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BY E-MAIL

January 23, 2008

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: London Hydro Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0844**

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

Original signed by

Laurie Reid
Senior Policy Advisor, Regulatory Policy Development

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

London Hydro Inc.

EB-2007-0844

January 23, 2008

INTRODUCTION

London Hydro Inc. (“LHI”) submitted an application on October 29, 2007, seeking approval for changes to the rates that LHI charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism, and also contains a proposal that addresses the treatment of residual balances in the Regulatory Asset Recovery Account (1590).

On November 2, 2007, LHI filed a supplemental application proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff after its review of the evidence submitted by LHI.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

LHI proposes to reduce its RTR — Network Service Rate by 14.6% and its RTR — Line and Transformation Connection Service Rate by 4.4% for all customer rate classes. LHI also proposes that the projected balances as of April 30, 2008 in variance accounts 1582, 1584 and 1586 be disposed of through an offsetting entry to account 1580.

Discussion and Submission

In calculating its proposed RTR adjustments, LHI determined the percentage decrease in the wholesale transmission rates resulting from the Board Rate Order dated October 17, 2007 (EB-2007-0759). LHI notes that the new wholesale Network Service Rate decreased by 18.4% while the Line Connection Service and Transformation Connection Services Rates collectively declined by 5.2%. LHI proposes to reflect these percentage reductions in its RTR — Network Service Rate and its RTR — Line and Transformation

Connection Service Rate respectively. LHI also calculated the average of revenue to cost ratios of billings and purchases included in accounts 1584 and 1586 over the 2003-2007 period and proposes to further adjust its RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate to correct for this under-collection over the years and thus minimize prospective amounts in variance accounts 1584 and 1586. Consequently, LHI proposes to reduce its RTR — Network Service Rate by 14.6% and its RTR — Line and Transformation Connection Service Rate by 4.4% for all customer rate classes.

LHI also proposes that the projected balances as of April 30, 2008 in variance accounts 1582, 1584 and 1586 be disposed of through an offsetting entry to account 1580 thereby reducing the credit balance in this account.

Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances is also generally dealt with in aggregate rather than clearing discrete accounts.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are also asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as LHI applies for its distribution rates to be rebased, which is scheduled to occur in 2009.

Recovery of Residual Balances in Regulatory Asset Recovery Account (1590)

Background

LHI current projections indicate that a residual debit balance of approximately \$1.2 million will remain in the Regulatory Asset Recovery Account (1590) at April 30, 2008. LHI states that this residual balance is comprised entirely of the interest earned on the outstanding principal balance of account 1590 after March 31, 2005.

LHI referred to section 9.0.19 of the Board's Decision with Reasons in the Review and Recovery of Regulatory Assets for the five large distributors (proceeding RP-2004-0117, RP-2004-0118, RP-2004-0100, RP-2004-0069, RP-2004-0064) which mentions that:

"At the end of the three year period, at April 30, 2008, as there will be a residual (positive or negative) balance in the Regulatory Asset Recovery Account (1590), this balance shall be disposed of to rate classes in proportion to the recovery share as established when rate riders were implemented".

LHI submitted three (3) options to address the forecast residual balance in account 1590.

Under Option 1, in keeping with section 9.0.19 of the referenced above Board's Decision with Reasons, LHI states that the disposition of the residual balance in account 1590 could be dealt with in 2 ways: (i) to allow the rate rider to continue until the full amount is recovered (estimated to continue mid July 2008) or (ii) calculate a new rider to recover the estimated \$1.2 million debit balance over the 2008 rate year. LHI indicated its preference for the short term continuation of the rate rider.

Under Option 2, LHI indicates that residual balance in account 1590 could be dealt with through an accounting offset entry between account 1590 and account 1580 since LHI currently has a \$4.9 credit balance in account 1580.

Under Option 3, the disposition of account 1590 would be deferred until LHI distribution rates are rebased.

LDH requests approval of Option 2. Failing that, LHI proposes an extension of the existing regulatory asset recovery rate riders to July 15, 2008.

Discussion and Submission

In addition to Board staff's comments already captured in the previous section which also apply to this issue, parties are invited to comment if an accounting offset entry between account 1590 and account 1580 would preserve the Board's intent that the residual balance be disposed of to rate classes in proportion to the recovery share as established when rate riders were implemented.

All of which is respectfully submitted.