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BY EMAIL

February 6, 2012

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

Dear Ms. Walli:

Re: Hearst Power Distribution Company Limited
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0171

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Hearst Power Distribution Company Limited and to all other registered parties to this proceeding.

In addition please remind Hearst Power Distribution Company Limited that its Reply Submission is due by February 16, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Hearst Power Distribution Company Limited

EB-2011-0171

February 6, 2012

Board Staff Submission
Hearst Power Distribution Company Limited
2012 IRM3 Rate Application
EB-2011-0171

Introduction

Hearst Power Distribution Company Limited ("Hearst") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 14, 2011, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Hearst charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Hearst.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Hearst. In response to Board staff interrogatories, which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Hearst confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Hearst's model at the time of the Board's Decision on the application.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Hearst. Pursuant to Guideline G-2008-0001, revised on June 22, 2011, Board staff notes that the Board will update the applicable data at the time of this Decision based on the updated Uniform Transmission Rates.

Board staff submits that the revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2009-0266 Decision[1] and therefore Board staff has no issues with Hearst's proposal for this class or any other class.

During the interrogatory phase, Board staff noted that it could not verify the figures

[1] EB-2009-0266, Decision, Hearst Power Distribution Company Limited

entered for the column "Distribution Revenue", on tab 10 of the Rate Generator model, for each rate class to Hearst's previous Cost of Service draft Rate Order (EB-2009-0266). Board staff asked Hearst to provide evidence for the figures entered. In its response, Hearst noted that it had used the distribution revenue as calculated in the Shared Tax Savings Workform from the current application, and that Hearst believes that the distribution revenue generated by the Shared Tax Savings Workform is reasonable for allocation purposes[2].

Board staff submits that Hearst's interpretation of the Rate Generator Model's directions is incorrect. As stated at tab 10 of the Rate Generator Model, "for Account 1562, the allocation to customer classes should be performed on the basis of the test year distribution revenue allocation to customer classes found in the Applicant's Cost of Service application that was most recently approved at the time of disposition of the 1562 account balance[3]." Board staff submits that Hearst may wish to confirm, in its reply submission, the distribution revenue amounts for each rate class as approved in its previous Cost of Service proceeding as these figures are to be entered into the Rate Generator Model at tab 10. In the alternative, Hearst may wish to explain why it considers the amounts it has proposed are more appropriate.

Hearst provided a reconciliation of Account 1521 – Special Purpose Charge as requested by Board staff during the interrogatory phase. Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff notes that the Board has approved the disposition of unaudited balances in account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Based on Hearst's reconciliation, Board staff supports Hearst's request to dispose of the balance in this account of a credit of $5,380. Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012. Board staff submits that if the Board decides to dispose of account 1521, the disposition should be on a final basis and account 1521 should be closed.

With respect to disposition period, Board staff submits that Account 1521 should be

[2] EB-2011-0171, Interrogatory Responses, Page 17
[3] EB-2011-0171, Rate Generator Model, Tab 10, Footnote 1

disposed over a period of three years, along with Hearst's total Group 1 Accounts, for the reasons set out below.

Board staff makes detailed submissions on the following matters:

- Tax-Savings Workform;
- Review and Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report");
- Lost Revenue Adjustment Mechanism Claim; and
- Payments in Lieu of Taxes – PILS 1562.

Tax-Savings Workform

Background

During the interrogatory phase of this proceeding, Board staff noted that it was unable to verify the first portion of tab 5 of the Tax-Savings Workform, specifically data entered for the line items "Tax Credits" and "Taxable Capital", with Hearst's 2010 Revenue Requirement Workform ("RRWF"). In response to Board staff interrogatory #2, Hearst agreed with Board staff and requested Board staff to make the necessary corrections to the Tax-Savings Workform[4]. In all other respects, Hearst completed the Tax-Savings Workform with the correct rates and reflected the Revenue Requirement Work Form from the Board's Cost of Service decision in EB-2009-0266.

Submission

In its application, Hearst requested that the entire tax-savings amount be recorded in USoA 1595 as the calculated rate riders for one or more classes results in energy based kWh rate riders of $(0.0000) when rounded to the fourth decimal place and demand-based kW rate riders of $(0.00) when rounded to the second decimal place. Board staff notes that due to the revisions as noted above, the tax savings rate riders are no longer negligible as seen in the table below.

[4] EB-2011-0171, Interrogatory Responses, Page 3

Rate Class	Total Revenue $ by Rate Class A	Total Revenue % by Rate Class B = A / $H	Total Z-Factor Tax Change$ by Rate Class C = $I * B	Billed kWh D	Billed kW E	Distribution Volumetric Rate kWh Rate Rider F = C / D	Distribution Volumetric Rate kW Rate Rider G = C / E
Residential	$660,546.8472	57.56%	-$2,943	26,267,362	0	-$0.0001	
General Service Less Than 50 kW	$173,371	15.11%	-$772	12,405,535	0	-$0.0001	
General Service 50 to 1,499 kW	$178,696	15.57%	-$796	0	53,176		-$0.0150
Intermediate With Self Generation	$68,101	5.93%	-$303	0	59,721		-$0.0051
Sentinel Lighting	$1,062	0.09%	-$5	0	72		-$0.0657
Street Lighting	$65,795	5.73%	-$293	0	3,084		-$0.0951
	$1,147,571	100.00%	-$5,113				

Therefore, Board staff submits that the tax savings amount of a credit of $5,113 should be disposed.

REVIEW AND DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

Background

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (the "*EDDVAR Report") provides that during the IRM plan term, the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of $0.001 per kWh (debit or credit) is exceeded.

Hearst completed the Deferral and Variance Account continuity schedule included in the 2012 IRM Rate Generator Model at Tab 9 for its Group 1 Deferral and Variance Accounts. During the interrogatory phase, Board staff noted that for Account 1550, a figure had not been entered on tab 9 of the Rate Generator Model for Hearst's total claim and also for its 2.1.7 *Reporting and Record Keeping Requirements* ("RRR") filing for that account. Board staff noted that according to 2.1.7 of the RRR filings, a debit amount of $70,465 had been reported by Hearst. Hearst agreed with Board staff and requested that the necessary changes be made. The revised total of Hearst's Group 1 Deferral and Variance Account balances amount to a credit of $549,723, which includes a debit of $75,032 in the GA Sub-Account, and includes interest calculated to April 30, 2012. Based on the threshold test calculation, the total Group 1 Deferral and Variance Account balances equates to $0.00744 per kWh which exceeds the threshold, and as such, Hearst requested disposition of these Accounts.

Submission

Board staff has reviewed Hearst's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *RRRs*. Also, the preset disposition threshold has been exceeded. Accordingly, Board staff has no issue with Hearst's request to dispose of its 2010 Deferral and Variance Account balances at this time.

Board staff does however take issue with the disposition period (i.e. four years) requested by Hearst for its Group 1 Accounts, with the exception of Account 1588 – Global Adjustment Sub-Account ("GA Sub-Account"), for which Hearst has requested a one year disposition period. Board staff notes that Hearst's Application is not consistent with the guidelines outlined in the EDDVAR Report with respect to the standard disposition period for Group 1 accounts (i.e. one year). In its interrogatory responses, Hearst provided rate riders and bill impacts for one, two and three year disposition periods in the repayment of its Group 1 Accounts (excluding the GA Sub-Account) as requested by Board staff. The first table below represents approximate total bill impacts for the disposition of Hearst's Group 1 Accounts excluding the GA-Sub Account over one, two and year period periods[5]. The second table represents approximate total bill impacts for the disposition of Hearst's Group 1 Accounts including the GA-Sub Account over one, two, three year and four year periods.

Total Bill Impacts: Group 1 Accounts – Excluding the GA Sub-Account

	1 Year	2 Years	3 Years
Residential	$(10.31) or -10.0%	$(6.47) or -6.3%	$(5.19) or -5.0%
GS < 50	$(14.98) or -6.3%	$(5.36) or -2.2%	$(2.15) or -0.9%

Total Bill Impacts: Group 1 Accounts – Including the GA Sub-Account

	1 Year	2 Years	3 Years	4 Years
Residential	$(9.54) or -9.27%	$(6.09) or -5.91%	$(4.93) or -4.79%	$(4.36) or -4.24%
GS < 50	$(13.04) or -5.45%	$(4.39) or -1.84%	$(1.51) or -0.63%	$(0.07) or 0.03%

Hearst requested a four-year disposition period for Group 1 Accounts, excluding the GA Sub-Account, to allow for the smoothing of rate impacts by avoiding a large rate fluctuation in rates when this rider is terminated[6].

[5] EB-2011-0171, Interrogatory Responses, Page 14
[6] EB-2011-0171, Application, Exhibit 1, Tab 3, Sch.4, Page 1

Board staff notes that the total balance for disposition represents over recoveries on the part of the distributor and in the normal course these over recoveries should be available to be refunded over a fairly short time frame.

While recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, Board staff notes that in the past, the Board has made decisions which deviate from the EDDVAR Report if it deems it in the public interest to do so. For example, in Guelph Hydro's 2010 IRM application (EB-2009-0226), Guelph Hydro requested to dispose of Group 1 Accounts over a four-year period. In that proceeding, Board staff submitted that while some volatility in customer bills may occur, it is in the best interest of customers to dispose of account balances over a shorter time frame so as to reduce intergenerational inequity. The Board found that Guelph's rationale for proposing to extend the disposition may be reasonable, but believed that a four year disposition period was too long. The Board found that a disposition period of two years was appropriate.

In the current application, regarding Group 1 account balances, Board staff notes that using a disposition period as long as four years would exacerbate intergenerational inequities. Board staff however recognizes that some volatility in electricity bills may result from adopting a shorter disposition period. Board staff is of the view that the Board should strike a balance between reducing intergenerational inequities and mitigating rate volatility.

Based on the bill impacts illustrated above, staff recommends that a three-year disposition period should be adopted for all Group 1 accounts.

LOST REVENUE ADJUSTMENT MECHANISM ("LRAM") CLAIM

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

Hearst originally sought to recover a total LRAM claim of $33,962.36 over a one-year period. In response to Board staff interrogatories, Hearst updated its LRAM claim using the final 2010 OPA program results. Hearst's updated LRAM claim is $33,992.14. The lost revenues include the effect of CDM programs implemented from 2006-2010. Hearst has requested approval of these savings persisting until April 30, 2012.

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "Guidelines") issued on March 28, 2008 outlines the information that is required when filing an application for LRAM. In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

Submission

Persisting impacts of 2006-2010 programs and 2010 lost revenues

Hearst has requested the recovery of an LRAM amount that includes lost revenues for 2010 CDM programs in 2010, as well as the persisting impacts from 2006, 2007, 2008, and 2009 programs from January 1, 2010 to April 30, 2012.

Board staff notes that Hearst's rates were last rebased in 2010.

Board staff notes that the CDM Guidelines state the following with respect to LRAM claims:

> Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time[7].

Board staff also notes that in its Decision and Order on Hydro One Brampton's 2012 IRM application (EB-2011-0174), the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing.

[7] Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate. Hearst may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

In the absence of the above information, Board staff therefore does not support the recovery of the requested 2010 lost revenues from 2010 CDM programs or the persisting lost revenues from 2006, 2007, 2008, 2009, and 2010 CDM programs in 2010, 2011, or 2012 as these amounts should have been built into Hearst's last approved load forecast.

2006, 2007, 2008, and 2009 programs

Board staff notes that Hearst has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008, and 2009. Staff notes that except for 2006, Hearst was under IRM for these years. In 2006, Hearst rebased on a historical test year basis and there was no opportunity for Hearst to account for CDM activity in its rates. Board staff supports the approval of the 2006, 2007, 2008, and 2009 lost revenues, including the persisting lost revenues from 2006 programs in 2007, 2008, and 2009, the persisting lost revenues from 2007 programs in 2008 and 2009, and the persisting lost revenues from 2008 programs in 2009, as these lost revenues took place during IRM years and Hearst did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Hearst provide an updated LRAM amount that only includes lost revenues from 2006, 2007, 2008, and 2009 CDM programs, including the persisting lost revenues noted above, in the years 2006, 2007, 2008, and 2009, and the subsequent rate riders.

PAYMENTS IN LIEU OF TAXES – PILS 1562

Background

The PILs evidence filed by Hearst in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[8] Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In the pre-filed evidence, Hearst applied to recover from customers a debit balance of $2,056 consisting of a principal amount of $1,495 plus related carrying charges of $561.

Submission

After revisions made in the interrogatory stage to correctly record the deferral account variance adjustments in the year subsequent to the tax year, Hearst is applying to recover from customers a debit balance of $2,185 consisting of a principal amount of $1,495 plus related carrying charges of $689.

Board staff submits that Hearst has followed the regulatory guidance and the decisions issued by the Board in determining the amounts in its Account 1562 Deferred PILs evidence to be recovered from its customers.[9] Board staff supports Hearst's proposal as revised.

All of which is respectfully submitted

[8] Spreadsheet implementation model for payments-in-lieu of taxes.
[9] Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Staff Discussion Paper, August 20, 2008.