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December 13, 2010

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2009-0266
Hearst Power Distribution Company Limited – 2010 Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Hearst Power Distribution Company Limited

EB-2009-0266

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch.B, as amended;

AND IN THE MATTER OF an Application by Hearst Power Distribution Company Limited pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2010.

FINAL SUBMISSIONS

On Behalf of The

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

December 13, 2010

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Vulnerable Energy Consumers Coalition (VECC)

Final Argument

1 <u>The Application</u>

1.1 Hearst Power Distribution Company Limited (”Hearst” “the Applicant,” or “the Utility”) filed an application (“the Application”) with the Ontario Energy Board (“the Board” or “the OEB”) on April 28, 2010, under section 78 of the Ontario Energy Board Act, 1998 for electricity distribution rates effective May 1, 2010. The Application projected a 2010 rate base of $2,355,582, requested a distribution revenue requirement of $1,065,856[1] for the 2010 test year and claimed a gross revenue deficiency of $205,773 based on existing rates.

1.2 In its Application, Renfrew also requested[2]: (i) approval for revised Retail Service Transmission and LV Rates; (ii) the inclusion of all Smart Meter capital costs in the 2010 Rate Base and 2010 Smart Meter OM&A costs in the Revenue Requirement; (iii) approval of a revised loss factor; (iv) approval to dispose of the balances in a number of its deferral accounts, v) the approval of a new deferral account for unforeseen costs and vi) a rate adder to recover the cost of preparing the 2010 Rate Application.

1.3 In its responses to two rounds of interrogatories, Hearst provided a number of Application amendments. The table on the next page sets out VECC’s understanding of Hearst’s currently proposed rate base and revenue requirement for 2010[3].

1.4 The following sections provide VECC’s final submissions on Hearst’s Application.

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[1] Including Miscellaneous Revenues the overall requested Service Revenue Requirement for 2010 was $1,184,786. See Exhibit 6/Tab 1/Schedule 1, page 2

[2] Exhibit 1/Tab 1/Schedule 4, page 1-3

[3] In its final proposal Hearst included the cost of the 2010 Rate Application preparation in the revenue requirement as opposed to through a separate rate adder – see VECC #15 b)

Hearst Power Distribution
2010 Rate Application Summary

	Application	Reference
Capital Spending and Rate Base		
2010 Capital Spending	$248,696	RMM, Sheet E3
2010 Net Fixed Assets	$1,289,084	RMM, Sheet D1
2010 Working Capital	$1,163,143	RMM, Sheet D1
2010 Rate Base	$2,452,227	RMM, Sheet D1
Sufficiency/(Deficiency)		
Revenues		
- Distribution Revenue (@ Current Rates)	$732,886	RMM, Sheet C4 - corrected
- Other Revenue	$68,907	RMM, Sheet F1
Total	$801,793	
Expenses		
- OM&A	$935,399.00	RMM, Sheet F1
- Depreciation	$139,718	RMM, Sheet F1
- Income Taxes (Gross Up)	$27,260	RMM, Sheet F1
- Interest	$82,640	RMM, Sheet D3
- Net Income	$96,618	RMM, Sheet D3
Total	$1,281,635	RMM, Sheet F1
Deficiency	$479,842	

Notes: 1) RMM- RateMaker Model - filed with Supplementary IR Responses Nov 22/10
2) The Distribution Revenue at Existing Rates reported in Sheet C4 net of LV and TOA (net of LV and TOA) is $794,806. However, the LV adjustment shown ($15,793) is incorrect - due to a cell reference error in the model - and should be $77,713 per RMM Worksheet C2

2 Capital Spending and Rate Base

2.1 The amended projected Test Year rate base is $2,452,227 and is comprised of $1,289,084 in net fixed assets and $1,163,143 in working capital allowance.[4]

Capital Spending

2.2 Hearst states that its Asset Management Process is in the early development stage and that it has no specific asset condition studies[5]. However, its distribution system is surveyed each year in order to identify capital work required. Further, work identified is prioritized as part of the survey process[6]. In VECC's view this approach to asset management is reasonable for purposes of establishing the 2010 capital spending. However, the Board should encourage Hearst to continue with the development of its asset management process.

2.3 VECC notes that, in preparing its Application, Hearst did not adjust its initial capital spending projections for 2010 in order to exclude PST post July 1, 2010[7]. When asked about establishing a variance account to capture the reductions in expenditures due to the HST[8], Hearst indicted it would prefer an approach similar to that the Board has approved for Renfrew Hydro[9] where the revenue requirement for 2010 excludes any PST and the approach is to track the actual PST incurred for the first 6 months of 2010 for future recovery.

2.4 The problem with this approach is that Hearst's current capital spending has not been reduced for PST. In response to Board Staff Supplemental #29 Hearst provided PST values for 2009 and 2010. It is not clear if the 2010 value ($6,974) is the assumed PST on post-July 1 spending (as the question requested) or the PST associated with the total 2010 capital spending (as the wording in the response implies). However, given that the value reported for 2010 is only 27% of

4 Supplementary IRR, RateMaker Model, Sheet D1
5 Exhibit 2/Tab 6/Schedule 1
6 VECC #8 e) – see attached Field Survey
7 OEB Staff Suppl. #29
8 OEB Staff Suppl. #37 e)
9 EB-2009-0146 Decision, page 79

the 2009 while the capital additions for 2010 ($248,696) are roughly 50% of those for 2009 ($469,060), VECC assumes that the value reported is the post July 1, 2010 PST. As result, there appears to be no reported value for the total 2010 PST spending, which is what the current projected spending would have to be reduced by in order to implement the approach approved for Renfrew.

2.5 Assuming VECC's interpretation the response to the Board Staff interrogatory is correct there are two possible approaches:

a) Remove the $6,974 for the 2010 capital additions and don't establish a deferral account (as the capital spending will have been adjusted for post July 1st PST savings).

b) Remove $13,948 from the 2010 capital additions (assuming annual PST is twice the post-July 1st PST) and establish a deferral account similar to Renfrew's

Given the small dollars involved and the assumptions underlying the values, VECC submits that the first (simpler) approach is appropriate and should be adopted by the Board for Hearst.

2.6 The higher level of capital expenditures for 2009 and 2010 (relative to earlier years) is partially due to spending on smart meters and related software[10]. In the previous three years (2006-2008), capital spending has ranged between $50,000 and $60,000 – when one excludes the new billing system purchased in 2008[11]. In 2009 total capital spending[12] is $469,060 of which $423,763 is related to Smart Meters[13]. This leaves a net difference of $45,297 which is less than the historical spending levels.

2.7 In 2010, total capital spending is $248,696 [14] of which it appears[15] that $114,896 is

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[10] Interrogatory Responses Round #1, Appendix H and VECC #36 h)
[11] Appendix H and Exhibit 2/Tab 5/Schedule 1, page 1
[12] Appendix H
[13] Appendix U
[14] Appendix H
[15] There is some discrepancy in the reported 2010 planned capital spending on smart meters. Appendix H also reports a value of $114,896 which appears to be an initial 2010 projections according to Board Staff #5. An updated value

for smart meters[16] and $25,000 is for MDMR related software[17], leaving a net difference of $108,000. This higher level of spending for 2010 is characterized as "catch up spending" on the distribution system[18] related to replacement of poles, arrestors and transformers. Overall VECC finds the 2009 and 2010 proposed (non-smart meter) capital expenditures to be reasonable for inclusion in rate base.

2.8 As pointed out already in Footnote #15 there appears to have been an update in the proposed capital spending on smart meters for 2010 from $114,896 to $82,696[19] which is currently not reflected in the capital additions used for 2010[20]. Subject to this correction, VECC submits that the proposed capital spending on smart meters is reasonable and should be accepted by the Board.

2010 Net Fixed Assets

2.9 Hearst has indicated that the ½ year rule for depreciation has not been applied consistently in the past[21] and that the practice was first introduced in 2009. In VECC's view, since the cost basis for previous rates did not reflect the ½ year rule, this change should not have been introduced until the 2010 rebasing year. However, given that 2009 is the only year impacted and the level of capital spending in 2009, VECC submits the opening asset balance for 2010 (excluding smart meters) should be accepted by the Board as reasonable.

2.10 Hearst is proposing to include in rate base the (audited) smart meter spending as of December 31, 2009 along with the proposed 2010 capital spending on smart meters. As set out in the Board's Guideline (G-2008-0002) all smart meter costs that are included in rate base are to be audited[22]. Furthermore, Hearst has yet to

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for 2010 of $82,696 is also reported in Board Staff #5 and use in Appendix U for the Smart Meter rate rider calculations.

[16] Appendix U
[17] VECC #36 h)
[18] Exhibit 2/Tab 5/Schedule 1, pages 1-2
[19] Board Staff #5
[20] Both Appendices 2IR-D and RMM, Sheet 1 that were filed in response to the Supplementary IRs report $114,896 in capital additions for smart meters.
[21] Board Staff #7
[22] VECC #32 c)

complete the 2010 planned smart meter installations[23] and, as noted earlier[24], there is some confusion about the dollar value for 2010 smart meter capital spending. As result, VECC submits that the inclusion of the 2010 spending should await the completion of the program and, for purposes of the 2010 Application, the spending should be recorded in the appropriate deferral/variance accounts and a smart meter rate adder calculated.

2.11 VECC also has concerns regarding the audited costs that Hearst is reporting for 2009 and proposing to include in rate base. The auditor's letter provided in response to VECC #32 d) indicates that $437,190[25] in smart meter capital expenses is to be transferred to rate base[26]. However, the response to Board Staff #5 indicates that this was only a "projected" 2009 spending value and that the actual spending was $423,763. As a result, VECC submits that the capital spending up to the end of 2009 should also be excluded from rate base at this time. Instead the Smart Meter Deferral Accounts should continue to track all smart meter related spending and revenues and a smart meter rate adder established for 2010 accordingly.

Working Capital Allowance (WCA)

2.12 Hearst has used the "15% rule" to calculate its 2010 Working Capital Allowance of $1,163,143[27].

2.13 VECC notes that Hearst has taken into account both the RPP and non-RPP volumes in deriving a weighted average commodity price[28]. Also, contrary to the notes in the referenced RMM Sheet, Hearst has used the April 2010 RPP report as the basis for the inputs[29]. In VECC's view, this is the appropriate RPP report to use for a 2010 Rate Application. However, VECC notes that the average

[23] Board Staff Supplementary #14
[24] See Footnote #17
[25] IR Response #1, Appendix X
[26] See also Board Staff Supplementary #4 a)
[27] Supplementary IRR, RateMaker Model, Sheet D1
[28] Supplementary IRR, RateMaker Model, Sheet "Electricity Price"
[29] The HOEP and Global Adjustment values match those from the April 2010 forecast and not the October 2009 Report referenced

calculated price is not the value subsequently used in determining the Cost of Power[30]. VECC invites Hearst to address this discrepancy in its Reply.

3 Load Forecast

Load Forecast Methodology

3.1 Hearst's load forecast methodology consists of the following steps[31]:

- First, the number of customers for 2010 in each class is determined. As Hearst is a small no-growth utility this is based largely on historical counts and local knowledge of new construction.
- Second, for the weather sensitive classes (Residential, GS<50 and GS>50) an average use per customer is established based on the latest years' data (2005-2009). For non-weather sensitive customers (Intermediate, Street Lights and Sentinel Lights), average use over the most recent 12 months is used.
- 2010 retail sales by class are then forecast using the results from previous two steps.

The one exception is the Intermediate class where the original forecast included the assumption that one of the customers would introduce a new process to replace one shut down at the end of 2007. However, on September 30, 2010 Hearst filed an Addendum with the Board which revised its load forecast (downwards) to reflect the customer's actual use for 2010[32].

3.2 Overall, the total billed energy for 2010 is forecast to be 77,587,715[33]. This value is 2.6% less than the actual sales for 2009[34].

3.3 Hearst notes that the development of weather normalized data (as was done for the Cost Allocation Informational filing) requires an intensive effort and, as a result, the utility used historical average use for its weather sensitive customers[35]. VECC

[30] Supplementary IRR, RateMaker Model, Sheet "PassThruRates"
[31] Exhibit 3/Tab 2/Schedule 1, pages 1-2 and September 30, 2010 Addendum
[32] See also Board Staff Supplementary #17
[33] September 30, 2010 Addendum
[34] Exhibit 3/Tab 1/Schedule 2, Attachment 1, page 6
[35] Exhibit 2/Tab 2/Schedule,page 1

submits that, for purposes of setting 2010 rates the Board should accept Hearst's load forecasting methodology and results. One of the reasons for this conclusion is that there is no basis on which to establish an alternative (more credible) forecast at this time. However, the Board should encourage Hearst to explore alternative approaches to load forecasting for use in its next cost of service-based application.

4 Revenue Offsets

4.1 The projected 2010 revenue offsets are $68,907. This value is in-line with those for 2008 and 2009[36]. VECC has no specific submissions regarding Hearst's 2010 forecast apart from the comments made below under Operating Expenses – Affiliate Transactions.

5 Operating Costs

OM&A

5.1 OM&A expenses for 2010 are forecast to be $935,399[37]. This figure includes a provision for $67,521 for rebasing costs that was originally proposed to be recovered through a rate rider[38]. In comparison, OM&A spending in 2007 and 2008 was $665,483 and $695,799 respectively[39]. Most of the increase appears to be due to smart meter-related expenses[40], additional costs associated with the new billing system[41], the allowance for the rebasing costs and increases due to wage cost escalation[42].

5.2 VECC has two issues regarding Hearst's proposed OM&A for 2010. The first is that, similar to the proposed 2010 capital spending, no reduction has been made for the PST savings post-July `1st, 2010[43]. To address this issue Hearst's proposal

36 IR Responses, Appendix N
37 Exhibit 4/Tab 1/Schedule 1, Attachment 1, page 1
38 VECC #15
39 IR Responses, Appendix O
40 VECC #33 e) and Appendix 2IR-H
41 Exhibit 4/Tab 1/Schedule 1, page 1
42 Appendix 2IR-H
43 Board Staff Supplementary #29

is the same as that for capital spending, i.e., track the PST amounts actually paid in the first six-months[44]. However, as is the case with Hearst's capital expenditures, in order to implement this approach it would be necessary to reduce the 2010 forecast OM&A expenditures by the full amount of PST included for all of 2010.

5.3 Board Staff Supplemental #29 Hearst also provides OM&A related PST values for 2009 and 2010. Again, it is not clear if the 2010 value ($11,722) is the assumed PST on post-July 1 spending (as the question requested) or the PST associated with the total 2010 OM&A spending (as the wording in the response suggests). Assuming the same interpretation as VECC used for capital spending is correct for OM&A the same two possible approaches exist:

a) Remove the $11,722 from the 2010 OM&A and don't establish a deferral account (as the OM&A spending will have been adjusted for post July 1st PST savings).

b) Remove $23,444 from the 2010 OM&A (assuming annual PST is twice the post-July 1st PST) and establish a deferral account similar to Renfrew's.

VECC submits that the first approach should be adopted for OM&A as well as capital spending.

5.4 VECC's second issue is that, in accordance with treatment VECC has recommended for Smart Meter Capital[45], the 2010 incremental OM&A associated with Smart Meters should also be removed from the Revenue Requirement and recorded in Account #1556.

[44] Board Staff Supplementary #37 e)
[45] According to Appendix U the amount is $96,079.

Affiliate Transactions

5.5 Hearst Power provides a number of services to the Town of Hearst and, more recently, to Hearst Power Sales and Service (HPSS). – which are both affiliates[46]. While there does not appear to be a formal Service Agreement with the Town, the Application included a copy[47] of the "Corporate Service Arrangement" which described the services provided by Hearst Power to the Town and the pricing arrangements for each. It also outlined the pricing arrangements for various services provided by the Town to Hearst Power. In the case of HPSS the arrangements are new as of January 1, 2010 and an unsigned draft of the service agreement was provided.

5.6 During the interrogatory process VECC sought to confirm that the revenues received by Hearst Power for service provided to its affiliates were being used to offset (reduce) the 2010 revenue requirement. However, it is not entirely clear from the responses that this is the case:

- VECC #18 suggests that the labour costs associated with revenue from the Town are recorded in Account #1110, which is not a revenue offset account. It also suggests that overheads are recorded in Account #4325. However, the RateMaker Model (Sheet C9) does not show any values in this account for 2008-2010.
- VECC sought further clarification in VECC #47. While the response rightly states that HPSSC provides the Street Light maintenance service to the Town it does not address the fact that the labour is provided by Hearst Power[48] nor explain how the payment for these labour services are treated. Indeed, the response states that the 2010 revenue offsets do not include any revenues from HPSS.

Based on the information provided, it is not clear to VECC that the revenues have been properly accounted for. However, VECC does not have sufficient information

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[46] Exhibit 4/Tab 5/Schedule 1, page 1
[47] Exhibit 4/Tab 5/Schedule 1
[48] Exhibit 5/Tab 5/Schedule 1,page 2

to make a specific recommendation for 2010 rates. At this time, VECC's only submission to the Board is that Hearst should be directed to provide clearer explanations regarding the treatment of the revenues and costs associated with affiliate transactions in future cost of service-based applications. The Board may also wish to direct its auditing staff to look into the issue in the interim.

Depreciation

5.7 VECC has no submissions regarding Hearst's proposed 2010 depreciation expense other than to note that:

- The depreciation for smart meters is currently based on 2010 additions of $114,896[49] should be reduced to reflect the updated forecast addition value of $82,696[50].
- If the Board accepts VECC's recommendation regarding the treatment of smart meter costs then the depreciation expenses used for setting distribution rates will have to be reduced accordingly.

Taxes

5.8 VECC notes that there appear to be several inconsistencies between the values used in the PILS Model versus the RateMaker Model as filed with the Supplementary IR responses:

- Amortization: The PILS Model (Sheet P6) reports a total of $175,291 versus the $139,718 value in the RateMaker Model (Sheet F1).
- Net Income: The PILS Model (Sheet P6) reports a value of $96,722 versus the $96,618 value in the RateMaker Model (Sheet D3).
- Tax Credits: While VECC #20 b) claims the Apprenticeship credits were included in the tax calculation, there does not appear to be any reduction in taxes for credits (PILS Model, Sheet P8).

VECC invites Hearst to explain these discrepancies in its Reply Submissions.

[49] Supplementary Responses, Appendix 2IR-D
[50] Board Staff #5

6 Cost of Capital/Capital Structure

6.1 Hearst's outstanding debt is a promissory note held by the Town and payable on demand[51]. In its revised Application, Hearst has appropriately applied the Board's deemed debt rate of 5.87%[52]. VECC agrees with the revised cost of capital proposed by Hearst.

7 Cost Allocation

Cost Allocation Methodology

7.1 As part of its initial Application, Hearst filed the results of a 2010 cost allocation study based on its proposed revenue to cost ratios[53]. However, the supporting models were not filed. Subsequently, as part of the responses to the first round of interrogatories, Heart filed the results of a cost allocation study based on 2010 revenue at existing rates, 2010 costs and scaling the various loads used in its 2006 study to match the change in load forecast for each customer class between then and 2010[54]. As a result, the overall revenue to cost ratio is 59.72% as opposed to 100%[55]. To address this issue, the Report also presents the revenue to cost ratios by class assuming revenue s are scaled up "uniformly" for all customer classes such that the overall revenue to cost ratio is 100%.

7.2 In response various questions regarding this revised cost allocation and in order to reflect changes it had made to the proposed 2010 revenue requirement, Hearst filed a revised cost allocation study as part of its supplementary interrogatory responses. The main methodological change between the two filings was the removal of $30,250 in directly allocated costs which was carried over from the 2006 Cost Allocation filing and Hearst was unable to explain[56]. The following table compares these results with those from Hearst's 2006 Cost Allocation (corrected

[51] VEC #21
[52] VECC #40
[53] Exhibit 7/Tab 1/Schedule 1, page 5
[54] Appendix BS-K
[55] Appendix BS-K, page 12
[56] VECC #42 d)

for the treatment of the transformer ownership allowance).

7.3 It should be noted that in determining the 2010 Revenue to Cost ratios, Hearst presented two alternative revenue to cost ratio calculations[57]. In the first, Heart increased the total revenue (based on distribution revenue plus miscellaneous revenues) for each class by the same percentage; while in the second it increased the distribution revenue from customers by a uniform percentage. The 2010 results presented below are based the second approach.

REVENUE TO COST RATIOS – 2006 vs. 2010 Results		
Customer Class	**2006 (TOA Adjustment) Cost Allocation**	**2010 Cost Allocation (Uniform Increase)**
Residential	100.25%	97.79%
GS<50	109.97%	104.4%
GS>50	238.22%	281.76%
Intermediate	28.54%	42.99%
Street Lights	28.60%	18.21%
Sentinel Lights	95.87%	62.96%
Total	100.0%	100.0%

Sources: 2006 - Appendix Y, page 12
2010 - Supplementary Reponses, Cost Allocation Model, Sheet O1

[57] Supplementary Responses, Cost Allocation Model, Sheet O1

7.4 VECC has two concerns regarding the Cost Allocation methodology and results as presented by Hearst. The first is that VECC has been unable to replicate the revenues at current rates (totalling $794,805) reported for each class in Sheet O1 of the Cost Allocation model results. Furthermore, in attempting to derive the values from Hearst's RateMaker Model, VECC has noticed that the various worksheets of the RateMaker Model report different values for total 2010 Net Distribution Revenues at current (2009) rates:

- The "NetDistrRev" sheet reports a value of $809,622
- Sheet C4 reports a value of $794,806
- The "FixedVarRevenue" sheet reports a value of $735,635

It appears that these discrepancies arise from Hearst not having fully updated that final model for its revised load forecast[58] and errors in the cell references used to transfer data from one work sheet to another[59].

7.5 VECC's second concern is that the value for Miscellaneous Revenues used in the Cost Allocation study ($38,143) is not the 2010 forecast value for Miscellaneous Revenues ($68,907). It would be useful if Hearst, using already filed information, provided a full reconciliation and revised results for both the Cost Allocation and RateMaker models as part of its Reply submissions.

Use of the Cost Allocation Study Results in Setting 2010 Rates

7.6 In response to VECC #29 g) Hearst outlined the decision process it used in determining the proposed revenue to cost ratios for 2010:

- For Residential this involves having the ratio within the prescribed range and moving it towards 100%.
- For the GS classes, the revenue allocation percent is set so the revenue to cost

[58] The TOA and LV charges reported in the final "NetDistrRev" worksheet are the same as those reported in the initial model filed prior to the load forecast revisions.

[59] For example – a) The LV charges used in Sheet C4 are not the total from Sheet "NetDistrRev" but rather just the value for GS>50 and b)The 2010 Revenue at Existing rates reported in Sheet "FixedVarRevenue" actually uses the 2009 Revenues as reported in the "NetDistrRev" worksheet.

ratio is with the prescribed range.

- For Street Lights and Sentinel Lights (USL) the ratios, which were well below the prescribed range, are set so as to fall within the range.

7.7 The following table sets out the revenue to cost ratios[60] for each class, as proposed by Hearst in its initial Application, following the first round of interrogatories and after the supplementary round of interrogatories.

PROPOSED REVENUE TO COST RATIOS (%)			
Customer Class	**Initial Application**	**First Round IR Responses**	**Supplementary IR Responses**
Residential	93.54%	95%	100%
GS<50	115.24%	99%	99%
GS>50	179.18%	180%	166%
Intermediate	179.45%	99%	80%
Street Light	74.03%	70%	70%
Sentinel Light	85.47%	70%	70%
Total	100.0	100.0	100

Sources: Exhibit 7, Tab 1, Schedule 1, page 3
First Round IR Responses, RateMaker Model, Sheet F4
Supplementary IR Responses. RateMaker Model, Sheet F4

7.8 There is no indication in the evidence as to what Heart considers to be the appropriate starting reference point when applying its decision process regarding revenue to cost ratios for 2010. In VECC's view the appropriate starting point for considering changes in the revenue to cost ratios is the ratios that would arise from adopting a uniform increase in rates across all customer classes for 2010 as

[60] The proposed revenue to cost ratios are all calculated using the total Service Revenue Requirement and are consistent with those reported in the Cost Allocation model.

set out in the last column of the table in Paragraph 7.3[61] above. The cost allocation results can then be used to determine if there needs to be any revenue responsibility shifts between customer classes such that a non-uniform set of rate increases across the customer classes is appropriate.

7.9 In the case of the Street Lights, Sentinel Lights and Intermediate classes, VECC takes no issue with Hearst' proposal to move the revenue to cost ratios up to the lower end of the Board's prescribed range for each class. VECC notes that, in other decisions, the Board has allowed such increases to be phased-in over a number of years (typically 2-3) in order to mitigate bill impacts. VECC also notes that the RateMaker Model filed with the Supplementary IR Responses does not provide any rate impacts for Street Lights – the class with largest ratio increase. While the impacts for the other classes appear acceptable, the impact on the Intermediate class does not appear to have taken into account the fact that the transformer ownership allowance discount is being reduced for 2010. VECC invites Hearst to address the impact implications for the Intermediate and Street Lights classes in its Rely submissions.

7.10 In the case of the GS>50 class, VECC agrees with the proposal to reduce the ratio. However, VECC does not agree with decreasing the ratio below the upper end of the Board's prescribed range if it means increasing the ratio for Residential, which is already well within the prescribed range. This concern is compounded by the fact that the resulting total bill impacts for Residential are in the order of 6% while the GS>50 customers will typically see an overall bill decrease[62].

7.11 As noted above, in the case of the Residential, VECC sees no need to adjust the current revenue to cost ratios (which are well within the Board's prescribed range) unless additional revenue is need to lower the GS>50 ratio to 180%.

[61] Given the concerns raised in paragraphs 7.4 and 7.5 an updated cost allocation may yield different values. However, the approach used to determine ratios assuming a uniform increase across all classes is appropriate.

[62] Supplementary IR Responses, RateMaker Model, Sheet F9. Note: The bill impacts for GS>50 don't allow for the fact that some of these customers will experience a decrease in the transformer ownership allowance.

7.12 In the case of the GS<50 class, Hearst is proposing to move the ratio from above to below 100% (i.e. from 104.4% to 99%). VECC submits that this is totally inappropriate and, indeed, inconsistent with Hearst's own decision process for revenue to cost ratios[63]. VECC recommends that the ratio for GS<50 should remain unchanged for 2010.

8 Rate Design

Base Distribution Rates

8.1 The following chart sets out the current 2009 and proposed 2010 fixed monthly charges for each class and compares them with the Board's range for monthly service charges as calculated by the (final) cost allocation model. Hearst's approach to establishing its monthly service charge for 2010 is set out in response to VECC #25 g):

- For Residential, increased emphasis was put on the variable charge "in order to promote conservation" and to manage bill impacts.
- For the GS classes, the service charge was increased to be within the boundaries set by the Board's Guidelines[64].
- For the Street Lights and Sentinel classes the final rates are within the prescribed ranges. Note: In each case they also reflect those that would result from maintaining the current fixed-variable split.
- For the Intermediate class Hearst indicated that its plan was to move towards the minimum value of the prescribed range over a period of 3 years.

[63] VECC #25 g)
[64] For these classes the proposed charge after the first round of interrogatories was just above the lower bound. Hearst did not revise its proposals for these classes after the Cost Allocation update which, with a lower revenue requirement, results in a reduced value for the lower boundary.

Class	Current MSC	Proposed MSC	MSC using Current F/V Split	Board's MSC Range
Residential	$7.42	$9.00	$11.76	$7.49 - $20.81
GS<50	$4.97	$20.50	$7.40	$17.51 - $33.86
GS>50	$29.41	$72.00	$27.66	$63.21 - $96.52
Intermediate	$57.09	$320.00	$102.26	$543.38 -$742.60
Street Lights	$0.99	$5.94	$5.94	$0.01 - $11.72
Sentinel Lights	$3.98	$6.76	$6.76	$0.27 - $11.30

Sources: Supplementary IR Responses, Cost Allocation Model, Sheet O2
Supplementary IR Responses, RateMaker Model, Sheet F5
Note: Hearst's fixed-variable split calculations includes revenues from LV charges and are calculated prior to the transformer ownership allowance discount. Using the correct calculation would result in slightly different results. See VECC #25 g)

8.2 VECC generally agrees with Hearst's proposed Monthly Fixed Charges. VECC's general view is that the fixed-variable split should be maintained unless there are mitigating circumstances in terms of bill impacts or inconsistencies with the Board's guidelines. In the case of the GS<50; GS>50 and the Intermediate classes the current fixed variable split yields a monthly service charge significantly below the Board's prescribed range and further increases are warranted. Unfortunately, Hearst's bill impact analysis[65] for these customers provides impact for only one consumption profile such that parties can not asses the impacts of the

[65] Supplementary IR Responses, RateMaker Model, Sheet F8

proposal on different sized customers within the same class.

8.3 In the case of the Residential class, the proposal results in a total bill impact of 6% for a customer with average use (800 kWh/month). VECC notes that (based on its calculations) customers using 400 kWh would experience roughly a similar impact under Hearst's proposed rates. This means that adopting a higher monthly fixed charge would increase the bills for low volume Residential customers to more than 6% when the other major customer classes are all seeing total bill impact significantly less than 6%[66]. As a result, VECC considers the proposal for the Residential MSC to be reasonable.

LV Charges

8.4 During both the first and supplementary rounds of interrogatories[67] VECC requested information regarding the LV costs based on Hydro One Networks' 2010 rates. However, the responses only provided information on the RTSRs. Hearst's proposed rates for 2010 include $77,713 for LV charges[68]. VECC is still uncertain as to how this value was established. VECC notes that while it is reasonably close to the $77,155 value for LV costs set out in the supplementary IR responses[69] for 2010 revenues at 2009 LV rates, the load forecast used does not appear to have been updated for the September 30th Addendum. VECC invites Hearst to clarify the basis for its LV costs in its Reply Submissions.

Loss Factors

8.5 Hearst Renfrew has revised it proposed loss factors to reflect the average historical losses over the period 2005-2009[70]. With this revision, VECC submits that Hearst's proposed loss factors are reasonable.

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[66] Supplementary IR Responses, RateMaker Model, Sheet F9
[67] VECC #26 and #49
[68] Supplementary IR Responses, RateMaker Model, Sheets C2 and F4
[69] Supplementary IR Responses, RateMaker Model, "NetDistrRev" Sheet
[70] Board Staff Supplementary #34

9 Retail Transmission Service Rates

9.1 Hearst has developed its proposed 2010 Retail Transmission Service Rates taking into account the historic trends in the relevant variance accounts[71]. VECC notes that contrary to the comment in VECC #49, the RateMaker Model and the resulting rates (Appendix 2IR-A) do appear to have incorporated the revised RTSRs.

9.2 VECC notes that, despite its requests[72], Hearst has not provided calculations for RTSR costs based on the IESO/HON's 2010 rates and 2009 volumes. As a result, no adjustment has been made to account for changes in the IESO/HON rates in 2010 versus 2009.

10 Deferral and Variance Accounts

Proposed New Deferral/Variance Accounts

10.1 Hearts is requesting a new deferral account to record/track unforeseen costs that are for the most part of a regulatory compliance nature[73]. In VECC's view there is no need for such a new account. The provision for Z-Factor in the current 3rd Generation IRM should capture any legitimate and material costs of an unforeseen nature.

Account Balances Proposed for Disposition

10.2 Hearst's proposal as to which account balances were to be cleared as part of its Application has changed over the course of the proceeding. The following table sets out the evolution of Hearst's proposal.

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[71] VECC #49 and Appendix 2IR-L
[72] VECC #26
[73] VECC #2

Account	Proposed for Recovery		
	Initial Application	First IR Round	Supplementary IRs
#1508 – Other Regulatory Assets	Yes	Yes	Yes
#1518 – RCVA Retail	No	Yes	No
#1525 – Misc. Deferred Debits	Yes	Yes	No
#1548 – RCVASTR	No	Yes	No
#1550 – LV Variance	Yes	Yes	Yes
#1555 – SM Capital	No	No	No
#1556 – SM OM&A	No	No	No
#1562 – Deferred PILs	No	No	No
#1565 – CDM	Yes	Yes	No
#1566 – CDM Contra	No	Yes	No
#1570 – Transition Costs	No	No	Yes
#1571 – PreMarket Var	No	No	Yes
RSVA Accounts	Yes	Yes	Yes
#1598 – GA sub-Acct	Yes	Yes	Yes

Sources: Initial Application - Exhibit 9/Tab 1/Schedule 3, page 1
First Round IRs - Appendix Z
Supplementary IRs - Appendix 2IR-I

10.3 VECC's only concern regarding the accounts now proposed for clearance (i.e., per the Supplementary IR Responses) is the inclusion (for the first time) of the balances in Accounts #1570 and #1571. VECC notes that in the Board's EDVARR Report (EB-2008-0046) these accounts are classified as Group 2 accounts which require a prudence review. As the proposed clearance of these accounts was first introduced in response to the last round of interrogatories there has been no opportunity for such review. As a result, VECC submits that these accounts should not be cleared at this time.

10.4 Otherwise, VECC has no issues with the amounts proposed for disposition in the various deferral/variance accounts or with the proposed allocation to customer classes. VECC has some reservations regarding the proposed 4 year disposition period. This long a period creates issues of inter-generation equity. Also, a shorter recovery period would help offset what could otherwise be a material bill impact (i.e., 6% on total bill) for the Residential class. The Board may wish to consider approving a shorter period.

11 Smart Meters

11.1 As noted earlier, Hearst is proposing to include all smart meter costs in rate base and rates for 2010. It is also proposing to clear the existing smart meter deferral accounts at a future date. VECC has already set out in the preceding sections its view that Hearst should continue to use the smart meter deferral accounts in 2010 and establish a smart meter rate adder based on the forecast costs.

12 Effective Date

12.1 In its initial Application Hearst requested an effective date of May 1, 2010[74]. In June 2010 the Board declared Hearst's current rates interim as of May 1, 2010. May 1, 2010 continues to be the effective date on the proposed rates as filed with the Supplementary IR Responses[75].

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[74] Exhibit 1/Tab 1/Schedule 2, page 2
[75] Appendix 2IR-A

12.2 In VECC's view the effective date should be after May 1, 2010:

- In March 2009 the Board issued a letter finalizing the list of distributors (including Hearst) that would be subject to rebasing in 2010 and directed that their Applications be filed no later than August 28, 2009 for a May 1, 2010 effective date.
- While Hearst did contact the OEB stating its Application would late and has offered some explanations as to reasons why[76], the Application wasn't actually filed until April 28, 2010 – 8 months later. Based simply on the delay in filing (and without any allowance for Hearst's mitigating circumstance), one could justify an effective date of January 1st, 2011.
- The Board's performance metrics call for "written proceedings" to be completed within 185 days – or approximately 6 months after an application is filed. Based on this metric an effective date of November 1, 2010 would be reasonable expectation.
- Based on the actual review time, it appears that the Rate Order is likely to be approved in January 2011 with an implementation date no earlier than February 1, 2011.

Given the above observations, in VECC's view, the effective date should be no earlier than October 1, 2010 and that even this date is "generous" in order to recognize Hearst's circumstances.

12.3 VECC notes that for 2010 rates a number of utilities have filed their applications well after the August 2009 deadline. Indeed, the Board and interested stakeholders now find themselves dealing with many of these applications at the same time as the work load associated with the review of the 2011 rate applications is starting to escalate. In VECC's view the Board needs to send a clear message that there are consequences to not filing on time.

12.4 VECC would also note that depending upon the effective date and implementation dates chosen there could be a material amount of foregone 2010 revenue to

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[76] Board Staff Supplementary #3

recover over the relatively few remaining months of the test year period. In such an event VECC submits that consideration should be given to extending the recovery of this foregone revenue over a longer period of time.

13 Recovery of Reasonably Incurred Costs

13.1 VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 13th day of December 2010