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**BY E-MAIL**

March 15, 2011

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission on Draft Rate Order**
**2010 Electricity Distribution Rates**
**Hearst Power Distribution Company Limited**
**Board File No. EB-2009-0266**

The attached file contains Board staff's comments on the Draft Rate Order submitted by Hearst Power Distribution Company Limited on March 8, 2011.

Board staff submits that the Draft Rate Order does not comply with the Board's Decision in several respects. Board staff has also identified ambiguity with respect to a small number of issues, and suggests that these should be addressed in a revised Draft Rate Order.

Sincerely,

*Original Signed By*

Neil Mather
Project Advisor

Attachment

# Board Staff Submission on Hearst Power's Draft Rate Order

## *EB-2009-0266*

The Board issued its Decision on Hearst Power cost-of-service rate application on February 15, 2011. Hearst Power submitted its Draft Rate Order on March 8, 2011. VECC submitted its comments on March 14, 2011.

Board staff expects that Hearst Power's reply submission will include revisions to the supporting documentation, including a revised Revenue Requirement Work Form ("RRWF"). For the sake of posterity, Hearst Power should ensure that it is identified correctly in the headings of the RRWF worksheets.

**Rate Base:**

Board staff submits that Hearst Power has calculated its rate base correctly in the Draft Rate Order, except for a remaining question concerning the cost of power in the working capital allowance.

Hearst Power has decreased its gross fixed assets (average during 2010) by an amount of $498,126 compared to the amount in its evidence at the time of the Board's Decision. The decrease includes of $437,190 for Smart Meters, as found in the 2009 ending balances for account 1860 'Meters'. The decrease also includes the withdrawal of the Smart Meters added during 2010, which had been withdrawn by Hearst Power in its final submission. Finally, the decrease includes an adjustment for PST on capital expenditures during 2010, amounting to $6974.

Board staff observes that the amount $6194 has not been removed from the proposed rate base. This is an amount that was recorded by Hearst Power in account 1860, as distinct from account 1861 which it has used to record Smart Meter balances. Board staff submits that the record is ambiguous concerning whether this amount is actually related to Smart Meters, despite several interrogatories and submissions. Board staff suggests that the amount is not material and it is reasonable to retain it in the rate base. To avoid doublecounting, this cost will not be transferred when the Smart Meter balances are disposed of at a later date.

**Working Capital:**

Board staff concurs with VECC with respect to the need for greater precision in the cost of power. While not included in the Appendix accompanying the Draft Rate Order, Hearst Power has provided a work sheet in the RateMaker model that shows the detailed derivation of the unit cost $0.06825 per kWh. The ultimate effect is a decrease of approximately $700 per year. Board staff notes that the RateMaker worksheet uses $69.38 per MWh as the forecast cost of power for RPP customers, whereas the OEB RPP report cited is $68.38 (RPP Price Report (Nov 10 – Oct 11, p. 3, Table ES-1). This apparent discrepancy warrants an explanation or correction.

Board staff concurs with the other components of Hearst Power's working capital submission.

**Load Forecast:**

Board staff has agreed with Hearst Power's forecast of loads and customer numbers.

The forecast of the billing kilowatts that will receive the Transformer Ownership Allowance has remained constant in the aggregate from the RateMaker model filed previously, but the quantity has been shifted somewhat from the Intermediate class to the GS>50 class. Board staff does not take issue with the Draft Rate Order, on the assumption that the more recent submission supporting the Draft Rate Order is the more accurate of the two versions..

**Throughput Revenues:**

Board staff notes that Hearst Power's costs for transmission service are up to date as directed in the Board Decision at p. 31, and are accurate with the exception of the Transformation Connection Service Rate for the IESO portion of the load in Appendix H. The rate used by Hearst Power is $1.71 per kW in place of $1.77 as approved by the Board; this applies to a relatively small portion of the total load.  The Board accepted the forecast cost of $53,000 for Low Voltage service from the host distributor.

**Miscellaneous Revenue:**

The Board accepted the Revenue Offset of $68,907, which is used appropriately in the cost allocation study filed along the Draft Rate Order, and in the RRWF.

**Operating Costs**

The Board's Decision accepted Hearst Power's proposed OM&A costs, which are reflected correctly in the Draft Rate Order.

With respect to taxes, Board staff agrees with the revision made for PST.  On the other hand, Hearst Power has revised its PILs calculation in the RRWF, using a provincial rate of 5.50% whereas it used 5.00% in previous versions.  Board staff submits that the rate changed in mid-year from 5.50% to 4.50%, which makes 5.00% an appropriate rate to use in the annual revenue requirement.

Regarding depreciation of Smart Meters, Board staff notes that total depreciation had been calculated by Hearst Power at $135,888 for a scenario in which Smart Meters would not be included in rate base, as noted in the Decision at p. 19. This amount is found also in the RRWF supporting the Draft Rate Order. However, staff concurs with VECC that depreciation of Smart Meters is apparently being included in the revenue requirement, contrary to the Board's Decision, as evident in Appendix E (fourth from last row).  If this amount has been included incorrectly, in the Draft Rate Order and in the earlier interrogatory response, then Board staff submits that the correction should be included with Hearst Power's response to these comments.

**Cost of Capital and Rate of Return**

Board staff notes that the Board approved a rate of 5.87% for the cost of Long Term Debt, in its Decision at p. 22, whereas the supporting documentation uses 5.76%.

**Cost Allocation and Rate Design**

Board staff agrees with all aspects of Hearst Power's Draft Rate Order under this heading, except for the matter of Revenue to Cost Ratios.

The Board found (at p. 30) that the ratio applicable to the GS>50 kW class might be higher or lower than had been proposed by Hearst Power. Board staff understands this to mean that the Board was not specifying an outcome for this class in 2010 and 2011. Board staff submits that Hearst Power's conclusion that the ratio was to be 1.80 in those years is incorrect, and submits that the ratio will turn out to be approximately 2.25 for this class for this period. Board staff notes that the previous ratio of 1.86, cited by Hearst Power in the table at the top of the 7$^{th}$ page of its supporting material, is associated with an overall revenue to cost ratio of only 0.67. The cost allocation study submitted by Hearst Power, at row 85 of worksheet O1, shows that the revenue to cost ratio with full cost recovery without any re-balancing would be 2.85.

With respect to Rate Design for the GS>50 kW class, Hearst Power has submitted a Monthly Service Charge of $72.00 per month, and a volumetric rate of $2.5013 per kW. Given the necessity of increasing either the Monthly Service Charge or the volumetric rate, Board staff notes that the volumetric rate currently being charged to this class is $2.9926 per kW, and suggests that Hearst Power might consider increasing its proposed volumetric rate only while retaining its proposed Monthly Service Charge.

Board staff comments that the ratios shown in the second table on the 7th page of the submission are close to those specified by the Board for 2012, when the ratio for the GS>50 kW class is to be set at 1.80 and the ratio of the Residential class may be increased to enable this further change. (However, the Decision does not allow for the Intermediate ratio to increase to 0.90 in 2012, nor the Street Lights ratio to remain out of the Board's range at 0.60.)

**Deferral and Variance Accounts**

Board staff notes that the Decision specified at p. 34 that the Deferral Account rate riders were to be dispose of the balance over a 27-month period and would end at April 30, 2013. Staff notes that the calculation of the rate riders is based on 27 months, as evidenced in Table C6 in Appendix J), and concludes that the amounts of the rate riders are likely correct as a result. However, the draft tariff in Appendix A shows the rate rider ending at April 30, 2014.

Board staff notes that the Board's Decision required an explanation of account 1598. However, it is evident that this account balance is not being disposed of, so the explanation is unnecessary until such time as it is to be disposed of.

**Foregone Revenue and Implementation Date:**

Board staff concurs with VECC's comments.

Respectfully submitted.
March 15, 2011