

**Hearst Power Distribution Company Limited**  
**2010 Electricity Distribution Rates**  
**EB-2009-0266**  
**Response to VECC Supplemental Interrogatories**

**Question #34**

**Reference:** OEB Staff #4

**Preamble:** The Board's guidelines require that all cost information, including the deferral account balances, be audited prior to any application for recovery.

- a) Please explain why inclusion of 2010 costs in rate base is considered to be in accordance with the Board's guidelines.
- b) Please confirm that the 2009 Smart Meter deferral account balances have been audited.
- c) What would be the change in OM&A, Rate Base and Depreciation for 2010 if the 2010 Capital Spending was not included in Rate Base? What would be resulting Smart Meter Rate Adder?

**Response:**

- a) Please see response to question 4 of Board Staff's Preliminary IRs
- b) Please see response to VECC's own Preliminary IRs, specifically #32 part c)
- c) A hypothetical rate rider was presented at Appendix U 1) of responses to VECC's Preliminary IRs. A Revenue Requirement Work Form reflecting the hypothetical exclusion of the capital smart meter related expenditures from Rate Base is presented at Appendix 2IR\_M.

**Question #35**

**Reference:** OEB Staff #5

Appendix BS-D

**Preamble:** The OEB Staff Interrogatory requested a breakdown for 2009 and 2010 as between capital spending for smart meters versus other programs/projects.

- a) Please explain the differences between the table titled "Projections as Filed" and the one titled "Actuals".
- b) Please explain what each row in each of the Tables represents.
- c) For 2009 please reconcile the capital spending reported here with the Capital Additions reported in Appendix BS-D.
- d) For 2010, please reconcile the capital spending reported here with the Capital Additions reported in Appendix BS-D.

- e) Please explain why there are no Capital Additions in 2010 under Meters (Account #1860).
- f) Please explain the \$114,879 Capital Additions for Land (#1905) in 2010, per Appendix BS-D.
- g) What projects/initiatives in 2009 account for the \$13,009 in additions to Buildings and Fixtures?
- h) What projects/initiatives in 2010 account for?
- The \$25,000 spending on Office Furniture and Equipment?
  - The \$25,000 spending on Software?
  - The \$12,500 spending on Transportation Equipment?

Responses

- a) The information presented below is intended to clarify the table presented in the response to board staff’s preliminary #5.

		2009 (1)	2010 (2)	2010 (3)
		Actual	Actual to Date	Projected
2009 Capital Costs	Flexnet Collector	\$156,858.00	0	0
	Materials (meters)	\$231,704.00	\$33,031	\$100,234.00
	Labour (Olameter)	\$22,789.00		\$14,662.00
	Labour (Hearst Power)	\$12,412.00	\$9,901	
Stranded Meters		\$44,081.00		
	Total	\$467,844.00	\$42,932	\$114,896.00
(1) Depicts the actual meter related costs for 2009. The amount excludes the \$44,081 in Stranded Meters. (2) Depicts the actual meter related costs to-date or from January 2010 to September 2010 (3) Depicts the projected meter related costs at December 31, 2010  (Please note that Hearst has somewhat slowed down the implementation of the remaining smart meter until the Board has made its decision on the treatment of capital costs.)				

- b) See revised table above.
- c) 2009 Actual Smart Meter Related Capital Expenditure is in the amount of 467,844. The audited amount eligible for inclusion in Rate Base is 437,190. The amount presented in the Capital Additions reported in Appendix BS-D includes non smart meter related additions.

- d) The amount of \$114,896 was typed into the wrong account. The 114K should have been in account 1860 – Meters as it relates to smart meter capital expenditures.
- e) See response to d)
- f) See response to d)
- g) The 13K in Buildings and Fixtures related to the warehouse roof having to be replaced
- h)
  - 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

**Question #36**

**Reference:** OEB Staff #7

a) Please explain where/how the ½ year rule was applied in Appendices BS-C, BS-E and BS-F.

b) Was the ½ rule used in the preparation of the 2004 financial results that were the basis for Hearst's 2006 EDR Application?

**Response:**

Hearst only started applying the half year rule in 2009. While putting its cost of service application together, Hearst used Appendix 2-M of the MFR<sup>1</sup> to calculate its depreciation expense.

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<sup>1</sup> Appendix D of responses to VECC's Prelim IRs.

Question #37

Reference: OEB Staff #8

a) Please clarify what the table presented in the response represents (e.g., what year’s rates, what year’s load, what is included in the rates used?).

Response:

2010 Proposed Rates	Fixed Charge			Variable Charge			Gross Revenue from Distribution Charges		
	Rate <sup>1</sup>	Volume <sup>2</sup>	Revenue <sup>3</sup>	Rate <sup>1</sup>	Volume <sup>2</sup>	Revenue <sup>3</sup>	Calculated *	Allocated **	Difference
Residential	\$9.00	27,864	250,776	\$0.0203	27,043,280	548,979	799,755	800,311	-556
GS<50kW	\$20.50	4,692	96,186	\$0.0114	12,897,126	147,027	243,213	242,570	643
GS>50kW	\$72.00	456	32,832	\$2.7882	63,373	176,697	209,529	209,529	0
Intermediate Users	\$320.00	36	11,520	\$1.0789	114,518	123,553	135,073	135,078	-5
Sentinel Lights	\$5.00	144	720	\$21.9649	87	1,911	2,631	2,631	0
Street Lights	\$0.50	24	12	\$31.8589	2,531	80,635	80,647	80,647	0
TOTAL		33,216	392,046		40,120,915	1,078,802	1,470,848	1,470,766	82

The Revised table is presented below

2010 Proposed Rates	Fixed Charge			Variable Charge			Gross Revenue from Distribution Charges		
	Rate <sup>1</sup>	Volume <sup>2</sup>	Revenue <sup>3</sup>	Rate <sup>1</sup>	Volume <sup>2</sup>	Revenue <sup>3</sup>	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)

Excluded from rates are; Transformer Allowance, Low Voltage Charges, Smart Meter Rate Rider (if applicable), DVA Rate Rider.

Question #38

Reference: Appendices BS-A and BS-G

a) Please reconcile the different values for 2010 Working Capital Allowance reported in the two Appendices (i.e., \$1,655,525 vs. \$1,699,178).

b) Please reconcile the 2010 Power Supply Expense reported in Appendix BS-G with that shown in Tab C2 of the Rate Maker Model.

c) If the Power Supply Expense shown in Appendix BS-G is the correct value for 2010, please provide details regarding the calculation of the Power Supply Expense – by expense type (i.e., for each show the volumes and rates assumed for 2010 to derive the expense).

Response:

a) It would appear as though the information presented at table at Appendix BS-G was erroneous. The correct information is presented below.

Summary of OM&A and Derivation of Working Capital Allowance								
		2006 EDR Approved		2006 Actual	2007 Actual	2008 Actual	2009 Projection	2010 Projection
Net Capital Assets in Service:								
Opening Balance						910,438	926,497	1,234,595
Ending Balance					910,438	926,497	1,234,595	1,343,572
Average Balance		2,377,605			455,219	918,468	1,080,546	1,289,084
Working Capital Allowance	(see below)							1,165,797
Total Rate Base		2,377,605			455,219	918,468	1,080,546	2,454,880
Expenses for Working Capital								
Eligible Distribution Expenses:								
3500-Distribution Expenses - Operation		75,222		68,413	77,921	77,447	88,075	106,940
3550-Distribution Expenses - Maintenance		204,262		242,519	245,902	282,332	274,809	284,565
3650-Billing and Collecting		123,003		147,733	166,974	174,112	212,110	230,079
3700-Community Relations		30,540		4,029	3,685	2,619	3,850	5,000
3800-Administrative and General Expenses		205,042		178,765	172,602	159,514	223,795	308,815
3950-Taxes Other Than Income Taxes								
Total Eligible Distribution Expenses		638,069		641,459	667,083	696,024	802,639	935,399
3350-Power Supply Expenses		7,511,429		7,956,376	7,757,123	6,249,357	6,808,174	6,836,578
Total Expenses for Working Capital		8,149,498		8,597,835	8,424,206	6,945,381	7,610,812	7,771,977
Working Capital factor								15.0%
Working Capital Allowance								1,165,797

b) See response to a)

c) N/A

**Question #39**

**Reference:** OEB Staff #10, Appendices BS-G/BS-H/BS-I

- a) Please clarify whether the 2009 values reported are a “projection” or “actual results”. If a projection, please provide the actual results by account for 2009.
- b) Please explain the significant increase in Distribution Expense-Operation in 2009 and 2010 versus the earlier years.
- c) Please provide a schedule that for the years 2008 through 2010 shows the total meter reading expense in each year, including both that charged to operations and that booked to a Smart Meter deferral account.
- d) What is the basis for the forecast increase in Bad Debt expense and Collection Charges for 2010?
- e) Please explain the material increase in Administrative and General Expenses for 2009 and 2010 versus earlier years.
- f) Please explain the 2008-2010 year over year changes in costs for Outside Services Employed (#5630).

**Response:**

- a) The values filed in the responses to Preliminary IRs were projections for 2009 and 2010. “Actuals” are presented in Hearst’s responses to #35 as well as the models filed in conjunction with these responses.
- b) The values reported in the evidence filed with the responses to Prelim IRs were projections for 2009 and 2010. “Actuals” are presented at responses to #35 as well as the models filed in conjunction with these responses. As can be seen, the year over year variance falls well below the threshold and within acceptable limits.
- c) See table below

Account 5310 – Meter Reading Expenses	2008	2009	2010
OM&A	\$29,442.38	\$35,948.77	\$7,916.29
Deferral and Variance account Account 1556	\$8,714.38	\$18,164.15	\$14,737.96
Total	38,157	54,113	22,654

- d) Much like smaller utilities, Hearst uses a judgmental approach to its forecasting method. The approach includes a thorough analysis of historical costs, intuitive judgements, opinions and subjective estimates. In the case of Bad Debt Expenses and Collection Charges, projections for 2010 were higher than 2009 due to the continued increase in electricity rates in Ontario.

Hearst's "low income consumers" which make up a large portion of the utility's customers base are struggling to cope with the rising prices of energy. Hearst anticipates that a higher number of customers will default on their bill thus causing a rise in collection charges and bad debt expenses.

- e) As can be seen in the details presented at Appendix BS-H of responses to Prelim IRs, the first of the major cost driver behind the increase is the cost of complying with regulatory requirements;
  - a. Regulatory/Government mandated projects
    - i. Cost of Filing a Cost of Service Application. Account 5630 – Outside Services Employed
    - ii. Smart Meter Initiatives. Account 5310 – Meter Reading Costs.

Another factor worth noting is;

- b. At year end, the balance in Account 5645 - Employee Pension and Benefits, is allocated to different labour accounts.

If Hearst were to normalize account 5630 and 5645, the increase, over the last 3 years is non-existent

3800-Administrative and General Expenses	5605-Executive Salaries and Expenses	9,762	8,557	12,000
3800-Administrative and General Expenses	5615-General Administrative Salaries and Expenses	71,686	67,068	78,000
3800-Administrative and General Expenses	5620-Office Supplies and Expenses	1,871	1,634	2,500
<b>3800-Administrative and General Expenses</b>	<b>5630-Outside Services Employed</b>	<b>33,205</b>	<b>10,620</b>	<b>10620</b>
3800-Administrative and General Expenses	5635-Property Insurance	523	533	566
3800-Administrative and General Expenses	5640-Injuries and Damages	8,281	6,153	9,000
<b>3800-Administrative and General Expenses</b>	<b>5645-Employee Pensions and Benefits</b>	<b>0</b>	<b>0</b>	<b>0</b>
3800-Administrative and General Expenses	5655-Regulatory Expenses	9,706	5,989	7,095
3800-Administrative and General Expenses	5665-Miscellaneous General Expenses	13,715	32,988	22,000
3800-Administrative and General Expenses	5670-Rent	8,604	8,733	8,838
3800-Administrative and General Expenses	5680-Electrical Safety Authority Fees	2,161	2,622	1,800
TOTAL		159,514	144,897	152,419

- f) Hearst employed on a consulting basis the services of EMCI to assist in the building of the original application and Elenchus Research Associates (“ERA”) to assist with the post-filing processes. The choices to hire external consultants were to address the issue of the lack of internal resources and experience in putting together such a complex and time-consuming assignment.



**Question #40****Reference:** OEB #12

Appendix BS-B

Rate Maker Model, Tab D3

VECC #21

a) The original Application used a 2010 cost of Long Term debt of 5.87%. Both the RRWF in Appendix BS-B and the Rate Maker Model use a cost of Long Term debt of 12.5%. Please provide the basis for the 12.5% value.

b) Is the Promissory Note held by the Town payable on demand by the Town?

**Response:**

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. The revised models reflect the correct long term debt.

**Question #41**

**Reference:** OEB #18

Appendix BS-K

- a) Please explain why the total Service Revenue Requirement (SSR) shown in the third table of the response to OEB #18 is \$1,399,970 when the SSR is reported to be \$1,430,734 (per 1st table in the response to OEB #18).
- b) Please reconcile the SSR shown in response to OEB #18 (\$1,430,734) with that reported in Appendix BS-K, page 13 (\$1,462,490).
- c) With respect to the second table shown in OEB #18, please indicate the rates used to determine the Outstanding Base Revenue Requirement %'s @ Existing Rates. In particular, did the rates include the LV adder, the TOA discount and/or the Smart Meter adder?
- d) With respect to Table 7 in Appendix BS-K, please confirm that the scaling to achieve 100% overall R/C ratio was achieved by simply increasing the Total Revenue (including Miscellaneous Revenues) for each customer class by the same proportion (as opposed to increasing the Distribution Revenues for each class by the same percentage).

**Response:**

- a) The \$1,399,970 represents the Service Revenue Requirement used to determine the Revenue to Cost Ratios.

	Outstanding Base Revenue Requirement	REVENUE ALLOCATION (sheet O1)	
Customer Class Name		Miscellaneous Revenue (mi)	Rate Application
Residential	780,710	23,974	804,684
GS<50kW	234,053	7,466	241,519
GS>50kW	183,545	3,911	187,456
Intermediate Users	80,742	1,804	82,546
Sentinel Lights	2,614	39	2,653
Street Lights	80,163	949	81,112
TOTAL	1,361,827	38,143	1,399,970

- b) The value of \$1,462,490 was incorrect. It should have read 1,460,986 instead.

c)

2010 PROJECTED DISTRIBUTION REVENUE AT EXISTING RATES								
Customer Class Name	Fixed Rate	Customers (Connections)	Fixed Charge Revenue	Variable Rate	per	Volume	Variable Charge Revenue	TOTAL
Residential	\$7.4200	2,322	206,751	\$0.0102	kWh	27,043,280	275,841	482,592
GS<50kW	\$4.9700	391	23,319	\$0.0097	kWh	12,897,126	125,102	148,421
GS>50kW	\$29.4100	38	13,411	\$2.9926	kW	63,373	189,650	203,061
Intermediate Users	\$57.0900	3	2,055	\$0.8703	kW	114,518	99,665	101,720
Sentinel Lights	\$3.9800	12	573	\$1.8938	kW	87	165	738
Street Lights	\$0.9900	2	24	\$1.2912	kW	2,531	3,268	3,292
Gross Revenue (before Transformer Allowances)			246,133				693,691	939,825
Transformer Allowances				(\$0.6000)	kW	89,216	-53,530	-53,530
Total Revenue			246,133				640,162	886,295
Less: Pass-through amount embedded in distribution rates *							-15,793	-15,793
DISTRIBUTION REVENUE			246,133				624,369	870,502

Hearst confirms that the Outstanding Base Revenue Requirement %’s @ Existing Rates shown in the second table of the response to OEB #18, includes Transformer Ownership Allowance and LV Charges.

d) Confirmed. Rates were scaled by a uniform percentage and Miscellaneous Revenues are assumed to remain at existing rates.

**Question #42**  
**Reference:** OEB #16 and #17  
2010 Cost Allocation Model - Sheets I6 and O1  
Rate Maker Model – Tab C4

- a) Please reconcile the number of Sentinel Light customers reported in Sheet I6 with the 2010 forecast in Exhibit 3, Table 3.2.2.
- b) The 2010 Load Forecast used in the Cost Allocation Model appears to be different from that used in the Rate Maker Model. For example, Intermediate use in the CA Model is 70,701 kW whereas in the Rate Maker Model it is 114,518 kW. Please reconcile and correct if required.
- c) Please reconcile the 2010 Miscellaneous Revenues as used in the CA Model with those reported in OEB #18.
- d) Please explain \$30,250 costs that were directly allocated in the CA Model – Sheet O1. What are they and why/how are they directly allocated?
- e) Please reconcile the total SRR used in the CA Model (\$1,460,986) with that reported in the RRWF (Appendix BS-B).

f) With respect to Sheet O1, please explain the basis for the Distribution Revenue by Class as shown on Row #18. Please provide a schedule that sets out the calculation of each class' reported revenue.

g) Please confirm that the volumes used to determine the revenues in part (f) are consistent with those from Sheet I6?

Response:

- a) The number of Sentinel Lights has been update to 12 – consistent with the Load Forecast.
- b) The Load Forecasts used in the Cost Allocation have all been updated to reflect correct loads
- c) The “Miscellaneous Revenues” in the CA model consists of the following “Other Operating Revenues” (2010 at existing rates) while “Revenue Offsets” (2010 at proposed rates) presented in the determination of the Revenue Requirement include \$7,764 in service charges and an adjustment of \$23,000.

2010 at existing Rates		
3100-Other Operating Revenues	4205-Interdepartmental Rents	
	4210-Rent from Electric Property	15,853
	4215-Other Utility Operating Income	
	4220-Other Electric Revenues	
	4225-Late Payment Charges	13,120
	4230-Sales of Water and Water Power	
	4235-Miscellaneous Service Revenues	9,170
	4240-Provision for Rate Refunds	
	4245-Government Assistance Directly Credited to Income	
		\$37,143

- d) This adjustment stems from a direct allocation, in the amount of \$30,250, in the 2006 Cost Allocation. Since there doesn't seem to be any specific explanation for this direct allocation, the adjustment was removed. Please see CA models for details
- e) This discrepancy is also due to the direct allocation of \$30,250. This direct allocation has been removed.
- f) The process can be described as such; The Cost Allocation model pull information from inputs on sheet I6. These inputs originate from RateMaker's estimate of distribution revenue at existing rates. Specifically column K, row 39-44 of C4 – Revenue from Current Distribution Charges. These values are used as a starting point. The 2006 CA model presents an historic estimate of kW eligible for TFOA. This estimate is scaled on the basis of the load forecast (shown on I6 row 23). The TFOA presented at C4 of RateMaker is then allocated on the basis of the Cost Allocation Model (row 23), Finally, the Pass-through total at cell K62 is then allocated on the basis of residual dollars from the previous step.
- g) Confirmed

**Question #43**

**Reference:** OEB #19

Rate Maker Model – Tab: NetDistrRev

a) The second table in response to OEB #19 is labelled as 2010 Revenue @2009 Rates but does not match the same titled table in the Rate Maker Model. Please reconcile/correct.

Response:

Hearst confirms that the table presented in response to OEB #19 labelled as 2010 Revenue at Existing Rates is identical to sheet “FixedVarRevenue” from the Rate Maker Model.

**Question #44**

**Reference:** VECC #8

Appendix H

a) Please identify the annual capital additions associated with smart meters.

Response:

Account 1860	2009	2010
	\$443,384	\$114,896

Breakdown of these expenditures can be found at response to question #35.

**Question #45**

**Reference:** VECC #11

a) Why are the Hearst’s labour costs associated Merchandising, Jobbing, etc. not treated as an “expense” for this activity?

Response:

Assuming that by “this activity” VECC is referring to Smart Meters, Heart attests that it is complying with Board guideline<sup>2</sup> which states;

“The Board determined that all labour and associated costs incurred, with the exception of material and parts costs for customer owned equipment, should be capitalized and tracked in a sub account of the Smart Meter Capital and Recovery Offset Variance Account 1555.”

**Question #46**

**Reference:** VECC #14 and Appendix P

<sup>2</sup> G-2008-0002 – Guideline - Smart Meter Funding and Cost Recovery

a) In Appendix A, the closing balance for 2010 does not match the 2010 proposed OM&A. Please reconcile and correct the response as needed.

Response:

The row entitled Closing Balance was inadvertently transposed in the table. Please ignore as the information was clearly outdated.

**Question #47****Reference:** VECC #18

Appendix N

- a) Please indicate the \$ value for revenues with respect to Street Light Maintenance Services in 2009 and 2010 and indicate where in Appendix N these values are included.
- b) Do the 2010 Revenue Offsets include any assumed revenues from HPSSC? If yes, where are they reflected in Appendix N? If not, why not and what is the expected revenue?

**Response:**

- a) HPSSC provides streetlight maintenance as well as capital work related to streetlights therefore no such revenue were included in the Miscellaneous Revenues by charge type and offsets.
- b) The 2010 revenue offsets do not include revenues from HPSSC.

**Question #48****Reference:** VECC #25 g)

- a) Please confirm that the Previous Revenue to Cost ratios shown in the second table are prior to the scaling required to yield 100% R/C ratio overall.
- b) Please confirm that after the scaling the R/C ratio for the Intermediate class is 111.16% and that the proposed ratio of 99% crosses unity.

**Response:**

- a) Confirmed
- b) Please see revised CA model as values have been revised.

**Question #49****Reference:** VECC #26

Appendix S

- a) Appendix S does not provide the requested information for all months of 2009. Please provide. Also, please ensure the revenues in each case are based on 2009 billing parameters and 2010 rates, as originally requested.

**Response:**

Please find the revised RTSR's at Appendix 2IR\_L. Please note that these proposed rates are not reflected in the; cost of power, RateBase and revenue requirement.