$ 1,352,913	\$ 1,324,103
Grossed-up Tax Amount	\$ 2,669,815	\$ 2,423,115	\$ 2,108,318	\$ 1,893,737	\$ 1,815,893	\$ 1,765,471

Tax Related Amounts Forecast from Capital Tax Rate Changes	\$ 473,233	\$ 156,448	\$ -	\$ -	\$ -	\$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	\$ 2,669,815	\$ 2,423,115	\$ 2,108,318	\$ 1,893,737	\$ 1,815,893	\$ 1,765,471
Total Tax Related Amounts	\$ 3,143,048	\$ 2,579,563	\$ 2,108,318	\$ 1,893,737	\$ 1,815,893	\$ 1,765,471
Incremental Tax Savings		-\$ 563,485	-\$ 1,034,730	-\$ 1,249,310	-\$ 1,327,155	-\$ 1,377,577
Sharing of Tax Savings (50%)		-\$ 281,742	-\$ 517,365	-\$ 624,655	-\$ 663,577	-\$ 688,788

- c) Please explain why “Total Tax Related Amount” is not identical with “PILs/tax Allowance” per the Revenue Requirement Work Form from the Board Decision in EB-2008-0235.

Response:

c) Please see above.

- d) If the data provided is correct, please provide evidence supporting the data entered for a), b) and c). If the data is incorrect, please re-file F1.1 with the correct data and staff will make the necessary changes to the model

Response:

d) Please see above. The model would require amendment to allow for inclusion of Tax Credits, which are identified in the Board Approved Decision (EB-2008-0235).

7. Ref: 2011 IRM Smart Meter Rate Calculation Workform

Below is Sheet 5 of the Smart Meter Rate Calculation Workform:

Sheet 5. PILs

PILs Calculation

	2006	2007	2008	2009	2010	2011	Later
	Audited Actual	Audited Actual	Audited Actual	Audited Actual	Actual	Forecasted	Forecasted
INCOME TAX							
Net Income	\$ 5,752.09	\$ 11,587.27	\$ 97,683.50	\$ 403,992.06	\$ 655,385.06	\$ -	\$ -
Amortization	\$ 9,794.95	\$ 20,344.87	\$ 238,766.98	\$ 1,091,600.80	\$ 1,966,927.46	\$ -	\$ -
CCA - Smart Meters	-\$ 11,753.94	-\$ 23,473.53	-\$ 184,521.52	-\$ 893,951.71	-\$ 1,386,215.58	-\$ 1,276,926.33	\$ -
CCA - Computers	\$ -	\$ -	\$ 232,207.00	\$ 714,220.15	-\$ 1,355,674.07	-\$ 1,266,808.33	\$ -
CCA - Other Equipment	\$ -	\$ -	\$ 10,456.08	-\$ 94,260.95	-\$ 150,848.76	-\$ 120,679.01	\$ -
Change in taxable income	\$ 3,793.10	\$ 8,458.61	-\$ 90,734.12	-\$ 206,839.96	-\$ 270,425.88	-\$ 2,664,413.67	\$ -
Tax Rate (3. LDC Assumptions and Data)	36.12%	36.12%	33.50%	33.00%	32.00%	30.50%	29.00%
Income Taxes Payable	\$ 1,370.07	\$ 3,055.25	-\$ 30,395.93	-\$ 68,257.19	-\$ 86,536.28	-\$ 812,646.17	\$ -

- a) Please explain why there is no input under “2011 Forecasted” Net Income (Cell H8) and Amortization (Cell H9). If this is an omission, please confirm and Board staff will make the relevant corrections.

Response:

- a) In preparing our response to this interrogatory, London Hydro has determined that formula errors in Sheet “5. PILS” of the 2011 Smart IRM Smart Meter Rate Calculation workform has resulted in the requirement of correcting worksheet and therefore revisions as to the Proposed Smart Meter Rate Adder. The formula errors are located in cells H8 and H9 of the “5. PILS” sheet.**

With correction of the formulas, the resulting proposed Smart Meter Rate Adder, as reflected on Sheet “8. Smart Meter Rate Adder” increases from \$2.78 to \$3.50.

Therefore, London Hydro respectfully requests application for a Smart Meter Rate Adder in the amount of \$3.50 per metered customer per month, commencing on May 1, 2011.

Revised:

Sheet "5. PILS"

PILs Calculation

	2006	2007	2008	2009	2010	2011
	Audited Actual	Audited Actual	Audited Actual	Audited Actual	Actual	Forecasted
INCOME TAX						
Net Income	\$ 5,752.09	\$ 11,587.27	\$ 97,683.50	\$ 403,992.06	\$ 655,385.06	\$ 626,998.34
Amortization	\$ 9,794.95	\$ 20,344.87	\$ 238,766.98	\$ 1,091,600.80	\$ 1,966,927.46	\$ 2,207,087.46
CCA - Smart Meters	-\$ 11,753.94	-\$ 23,473.53	-\$ 184,521.52	-\$ 893,951.71	-\$ 1,386,215.58	-\$ 1,276,926.33
CCA - Computers	\$ -	\$ -	\$ 232,207.00	\$ 714,220.15	\$ 1,355,674.07	\$ 1,266,808.33
CCA - Other Equipment	\$ -	\$ -	\$ 10,456.08	\$ 94,260.95	\$ 150,848.76	\$ 120,679.01
Change in taxable income	\$ 3,793.10	\$ 8,458.61	\$ 90,734.12	\$ 206,839.96	\$ 270,425.88	\$ 169,672.13
Tax Rate (3. LDC Assumptions and Data)	36.12%	36.12%	33.50%	33.00%	32.00%	30.50%
Income Taxes Payable	\$ 1,370.07	\$ 3,055.25	\$ 30,395.93	\$ 68,257.19	\$ 86,536.28	\$ 51,750.00

Revised:

Sheet 8 Applied for Smart Meter Rate Adder

Description	Amount
Revenue Requirement - 2006	\$ 23,230.83
Revenue Requirement - 2007	\$ 52,798.71
Revenue Requirement - 2008	\$ 496,113.09
Revenue Requirement - 2009	\$ 1,974,223.16
Revenue Requirement - 2010	\$ 3,780,857.53
Revenue Requirement - 2011	\$ 4,061,872.58
Total Revenue Requirement	\$ 10,389,095.91
Smart Meter Rate Adder Collected	-\$ 4,185,788.56
Carrying Cost / Interest	-\$ 118,546.28
Proposed Smart Meter Recovery	\$ 6,084,761.07
2011 Expected Metered Customers	145,000
Proposed Smart Meter Rate Adder	\$ 3.50