January 6th 2011

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

Hearst Power Distribution Company Limited

OEB File No. EB-2009-0266

Enclosed please find Hearst Power Distribution Company Limited ("Hearst")'s final submission in regard to its Cost of Service Application which was filed on April 28, 2010. Should you require any further information, please do not hesitate to contact Mrs. Nicole Leduc at the number below.

Yours very truly,

NCLeduc
Nicole C. Leduc
General Manager

Hearst Power Distribution Company Limited
P.O. Bag 5000
925 Alexandra Street
Hearst ON P0L 1N0

Tel: (705) 372-2815
Fax: (705) 362-5902

EB-2009-0266

HEARST POWER DISTRIBUTION COMPANY LIMITED

REPLY SUBMISSION

OVERVIEW AND SUMMARY

Hearst is seeking an order from the Ontario Energy Board ("the Board") approving just and reasonable rates for the distribution of electricity in the Town of Hearst effective September 1, 2010. The Cost of Service Application supporting the proposed 2010 rates ("the Application") was submitted to the Board on April 28, 2010 based on a forward test year.

The Application was supplemented by Hearst's responses to two rounds of interrogatories by Board Staff and VECC ("the other parties"). Responses to the preliminary round of interrogatories (Preliminary IRs) from Board Staff and VECC were submitted to the Board on September 15, 2010 and responses to the supplemental round of interrogatories (Supplemental IRs) from both of the other parties were submitted on November 22, 2010.

In its April 28, 2010 application, Hearst provided evidence supporting a service revenue requirement of $1,200,209. Hearst's proposed revenue offsets was in the amount of $118,930 resulting in a base revenue requirement to be recovered from ratepayers of $1,184,786. This revenue requirement reflected a gross revenue deficiency for 2010 of $15,423 based on existing approved rates.

In its responses to the Preliminary IRs from Board Staff and VECC, Hearst proposed changes to the Application. These changes were reflected in a set of new models (Rate Maker and RMPils) filed along Hearst's responses. The Revenue Requirement and various sections of the Application were revised once more during the Supplemental IRs.

Hearst also made further revisions to its Revenue Requirement in response to issues raised in the final submission of both of the other parties.

The following sections summarize Hearst's final requests for approval.

Revenue Requirement

In its final submission, Hearst confirms that it seeks approval to recover a Service Revenue Requirement of $1,265,046, a revenue offset of $68,907 and a Base revenue requirement of $1,196,139. Hearst attests that all components of the revenue requirement were prudently incurred and appropriately derived. Thus, Hearst submits that its proposed revenue requirement is just and reasonable and should be approved.

Table #1 – Calculation of Base Revenue Requirement

REVENUE REQUIREMENT	
OM&A Expenses	923,677
Amortization Expense	139,718
Total Distribution Expenses	1,063,395
Regulated Return On Capital	174,410
PILs (with gross-up)	27,240
Service Revenue Requirement	**1,265,046**
Less: Revenue Offsets	68,907
Base Revenue Requirement	**1,196,139**

Rate Base

Hearst seeks Board approval for a Rate Base of $2,385,912 in its 2010 test year. This amount is composed of Net Fixed Assets plus a Working Capital Allowance determined using the Board approved percentage of 15%. Hearst remarks that the smart meter related capital spending for 2010 in the amount of $114,896 has been removed from account 1860 and thus is not longer include in the utility's Rate Base. The topic is discussed in detail at section 2 of the reply submission.

Board Staff and VECC's comments are also addressed at section 2 of this reply.

Hearst submits that this level of rate base is required to operate the utility in a safe and reliable manner and that the proposed rate as presented in the table below (Table #2) be approved.

Table #2 – Determination of Rate Base

TOTAL RATE BASE		
		2010
Net Fixed Assets in Service:		
Opening Balance	1,234,595	
Closing Balance	1,221,702	
Average Balance		1,228,149
Working Capital Allowance		1,157,764
TOTAL RATE BASE		**2,385,912**

WORKING CAPITAL ALLOWANCE		
		2010
Eligible Distribution Expenses:		
3500-Distribution Expenses - Operation		95,218
3550-Distribution Expenses - Maintenance		284,565
3650-Billing and Collecting		230,079
3700-Community Relations		5,000
3800-Administrative and General Expenses		308,815
3950-Taxes Other Than Income Taxes		
Total Eligible Distribution Expenses		923,677
3350-Power Supply Expenses		6,794,748
Total Expenses for Working Capital		7,718,425
Working Capital Allowance	**15.0%**	**1,157,764**

Load Forecast

Both VECC and Board staff have made comments regarding Hearst's forecasting methodology. After reviewing these submissions, Hearst submits that the load forecast prepared by the company's expert does not need to be changed and should be approved as proposed in the utility's supplemental IRs. Hearst's approach and comments from all other parties are presented and addressed at section 3 of this reply submission.

Operating Expenses

Hearst seeks Board approval for OM&A expenses totalling $923,677. The major cost driver behind the increase is the cost of the 2010 rebasing filing at $270,084 (to be amortized over four years), new billing system and increases due to wage cost escalation. Hearst has removed the PST in the amount of $11,722 and proposes to recover it, at a later date, through a deferral account.

Hearst submits that this level of expenditure is required to operate the utility in an efficient, safe and reliable manner and that accordingly the proposed expenses should be approved.

Cost of Capital

Hearst submits that all components of the Capital Structure reflect the Board approved equity, long term debt, and short term debt in accordance with the Board's recent Cost of Capital Report. Thus, Hearst proposes capital structure is presented below.

Table #3 – Capital Structure

CAPITAL STRUCTURE		***Current Application***	
	Deemed Portion	***Effective Rate [1]***	***Return Amount***
Short-Term Debt	4.00%	2.07%	
Long-Term Debt	56.00%	5.87%	
Total Equity	40.00%	9.85%	
Regulated Rate of Return	**100.00%**	**7.31%**	
Rate Base [2]			2,385,912
Regulated Return on Capital			**174,410**

Deemed Interest Expense			*80,405*
Deemed Return on Equity			*94,005*

Transmission Rates

Hearst attests that the proposed RSTR rates presented in its Supplemental IR responses were calculated in accordance to the Electricity Distribution Retail Transmission Service Rates report ("G-2008-0001"). Hearst submits that the rates, as presented in the table below, are just, reasonable and that they be approved by the Board.

Table #4 – Proposed 2010 RTSR

Class Name	Network	Connection
Residential	$0.0051	$0.0044
GS<50kW	$0.0046	$0.0039
GS>50kW	$1.9008	$1.5572
Intermediate Users	$2.1258	$1.8367
Sentinel Lights	$1.4408	$1.2290
Street Lights	$1.4334	$1.2039

Deferral and Variance Accounts

Hearst seeks a disposal of balances of Deferral and Variance Accounts in the amount of $724,718 over a period of 4 years, as proposed in the "Board's Report on Electricity Distributors' Deferral and Variance Account Review Initiative" issued on the 31st of July 2009. The summary of the balances being request for disposal/recovery are presented in Table #5 below. Further details can be found at section 8 of this reply.

Table #5 – Deferral and Variance Account

Deferral / Variance Account	Recover Balance as at?	Balance for Recovery [1]	Additional Interest for Recovery	Total Recovery Amount
1505-Unrecovered Plant and Regulatory Study Costs				
1508-Other Regulatory Assets	31-Dec-08	28,158	183	28,341
1510-Preliminary Survey and Investigation Charges				

1515-Emission Allowance Inventory				
1516-Emission Allowances Withheld				
1518-RCVARetail	31-Dec-08			
1520-Power Purchase Variance Account				
1525-Miscellaneous Deferred Debits	31-Dec-08			
1530-Deferred Losses from Disposition of Utility Plant				
1540-Unamortized Loss on Reacquired Debt				
1545-Development Charge Deposits/ Receivables				
1548-RCVASTR	31-Dec-08			
1550-LV Variance Account	31-Dec-08	55,393	384	55,777
1555-Smart Meters Capital Variance Account	No Recovery			
1556-Smart Meters OM&A Variance Account	No Recovery			
1560-Deferred Development Costs				
1562-Deferred Payments in Lieu of Taxes	No Recovery			
1563-Account 1563 - Deferred PILs Contra Account				
1565-Conservation and Demand Management Expenditures and Recoveries	31-Dec-08	-24,903	-183	-25,086
1566-CDM Contra Account	31-Dec-08	24,903	183	25,086
1570-Qualifying Transition Costs	No Recovery			
1571-Pre-market Opening Energy Variance	No Recovery			
1572-Extraordinary Event Costs				
1574-Deferred Rate Impact Amounts				
1580-RSVAWMS	31-Dec-08	-202,557	-1,413	-203,970
1582-RSVAONE-TIME	31-Dec-08			
1584-RSVANW	31-Dec-08	-81,725	-498	-82,223
1586-RSVACN	31-Dec-08	-249,072	-1,707	-250,779
1588-RSVAPOWER	31-Dec-08	-216,307	-1,031	-217,338
1590-Recovery of Regulatory Asset Balances	31-Dec-08	-54,185	-342	-54,527
1598-1588 Global Adjustment sub-acct	No Recovery			
2425-Other Deferred Credits				
Sub-Total for Recovery				**-724,718**

Hearst has attempted to shed light on questions and issues raised by Board Staff and VECC. Explanations, clarifications and justifications are provided in the following section of the reply submission. Although Hearst deems the evidentiary phase of the application process to have expired with the Supplemental IRs, Hearst proposes to make all models (Rate Maker, RMPILS, Cost Allocation Model) it used to determine its “final request for approval” available to parties upon request.

1- GENERAL COMMENTS

Effective Date Of Rate Change

Hearst notes that, in its submission, Board Staff referenced the March 5, 2009 letter which informed distributors that cost of service applications should be filed no later than August 29, 2009 and a subsequent letter sent by the Board on April 20, 2010 advising utilities that if the cost of service application was not filed by April 30, 2010, a 2nd generation IRM would need to be filed in lieu of the cost of service application.

Both VECC and Board Staff raise various issues regarding the effective date of rate implementation and on Hearst's post filing process. In its final submission on the subject Board Staff submits that an effective date of rate implementation should begin the month following the Board's decision and VECC recommends an October 1, 2010 effective date.

Hearst offers the following comments in response.

Between the March 5, 2010 letter and the deadline of August 29, 2010, there are roughly 125 working days. Hearst estimates that in order to file a comprehensive application that meets the minimum filling requirements, anywhere between 150-200 schedules are needed. This means that the general manager would have had to complete multiple schedules per day while minding the day to day operations of the entire utility. As mentioned in various sections of the application, the general manager is the sole employee available who has the capacity, expertise and knowledge to draw together the information necessary to complete a cost of service application. Both VECC and Board Staff have assumed that a small utility can complete a cost of service application in the same timeframe as a utility which employs a number of administrative employees or a full regulatory department, which is not the case for Hearst.

On the subject of the Board's performance metrics which, according to VECC, calls for "written proceedings" to be completed within 185 days after an application is filed, Hearst is of the opinion that the performance metrics are biased towards larger utilities.

VECC recommends that the Board uses Hearst's case to send a clear message to all late filers that there are consequences to not filing on time. Hearst questions the regulatory practice and overall appropriateness of singling-out a utility to make an example out of them. In Hearst's opinion, a regulator's policies should be fair and objective.

Hearst believes that each utility in Ontario is unique in terms of its organisational structure and in the manner in which it is capable of completing and filing its cost of service application. Hearst should therefore be evaluated on its own merit and consideration should be given to the fact that a comparable amount of time and effort, if not more, per "available employee" was spent working on this cost of service application as a larger utility.

It is Hearst's opinion that the Board should consider staggering filing deadlines and give smaller utilities more than 5 or so months to complete such a massive, resource-intensive regulatory filing.

If the fundamental differences between the availability of regulatory resources in smaller utilities and larger utilities keep being overlooked, the Board should, at a minimum, allow smaller utilities to staff more adequately with larger utilities or adopt a more light-handed approach when it comes to filings large applications such as a cost of service application.

Hearst notes that a significant amount of delay were out of the utility's control as the consulting firm originally selected to help with the application underestimated the time it would take to build the models necessary to determine proposed rates which was considerably more work than Hearst or its consultants anticipated.

An effective date of rate implementation of February 1, 2011, as suggested by Board Staff, would result in Hearst losing a considerable amount of distribution revenue.

Hearst recommends a compromise and therefore requests an effective date of September 1, 2010. This would signify a manageable loss for the utility. Hearst would like to remind all parties that penalizing Hearst for filing late also penalizes Hearst's customers since the utility already operates on a tight budget in order to keep rates at a reasonable level. The proposed revenue requirement as of September 1, 2010 is necessary in order for the utility to operate in a safe and reliable manner. The revenue requirement is also necessary in order to comply with the regulatory and conservation programmes initiated by the provincial government.

Provincial Sales Tax

Hearst notes that its treatment of the provincial sales tax ("PST") raised a number of concerns from both Board Staff and VECC. Contrary to VECC's suggestion that it was an omission on the utility's part, Hearst readily admits that it has not yet reduced its OM&A and its capital expenditures by the amount of PST. In its response to Board Staff Supplemental IR #37, Hearst was simply presenting two possible solutions to handling the implementation of the Harmonised Sales Tax ("HST") and expressed its preference for a particular solution. The two proposed solution presented in Hearst's response were:

> (1) Remove the PST for the 2010 capital additions and OM&A and establish a new deferral account to record actual amounts of PST paid in the first six months of 2010, after which time the HST comes into effect. Hearst would then request the disposition of the balance in this new account at a later date, once the balance has been subject to a year-end audit.
>
> (2) Establish a deferral account to capture the reductions in OM&A and capital expenditures due to HST.

Hearst expressed it preference for the first option which presents a far lesser administrative burden for the utility. Both Capital and OM&A expenditures for 2010 presented in the "Final Approval Requested" reflect the removal of PST amounts.

Hearst confirms that the amounts presented in its response to Board Staff IR #37 is in fact the PST amount for the entire test year. Therefore, Hearst proposes to reduce its 2010 OM&A expenses by $11,722 and its capital spending by $6,974 and requests a new deferral account to record actual amounts of PST paid in the first six months of 2010. Hearst will request disposition of the account at a later date.

With respect to VECC's concerns relative to the PST amount for capital spending being only 27% of the 2009 value, Hearst submits that the most prominent reasons for this relates to the fact that the amount of capital spending related to smart meters in 2010 is only 25% of the 2009 smart meters related capital spending. Also, as indicated in response to Board Staff #22, "Hearst has held off on much of its 2010 spending until the proposed revenue requirement is approved."

At section 2.5 of its final submission, VECC suggests two possible approaches to handling the PST amounts. The first approach would see Hearst remove the PST amount as well as renounce the use of a deferral and variance account. This approach blatantly overlooks the fact that Hearst did in fact pay PST during the first 6 months of 2010. It should therefore be rejected by the Board.

The second approach suggested by VECC is similar to that proposed by Hearst above. Hearst favours this approach due to its fairness and simplicity in terms of execution and administration. Hearst therefore believes that this option should be approved by the Board.

2- RATE BASE AND CAPITAL SPENDING

Asset Management

As reiterated by VECC, Hearst's distribution system is surveyed each year in order to identify capital work required and work identified is prioritised as part of a survey process. VECC finds this approach reasonable in establishing Hearst's 2010 capital spending.

As indicated by VECC[1] in its final submission, much of Hearst increase in capital spending for 2010 is justified and reasonable compared to previous years.

In its final submission, Board Staff provides tables (Tables 2 and 3 on p. 5 and 6) which illustrate capital expenditures with and without Smart Meter expenditures. Board Staff (pp. 6-7) did not raise any issues with the proposed $249,000 in capital expenditures for 2010 baring the following two items for which it seeks clarifications.

- Smart Meter related Software: Board Staff wants Hearst to confirm that the software is for processing data "after" the data has been received by the utility (otherwise it should be treated as "Smart Meter"). To which Hearst responds that the software relates to MDMR.

- Maintenance: Board Staff wants to know whether or not the expenditures will increase the resale value of the trucks (otherwise should be OM&A costs). To which Hearst responds that it believes that the expenditure will cause the resale value to increase.

On the subject of smart meter related capital spending, VECC's perception of a discrepancy in the 2010 amount can be easily explained as follows: the amount of $82,696,[2] labelled "Actuals" was the "To-Date" actual figure as of end of August 2010 bearing in mind that responses were filed on September 15, 2010. The $114,896 was the estimate for the entire test year. To reduce the amount of capital spending by $32,200 (114,896 - 82,696) would deny the utility four months worth of smart meter related capital expenditures. Please refer to the section entitled "2010 Smart Meter Related Capital" below for further developments on the topic.

[1] 2.6 of final submission
[2] Response to Board Staff #5 filed on September 15, 2010

Half Year Rule

As summarised by VECC, in practice, Hearst adopted the ½ year rule in 2009 but for ratemaking purposes, applied the rule to historical years. VECC has no concerns in this regards (with the exception of the inclusion of smart meter related capital). VECC's opinion therefore echoes Hearst's view that the asset balances should be accepted as proposed.

The only issue raised by Board Staff (p. 7) relates to whether Hearst's Rate Base correctly reflects the half year rule. As noted above, Hearst did apply the half year rule properly.

2009 Smart Meter Related Capital Spending

On the subject of whether Hearst should be allowed to include smart meters in its Rate Base, VECC is of the mindset that both the audited smart meter related capital spending for 2009 and non-audited smart meter related capital spending for 2010 should be excluded from Rate Base.

Board Staff submits (p. 5) that only audited costs of smart meters installed in 2009 should be in the Rate Base and that residual costs included in accounts 1555 and 1556 should be disposed of through a rate rider. Board Staff further submits that 2010 costs of smart meters should be disposed of once they have been audited.

In section 2.11 of its submission, VECC raises a concern surrounding the amount of smart meter related capital amount reported in Hearst's Preliminary IRs. Hearst notes that this misinterpretation could have easily been addressed by VECC in its supplemental IRs. The information presented in responses to Board Staff #5, namely $423,763 represents the smart meter related capital spending net of the $14,427 in accumulated depreciation[3].

(The material reported in the responses above should have stated $230,704 and not $231,704. This was a typing error on the utility's part.)

Hearst maintains that it has been consistent in presenting its smart meter related capital expenditures. At section 4.6.1.7, of the April 28, 2010, application, Hearst identified its balance for USoA sub-account 1861 as being $437,190 and its balance

[3] See audit letter from Collins Barrow

for USoA account 1860 as being $6,194. The total of both accounts amounted to $443,384. Every model filed throughout the entire process had presented the same amount as smart meter capital related additions: **$443,384**.

The fact that this amount required clarification does not warrant disallowing all 2009 smart meter related capital spending, especially when both conditions as stated in the Board's Guideline G-2008-0002 - Smart Meter Funding and Cost Recovery ("Board's Guideline") have been satisfied. Hearst therefore respectfully requests that the 2009 balance for USoA account 1860, in the amount of $443,384, be included in Hearst's Rate Base.

2010 Smart Meter Related Capital Spending

Hearst recognizes that Board's Guideline states that when applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited and that all smart meters eligible for recovery must be installed by end of 2010. Hearst can now confirm that as of December 31, 2010, not all meters were installed. This was due to an unexpected delay on Measurement Canada's part in providing verification and approval of 72 commercial grade single phase meters.

Consequently Hearst no longer seeks approval to transfer smart meter related capital costs for 2010 to its Rate Base. Instead, Hearst agrees with VECC and Board Staff to wait until all smart meters have been installed before requesting the recovery of 2010 capital expenditures. Hearst proposes to use the deferral and variance account and dispose of its balances during an IRM process.

Note that since most smart meters have been purchased and installed, Hearst proposes to discontinue its current rate rider of $1 per metered customer per month. This will also serve to somewhat alleviate the bill impacts for certain classes.

Smart Meter Rider

It the last section of its submission, Board Staff presents a summary of Hearst requests as they relate to smart meter related capital expenditures. The summary either seems unclear or incorrect. For this reason, Hearst confirms that what it seeks is the following;

1) Transfer of Hearst's 2009 smart meter related capital exenditures, in the amount of $437,190 to account 1860 (as they meet the Board's criteria)
2) Leave 2010 smart meter related capital expenditures in the appropriate deferral accounts (1555,1556) until costs have been audited and smart meter installed

Board Staff references Appendix U where Hearst presented a smart meter rate rider and questions why this rate rider was not included in the Rate Schedule. To this, Hearst responds that the 'hypothetical" smart meter rider was calculated and presented in direct response to an IR from VECC specifically requesting this information. It has never been Hearst's position to request a smart meter funding adder/rate rider. It is for this reason that the adder was never presented in the Rate Schedule. Board Staff also questioned the perceived discrepancy between the amount of 443,384 and 437,190. As explained in the earlier section entitle "2009 Smart Meter Related Capital Spending", the difference relates to a balance of $6,184 in account 1860 for non-smart meter related costs.[4]

Working Capital Allowance

Board Staff (p. 7) has no issue with Hearst's Working Capital Allowance ("WCA") as long as it has been calculated on the latest load forecast filed in Appendix 2IR_D of its Supplementary IR #9. Hearst confirms that the WCA is based on its latest filed forecast (i.e., November 22 2010). VECC had no issue with Hearst's proposed WCA.

Hearst proposes a Working Capital Allowance in the amount of $1,157,764 which it derived from the 15% rule. On the topic of Cost of Power, VECC raised question regarding Hearst's RPP average. Hearst notes that the RPP average is the same rate that was used in both ORPC and Renfrew's Draft Rate Orders both filed December 2010.

On the topic of WCA, Hearst makes the following observation. As stated by Board Staff in the "Operating Costs" section of its final submission, a significant portion of LDC costs are the same regardless of the size of the utility, such as transportation equipment and the cost of rebasing for example. However large utilities tend to have more liquidity, since the ratio increase as the utility size becomes larger. The

[4] E4/T6/S1 page 6 of 7

difference in liquidity between the large and small utilities lends further support to the belief that a working-capital shortage could become a problem for small utilities when so many costs are static.

Service Quality and Reliability Performance

Board Staff (p. 8) notes that there is a significant increase of SAIDI and SAIFI values for 2009 when compared to 2006-2008 historical values. Board Staff raises doubts with regards to Hearst's distribution system and whether it is properly resourced to rectify outages promptly. Hearst maintains that its distribution system is in fact extremely reliable and that for the most part, the outages are a result of Hydro One outages. Hearst plans on having its internal accounting procedures and regulatory practices reviewed in the near future to ensure that it is reporting its RRR information correctly.

3- REVENUES

Load Forecast

To determine its load forecast, the utility used the NAC approach for the classes that are weather sensitive, namely Residential, GS< 50 and GS >50, and using the most recent 12 months for Intermediate, Street Lights and Sentinel Light classes which are deemed to be non-weather sensitive

While Board Staff (pp. 9-10) raises a number of issues with Hearst Power's load forecast methodology, Board Staff (p. 11) concludes that the proposed connections count of 3,686 and load forecast of 77,587,715 kWh for 2010 are reasonable for rate setting purposes and should be approve by the Board.

Hearst is of the same mind as VECC in that at this point and time, there is no basis on which to establish an alternative forecast and that Board should accept Hearst's proposed load forecast methodology and results.

Revenue Offsets

VECC and Board Staff have no objections to Hearst projected revenue offsets in the amount of $68,907. The issue is discussed at greater length in the "Affiliate Transaction" section of the application.

4- OPERATING COSTS

In general, Board Staff (pp. 11-12) has no specific issues with the OM&A proposed by Hearst. Board Staff notes that Hearst did not include any amount for LEAP or the late payment penalty litigation costs. Board Staff (p. 13) further notes that "the very large percentage OM&A increases that Hearst has experienced – and expected to experience – are attributable to expenditures which would probably be somewhat the same dollar magnitude for any utility, but appear to be excessive in percentage terms for Hearst because of its small size."

Board Staff (p. 14) is also satisfied with the explanation provided with regards to the costs of training new apprentices.

Board Staff (p. 13) invited Hearst to confirm its total regulatory costs as it seems unclear for Board Staff per response to VECC IR #15. Board Staff suggests that $76,516 rather than $67,521 has been added to OM&A. Hearst notes that the difference between the two values is $8,995[5] which represents consultants and outside parties costs of regulatory matters other than rebasing ($67,521+$8,995=76,516). The reported $270,085 (or $67,521 per year over four years) relates to costs incurred to complete the cost of service application and $62,436 for three subsequent IRM applications. Also Included in the total regulatory costs is $8,995 to cover regulatory consulting needs other than rate applications

Board Staff has no issue with either the affiliate relationships or Hearst's tendering processes (p. 12).

In its final submission, VECC shares two main concerns with respect to Hearst's proposed OM&A expenses for 2010. The first issue being that Hearst has not reduced its 2010 projections by the amount of PST. This matter is covered in a previous section. VECC's other concern relates to Smart Meters.

VECC suggests that OM&A associated with Smart Meters be removed from Hearst's 2010 OM&A however, as explained in response to VECC #32d) which asked: "*Provide the balances in the following accounts and explain in more detail why the accounts are not to be cleared even though ongoing costs are charged to operations in 2010 and beyond.*" To which Hearst responded: "... *as for the reason why accounts*

[5] E4/T2/S4 page 2 of the April 28, application.

are not to be cleared, it is because the residual balance in account 1555 largely offsets the balance in 1556. Hearst proposes to dispose of the balances once all expenses are final and audited."

In short, OM&A spending associated with Smart Meters have not been included in Hearst's 2010 OM&A. Instead, Hearst requests approval to record, on an on-going basis, smart meter related OM&A expenses through its regular OM&A accounts and dispose of its balances during an IRM process or the next cost of service application.

Affiliate Transactions

At section 5.6 of its submission, VECC raises two specific issues concerning mainly revenues associated with Merchandising, Jobbing, etc. VECC raises a concern regarding a response from Hearst stating that certain "labour" is recorded in Account 1110 while other A/R town and overheads are recorded in account 4325 but that sheet C9 of the Rate Maker Model does not show any values in this account. The utility erroneously posted revenues from Merchandising, jobbing etc to 4235-Miscellaneous Service Revenue instead of 4325 as it should have been.

Once again, Hearst does not believe that the misinterpretation of a single amount warrants an audit of the utility's revenue offsets. That being said, Hearst plans on having its internal accounting procedures and regulatory practices reviewed, revised and documented by Elenchus Research Associates once the new rates are implemented.

Depreciation

VECC proposes to reduce Hearst's 2010 smart meter related capital expenditure by $32,200, as indicated in the "Rate Base" section of its final submission and consequently also reduce the amount of deprecation accordingly. As explained earlier, the $82,696 was as of end of August 2010 while the $114,896 was as of end of December 2010. Hearst therefore request that its proposed depreciation expenses for 2010, in the amount of $139,718 be approved by the Board.

Taxes

Board Staff (p. 14) has no issue with PILs model calculation as filed in response to

Board Staff IR #11.

Hearst notes that the set of models resent via e-mail to the parties on December 9, 2010, were incorrect. Hearst attests that it has rectified the PILs model and that the impact on the Service Revenue Requirement was a reduction of $20.

5- COST OF CAPITAL AND CAPITAL STRUCTURE

VECC agrees with Hearst's latest Cost of Capital. Board Staff (p. 15) submits that "On the understanding that the long term debt calculation is based on $1.7 million and at the Board's ceiling of 5.87% […]" it has no issue with Hearst's cost of capital. Hearst confirms that the long-term debt rate it used in its latest filing is the Board's prescribed rate of 5.87%

6- COST ALLOCATION AND RATES

In sections 7.1 and 7.2 of its final submission, VECC summarizes the utility's approach in determining its revenue to cost ratios throughout the various stages of the application and post-filing process. All of which is factually correct. The utility did in fact recognise the shortcomings of the cost allocation approach presented in its original application and consequently updated its methodology in accordance with Board Guidelines.

(At section 7.3, where VECC states that; "in determining the 2010 R/C ratios, Hearst presented two possible alternatives". Hearst feels it important to clarify that the alternative "uniform increase" calculation was a calculation specifically requested by VECC in their supplemental IRs.)

At section 7.4, VECC points out that there are discrepancies in the information presented in the latest Rate Maker Model. Both "NetDistrRev" sheets and the "FixedVarRevenue" are not part of the Rate Maker's base worksheets and consequently were not properly updated during the supplemental IRs. Hearst confirms that the correct "2010 Net Distribution Revenue at Existing Rates" in the amount of $752,831.

Table # 6- Sheet C4 from corrected Rate Maker

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	26,627,362	271,599	478,350
GS<50kW	$4.9700	391	23,319	$0.0097	kWh	12,405,535	120,334	143,653
GS>50kW	$29.4100	38	13,411	$2.9926	kW	53,176	159,135	172,546
Intermediate Users	$57.0900	3	2,055	$0.8703	kW	59,721	51,975	54,030
Sentinel Lights	$3.9800	10	478	$1.8938	kW	72	136	614
Street Lights	$0.9900	922	10,953	$1.2912	kW	3,084	3,982	14,935
Gross Revenue (before Transformer Allowances)			256,967				607,161	864,128
Transformer Allowances				($0.6000)	kW	89,216	-53,530	-53,530
Total Revenue			**256,967**				**553,631**	**810,599**
Less: Pass-through amount embedded in distribution rates *							-57,768	-57,768
DISTRIBUTION REVENUE			**256,967**				**495,863**	**752,831**
** per revenue amounts on*								

sheet C2 e.g. Low Voltage								

Table #7- "NetDistRev" from corrected Rate Maker

2010 Distribution Revenue by Class		**Gross Distr.**	**LV**	**Transformer**	**Net Distr.**
(at existing rates)		**Revenue [1]**	**Charges**	**Allowances**	**Revenue**
Residential		478,350	-18,639		459,711
GS<50kW		143,653	-7,443		136,210
GS>50kW		172,546	-13,251	-13,530	145,764
Intermediate Users		54,030	-17,833	-40,000	-3,802
Sentinel Lights		614	-14		600
Street Lighing		14,935	-588		14,348
TOTAL		**864,128**	**-57,768**	**-53,530**	**752,831**

Table #8- "FixedVarRevenue" from corrected Rate Maker

FIXED / VARIABLE REVENUE SPLITS					
(Excluding Low Voltage rate adder and Transformer Allowance recoveries)					
2010 Projected Revenue at Existing Rates	**Net Distribution Revenue**	**Fixed Charge Revenue**	**Fixed %**	**Variable %**	**Total %**
	(A)	*(B)*	*(C)*	*(D)*	*(E)*
Residential	459,711	206,751	44.97%	55.03%	61.06%
GS<50kW	136,210	23,319	17.12%	82.88%	18.09%
GS>50kW	145,764	13,411	9.20%	90.80%	19.36%
Intermediate Users	-3,802	2,055	-54.06%	154.06%	-0.51%
Sentinel Lights	600	478	79.55%	20.45%	0.08%
Street Lighting	14,348	10,953	76.34%	23.66%	1.91%
TOTAL	**752,831**	**256,967**	**34.13%**	**65.87%**	**100.00%**
(A) per sheet "Net Distribution Revenue"					
(B) per sheet C4					
(C) = (B) / (A)					
(D) = 1 - (C)					
(E) Class Revenue from column (A) divided by Total from column (A)					

With respect to the concern raised by VECC at section 7.5 which questions the value for Miscellaneous Revenues used in the Cost Allocation study, the cost allocation study had relied upon prospective miscellaneous revenues at historical rates. This accounts for $23,000 of the $30,764 difference. The remaining $7,764 was the Misc Revenues portion of account 4080-Distribution Services Revenue, which was omitted in error.

Hearst notes that the Board has already approved the approach of using Miscellaneous Revenues at existing rates for a number of utilities[6] . That being said, in theory, Hearst notes VECC's concern and proposes to rectify this issue during the draft rate order and update the Cost Allocation to rely instead on miscellaneous revenue at proposed rates.

Revenue-to-Cost Ratios

Board Staff (pp. 16-17) acknowledges the different versions and corrections made to the cost allocation study filed by Hearst. Board Staff (p. 17) submits that even if Hearst Power's proposal to move the revenue-to-cost ratio slightly below unity for the Intermediate class is contrary to Board policy it should be approved for rate setting purposes.

VECC summarizes the utilities revenue to cost ratios ("R/C Ratios") and comments on the appropriateness of the utilities approach for each class. VECC takes no issues with Street Lights. Sentinel Lights and Intermediate class moving towards the lower end of the Board's prescribed range and notes that in the past, the Board has approved a phased-in increase over multiple years. Hearst reiterates that for the Intermediate class, the MSC was well below the minimum Board prescribed range. Since the class is comprised of only 3 customers, and that an increase in MSC over $650 would seem excessive, Hearst proposes to move towards the minimum over a period of 3 years.[7] Therefore Hearst proposes to set the MSC for the intermediate class to $320.00. This rate is consistent with the rate that was filed on April 28, 2010

With respect to missing bill impacts for Street Lights, Hearst proposes to rectify this issue in its draft rate order.

The primary industry of Hearst is forestry, with both mills and tree-planting organizations. The recession has taken a toll on small businesses in Hearst and the utility is greatly concerned that small business owners are having difficulty remaining solvent. While setting its revenue to cost ratios as well as its fixed to variable spilt, Hearst must keep in mind both the impact on small business as well as the impact on its largest class, namely its residential class. Hearst has attempted to set its rates in

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[6] EB-2009-0132, EB-2009-0146, EB-2009-165, EB-2009-0186
[7] As indicated in response to VECC #25

a manner that is fair and manageable for all classes. Hearst notes that the impact for the residential class is less than 10% and thus does not require further mitigation.

RATE DESIGN

At section 8.1 of its final submission, VECC recapitulates Hearst's approach to setting its fixed to variable split and presents Hearst current, proposed fixed and variable charges along with the Board's minimum and maximum fixed rates. VECC raises concerns on the bill impact for residential customers using 800kWh/month VS 400kWh/month stating that adopting a higher monthly fixed charge would disadvantage low volume Residential customers. Hearst believe that there is some merit in VECC concern however the utility believes that consideration has already been given to Hearst's residential class. Had Hearst maintained its existing fixed/variable split, the monthly fixed charge would have been set at $11.76. Hearst has reduced its fixed component by over 10%. (from 43.22% down to 33.08%). Despite raising this concern, VECC finds Hearst proposal to be reasonable.

Rate Schedule and Bill Impacts

It is unclear for Board Staff (p. 19) whether bill impacts for some customers shown in Exhibit 8, Tab 1, Schedule 5 are for summer-only rate changes or whole-year rate changes. The bill impacts presented in both the preliminary IRs and supplemental IRs clearly differentiate winter from summer bill impacts. Hearst Power is providing a summary of its bill impact as part of its final approval requested

Transformer Ownership Allowance

Board Staff (p. 17) rejects Hearst proposed reduction of the transformer ownership allowance (TOA) from $0.60 to $0.35. Board Staff submits that Hearst Power has not provided an adequate basis for the change. As responded in response to Board Staff Supplemental #5, 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.

LV Charges

Board Staff (p. 18) has no issue with Hearst Low Voltage charges as clarified in responses to VECC IR #7 and #25.

At section 8.4, VECC states that during both the preliminary IRs and Supplemental IRs, it requested specific information pertaining to LV that was not provided by the utility. To set the record straight, VECC#49, as referenced by VECC at the same section, did not reference LV Charges, but instead requested additional information on RTSRs. That being said, VECC is correct in stating that the projections from the original Application were not updated with Actuals as was done for 2010 Capital Expenditures and OM&A costs. Therefore, Hearst proposes to update the values for 2010 with actual LV Charges. Details are provided at appendix A. The revised 2010 LV Charges are in the amount of $53,000

Loss Factor

VECC found Hearst’s loss factor to be reasonable. Board Staff however (p. 18-19) submits that the loss factor should reflect the 2004-2008 average of 1.0419 rather than the 2005-2009 average of 1.0460 and notes that the increase is driven by a higher loss factor for 2009 (1.0563). Hearst disagrees with this suggestion.

Board Staff first argues that if Hearst Power had filed its application on time, the 2009 value would not have been known and therefore would not have been an issue in the current proceeding. Hearst submits that its updated evidence is based on 2005-2009 values throughout and there is no reason why it should not be so for the loss factor. Hearst Power submits that it is not good regulatory practice to selectively update or, for this matter, not to update some part of an applicant’s evidence.

Board Staff then argues that it is “unfair” for customers to have their rate affected by a "sudden" higher loss factor. Hearst sees no merit in this argument. Hearst reminds that the loss factor is not decided at its discretion but is rather exogenous to its decision-making. Hearst does find that a higher loss factor is unfortunate but Board Staff's proposal would in fact be unfair to Hearst by willfully denying it a reasonable opportunity to recoup costs it legitimately incurs to serve its customers.

Board Staff also notes that the 2009 loss factor value is above the Board's threshold of 5% as prescribed in section 2.9.4 of the Filing Requirements. Hearst submits Board Staff takes a narrow and incorrect view of the requirements referred to above.

The Filing Requirements state that an applicant must provide "details of actions currently planned, and actions taken to reduce previous five years and results if proposed distribution loss factor is greater 5%". Hearst Power's proposed loss factor is less than 5% and is thus under the filing requirements' threshold.

Hearst Power will further investigate the higher 2009 loss factor and take the appropriate actions if required.

Retail Transmission Service Rates

Board Staff (p. 18) has no issue with the latest retail transmission service rates proposed by Hearst in response to VECC supplemental IR #49.

At Section 9, VECC suggests that Hearst has not provided calculations for RTSR based on the HON's 2010 rates and 2009 volumes. Hearst disagrees and confirms that as of September 15th, 2010 (filing date for the preliminary IRs), the following rates were in effect.

- IESO-Network: $2.97
- IESO-Connection: $0.73
- IESO-Transmission: $1.71.
- Hydro One-Network: $2.65
- Hydro One-Connection: $2.14

The current rates were applied to 24 months of historical monthly volume. Hearst used the same method to adjust it RTSR rates as has been used by other utilities. Therefore, Hearst requests that its proposed 2010 RTSR's be approved.

7- DEFERRAL AND VARIANCE ACCOUNTS

General Rate Rider

Board Staff (p. 20) has no issue with the proposed general rate riders following clarifications provided by Hearst through responses to interrogatories.

Deferral Account

Hearst notes that the information tabulated by VECC at Section 10.2 is incorrect. The accounts proposed for disposition at Appendix 2IR-I of Hearst responses to Supplemental IRs are presented below;

Account	Initial Application[8]	First IR Round[9]	Suppl. IRrs[10]
#1508 – Other Regulatory Assets	Yes	Yes	Yes
#1518 – RCVA Retail	No	Yes	Yes
#1525 – Misc. Deferred Debits	Yes	Yes	Yes
#1548 – RCVASTR	No	Yes	Yes
#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	Yes
#1566 – CDM Contra	No	Yes	Yes
#1570 – Transition Costs	No	**No**	**Yes ***
#1571 – PreMarket Var	No	**No**	**Yes ***
RSVA Accounts	Yes	Yes	Yes
#1598 – GA sub-Acct	Yes	Yes	Yes

The reason why Hearst included account 1570 and 1571 in its calculation of rate rider was because at Board Staff #39, Board Staff questioned why the utility had excluded these accounts from its rate rider calculations. Instead of verifying the EDDVAR report, as the utility should have, Hearst assumed that the question implied

8 Initial Application - Exhibit 9/Tab 1/Schedule 3, page 1
9 First Round IRs - Appendix Z
10 Supplementary IRs - Appendix 2IR-I, table entitle C6 Proposed Deferral/Variance Account Balance Recoveries

that the two accounts were eligible for disposition and simply added to the calculation of the rate rider. Hearst proposes to once again remove these accounts as they require a prudence review in order to eligible for disposal.

With respect to the proposed 4 year disposition, Hearst's only intention is to minimise as much as possible the bill impact on its customers by keeping the utility's rates as stable as possible until the next rebasing year. The utility is concerned that if the disposition period is over a shorter period, customer so be subject to a considerable bill impact once the sunset date has been reached. The majority of Hearst's customers are low income customers and do not have then financial means to adapt to sudden increases in their hydro bills.

All of which is respectfully submitted