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**BY EMAIL**

January 27, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Hearst Power Distribution Company Limited  
Application for 2023 Electricity Distribution Rates  
OEB File Number: EB-2022-0037**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Vithooshan Ganesanathan  
Advisor, Generation & Transmission

Encl.



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Hearst Power Distribution Company Limited**

**Application for 2023 Electricity Distribution Rates**

**EB-2022-0037**

**January 27, 2023**

## Application Summary

Hearst Power Distribution Company Limited (Hearst Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 17, 2022 under section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval for changes to its electricity distribution rates to be effective May 1, 2023.

Hearst Power prepared its application under Chapter 3 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements)<sup>1</sup> and proposed to apply a Price Cap IR adjustment factor to adjust the monthly service charge during the incentive rate-setting years. Based on the pre-filed evidence in the current application, OEB staff does not object to Hearst Power's proposed adjustment, subject to Hearst Power's confirmation of the one-time nature of the large private pole line project revenue discussed in the detailed submission below.

Hearst Power has a total credit balance of \$66,109 in its Group 1 Deferral and Variance Accounts (Group 1 Accounts). Hearst Power does not intend to dispose of that balance at this time. OEB staff does not take issue with Hearst Power's request for no disposition of its Group 1 Account balances in this rate application.

Hearst Power has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator (IESO) and Hydro One Networks Inc. Hearst Power's updated RTSRs, as filed, have been adjusted to reflect the current OEB-approved 2023 Uniform Transmission Rates (UTRs)<sup>2</sup> and Hydro One Networks Inc.'s 2023 host-RTSRs.<sup>3</sup> OEB staff has no concerns with Hearst Power's requested adjustments to its RTSRs.

OEB staff has updated the 2023 IRM Model to reflect the OEB-approved 2023 price cap parameters, consistent with the election filed by Hearst Power.<sup>4</sup>

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<sup>1</sup> Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022

<sup>2</sup> EB-2022-0250, Decision and Rate Order, December 8, 2022

<sup>3</sup> EB-2021-0110, Decision and Order, November 29, 2022

<sup>4</sup> OEB Letter, 2023 Inflation Parameters, issued October 20, 2022

## OEB Staff Submission

OEB staff makes detailed submissions on the following:

- Achieved Return on Equity
- Deferral and Variance Account Disposition

### Achieved Return on Equity

#### Background

Chapter 3 of the Filing Requirements states that for the Price Cap IR and Annual IR index rate-setting options, a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved ROE. A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If a distributor whose earnings are in excess of the dead band nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so.<sup>5</sup>

For 2021, Hearst Power's regulatory Return on Equity (ROE) of 20.43% is 1,209 basis points above the deemed ROE of 8.34% approved by the OEB in its 2021 cost of service proceeding,<sup>6</sup> putting Hearst Power's 2021 ROE well above the 300 basis point dead band.

Based on the OEB's Filing Requirements, Hearst Power would be expected to refrain from seeking a price cap adjustment in this application. However, Hearst Power requested the price cap adjustment and explained that the 2021 overearning was mainly driven by:

1. The revenue from the rate riders for the recovery of the 2014-2020 Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balance of \$53,000 that was included in the 2021 distribution revenue.
2. An increase in other revenues due to the completion of a large private pole line project of \$56,000 that was recorded in account 4325 as extra jobbing revenues.<sup>7</sup>

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<sup>5</sup> Chapter 3 Filing Requirements, Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, May 24, 2022, p. 22-23

<sup>6</sup> EB-2020-0027, Decision and Order, May 27, 2021

<sup>7</sup> Manager's Summary, p. 19

Submission

OEB staff submits that it does not object to Hearst Power’s request for a price cap adjustment in this rate application, subject to Hearst Power’s confirmation that the revenue from the large private pole project was one-time in nature, i.e., this revenue has not continued in 2022 and is not expected to recur in subsequent years until Hearst Power’s next rebasing application.

Regarding the first driver – Hearst Power’s LRAMVA rate rider revenue of \$53,000 related to lost revenues associated with 2014 to 2020 – OEB staff notes that the \$53,000 amount is for the recovery of lost revenues relating to prior years but was recognized in Hearst Power’s 2021 distribution revenue when the OEB approved the disposition of the LRAMVA balance in Hearst Power’s 2021 cost of service proceeding. OEB staff submits that the receipt of this revenue in 2021 should not prevent Hearst Power from being granted the price cap adjustment.

Regarding the second driver of the other revenue – the large private pole line project<sup>8</sup> – it is not clear to OEB staff whether the revenue from the pole line project was a one-time occurrence, has not been received in 2022, and would not likely be received in the subsequent years until Hearst Power’s next rebasing application. OEB staff requests that Hearst Power confirm this in its reply submission. If Hearst Power cannot confirm the one-time nature of the revenue from this project, OEB staff submits that additional procedural steps are needed to further explore the impact of this revenue stream on Hearst Power’s ROE.

OEB staff calculated the impact of the two drivers on the 2021 achieved ROE in Table 1 below. Excluding the impact (11.27%) of these two drivers, Hearst Power’s 2021 achieved ROE is 9.16%, which is within 300 basis points of the deemed ROE of 8.34% approved by the OEB in Hearst Power’s 2021 cost of service proceeding.

**Table 1: Impact of the Two Over-earning Drivers on 2021 Achieved ROE %<sup>9</sup>**

	<b>2021</b>
LRAMVA 2014-2020 Rate Riders Revenue in 2021 <sup>10</sup>	53,000
Large private pole line project revenue	56,000
<b>Increase in Regulated Net Income from the above two items</b>	<b>109,000</b>
<b>2021 Achieved Equity (from RRR 2.1.5.6)</b>	<b>967,462</b>

<sup>8</sup> Manager’s Summary, p. 19

<sup>9</sup> [Electricity Reporting & Record Keeping Requirements \(RRR\): Section 2.1.5.6 Regulated Return on Equity](#)

<sup>10</sup> Calculated as \$53,000/24-month disposition period X 8 months in 2021

<b>% Impact on the 2021 ROE from the above two items (OEB staff calculation)</b>	<b>11.27%</b>
<b>2021 Achieved ROE % Reported</b>	<b>20.43%</b>
<b>2021 Achieved ROE % Adjusted for the above two items</b>	<b>9.16%</b>
<b>2021 Deemed ROE %</b>	<b>8.34%</b>
<b>Basis Points over the Deemed ROE</b>	<b>82</b>

OEB staff acknowledges that Hearst Power is a small distribution company with approximately 2,750 customers and with a small rate base (\$2,465,169 approved in its 2021 cost of service application). As a result, any temporary fluctuations of its revenues and expenses may result in the utility overearning in its incentive rate period. If Hearst Power confirms that the large private pole line project (and the corresponding revenue) was a one-time occurrence in 2021, OEB staff does not take issue with the request for a price cap adjustment in this application. However, if Hearst Power cannot confirm this, OEB staff submits that additional procedural steps are needed to explore the details of the project.

## Deferral and Variance Account Disposition

### Background

The 2021 year-end net balance for Hearst Power's Group 1 Accounts that are eligible for disposition, including interest projected to December 31, 2022, is a credit of \$66,109. The balance pertains to variances accumulated during the 2020 to 2021 calendar years.<sup>11</sup> This amount represents a total claim of \$0.0009 per kWh, which does not exceed the disposition threshold, and Hearst Power has not requested disposition. OEB policy states that Group 1 account balances should be disposed if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of \$0.001 per kWh.<sup>12</sup>

Hearst Power noted that there are no variances between Hearst Power's filing under the OEB's *Reporting and Record Keeping Requirements* (RRR) and the Group 1 Account balances.<sup>13</sup> In addition, none of Hearst Power's historical balances have been approved on an interim basis (i.e., all balances were approved on a final basis), and no

<sup>11</sup> Rate Generator Model, Tab 3 – Continuity Schedule

<sup>12</sup> Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3, Incentive Rate-Setting Applications, May 24, 2022

<sup>13</sup> Manager's Summary, p. 9

adjustment has been made to balances previously approved by the OEB on a final basis.

Submission

OEB staff does not take issue with Hearst Power's request to not dispose of its Group 1 Account balances in this rate application.

~All of which is respectfully submitted~