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March 14, 2011

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: Hearst Power Distribution Company Limited – 2010 Electricity Distribution Rate Application (EB-2009-0266)
Draft Rate Order - VECC's Comments

Set out below are the comments of the Vulnerable Energy Consumers Coalition regarding the Draft Rate Order (DRO) distributed by Hearst Power Distribution Company Limited ("Hearst") on March 7, 2011. The comments are organized according to the topic headings used in the Manager's Summary.

A. Rate Base and Capital Expenditures

Smart Meters

In its Decision, the Board directed Hearst to remove the 2009 smart meter related capital from rate base. The opening 2010 value for gross assets has been reduced to $3,809,709 (per Appendix D). This is a reduction of $437,190 from the gross asset value of $4,246,900 (as reported in the Gross Asset Tab of the Rate Maker Model filed with the Supplementary IR responses). This $437,190 difference reconciles with the discussion on page 15 of Hearst's Reply Submission.

However, on page 14 of its Reply Submission Hearst insists that the 2009 gross book value for smart meter related assets is $443,384, including $6,194 in smart meter related assets recorded in Account 1860. In VECC's view it is not clear which of two numbers is the appropriate value for smart meter related capital as of December 31, 2009 and further explanation is required.

Working Capital Allowance

In the Draft Rate Order (Appendix H) a commodity cost of $0.069 / kWh has been used in the calculation of the working capital allowance. However, the Rate Maker Model (Electricity Price Tab) filed in support of the DRO calculates a commodity cost of $0.06825 / kWh – the same value as presented in response to the Supplemental Interrogatories (see the Rate Maker Model filed with the Supplemental Interrogatories). VECC submits that there is no documentation supporting the 6.9 cent value used in the DRO and that the commodity costs should be calculated using 6.825 cents / kWh.

B. Load Forecast and Customer Count

VECC has no comments.

C. Operating Costs

Depreciation Expense

Hearst has acknowledged the Board's direction (Decision, page 20) to exclude the depreciation on smart meters from rate base. However, the calculation of the $135,888 expense set out in Appendix E appears to include $29,146 in depreciation associated with smart meter costs recorded in Account #1861. It also appears to include any depreciation associated with the smart meter capital costs recorded in Account #1860 (see above). VECC submits that, per the Board's direction, these depreciation expenses should be removed from the DRO.

Income and Capital Taxes

In its Argument (paragraph 5.8) VECC had noted a number of inconsistencies between the PILS model and the Rate Maker model. In its Reply Submission Hearst noted that the tax calculations were incorrect but did not specifically address the inconsistencies identified by VECC. VECC notes that in the current DRO there continue to be inconsistencies in two of the three areas originally raised:

- Amortization: The PILs model includes $166,453 in amortization for tangible assets and an additional $8,838 for intangible assets. In contrast the amortization expense in the Rate Maker Model (and the RRWF) is $135,888.
- Tax Credits: The PILs model (sheet P8) still does not appear to account for the Apprenticeship tax credits, contrary to the response provided to VECC #20 c).

VECC submits that Hearst should be required to address (either by way of correction or explanation) these continuing discrepancies.

D. Cost of Capital and Rate of Return

In its Reply Submission (page 21) Hearst confirmed that its long term cost of debt was based on the Board's deemed long term debt rate of 5.87% and the Board (page 22) approved this rate. However, in the current DRO (Appendix C, page 6), Hearst has used a long term debt rate of 5.76%.

E. Cost Allocation and Rate Design

Cost Allocation – Determination of Current R/C Ratios

In its Decision (page 29), the Board accepted that the starting point for considering adjustments to the revenue to cost ratios should be the ratio determined based on a uniform rate increase for all customers classes. The Board also directed (page 30) Hearst to clearly show its proposed revenue to cost ratios as compared to the results of its most up-to-date cost allocation study. As part of the DRO Hearst has filed an updated cost allocation study based its revised revenue requirement and in Appendix K (Sheet F4) Hearst shows the proposed revenue to cost ratios also with the "previous": ones from this updated cost allocation study.

VECC has issues both with the up-dated cost allocation study that Hearst had provided as well as the presentation of its results.

As noted in the Board's Decision (page 24), Hearst corrected its determination of distribution revenues at current rates in its Reply Submission. The corrected revenues at current rates can be found in Table 7 on page 23 of Hearst's Reply Submission and total $752,831. However, in the cost allocation study filed with the DRO (see Sheet O1) Hearst has used a different set of revenues at existing rates for each class (e.g. for Residential the Reply Submission revenues are $459,711 whereas in Sheet O1 they are $444,260). VECC submits that a revised/corrected cost allocation study should be provided.

The revenue to cost ratios reported in Appendix K of the DRO are based on revenues at current rates and have not been adjusted (uniformly) so that total revenues equal the revenue requirement. The appropriate values (consistent with those used in Table 7 of the Board's Decision) are found on line 82 of Sheet O1. VECC submits that, after the cost allocation study has been revised to include the appropriate distribution revenues by class, these are the revenue to cost ratios that should be used as the starting point for any adjustments.

Cost Allocation – Proposed Revenue to Cost Ratios

In its Decision (pages 29-30), the Board directed Hearst to implement the following revenue to cost ratio adjustments for 2010:

- Maintain the Residential ratio at its current value,
- Move the GS<50 ratio to 100%,
- Adopt a ratio of 70% for Sentinel Lighting,
- Adopt a ratio of 80% for the Intermediate class,
- Move the ratio for Street Lights to 50%, and
- Set the ratio for GS>50 based on the net outcome of the foregoing adjustments.

However, in its DRO Hearst has adopted a significantly different approach. Hearst claims that this approach was necessitated by the fact that the revenue requirement was not fully allocated when the Board's prescribed ratios were applied. In VECC's view the Board's direction was clear – for 2010 the ratio for the GS>50 class was to be varied so as to allow for a full allocation of Hearst's revenue requirement.

VECC submits that Hearst should provide an allocation to customer classes and rates based on the Board's direction. In doing so, the ratio used for Residential should be the value calculated by the revised cost allocation study as described above.

F. <u>Deferral and Variance Accounts</u>

VECC has no comments.

G. <u>Implementation of Rates</u>

In its Decision the Board approved (page 35) an effective date for the new rates of February 1, 2011. Based on an assumed implementation date of April 1st, 2011 the Board directed Hearst to recover the two months of foregone revenue through a rate rider to be effective from April 1, 2011 to April 30, 2012. In Appendix I Hearst has calculated its rate rider based on ¼ of the difference between the new rates and the proposed rates. Furthermore, in its Tariff Schedule (Appendix A), Hearst shows the rate rider as being in effect only until April 30, 2011.

VECC submits that Hearst has misinterpreted the Board's Decision. Assuming an April 1, 2011 implementation date, the rate rider will be in effect for 13 months. Given that it is required to recovered two months worth of incremental revenue shortfall, the calculation of the rider should be based on 2/13th of the difference between the current and the final approved rates.

If the Board or Hearst have any questions regarding the foregoing comments please contact either Bill Harper (416-348-0193) or myself (416-767-1666).

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC

cc: Hearst Power Distribution Company Limited
Attention: Mr. Nicole C. Leduc