Hearst Power Distribution Company Limited
2010 Electricity Distribution Rates
EB-2009-0266
Board Staff Supplemental Interrogatories
General
Reference to Electronic Filing

If in responding to any of these Board staff or VECC supplemental interrogatories, Hearst Power makes reference to its pre-filed evidence, its September 15, 2010, responses or its October 1, 2010, Addendum to Cost of Service Application EB-2009-0266, please identify the page number(s) in Hearst Power's *electronic* filing.

Please note that these interrogatories, in general, are based on the most recently-filed evidence on a subject matter; in many cases this is the October 1, 2010, Addendum to Cost of Service Application EB-2009-0266.

1. Filing Consistent Information

Ref: Applicant's "Addendum to Cost of Service Application EB-2009-0266" filed with the Board on October 1, 2010.

In response to the first round of interrogatories, the Applicant filed an amended load forecast and updated models on October 1, 2010.

a) Please confirm that the updated values contained in the October 1, 2010, re-filed forecast and the resulting models are the values on which the Applicant will now rely and for which it requests Board approval.

b) If in response to this current round of Board staff and VECC supplemental interrogatories the Applicant provides further updated evidence, please:

    a) confirm that it is the values in the newly-filed evidence on which the Applicant will now rely and for which it requests Board approval, and;

    b) please file one consistent set of models, worksheets, data, etc. covering all key aspects of the application, in a manner that reflects current Board policies, guidelines, etc.

Response:

a) Confirmed. The models filed in conjunction with the herein responses are the values that Hearst Power is relying on.

b) A complete and consistent set of models which include all values on which Hearst Power is relying on and is requesting approval for are being filed in conjunction with these responses.

2. Responses to Letters of Comment

Following publication of the Notice of Application, has the Applicant received any letters of comment in respect of this application? If so, please confirm whether a reply was sent by the Applicant in response to such comments and if so, please file copies of such responses with the Board. If not, please explain why a response was not sent and confirm if the Applicant intends to respond and file a copy of the response if and when such response is given.

Response:

Hearst Power confirms that it did not receive letters of comments following the publication of the Notice of Application.

Exhibit 1: Administrative Documents

3. Effective Date of Rate Change
Ref.: Exhibit 1, Tab 1, Schedule 2

In a letter dated March 5, 2009, the Board advised al electricity distributors that "Applicants are encouraged to file applications for 2010 as soon as possible, and no later than August 28, 2009 for rates to become effective May 1, 2010." Please explain the reasons for Hearst's late filing of its 2010 rate application.

Response:

A letter sent to the Board on Aug 6, 2009 stated that Hearst Power would be unable to meet the filing deadline of August 15, 2009 because of implications of OEB mandated programs and other local issues were slowing down the preparation of the application. As a small and first time cost of service application filer, Hearst did not expect this exercise to take as much time as it did. Hearst's general manager is for the most part, the only internal resource that has the expertise and knowledge to draw together all the information necessary to meet the Minimum Filing Requirements ("MFR"). Juggling the task of managing the day to day operation of the utility and compiling the evidence for the COS filing was found to be a challenging exercise for the utility.

The unanticipated projects that also contributed to the delay of the application were; deployment of smart meters in June of 2009, OEB mandated audit of 1588 and Global Adjustment sub-account as well as an audit from the Ministry of Finance. The Board also revised the MFR prior to the filing date which caused revisions to ECMI's models as well as the draft evidence.

4. Rate Schedule – Smart Meters and Street Lights
Ref: Exhibit 1/1/2 Appendix A; Appendix T filed September 15, 2010; and Addendum to Cost of Service Application EB-2009-0266, Appendix 1-1, filed October 1, 2010.

No reference is made to Smart Meters or Street Lights in the Rate Schedule.

a) Please indicate if this is intentional and if so, please explain.

b) If appropriate, please file an updated Rate Schedule.

Response:

a) Rates for Street Lights were inadvertently dropped from the Rate Schedule. The revised Rate Schedule at Exhibit BS-A reflects all classes.

   With respect to the Smart Meters, as explained in the Hearst's responses to preliminary IRs (1st IRs)[1] Hearst Power is requesting to discontinue its current smart meter charge and seeks approval to include the capital cost of its smart meters in the utility's rate base therefore transferring $437,190 to account 1860.

b) A revised Rate Schedule is presented as Appendix 2IR _A

5. Monthly Rates and Charges – Transformer Allowance
Ref: Exhibit 1/1/2 Appendix A and Appendix T filed September 15, 2010.

The Transformer Ownership Allowance is shown on the schedule of Monthly Rates and Charges as $0.35 per kW.

Please provide rationale and the supporting calculations for reducing this charge from $0.60 per kW in the currently-approved schedule of Monthly Rates and Charges to $0.35 per kW in the current schedule.

Response:

Hearst understands that the rates developed for some customer classes assume that the utility provides transformation to the customer and that customers that provide their own transformation should be entitled to receive a credit equivalent to the costs of transformation included in customer rates.

Hearst cannot provide calculations supporting the reduction of the TOA in the same way that it cannot provide, nor is aware of, “utility-specific” calculations supporting the current $0.60 per kW. Hearst also states that the transformers in question have been in place for over 30 years and are fully depreciated. Considering the age of the assets, Hearst considers an allowance of $0.35 to be fair and reasonable.

[1] Page 45 and 51 of responses to preliminary IRs from VECC and

6. Summary of Application
Ref: Exhibit 1/2/1/pp1-3

On page 1 the statement is made: "The Applicant has made significant one time…mitigation decisions…" On page 3 the statement is made: "The Test Year revenue requirement is that forecast by Hearst Power as needed to enable it to earn a lower than generally permitted, but reasonable, return for fiscal 2010."

Please explain both statements.

Response:

With respect to the statement regarding the one time mitigation was used to describe a mix of utility specific decisions such as the request the deferral of variance accounts over 4 years instead of a generally preferred shorter period and the request to eliminate the existing smart meter adder.

As for the second statement quoted in the question above, Hearst is requesting the Board approved prescribed rates therefore Hearst asks that board staff and interveners disregard any comments that would imply otherwise.

7. Budget Overview
Ref: Exhibit 1/2/2/p1

The statement is made regarding the Revenue Forecast: "The forecast revenue does not include the load and associated revenue reduction and therefore overstates the expected 2010 revenue and return to Hearst Power." Later the statement is made: "The Test Year forecast class billing demand is above those encountered in the most recent history."

Please confirm if Hearst Power has based its October 1, 2010, filed load forecast on the most likely future circumstances and, if not, why not.

Response: Confirmed. To the best of the utility's knowledge, the revised load forecast as filed in the alternate scenario reflect its view of the most likely future circumstances.

8. Pro-Forma Financial Statements – 2009, 2010
Ref: Exhibit 1/3/2

The 2009 and 2010 pro-forma data is presented.

Please re-file the table in the same format but with 2009 actual data.

Response:

Please note that pro-formas for 2010 are not available at this time but Hearst has included its 2009 audited financial statements at Appendix 2IR_B.

9 . Revenue Requirement Work Form

Ref: Response to Board staff interrogatories #2 and #3 (and associated Appendices BS-B and I) and Addendum to Cost of Service Application EB-2009-0266, un-numbered table “Rate Base”, filed October 1, 2010.

The Applicant revised various data in its re-filed Revenue Requirement Work Form.

a) Please file detailed calculations and show clearly all assumptions that were used in producing the Cost of Power total of $6,866,179.

b) Please explain why, in response to the preliminary interrogatories,

I. The Applicant increased the long-term debt rate from 5.87% in the original filing to 12.5% in the latest filing,

II. OM&A Expenses increased from $867,878 to $935,399, and

III. Amortization/Depreciation decreased from $145,659 to $139,718.

Response:

c) Please find the determination of Pass-Through Charges at Appendix 2IR_C

I. The long-term debt rate should have been set at the board prescribed ceiling of 5.87% as indicated in the OEB cost of capital report. This has been rectified in models filed in conjunction to these responses.

II. As explained at page 2 of Appendix II “Summary of Changes to the RR”, filed on September 15, 2010, the variance is due to the inclusion of the cost of rebasing in account 5630. Please note that the total Administrative and General Expense presented at Exhibit 4/2/2/1 p 5-6/6 of the original filing was incorrect. It was stated as $231,128 instead of $241,294.

		as filed	Prelim IRs	Diff
3500-Distribution Expenses - Operation		106940	106940	
3550-Distribution Expenses - Maintenance		284565	284565	
3650-Billing and Collecting		230079	230079	
3700-Community Relations		5000	5000	
3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	$12,000.00	$12,000.00	$0.00
	5615-General Administrative Salaries and Expenses	$78,000.00	$78,000.00	$0.00
	5620-Office Supplies and Expenses	$2,500.00	$2,500.00	$0.00
	5630-Outside Services Employed	$8,995.00	$76,516.00	$67,521.00
	5635-Property Insurance	$566.00	$566.00	$0.00
	5640-Injuries and Damages	$9,000.00	$9,000.00	$0.00
	5645-Employee Pensions and Benefits	$90,500.00	$90,500.00	$0.00
	5655-Regulatory Expenses	$7,095.00	$7,095.00	$0.00
	5665-Miscellaneous General Expenses	$22,000.00	$22,000.00	$0.00
	5670-Rent	$8,838.00	$8,838.00	$0.00
	5680-Electrical Safety Authority Fees	$1,800.00	$1,800.00	$0.00
		$241,294.00	$308,815.00	$67,521.00
TOTAL		$867,878	$935,399	

10. Changes to Revenue Requirement
Ref: Response to Board staff interrogatory #1 (and associated Appendix II "Summary of Changes to Revenue Requirement")

On page 2 of the Appendix the Applicant notes: "The changes to the OM&A relates to Hearst…"

Please provide details of:

a) the proposal to eliminate specific rate riders,
b) the cost of rebasing the OM&A expenses, and
c) the $270,085 amount.

Response:

In its May 21, 2010 ("original application"), Hearst applied for a specific rate rider to recover its cost of rebasing. Subsequently, Hearst opted to dissolve the rate rider and add the cost of rebasing to account 5630.

Exhibit 2: Rate Base
11. SAIDI, SAIFI, CAIDI
Ref: Exhibit 2/7/2/p1
Table 2.7.2.1 provides a summary of the Applicant's service quality statistics for 2006 to 2008 for both "Excluding Hydro One" and "Total System".

a) Please confirm that the service quality statistics are consistent with the Applicant's RRR filings.

b) Where the information is available, please expand the SAIDI, SAIFI and CAIDI elements in Table 2.7.2.1 for the years missing in the range 2003 to 2009.

c) Please confirm that the Total System data in Table 2.7.2.1 includes Hydro One's failure of supply.

Response:

a) Confirmed
b) See table below

2.7.2 SAIDI, SAIFI

Hearst tracks service reliability statistics SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) including and excluing Hydro One related incidents. The following table shows actual results for the past five years.

	2003	2004	2005	2006	2006	2007	2007	2008	2008	2009	2009
	TOTAL SYS.	TOT.SYS	TOT SYS	Excluding Hydro one	Total System	Excluding Hydro one	Total System	Excluding Hydro one	Total System	Excl.H1	Total System
SAIDI	15.56	4.68		1.6	10.73	0.65	11.73	1.2	1.2	5.67	6.66
SAIFI	2.221	4.43		0.98	5.79	0.92	5.91	0.95	0.95	3.45	10.32
CAIDI	7.003	1.055		1.64	1.9	0.71	1.98	1.26	1.26	1.64	0.645

(2005 is missing due to the transition from the old OEB submission format and the new RRR filing format. The 2003 and 2004, only the total system data is available)

c) For 2006 to 2009, the total system data includes Hydro One's failure of supply.

12. Conditions of Service
Ref: Exhibit 8.1.6
In the pre-filed evidence the Applicant refers to its Conditions of Service.

a) Please identify any rates and charges that are included in the Applicant's Conditions of Service and provide an explanation for the nature of the costs being recovered.

Response:

Hearst confirms that there are no unidentified rates and charges in its conditions of service

b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009, and the revenue forecasted for the 2010 test year.

Response:

NA

c) Please explain whether, in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet.

Response:

NA

13. Depreciation Expenses
Ref: Response to VECC interrogatory #6b (and associated Appendix D) In Appendix D the Applicant files various information including that related to "Additions" and "Smart Meters".

a) Please rationalize the $133,800 value for Additions in 2010 with the $248,696 value reported in various other appendices.

b) Please explain why in the Sub-Total for Other Plant for 2010, some columns (e.g. columns e and g) *include* Smart Meter costs, some columns (e.g. column c) *exclude all* Smart Meter costs, and some columns (e.g. column a) *include some* Smart Meter costs.

Response:

a) There appears to have been an error in the formula at Appendix BS-F. The total additions for 2010 should have included the $114,896 for smart meters. ($133,800+$114,896 = 248,696)

The Subtotal for Other plants for 2010 At Exhibit BS-F should all include smart meter costs. A revised table is presented at Appendix 2IR_D. Hearst confirms that the 2010 depreciation expense included in the Rate Maker model filed on

October 1 (as well as the model filed in conjunction), did in fact include all Smart Meter Costs.

14. Variance Analysis on Rate Base Summary Table
Ref: Response to Board staff interrogatory #4.
The Applicant states: "Hearst determined that since 100% of its Smart Meters would be installed by the end of 2010, it was eligible to recover its costs through the Rate Base and regular OM&A expenses."
Please confirm that Hearst has not yet installed all its Smart Meters.

Response: Confirmed. However, Hearst expects that all its Smart Meters will be installed by end of 2010.

15. Capital Budget By Project
Ref: Response to Board staff interrogatory #5.

Board staff asked for details of "2009 and 2010 capital expenditures which support (a) the Smart Meter program and (b) other programs/projects." The details provided in the interrogatory response appear only to detail Smart Meter and *their* related capital projects.

Please provide the information as originally requested; that is, to provide details of Smart Meter and *all other* capital projects; list separately the 2009 and 2010 capital expenditures which support (a) the Smart Meter program and (b) other programs/projects.

Response:

A breakdown of Capital expenditures for 2009 and 2010 were filed as part of responses to VECC's IR #8 and are reproduced at Appendix 2IR_E of these responses.

Hearst offers the following additional information on capital expenditures that that are slightly higher than usual yet still fall below the materiality threshold.

- The 13K in Buildings and Fixtures related to the warehouse roof having to be replaced
- The $25,000 spending on Office Furniture and Equipment; folding machine
- The $25,000 spending on Software; Smart Meter related software (MDMR)
- The $12,500 spending on Transportation Equipment; Maintenance on trucks

All other capital expenditures are minimal and are for the most part due to the normal maintenance of equipment.

16. Net Assets

Ref: Response to Board staff interrogatory #1 (and associated Appendix I – Summary of Changes to Rate Base, section: Gross Assets – Property, Plant and Equipment and Accumulated Depreciation)

The Applicant provides 2009 and 2010 values for Gross Assets and Depreciation but not the resulting Net Asset values.

Please rationalize the resulting Net Asset values in Appendix I for each year with the Net Book Values columns in Appendix BS-C filed September 15, 2010.

Response:

There was a typing error at Appendix I, the average Net Fixed Asset should have stated $1,289,084 (not $1,287,084).

The amount of $1,289,084 is consistent with the Rate Base and Net Capital Asset presented as part of the preliminary IRs filed on September 15, 2010.

		2010
Net Fixed Assets in Service:		
Opening Balance	1,234,595	
Closing Balance	1,343,572	
Average Balance		1,289,084

Exhibit 3: Loads, Customers – Throughput Revenue

17. Forecasting Methodology
Ref: Exhibit 3/2/1 and Addendum to Cost of Service Application EB-2009-0266, filed October 1, 2010.

In the exhibit the Applicant explains the approach taken to establishing its customers/connections count and load forecasts. However, it would appear that a different approach is used in the October 1, 2010, Addendum to Cost of Service Application EB-2009-0266. Board staff understands the essentials of the approach used *in the October 1, 2010, filing* is:

- The historical number of customers in each class is extrapolated to obtain the 2010 customers/connections count forecasts.

- For the weather sensitive classes (Residential, GS<50kW and GS>50kW) the NAC value (i.e. the non-weather corrected kWh per customer) for each class is calculated and 2005-2009 average for each class is used in determining the 2010 load. (For greater certainty: It is understood that weather normalization based on the Hydro One data developed for the 2006 Informational Filing was NOT used.)

- For the weather sensitive classes, the 2010 forecast values are determined by multiplying the forecasted number of customers in each class by the applicable NAC value. .

- For the Intermediate, Street Lights and Sentinel Light classes, the most recent 12 months of actual data were used as the 2010 forecast values.

    a) Please confirm or correct Board staff's understanding as expressed in the above summary.
    b) Please explain the rationale for the load forecasting method used for developing the larger customers' forecasts and provide the supporting data.
    c) Please clarify the extent to which the larger customers have been retained in their original customer classes.

Response:

a) Board's staff's description is generally correct. Normalization was achieved by way of calculating a 5-year average use per customer for the weather sensitive classes (NAC) which is used to forecast 2010 normalized kWh by multiplying by the forecast customers in the class. Board staff is correct in that Hydro One data developed for the 2006 Informational Filing was not used.

b) The rational for the larger customers (i.e., Intermediate Class) forecast is described in the Load Forecast Addendum on p2, filed October 1st which states

   a. In 2007, one of Hearst's 3 Intermediate customers announced that one of their two processes was shutting down. Consequently, at end of 2007, the load dropped by 20% and was further reduced by 86% in 2008.
   b. In 2009, when Hearst began its rebasing application, speculation was that the customer would bring in a new process to replace the lost load. This was to happen sometime in the latter part of 2009. To date, the customer has not resumed its normal level of activity and the load still hasn't been replaced.
   c. Hearst recently re-evaluated the possibility of this particular customer resuming their full load and as a result feels it would be appropriate to propose and alternate scenario where the load forecast is more illustrative of the intermediate class' actual load.

   The supporting data was provided in the spreadsheet file "Hearst_APPL_Alternative Load Forecast" filed October 1st.

18. Load Forecast Volumes
Ref: Addendum to Cost of Service Application EB-2009-0266, filed October 1, 2010.

The Applicant provided an Excel spreadsheet showing the details of its load forecast calculations.

a) Please explain the *physical* difference or differentiation intended to be captured in Sheet C1 – Load Data and Forecast by including both "Actual" and "*Normalized*" values for 2008, 2009 and 2010, provide the rationale of the conversion process including a detailed explanation of any weather normalization, and show the detailed calculations used to make the conversions.

b) Please explain the rationale for the Loss Factor (value 1.0509) on Sheet C1 – Load Data and Forecast being different from the Loss Factor (value 1.0312) in the Addendum's Appendix 1-1, and clarify the value on which the Applicant will rely.

c) Please explain why, unlike the Total Loss Factors in the Applicant's currently approved tariff sheet, the (Total?) Loss Factor in the Addendum's Appendix 1-1 is the same for both the *Secondary* Metered Customers <5000kWh and *Primary* Metered Customers <5000kWh.

d) Please confirm that the Metered Kilowatt-Hours on Sheet C1 – Load Data and Forecast are indeed actual unmodified values.

e) Please provide a reconciliation of the load forecast and the Revenue Requirement by multiplying the load forecast volumes in the October 1, 2010, filing by the charges in the Addendum's Appendix 1-1 Monthly Rates and Charges (appropriately revised for omissions and any errors).

Response:

a) With respect to sheet C1 – Load Data and Forecast , the values presented in the column headings entitled "Actual" reflect unaltered actual loads. "Normalized" represents the "weather normalized" load. Details of the weather normalizing process are explained in Hearst's response to 18a)

b) The loss factor at sheet C1-LoadForecast of Rate Maker was revised to show the "proposed loss factor" instead of the "existing loss factor". Please see Appendix 2IR_F for the revised Load Forecast.

c) The corrected loss factors for both the primary and secondary metered customers are presented in the responses to Question #34 as well as the revised models.

d) In sheet C1-LoadForecast, the values under the columns entitled "Normalized" have been modified. The values presented under the column heading "Actual" are unmodified.

e) See table below

DISTRIBUTION CHARGES									
	Fixed Charge			Variable Charge			Gross Revenue from Distribution Charges		
Customer Class Name	Rate	Volume	Revenue	Rate	Volume	Revenue	Calculated	Allocated	Difference
Residential	$9.00	27,864	250,776	$0.0190	26,627,362	505,920	756,696	757,982	(1,286)
GS<50kW	$20.50	4,692	96,186	$0.0095	12,405,535	117,853	214,039	214,079	(40)
GS>50kW	$72.00	456	32,832	$2.4355	53,176	129,510	162,342	162,343	(1)
Intermediate Users	$320.00	36	11,520	$1.4287	59,721	85,323	96,843	96,846	(3)
Sentinel Lights	$6.76	120	811	$3.2106	72	231	1,042	1,042	(0)
Street Lights	$5.94	11,064	65,720	$7.7329	3,084	23,848	89,568	89,568	0
TOTAL		**44,232**	**457,845**		**39,148,950**	**862,685**	**1,320,531**	**1,321,861**	**(1,330)**

19. Customer Count and Normalized Volume Actual Values

Ref: Exhibit 3/2/2-3

In Tables 3.2.2 and 3.2.3 the Applicant shows its customer count and volume forecasts by customer class.

Please provide the 2009 *actual* values and the 2010 year-to-date actual values (and identifying the latest month for which data is included) in Tables 3.2.2 and 3.2.3 format.

Response:

The values presented in the column headings entitled “Actual” of sheet C1-Load Data and Forecast, represent unaltered 2009 actual loads and customer counts.

Values from January 1, 2010 to October 31, 2010 are presented below

METERED KILOWATT-HOURS (kWh)	
	2010 Actual (10 Months)
Residential	21,164,096
GS<50kW	9,717,945
GS>50kW	13,492,836
Intermediate Users	14,883,088
Sentinel Lights	16,840
Street Lights	803,229
TOTAL	**60,077,674**

KILOWATTS (kW)	
	2010 Actual (10 Months)

Residential	
GS<50kW	
GS>50kW	40,497
Intermediate Users	47,951
Sentinel Lights	60
Street Lights	2578
TOTAL	**91,086**

NUMBER OF CUSTOMERS	At Oct 2010
Residential	2,293
GS<50kW	391
GS>50kW	39
Intermediate Users	3
Sentinel Lights	10
Street Lights	912 LIGHTS

Exhibit 4: Operating Costs

20. OM&A Expenses

Ref: Response to Board staff interrogatory #10 (and supporting Appendix BS-G). The Applicant provides various cost data in the appendix.

a) Please confirm that Total Eligible Distribution Expenses is the same as OM&A, or explain.
b) Please explain why in Appendix BS-G, the 2006, 2007 and 2008 actual Total Eligible Distributions have changed from the original filing; if there was a slippage in expenditures from one year to the next, please give details.

Response:

a) Confirmed
b) The major contributor to the variance between the OM&A as originally filed in the application and the OM&A filed in the preliminary responses to IRs is the selection of USoA account that were included in the original application. Certain OM&A related accounts were either erroneously included and/or omitted in the original application (i.e. 6035 should have been excluded.) Hearst reviewed its OM&A accounts based on the minimum filing requirements [2] and adjusted its information accordingly.

21. Revenue Offsets

Ref: Responses to VECC interrogatory #11a and #25e (and associated Appendix N) Miscellaneous Service Revenues are shown as decreasing from $23,288 (in 2009) to $9,170 (in 2010).

a) Please explain the expected drop in Miscellaneous Service Revenues and file supporting evidence.
b) What were the 2009 actual values and the 2010 year-to-date values for Miscellaneous Service Revenues (and please state the latest month of 2010 data included).

Response:

a) The total 2009 Misc Service Revenues of $33,023[3] should be compared to 2010 (proposed rates) of $32,170[4].
b) See table below

[2] Minimum Filing Requirements page 36-37
[3] Page 1 of table entitled C9 –Revenue Offset Projections at Appendix N
[4] Page 3 of table entitled C9 –Revenue Offset Projections at Appendix N

	2009 ACTUAL	2010 TO DATE (OCT.31, 2010)
4235.Misc. Service Revenues	$18,820.00	$15,248.00
4324.Special Purpose charge	$8,371.00	$8,823.00
4325.Rev.Merchandi.jobb.	$12,183.00	$14,417.00
4326 Other Misc.Rev.	$2,834.00	$723.00

22. OM&A Expenses
Ref: Exhibit 4/2/1

In Table 4.2.1, the Applicant shows, among other data, the 2009 forecasted OM&A expenses.

Please provide the 2009 *actual* values and 2010 year-to-date actual values in Table 4.2.1 format (and state the latest month of 2010 data included).

Response:

a) The requested table is presented at Appendix 2IR_G. Note that the information presented for 2010 is up to September 30, 2010. Also note that Hearst has held off on much of its 2010 spending until the proposed revenue requirement is approved.

23. Assumptions for Increases to OM&A
Ref: Exhibit 4/2/1/p1

Inflation appears to be built into the Applicant's OM&A costs.

Please identify the inflation rate used for the 2010 OM&A forecast and the source document(s) for the inflation assumptions.

Response:

Much like other small utilities, Hearst's OM&A forecast is not based on a formulaic type method (i.e. applying a specific inflation factor). Instead, Hearst uses a more judgmental approach to its forecasting method. The approach includes a thorough analysis of historical costs, intuitive judgments, opinions and subjective estimates. Each account is looked at individually.

24. OM&A Cost Drivers
Ref : Response to VECC interrogatory #14 (and supporting Appendix P).

The Applicant files information on its cost drivers including $52,079 in 2010 for Meter Reading Expenses.

a) Please clarify if these are *additional* expenses associated with Smart Meters only or the total expenses for all meter reading.
b) What were the meter reading costs for regular meters?

Response:

a) These are additional expenses

b) The meter reading costs for regular meters were $25,000

25. Regulatory Costs
Ref: Exhibit 4/2/4

In Table 4.2.4.1 the Applicant shows "Operating expenses associated with staff resources allocated to regulatory matters" for "2009 Bridge Year" and "2010 Test Year".

a) Please confirm that these are *additiona*l costs that the Applicant incurred (such as paid overtime, backfilling with external resources, etc.) that were truly in addition to regular staff wages.
b) If a portion of these operating expenses were for regular wages for existing staff, please estimate how much was for regular wages for existing staff and how much was for truly *additional* costs.

Response:

a) Confirmed

b) N/A

26. Late Payment Penalty (LPP)
Ref: Exhibit 4/1/1/p1

Please state whether or not the Applicant has included an amount for recovery of late payment penalty litigation costs in its 2010 Test Year application. If yes, please identify the amount and explain how the Applicant is proposing to recover the amount (e.g. customer rate classes that would be affected and whether the amount would be recovered by means of a fixed or variable charge or a combination thereof). If yes, please provide evidence supporting the amount allocated to the Applicant (e.g. through the settlement agreement).

Response:

Hearst had not included any costs for late payment penalty litigation costs in its 2010 Test Year application.

27. Variance Analysis On OM&A Costs Table
Refs: Exhibit 4/3/2

The Applicant provides variance explanation for certain years but does not include an explanation for the 2009 Bridge Year.

Please provide a variance explanation for the 2009 Bridge Year.

Response:

Variances above and beyond the materiality threshold (or in some case when the increase is considered unusually high) were described at Appendix P – OM&A Cost Driver Table, of Hearst's responses to the preliminary IRs. In the interest of convenience, Hearst has duplicated this evidence at Appendix 2IR_H of these responses.

28. Purchase of Services
Refs: Exhibit 4/5/2

The Applicant provides a summary in Table 4.5.2.1 of its larger purchases including, for a number of these, an explanation of the tendering process used.

Please provide an entry in the "Summary of the tendering cost process/summary of approach" column for ECMI, Sensus and Olameter

Response:

No tendering process was undertaken with respect to hiring ECMI. The utility met Roger White, president of ECMI, back early stage of electricity system deregulation. At that time, no other consultant was catering to the needs of small LDCs.

As for Sensus and Olameter – Hearst Power is part of D9 Group (Northern Ontario LDCs) who hired the services of Util-Assist. Util-Assist requested quotes from various vendors on behalf of the D9 Group. Various suppliers were assessed. The decision to use Sensus and Olameter (as well as Util-Assist, was a joint evaluation process and decision making process.

29. Harmonized Sales Tax

Ref: Exhibit 4

The PST and GST were harmonized effective July 1, 2010. Historically, unlike the GST, the PST was included as an OM&A expense and was also included in capital expenditures. Due to the harmonization of the PST and GST, regulated utilities may benefit from a reduction in OM&A expenses and capital expenditures on an actual basis.

a) Please state whether or not the Applicant has adjusted its Test Year revenue requirement to account for reductions to OM&A expense and capital expenditures that the Applicant may realize due to the implementation of the HST effective July 1, 2010. If yes, please identify separately the amounts for OM&A and capital and provide an explanation of how each of those amounts was derived. If no, please identify the amounts in OM&A expense and capital expenditures for the Test Year that were previously subject to PST and are now subject to HST.
b) Please state how Hearst is proposing to pass on its HST savings.

Response:

a) Hearst confirms that it has not reduced its OM&A and Capital Expenditures by the amount of PST and that spending projections for the 2010 test year include sales taxes. PST expenses are presented below.

PST	2009	2010
Capital Expenditures	$26,178.	$6,974.
OM&A Expenditures	$10,841.	$11,722

30. Low Income Energy Assistance Program (LEAP)

Please state whether or not the Applicant has included an amount in its 2010 Test year revenue requirement for the LEAP emergency assistance program.

a) If yes, please identify the amount.
b) If no, please provide the following calculation: 0.12% of the total distribution revenue proposed by the Applicant for the 2010 Test Year.
c) Please state whether or not the Applicant has included an amount in its 2010 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

Response:

a) Hearst has not included such amount in its 2010 Test Year.

b) 0.12% of 843,062 = $1,012.00

2010 Projected Revenue at Proposed Rates	**Net Distribution Revenue**
	(E)
Residential	483,312
GS<50kW	144,895
GS>50kW	113,627
Intermediate Users	49,985
Sentinel Lights	1,618
Street Lights	49,626
TOTAL	**843,062**

c) Hearst has not included any amount in its 2010 for legacy programs

Exhibit 5: Cost of Capital and Rate of Return

31. Promissory Note
Ref: Response to Board staff interrogatory #12

The second sentence of the response reads: “The loan to Hearst Power is in fact in the amount of $1.7 million.”

Please confirm that the intended response was that “the *balance of the promissory note* is in the amount of $1.7 million”.

Response: Confirmed

Exhibit 7: Cost Allocation

32. Revenue to Cost Ratios
Ref: Response to Board staff interrogatories #15, #16 and #17 (and supporting Appendix BS-K)

The Applicant provided revised Revenue to Cost ratios in the response.

Please confirm that the ratios in the "HPL-2010 scaled to 100%" column in Table 7 of the appendix are the ratios directly utilized in calculating the re-filed rates.

Response: Confirmed

33. Adjustment to Transformer Allowance
Refs: Exhibit 7/1/1/pp1-2 and Exhibit 8/1/1/p4

The Applicant makes reference to the adjustment made to the transformer allowance.

Please provide details of the adjustment including the justification and supporting calculations for reducing the Transformer Allowance from $0.60 to $0.35 per kW.

Response:

Details of the Transformer Ownership Allowance (TOA) related adjustments were explained in the Cost Allocation report filed as part of the Preliminary IRs[5]. As for second part of the question, please refer to the response to Questions #5 of this document.

[5] Appendix BS-K if Prelim IRs filed September 15, 2010

Exhibit 8: Rate Design

34. Loss Adjustment Factors
Ref: Exhibit 8/1/4/p1

In Table 8.1.4.1 the Applicant shows the Total Loss Factors for the years 2004 to 2008. Please explain why the Applicant's Total Loss Factors are trending upwards over time.

Response:

While reviewing the Total Loss Factor, Hearst found that the information presented in the original application was incorrect. It reflected 2004 to 2008 instead of 2005-2009. Hearst has revised and provided, as presented in the table below, accurate information for 2005 to 2009.

		2005	2006	2007	2008	2009	AVERAGE
	Losses in Distributor's System						
A_1	"Wholesale" kWh delivered to distributor (higher value)	116,962,701.00	118,273,801.00	111,111,959.00	88,846,118.00	81,403,959.00	**103,319,707.60**
A_2	"Wholesale" kWh delivered to distributor (lower value)	0.00	0.00	0.00	0.00	0.00	0.00
B	Portion of "Wholesale" kWh delivered to distributor for Large Use Customers		0.00	0.00	0.00	0.00	0.00
C	Net "Wholesale" kWh delivered to distributor: (A_2)-(B)	116,962,701.00	118,273,801.00	111,111,959.00	88,846,118.00	81,403,959.00	**103,319,707.60**
D	"Retail" kWh delivered to distributor	112,917,026.00	113,505,053.00	107,054,646.00	85,198,798.00	77,414,752.00	**99,218,055.00**
E	Portion of "Retail" kWh delivered to distributor for Large Use Customers		0.00	0.00	0.00	0.00	0.00
F	Net "Retail" kWh delivered to distributor: (D)-(E)	112,917,026.00	113,505,053.00	107,054,646.00	85,198,798.00	77,414,752.00	**99,218,055.00**
G	Loss Factor in distributor's system: (C)/(F)	1.0358	1.0420	1.0379	1.0428	1.0515	1.0413
	Losses upsgtream of Distributor's System						
H	Supply Facility Loss Factor	1.0045	1.0045	1.0045	1.0045	1.0045	**1.0045**
	Total Losses						
I	**Total Loss Factor: (G)x(H)**	**1.0405**	**1.0467**	**1.0426**	**1.0475**	**1.0563**	**1.0460**

J	Primary Metering Adjustment	0.99
	Total Loss Factor for Primary Metered Customer: (I)x(J)	1.0356

A certain amount of fluctuation is expected in year to year losses. Hearst considers its losses, over the past 5 years, to have remains fairly steady and will continue to monitor the trend in its yearly losses so that it can effectively address any issue that may arise.

35. Conditions of Service
Ref: Exhibit 8/4/3/p1

Occasionally rates and charges are contained in an applicant's Conditions of Service.

a) Please identify any rates and charges that are included in the Applicant's Conditions of Service and provide an explanation for the nature of any costs being recovered.
b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenues forecasted for the 2010 Test Year.
c) Please explain whether in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet.

Response: Please see responses to #12

Exhibit 9: Deferral and Variance Accounts
36. Smart Meters
Ref: Response to VECC interrogatory #30.

The Applicant references the Smart Meter-related approvals it is seeking from the Board.

a) Please set out in detail the Smart Meter-related approvals the Applicant is requesting from the Board.
b) Please indicate whether the approvals sought by Hearst are in compliance with the Board's Guideline G-2008-0002. c) Please clarify the Applicant's intended actions on stranded meters.
c) Please explain how, if the requested approvals are granted, the implementation of the approvals will be reflected in the customers' bills.

Response:

a) Hearst seeks approval to transfer $437,190 from its deferral and variance account to its capital account 1860-Meters, and requests that additional costs incurred in 2010 associated with the smart meter capital and operating accounts be charged to its respective accounts on an ongoing basis effective Jan 1, 2010". As for the treatment of deferral and variance accounts 1555-Smart Meter Capital Variance Account and 1566-Smart Meters OM&A Variance Accounts, the balances of both account on the whole offset one another. Therefore, Hearst is not proposing to dispose of deferral accounts 1555 & 1556 in this proceeding unless directed otherwise by the Board.

Balance at Dec 31, 2008

1555-Smart Meters Capital Variance Account	-21,788
1556-Smart Meters OM&A Variance Account	19,326

b) This particular question was asked and answered in board staff' supplemental interrogatories.[6] Hearst has replicated its response below.

Hearst Response:
Hearst relied on the following excerpt from the Board's Guideline G-2008-0002, Smart Meter Funding and Cost Recovery, October 22, 2008 when applying for the recovery of the smart meter costs.

[6] Question #4-Variance Analysis on Rate Base Summary Table of Prelim IRs filed September 15, 2010

"The information The Board expects that a distributor will normally file for inclusion of smart meter costs into ongoing operations and rate base when it files for a cost of service rate adjustment. When applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account balances. The Board also expects that only two applications will need to be made for the recovery of smart meter costs. The first is when the distributor achieves at least 50% penetration of smart meters within its service area. The second is when the distributor installs 100% of the meters"

Hearst determined that since 100% of its smart meters would be installed by end of 2010, it was eligible to recover its costs through its Rate Base and regular OM&A expenses.

c) If the approval to include smart meter related capital expenditure in Hearst's Rate Base is granted, these costs would be treated no differently than any other capital investment and therefore would not appear on customer's bills. The same reasoning would apply to smart meter related OM&A expense.

37. Clearance of Deferral and Variance Accounts
Ref: Exhibit 9/1/3/p1

a) Please state the amounts (principal and interest) in each of the deferral and variance accounts that the Applicant proposes to dispose of.
b) Hearst Power is requesting disposition over 4 years. However, Table 9.1.3.1 only presents rate riders based on 1 year disposition. Please provide a calculation for the rate-riders over 4 years. (Please ensure that all other deferral and variance account interrogatories have been addressed before performing these calculations.)
c) Please confirm that Hearst Power has complied with, and applied correctly, the Board's accounting policy and procedures for calculation of the final disposition balance. If Hearst Power has used other practices in the calculation, please explain where these are located in the filing and why it has taken the approach it has taken.
d) Has Hearst Power reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?
e) Would Hearst Power agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures due to Harmonized Sales Tax?

Response:

a) The requested balances are presented at Appendix 2IR_I of these responses.
b) The information presented in the original application is outdated. The rate rider calculations are presented at Appendix 2IR_J of these responses. The rate rider is calculated over a period of 4 years.
c) Hearst confirms that the DVA balances for disposition, and its associated rate rider, have been calculated in accordance with the EDVAAR report.
d) Hearst confirms that is has complied with Bulletin 200901 dated October 15, 2009. The accounting treatment of account 1588 RSVA Power and Sub-account Global Adjustment was subject to an audit review in 2009. Please find at Appendix 2IR_K a letter from the Board confirming that all appropriate follow-up actions were implemented and that Hearst conforms with the Account Procedures Handbook and Board issued Guidelines..
e) Hearst is not opposed to the establishment of a variance account to capture the reduction in OM&A and CapEx due to the HST. Alternatively, Hearst prefers the approach Renfrew Hydro suggested in its submission[7]. "*In certain other 2010 rate applications, the Board has directed the establishment of a variance account to track the Input Tax Credits ("ITCs") on revenue requirement items that were previously subject to PST. Such an approach is required when the utility's revenue requirement includes an amount for PST.*" *Using Renfrew's proposed approach, the utility would track ITCs in the variance account until such time that its revenue requirement no longer includes any amount for PST, i.e. when it receives approval for rates under a cost of service application. Such an approach also requires the utility to determine, for each ITC, whether the expenditure would have been subject to PST under the former sales tax regime.*

   In contrast, Hearst's proposal is much simpler from an administrative perspective, as all PST amounts actually paid would be tracked in the deferral account for a six-month period only. Ratepayers also achieve the immediate

[7] EB-2009-0146 Exhibit 9/Tab1/Schedule2/page1of2

benefit from excluding all PST in test year spending projections, since this approach produces a lower revenue requirement and therefore lower distribution rates.

38. Account 1565
Ref: Exhibit 9/1/2

a) Please explain why Hearst Power has not recorded any amounts in account 1566, the net of the balance in account 1565 and why the corresponding offsetting balance in 1566 is not zero.
b) Please confirm that all entries made in accounts 1565 and 1566 are consistent with the accounting procedures in Article 220 of the Accounting Procedures Handbook and the Board's FAQs dated December 2005.

Response:

a) After conferring with its external accountants, Hearst confirms that account 1566 was not used to record the offsetting entry for amounts recorded in account 1565-CDM Expenditures and Recoveries for the reversal of entries to the accounts of original entries. The appropriate entries are reflected in the model filed in conjunction with these responses.
b) As implied above, revisions to accounts 1565 and 1566 are consistent with the accounting procedures in Article 220 of the Accounting Procedures Handbook and the Board's FAQs dated December 2005.

The table below reflect the revisions to account 1565 and 1566 in order to correct the mistreatment of these 2 accounts. The appropriate entries are reflected in the model filed in conjunction with these responses.

39. Accounts 1570 and 1571
Ref: Exhibit 9/1/2

Why has Hearst Power excluded accounts 1570 and 1571 from its calculation of the rate riders?

Response:

a) The two accounts were mistakenly omitted in the original application and were consequently also omitted from the responses to preliminary IRs.

   Accounts 1570 and 1571 are included in the DVA balances and are presented at Appendix 2IR_I of these responses.

40. Account 1588 – Global Adjustment
Ref: Exhibit 9/1/2

a) Please confirm that the Global Adjustment ("GA") principal balance proposed for disposition is based on the procedures identified by the Accounting Procedures Handbook.
b) Please provide an allocation of the December 31, 2008 balance of the GA sub-account (plus interest to April 30, 2010) based on the 2008 kWh for non-RPP customers.
c) Please calculate a separate rate rider for the recovery of the proposed GA balance using the allocated amounts and the 2010 non-RPP consumption data (kWh or kW as applicable) as the billing determinant.
d) Please provide a variation of rate rider calculations presented in spreadsheet ZRebasingworksheetsbyExhibit0801.xls excluding the Power (GA) subaccount from the calculations.
e) Please calculate a separate rate rider for the recovery of the proposed balance of subaccount Power – Global Adjustment of account 1588 using the amounts in b) above and using, as the billing determinant, the *2010* non-RPP consumption data (kWh or kW as applicable).
f) If Hearst Power were to establish a separate rate rider to dispose of the balance of the Power (Global Adjustment) sub-account of account 1588, please provide Hearst Power's views as to whether this rate rider would be applicable to MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers.
g) If the answer to f) is negative, does Hearst Power have the capability in its billing system to exclude MUSH sector customers to which the separate rate rider for the for the disposition of the account 1588 subaccount Power (Global Adjustment) Balance would apply?

Response:

a) Confirmed
b) See table below

Global Adjustment Rate Rider			
	Principal	Interest	Total
Balance for Recovery (31-Dec-2008):	67,572	6,045	73,617
Additional Interest to 30-Apr-2010		321	321
Total for Recovery	**67,572**	**6,365**	**73,937**

c) See table below

Global Adjustment Rate Rider			
Per Sheet B5:	**Principal**	**Interest**	**Total**
Balance for Recovery (31-Dec-2008):	67,572	5,673	73,245
Additional Interest to 30-Apr-2010		496	496

Total for Recovery	**67,572**	**6,169**	**73,741**
Years for Recovery			4
Annual Recovery			18,435
Non-RPP, non-MUSH kWh's (2009 Actual)			13,297,896
GA Rate Rider, per kWh *			**$0.0014**
** Applies to non-RPP, non-MUSH customers only*			

d) Please note that Hearst migrated its information to ERA's RateMaker. The rate rider excluding 1588-Global Adjustment sub-account is presented at Appendix 2IR_J

e) Please see answer to c) above. Since Hearst does not have a complete 2010 non-RPP, non-MUSH consumption, it can only use 2009 Actuals.

f) Please see the footnote at the bottom of the table in response to c)

g) Hearst confirms that its software has the capability to exclude MUSH sector customers to which the separate rate rider for the disposition of the account 1588 subaccount Power (Global Adjustment) Balance would apply.

41. Allocation of Account 1590
Refs: Exhibit 9 / 3 / 3 / p1

According to the "Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)" (EB-2008-0046), disposition of account 1590 is to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented.

If the Applicant has used kWh, please recalculate the rate rider using the default allocation factor as per the Board report EB-2008-0046.

Response:

The proposed recoveries presented at Appendix 2IR_I reflect the corrected allocation factor.