



25 February, 2011

**By RESS and Courier**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street  
27<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: London Hydro Inc.  
2011 IRM3 Electricity Distribution Rate Application  
Final Submission  
Board File No: EB-2010-0097**

Enclosed is the final submission by London Hydro Inc. in response to the Board Staff submission, issued and received on February 17<sup>th</sup>, 2011.

An electronic version of this final submission is being sent by e-mail and to be filed via the Board's RESS system. Two paper copies of the Final Submission will be delivered via courier to the Board, to the attention of the Board Secretary.

If you have any questions or concerns with the Final Submission, please do not hesitate to contact me at (519) 661-5800 Ext. 5750.

(Original signed by)

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**Final Submission  
London Hydro Inc.  
2011 IRM3 Rate Application  
EB-2010-0097**

## **INTRODUCTION**

London Hydro Inc. (“London Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 29, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that London Hydro charges for electricity distribution, to be effective May 1, 2011. The Application was filed in accordance with the Board’s guideline for 3<sup>rd</sup> Generation Incentive Regulation.

The purpose of this final submission of London Hydro is in reply to the submission filed by the Board Staff.

London Hydro makes submission on the following matters:

- Updating of the Retail Transmission Service Rates (“RTSR”),
- Adjustment of the Smart Meter Funding Adder

## **DISCUSSION AND SUBMISSION**

### **Retail Transmission Service Rates (“RTSR”)**

London Hydro applied for an adjustment to rates for RTSR, pursuant to Guideline G-2008-0001, updated on July 8, 2010.

In its submission, Board Staff noted no concerns with the data supporting the updated Retail Transmission Service Rates proposed by London Hydro. Board Staff further noted that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Rates.

London Hydro requests that the Board approve the RTRS rates as requested, subject to Board Staff’s recommendation, the Board will update the applicable data at the time of this Decision based on any available updated Uniform Rates.

## **Smart Meter Funding Adder**

London Hydro filed an application for a utility specific Smart Meter Rate Rider utilizing the rate model developed by the Board for that purpose. The application, filed in accordance with the Boards instructions and guidelines, requested an increase in the rate rider from \$1.00 to \$2.78 per customer per month.

After reviewing London Hydro's application, Board Staff on January 17, 2011, issued an interrogatory # 7 advising London Hydro of certain errors that in their opinion existed in the Boards model.

In response to Board Staffs instructions to correct the model for these apparent errors, London Hydro revised the calculations of the proposed Smart Meter Funding Adder to \$3.50, from the original application rate of \$2.78 per month per metered customer.

On February 17, 2011 London Hydro received a Final Submission from Board Staff in which they advised that in their opinion they had uncovered additional Smart Meter Rate Adder model design errors contained in the Board's model, and that they had recalculated the Smart Meter Rate Adder after having corrected these apparent model design errors.

Based on Board Staff revised calculations, Board Staff submitted that the rate rider should now be revised from \$3.50 to \$1.46 per metered customer per month.

London Hydro submits that despite the numerous corrections made to-date in the model, there continues to be additional inaccuracies and shortcomings in its design.

For example, on Sheet #8 of the model, the rate rider for 2011 is determined by calculating a revenue requirement for the years 2006 to 2011 and then deducting from this amount all recoveries for the same period. The resulting value is then used to determine a rate rider for the 2011 year. Due to the fact that utilities will have only one opportunity to develop their specific rate riders prior to their next rebasing application, this 2011 rate rider will remain unchanged until rates are rebased.

In the revised calculations determined by Board Staff in their Final Submission, the model calculates an annual revenue requirement of \$3.7 million for 2011, which would also be at least that amount for 2012 and 2013, but the rate rider of \$1.46 is based on an amount of \$2.6 million due to an apparent over funding to the end of 2010.

Thus for 2011 the rate rider will generate \$2.6 million; for period 2012 to May 1, 2013

the revenue requirement is at least \$3.7 million annually, but the rate rider will only generate \$2.6 million annually, leaving an underfunded amount of at least \$1.5 million.

Other shortcomings of the model stem from the fact that the model employs the net asset averaging methodology to determine rate base, which is based on an underlying assumption that there is already an existing pool of assets and that it is appropriate to average both additions and disposals in the calculation.

This logic is not appropriate for the smart meter program which is a onetime non-recurring expenditure for which no pool of like assets exists. The effect of averaging in this calculation is to develop a rate rider that by design will be significantly understated and will be based upon only 50% of the cost of the program during 2010, which for most distributors is the year in which the majority of their spending will occur. The purpose of the rate rider is to provide a reasonable amount of funding for investments being made, and this purpose cannot be achieved if the model calculates a funding adder based upon only 50% of the actual funds being spent.

London Hydro respectfully submits that in the pursuit of attempting to design a model that performs a precise calculation of a rate rider based on a process that attempts to mimic the rebasing calculation process, the intended purpose and logical outcome of the process has been overlooked.

The purpose of the smart meter funding adder is not to request Board approval for a specific revenue requirement, it is not to request Board approval for any of the expenditures, and it is to request approval for a reasonable level of interim funding for the program based upon the expenditure that have and are being made to-date. When these expenditures are submitted for inclusion in the 2013 rebasing application, approval for revenue requirements and expenditures will be requested from the Board and any required true-ups will occur at that time.

It is the opinion of London Hydro, that the rate rider of \$1.46 per metered customer per month, as proposed by Board Staff is clearly inadequate and is not sufficient to achieve the intended outcome or purpose of the process. When compared to rate rider amounts that the Board has awarded or Staff has proposed for other distributors under similar conditions, London Hydro is clearly the outlier on the lower end of the scale.

(Please refer to Schedule A)

## Requested Approach

London Hydro would like to suggest, for the Board's consideration, a possible approach to determining SMFA that would be fair and reasonable to both our Ratepayers and to London Hydro. This approach would still maintain compliance with Guideline G-2008-0002 on Smart Meter Funding and Cost Recovery, October 2008.

Board Staff have noted in many of their submissions by stating:

*"While the Board has previously approved smart meter adders as high as \$3.50 per meter per month for other LDCs, the Board may wish to consider whether the impact of greater than 2% is appropriate given that the funding is only a temporary funding tool intended to bridge the gap leading up to the next rebasing application or stand-alone application involving prudence review of incurred costs for installed smart meters."*

As well, Board Staff have noted in other submissions:

*"...as an alternative, a \$3.00 per metered customer per month adder would lead to a bill impact of under 2% for the residential class."*

Board Staff have appropriately also included in submissions:

*"Board staff notes that actual smart meter expenditures will be subject to a prudence review when distributor makes an application for the disposition of smart meter variance account balances in a subsequent proceeding".*

London Hydro submits that the Smart Meter funding adder is an interim charge that seeks to assist Distributors in their funding activities for prudent smart meter investments. This funding adder is not a rate or a revenue requirement component, but a source of interim funding for what is a significant investment being made by Distributors based on Directives issued by the Ministry of Energy. These investments continue as we proceed to fulfill the Time-of-Use billing mandate of 2011, and a reasonable level of funding is a critical component in fulfilling that mandate.

London Hydro submits that the insufficient rate rider proposed by Board Staff of \$1.46 will only serve to defer the full rate impacts of the smart meter program to London Hydro's 2013 rebasing year, and result in a far greater rate impact to our customers that would otherwise be required. A proper level of funding at this point in time in the IRM3 rate setting cycle, will not only serve to facilitate the fulfillment of the smart meter program mandate by London Hydro, but it will also provide a measure of rate mitigation to our customers during the 2013 rebasing year.

The Board Staff have submitted, based on calculations generated from a model with many known errors and shortcomings, that the smart meter funding adder should be \$1.46 per metered customer per month. Most funding adders that Board Staff have submitted and proposed for other distributors are significantly higher than that suggested for London Hydro.

To fulfill the intended purpose of the rate rider, and to achieve the Board's stated preference of managing total bill impacts, London Hydro is requesting a smart meter funding adder of \$2.64 per metered customer per month. This funding adder amount would be lower or comparable to most funding adder amounts approved by the Board or proposed by Board Staff to-date, and it would result in a Total Bill Impact of less than 2% for residential customers.

This interim rate rider would permit sufficient and appropriate recovery of London Hydro's investments in the smart meter program while smoothing of customer rate impacts during the IRM and Cost of Service years, versus deferring those impacts to the rebasing year as would occur with the Board Staff's proposal.

London Hydro respectfully requests the Board's approval to increase its smart meter funding adder from \$1.00 to \$2.64 per metered customer per month. Additionally, should the Board or Board Staff not concur with this proposal, we request a meeting to discuss this matter before proceeding any further on the issue.

All of which is respectfully submitted

**SCHEDULE "A"**

**Comparative Data Extracted from the Boards Public Document  
 Files for 2011 Smart Meter Applications**

Application	Capital Investment 2006 to 2011	Total Recoveries to May 1,2011	Unfunded Portion	Unfunded %	Customers	Per Customer Cost To-Date	Board Staff Proposed Rate Riders	Rate Rider As A % of Customer Cost To-Date
	A	B	C = A-B	D = C/A	E	F	G	H = G/F
BLUE WATER - EB-2010-0065	\$ 6,226,245	-\$ 862,475	\$ 5,363,770	86%	35,000	177.89	\$ 2.00	1.1%
BURLINGTON - EB-2010-0067	11,680,251	(2,166,349)	9,513,902	81%	64,029	182.42	\$ 3.00	1.6%
CAMBRIDGE - EB-2010-0068	7,706,516	(1,631,465)	6,075,051	79%	51,157	150.64	\$ 1.61	1.1%
GUELPH - 2010-0130	9,330,075	(1,913,963)	7,416,112	79%	49,933	186.85	\$ 3.32	1.8%
KITCHENER Wilmott EB-2010-0094	13,553,221	(2,905,714)	10,647,507	79%	87,415	155.04	\$ 2.00	1.3%
GRIMSY EB-2010-0129	1,339,137	(177,037)	1,162,100	87%	10,110	132.46	\$ 1.99	1.5%
CENTRE-WELLINGTON EB-2010-0072	1,083,489	(250,627)	832,862	77%	6,451	167.96	\$ 2.78	1.7%
LAKELAND EB-2010-0096	2,189,324	(289,124)	1,900,200	87%	9,412	232.61	\$ 3.50	1.5%
POWERSTREAM EB-2010-110	29,158,796	(11,518,288)	17,640,508	60%	233,707	124.77	\$ 2.65	2.1%
LAKEFRONT EB-2010-0095	1,896,092	(324,379)	1,571,713	83%	9,467	200.28	\$ 3.44	1.7%
ORANGEVILLE EB-2010-0105	1,991,889	(393,641)	1,598,248	80%	11,148	178.68	\$ 2.00	1.1%
WEST COAST EB-2010-120	610,225	(93,596)	516,629	85%	3,950	154.49	\$ 3.00	1.9%
<b>Average</b>				<b>80%</b>		<b>\$ 170.34</b>	<b>\$ 2.61</b>	<b>1.5%</b>
<b>BOARD STAFF PROPOSAL</b>								
LONDON - EB-2010-0097	23,928,195	(4,304,335)	19,623,860	82%	145,000	165.02	\$ 1.46	0.9%
<b>LONDON HYDRO PROPOSAL</b>								
LONDON - EB-2010-0097 -	23,928,195	(4,304,335)	19,623,860	82%	145,000	165.02	\$ 2.64	1.6%