January 24, 2008

Ontario Energy Board
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

On January 23, 2008 Board Staff filed with the Board their Staff Submission with respect the above rate application. Enclosed is London Hydro Inc.'s response to this Staff Submission.

This submission has been filed through the Boards RESS electronic filing system in searchable /unrestricted PDF format under the file name London_SUB_StaffSUB_20080124.

One (1) electronic copy in Microsoft Excel format of this submission has been e-mailed to the Board Secretary   BoardSec@oeb.gov.on.ca

Sincerely,

Original signed by

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Director of Finance and Regulatory Affairs
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The following comments are provided by London Hydro Inc. in response to the Board Staffs Submission filed on January 23, 2008, EB-2007-0844.

Board Staff Submission

The Board Staff submission requests parties 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. Staff advises that 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.

Board Staff advise that the 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.

The Board Staff submission states 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.

London Hydro Submission

As detailed in the Background section of the Board Staff's submission, on October 29, 2007 the Board issued instructions to all Distributors to adjust their retail transmission network and connection charges to reflect the impact of the new wholesale transmission rates that were approved under Rate Order EB-2007-0759, and were effective from November 1, 2007 to December 31, 2008.

The Boards instructions directed each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

It was LHI's interpretation that through these instructions, the Board was directing distributors to propose adjustments to retail transmission rates, including the disposition of two discrete variance accounts, being account 1584 RSVA network and account 1586 RSVA connection.

The Board's directions did not instruct distributors to submit a disposition plan for all variance accounts.

Board Staff submits that 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 Board's instructions of October 29, 2007 did not provide that level of detail with respect to the calculations.

The process indicated by Board Staff, would suggest that in calculating the variance account balances in account 1584 and 1586 required for disposition at April 30,2008 the calculation should consist of the most recent audited balances (Dec 31,2006) plus carrying charges from Jan 1,2007 to April 30,2008.

LHI did not follow that methodology, as it was our assumption that the calculations should include all wholesale cost versus retail recovery variances for the period Jan 1, 2007 to April 30, 2008 that would accumulate in these accounts. Additionally, we assumed that the Board would required those calculations to include the very significant reduction in wholesale costs that would occur with the new wholesale rates for the period Nov 1, 2007 to April 30, 2008.

The calculations of the forecast variance account balances in accounts 1584 and 1586 that were submitted by LHI in their application, account for all variances up to April 30, 2008 including those caused by the reduced wholesale rates effective Nov 1, 2007.

LHI submits that in hindsight, it may have been more advantageous to consider the aggregate disposition of all of the five retail settlement variance accounts (1580,1582,1584,1586,1588) at one time, versus the selective disposition of accounts 1584 and 1586, but the Board did provide those directions to distributors.

We concur with Board Staffs comments that 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 dispositions.

The proposals submitted by LHI in their application to offset variance account debit balances in RSVA accounts 1584 and 1586 against significant variance account credits in RSVA account 1580, were made specifically to minimize fluctuations in amounts refunded to or collected from customers through rate riders imposed through disposition of deferral and variance account balances. This same rationale was employed by LHI when developing its recommendations for disposition of residual balances in account 1590.

<u>Board Staff Submission</u>

In their submission Board Staff requests parties 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.

London Hydro Submission

London Hydro has provided its perspective on this issue as outlined on page 3 of the Managers Summary submitted with the LHI application.   We acknowledge the fact that the treatment proposed in the application will not result in a disposition to rate classes that matches exactly the proportionate recovery shares as established when rate riders were implemented, but we submit that any allocation differences that may result in the final disposition of the estimated $1.2 million balance in account 1590 will be immaterial and the recommend disposition treatment preserves the Board’s intent.

All of which is respectfully submitted.