London Hydro

February 11, 2005

Mr John Zych, Secretary
Ontario Energy Board
2300 Yonge St, 26th Floor
Toronto, Ontario
M4P 1E4

Re: 2006 Electricity Distribution Rate
RP-2004-0188

London Hydro would like to thank both board staff and industry stakeholders for the time invested in organizing the 2006 Draft Electricity Distribution Rate Handbook.

As we understand the current timeline, a final version of the 2006 EDRH and accompanying rate adjustment model (RAM) will be available in late April or early May 2005 with final rate submissions due to the board no later that July 4, 2005.

We provide the following specific comments:

Section	*Pg*	*Comments*
3.2 – Test Year Adjustments	**17**	**Option 1: Tier 1 Adjustments Section 2** • London Hydro is of the opinion that new labour contracts should be included in the tier 1 adjustments when contract terms are known and finalized prior to the submission of the rate application. • The draft 2006 EDRH currently requires a forward test year to be utilized when incorporating this change into distribution rates. • Given that this could be an issue common to many applicants use of a forward test year should not be mandatory, where this is the only item being projected for a future test year. • Cost increases associated with new labour contracts can be determined with a relative degree of accuracy and should be allowed as a tier 1 adjustment.

4.1 – Definition of Rate Base	**30**	**Rate Base Determination Alternatives** • London Hydro is of the opinion that the year end method in determining rate base is the appropriate alternative. • When 2006 distribution rates are filed for approval with the OEB the 2004 year end process should be finalized, allowing for audited financial data to be used for rate base determination. • Using a 2004 mid-year value for rate base for 2006 rate determination further separates the implemented dates and the test year dates (from 1 – 3 to 1.5 – 3.5 years) for rate setting purposes.
6.2.5 – Employee Total Compensation	**53**	**Required Information Disclosure – Additional Filing Requirements** • The proposed information disclosure of wages and incentive plans appear to impose reporting requirements similar in nature to the municipal sector. The municipal sector is required under legislation to disclose this information, but there is no such legislation for distributors incorporated under the Ontario Business Corporations Act. • The information disclosure places undue focus on the level of individual wages and compensation, rather than concentrating on the overall relative cost of providing a given service or activity. • Labour cost reporting should be limited to the reporting of the overall labour and benefit component included in given services, such as customer billing, administration, etc. The focusing on individual pay levels is comparable to measuring the size of each tree in the forest. • Only through the comparison of total labour costs required to perform a given activity, will the Board be able to assess the reasonableness of the utilities cost of those services.

		Incentive Plans • Incentive plans are considered to be part of total employee compensation and as a result total employee compensation is the measure that should be scrutinized. • Incentives are means of potentially lowering total employee costs to ratepayers and helps ensure that employees are working in an efficient manner towards a financially healthy and high service distributor. • Clarification of ratepayer benefits is required, as cost reductions are not the only benefit to ratepayers. Other benefits could include increases in reliability or stability of the distribution corporation (both operationally and financially).
7.1.1 – General Principles re: PILS	**69**	**True-up of 2006 actual taxes paid to taxes recovered in rates** • London Hydro believes that the appropriate tax / PILS treatment would utilize a 100% true-up or pass through approach. The PILS process was not designed to allow utilities to earn a profit from the tax portion of distribution rates. • The pass through approach also minimizes the need for tax profit sharing decisions. • It is London Hydro opinion that tax savings arising from disallowed expenses should not be shared between ratepayer and shareholder. A LDC generating expenses that are deemed non-recoverable should not be placed in a worse financial position by sharing any tax savings associated with those disallowed expenses. It is not clear to London Hydro as to why a ratepayer would benefit from tax savings on expenses that were not recovered through the distribution charges.
10.6 – Rates & Charges	**105**	**Distributed Generation** • London Hydro agrees with the benefits of distributed generation and as a result supports option 2(a) for transferring transmission cost reductions to the distributed generator.

- The next logical step in the encouragement of distributed generation is to allow generators to share in cost savings of distribution expenses.
    a. Regulations could be drafted that would allow the distributor and generator to choose, collectively, a site that is beneficial to the generator and that is strategically placed to allow optimal use of the current and future distribution system.
    b. This would benefit the:
        i. generator by providing another revenue stream (upfront or ongoing)
        ii. distributor by allowing for optimization of the distribution system
        iii. ratepayer by offsetting future system expansion costs and lowering future distribution rates

Sincerely,

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