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BY EMAIL

February 20, 2026

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

**Re: Ontario Energy Board (OEB) Staff Submission
Hearst Power Distribution Co. Ltd. (Hearst Power)
2026 Distribution Rate Application
OEB File Number: EB-2025-0033**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1. This document is also being forwarded to Hearst Power.

Yours truly,

Harshleen Kaur
Advisor, Incentive Rate-setting

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Hearst Power Distribution Co. Ltd.

2026 Distribution Rate Application

EB-2025-0033

February 20, 2026

Introduction

Hearst Power Distribution Co. Ltd. (Hearst Power) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 9, 2025¹ under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2026. Hearst Power is also requesting approval for an Incremental Capital Module (ICM) related to the replacement of a digger derrick truck required to support day-to-day and emergency operations.

In addition, Hearst Power has also requested: (i) an adjustment to its Retail Transmission Service Rates; (ii) an update to its Low Voltage Service Rates; and (iii) disposition of its Group 1 deferral and variance account (DVA) credit balance (as of December 31, 2024, including projected carrying charges to April 30, 2026) totaling \$78,081. OEB staff does not have any objections to, or concerns with, these requests made by Hearst Power.

OEB staff has attached an updated Rate Generator Model with its submission. The Rate Generator Model reflects updated bill impacts in Tab 21 as a result of the updates filed by Hearst Power on February 10, 2026.

OEB staff's detailed submissions on the following matters are included below:

- Annual Price Cap Adjustment
- Incremental Capital Module
- Gain on disposition – sale of truck
- Commodity Account 1588 – RSVA Power – Line Losses

¹ An updated application was filed by Hearst Power on November 4, 2025.

Annual Price Cap Adjustment

Background

Consistent with Chapter 3 of the Filing Requirements for Electricity Distribution Rate Applications (Filing Requirements), Hearst Power applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. The annual adjustment follows an OEB-approved formula that includes components for inflation and the OEB's expectations of efficiency and productivity gains. The components in the formula are approved by the OEB annually. The formula prescribes a rate adjustment equal to the inflation factor minus the distributor's X-factor (which is the sum of the productivity factor and the stretch factor).²

An inflation factor of 3.70% applies to all electricity distributor IRM applications for the 2026 rate year.³ Hearst Power has been assigned a stretch factor of 0.00%,⁴ resulting in a rate adjustment of 3.70%, in accordance with the OEB's Price Cap adjustment formula.

In its application / evidence, Hearst Power indicates that it achieved a Return on Equity (ROE) of 13.96% in 2024. This is 562 basis points above its deemed ROE of 8.34% and exceeds a deadband of 300 basis points by \$25,835.⁵ As per the Filing Requirements:⁶

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 method. 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. A distributor is expected to file its regulated ROE, as was filed for RRR 2.1.5.6. However, if in the distributor's view this ROE has been affected by out-of-period or other items (e.g., revenues or costs that pertain to a prior period but recognized in a subsequent one), it may also file a proposal to normalize its achieved regulated ROE for those impacts, for consideration by the OEB. The distributor should anticipate that the level of earnings will be raised as an issue in the application.

² Chapter 3 - Filing Requirements for Electricity Distribution Rate Applications, issued June 19, 2025

³ OEB Letter, 2026 Inflation Parameters, issued June 21, 2025

⁴ Empirical Research in Support of Incentive Rate-Setting: 2024 Benchmarking Update, Report to the Ontario Energy Board, August 2025, Table 5

⁵ EB-2025-0033, Manager's Summary, p. 23

⁶ Chapter 3 - Filing Requirements for Electricity Distribution Rate Applications, issued June 19, 2025, p. 21

Hearst Power notes that the over-earning is primarily due to unusually large sub-contracting requests for utility locate services following the *Ontario Underground Infrastructure Notification System Act* (OUINS Act) amendment which prompted some utilities to permanently or temporarily modify their locating practices. As a result, project owners are allowed to designate a specific locator, such as Hearst Power, for their projects. Hearst Power notes that it was engaged as a sub-contractor to assist other utilities and third-party organizations with fulfilling locate requests submitted through the Ontario Call Before You Dig system – most notably during peak periods of increased activity associated with major projects in Northern Ontario (e.g., road and highway expansions, and new broadband installations).⁷

Hearst Power considers the large sub-contracting requests for locate services to be an isolated and non-recurring factor. In response to interrogatories⁸, Hearst Power confirmed that the locate requests are neither permanent nor guaranteed. Hearst Power also anticipates that the locate requests from its sub-contracting activity would likely be lower in 2026.⁹

Review of Hearst Power’s scorecard reporting also confirms that the distributor’s achieved ROE has otherwise been within the prescribed 300 basis point deadband, except in 2021 and 2024, as noted in the table below.

Table 1: Hearst Power Historical ROE

Year	Approved ROE	Achieved ROE	Over (Under) Earned
2024	8.34%	13.96%	5.62%
2023	8.34%	8.12%	(0.22%)
2022	8.34%	7.50%	(0.84%)
2021	8.34%	20.43%	12.09%
2020	9.19%	7.18%	(1.01%)

Source: 2024/23 Scorecard

Submission

OEB staff does not object to Hearst Power’s proposed Price Cap IR adjustment. Hearst Power has confirmed that the over-earning in 2024 was temporary in nature and likely not to recur. Due to the size of the distributor, circumstances such as those experienced by Hearst Power in 2024 would have a higher impact on ROE. Through interrogatories,

⁷ EB-2025-0033, Staff Interrogatory Response - 13

⁸ *Ibid.*

⁹ *Ibid.*

OEB staff asked for a forecasted ROE for 2025 and Hearst Power provided a preliminary achieved ROE of 6.15%, which is within the 300-basis point deadband.¹⁰ Hearst Power also provided an email from January 24, 2026 regarding the early cancellation of a locate contract in 2026 in support of its position that the subcontracting activity is not guaranteed and why it anticipates lower locate jobbing in 2026.¹¹

OEB staff notes that the OEB has previously approved Price Cap IR adjustments for Chapleau Public Utilities Corporation (Chapleau Public Utilities) during its 2023¹² and 2024¹³ IRM applications, even though its ROE was above the 300-basis point deadband. In Chapleau Public Utilities' 2023 IRM application, it noted that its 2021 ROE was 24.43%, or 1,545 basis points greater than its deemed ROE of 8.98%. Chapleau Public Utilities attributed the over-earning to three drivers:

1. An increase in 2021 Other Revenues of \$46,944 due to a 'one time' administrative fee charged to a Hydro One Networks Inc. (Hydro One) mining customer who hired Chapleau Public Utilities to administer the transfer of pole attachments to Hydro One upgraded poles.
2. A temporary decrease in operations, maintenance and administration (OM&A) costs of \$52,695 due to an operations employee taking an unpaid leave of absence.
3. Not having any debt instruments in 2021 compared to the deemed interest collected through rates and based on the deemed cost of capital parameters.

OEB staff supported Chapleau Public Utilities' request for a Price Cap adjustment, given that the first two main drivers causing the over-earning appeared to be one-time in nature and were non-recurring.¹⁴ In its Decision and Rate Order, the OEB found that Chapleau Public Utilities' over-earnings were the result of two extenuating events that were unlikely to be repeated and, therefore, no further action was required.¹⁵

In its 2024 IRM application, Chapleau Public Utilities reported an ROE of 12.99%, or 401 basis points greater than its deemed ROE of 8.98%. OEB staff did not support the approval of a Price Cap adjustment, but invited Chapleau Public Utilities to demonstrate, in its reply submission, that the adjustments were one time in nature or out of the control of the distributor. In its reply, Chapleau Public Utilities clarified that the

¹⁰ EB-2025-0033, Staff Interrogatory Response - 11

¹¹ EB-2025-0033, Staff Interrogatory Response - 13

¹² EB-2022-0021

¹³ EB-2023-0011

¹⁴ EB-2022-0021, OEB Staff Submission, January 26, 2023

¹⁵ EB-2022-0021, Decision and Rate Order, March 23, 2023

main driver for the over-earning was due to a temporary decrease in OM&A of \$40,251 as the General Manager was working on a part-time, instead of a full-time basis, for the entire year of 2022. Chapleau Public Utilities also confirmed that the over-earning was not expected to continue in 2023. In its Decision and Rate Order, the OEB determined that the over-earning was one-time in nature and due to circumstances beyond Chapleau Public Utilities' control.¹⁶

OEB staff submits that the circumstances noted in Chapleau Public Utilities' 2023 and 2024 IRM applications are like those of Hearst Power's in this proceeding. Hearst Power experienced an over-earning in 2024 that was temporary in nature largely due to unusual sub-contracting revenues after the OUINS Act amendment and Hearst Power does not expect the over-earning to continue into 2026. Further, as the OEB approved the Price Cap IR adjustment for Chapleau Public Utilities in its 2023 and 2024 IRM proceedings, OEB staff submits that since Hearst Power's over-earning is one-time in nature and the projected ROE for 2025 is within the 300 basis point deadband, OEB staff does not object to Hearst Power's proposed Price Cap IR adjustment.

Incremental Capital Module

Background

Included in Hearst Power's application is a request for ICM funding to support the purchase of a new digger derrick truck. Hearst Power states that it relies on its digger derrick truck to perform essential (e.g., pole setting, transformer installation, and overhead line maintenance) and emergency response activities. Hearst Power only owns one such vehicle, making the asset critical to the safe and reliable operation of its distribution system. Hearst Power states that the new digger derrick truck replaces a 2000 Freightliner FL80 digger derrick that has reached the end of its useful life after 25 years in service.

The ICM request is for capital expenditures totaling \$510,475. The breakdown of the costs are:

- Chassis (Freightliner M2 106 Plus) – delivered in early 2025 at a cost of \$127,300
- Boom and utility body installation (Wajax) – to be completed in early 2026 at a cost of \$383,175

The total incremental annual revenue requirement associated with the ICM request is

¹⁶ EB-2023-0011, Decision and Rate Order, March 21, 2024

\$54,212, based on a maximum eligible incremental capital amount of \$487,206. If approved, the ICM funding will be collected via fixed and variable rate riders effective May 1, 2026, until Hearst Power's next rebasing rate order. The rate riders are based on current fixed and variable revenue proportions.

Hearst Power was originally scheduled for rebasing for 2026 rates. On May 23, 2025, Hearst Power requested a two-year deferral period and noted that it would be filing an ICM request as part of its 2026 IRM application.¹⁷ The OEB granted this request on June 18, 2025. In its response letter to Hearst Power, the OEB noted that it is the OEB's policy that an ICM is not available to utilities during deferred rebasing periods (other than those related to consolidations). Further, the OEB's letter also highlighted that if Hearst Power includes an ICM request in its 2026 rate application, a panel of Commissioners will, at that time, determine whether departure from the OEB's policy is warranted.¹⁸

OEB staff has considered Hearst Power's ICM request in light of two threshold questions that, if approved, will require an exemption from OEB policy:

1. Should the OEB grant Hearst Power's ICM request during a cost of service deferral period?
2. Should the OEB grant Hearst Power's ICM request despite Hearst Power achieving a regulated return that exceeds 300 basis points above the deemed ROE embedded in the distributor's rates?

Cost of Service Deferral Period

When answering the first question of whether the OEB should grant Hearst Power an exemption and approve ICM funding during a deferred rebasing period, OEB staff is of the view that the OEB should make an exception in this unique case.

In response to interrogatories, Hearst Power listed two reasons for its rebasing deferral request: i) temporary, non-recurring financial results in 2024; and ii) internal resource constraints. OEB staff acknowledges that denial of the ICM request would place significant financial strain on Hearst Power during the deferred rebasing period. This support is attributed to the financial implications of the purchase of a significant asset for a utility of Hearst Power's size. As discussed below, OEB staff notes that Hearst Power depends on a reliable digger derrick truck to undertake distribution operations.

¹⁷ Letter: Request for Deferral of 2026 Cost of Service Application, filed May 23, 2025

¹⁸ OEB Letter, Response re: COS Deferral Request, June 18, 2025

However, OEB staff supports a reduced ICM amount of \$383,175.

The OEB’s policy on how to fund capital has evolved over time. The *Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* emphasized the importance of good distribution system planning, including optimizing, prioritizing and pacing distributor’s capital expenditures to control costs and promote rate predictability.¹⁹ In the *Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (the ACM Report), the OEB continued its progress towards incenting electricity distributors to develop and justify a long-term strategy for delivering distribution services that their customers value and that reflect manageable rate impacts over the long term.²⁰

OEB staff is of the view that regardless of its size, a distributor is expected to follow the principles laid out in these reports. OEB staff submits that Hearst Power failed to adhere to the principles of good distribution system planning or promoting rate predictability by deferring its rebasing application while in need of a significant asset to maintain its distribution system. In response to interrogatories²¹, Hearst Power states that it informed its Board of Directors that it has the ability to address extraordinary capital needs through an ICM during the IRM years. While this is correct during the IRM term, it is not the case during a deferred rebasing period as noted in the OEB’s Filing Requirements,²² the [OEB’s letter](#) of December 1, 2021 and reiterated in the [OEB letter](#) regarding “Applications for 2026 Electricity Distribution Rates”. OEB staff believes that it would have been in Hearst Power’s interest to prepare and file a cost of service application in 2026 given its capital needs. However, OEB staff supports this ICM request on an exceptional basis and without prejudice.

Regulated Return on Equity (ROE) Above the Threshold

OEB staff supports the ICM request in consideration of the essential nature of the asset and Hearst Power being a very small distributor. However, OEB staff submits that the ICM amount should be reduced from \$510,475 to \$383,175 due to Hearst Power over-earning in 2024. This amount represents the costs for the booms and utility body installation, which will be incurred in 2026. Further discussion on the ROE threshold can be found in the Means Test section below.

¹⁹ *Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014, p. 3

²⁰ *Ibid.*, pp. 3-4

²¹ EB-2025-0033, Staff Interrogatory Response - 12 b(ii)

²² Chapter 3 - Filing Requirements for Electricity Distribution Rate Applications, issued June 19, 2025, p.

24

In making its submission on the 2026 ICM funding request, OEB staff has considered the OEB policies noted above, as well as the OEB’s established criteria for ICM funding set out in the ACM Report.²³ These criteria are materiality, need, and prudence.²⁴

Materiality

There are three elements to the materiality criterion. The application must first meet the materiality threshold, which determines a distributor’s maximum eligible capital funding. Second, the distributor must demonstrate that the project is not a minor expenditure in comparison to the overall capital budget. Third, the incremental funding must have a significant influence on the operation of the distributor.

Materiality Threshold

The OEB uses the materiality threshold formula which considers both the growth of the utility and the inflationary increase since the last rebasing year,²⁵ to determine the maximum eligible incremental capital amount.²⁶ The following equation is used by the OEB to calculate the materiality threshold:

$$\text{Threshold Value}(\%) = \left(1 + \left[\left(\frac{RB}{d}\right) \times (g + PCI \times (1 + g))\right]\right) \times ((1 + g) \times (1 + PCI))^{n-1} + X\%$$

Where: n = number of years since cost-of-service rebasing

RB = Rate Base included in base rates (\$)

d = depreciation expense included in base rates (\$)

g = distribution revenue change from load growth (%)

PCI = price cap index

X = dead band of 10%

The Price Cap Index (PCI) to be used in the above formula is the Input Price Index (IPI) less the stretch factor of 0.3. The inflationary factor (or IPI) to be used according to the ICM policy is the IPI from the utility’s most recent Price Cap IR application. The growth

²³ *Report of the Board - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module*, September 18, 2014

²⁴ *Ibid.*, p. 16

²⁵ Hearst Power last rebased in 2021 (EB-2020-0027)

²⁶ Chapter 3 - Filing Requirements for Electricity Distribution Rate Applications, issued June 19, 2025

factor is calculated based on the percentage difference in distribution revenues between the most recent complete year and the most recent approved test year.

Hearst Power used the OEB-approved materiality threshold formula to arrive at a threshold capital expenditure value of \$226,269. Hearst Power's 2026 capital forecast is \$713,475. The total net cost of the new digger derrick truck is \$510,475. Based on the 2026 capital forecast and the calculated materiality threshold, the maximum eligible incremental capital amount is \$487,206, which was confirmed by Hearst Power in response to interrogatories.²⁷ OEB staff notes that the \$510,475 amount includes \$127,300 for the chassis, which represents a cost incurred in 2025. While not part of the 2026 capital expenditure, OEB staff is of the view that this cost should be included in the threshold calculation since this cost was recorded as construction work in progress and forms part of the overall cost for the new digger derrick truck. OEB staff notes that the chassis by itself was not used and useful in 2025, but rather will be used and useful in 2026 when the boom is installed and the asset is fully commissioned.

Submission

OEB staff submits that Hearst Power meets the materiality criteria. OEB staff submits that Hearst Power's 2026 capital forecast exceeds the materiality threshold calculated using the OEB-approved materiality threshold formula.

Project-Specific Materiality Threshold

The ACM Report addresses the project-specific materiality threshold criterion as follows:

Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the [OEB]-defined threshold calculation is expected to be absorbed within the total capital budget.²⁸

Hearst Power states that the new digger derrick truck is material on a project-specific basis.

Submission

²⁷ EB-2025-0033, Staff Interrogatory Response - 6

²⁸ [EB-2014-0219, Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014](#)

OEB staff submits that Hearst Power’s new digger derrick truck constitutes a significant portion of its overall capital expenditure forecast and therefore, in OEB staff’s view, satisfies the project-specific materiality threshold.

Significant Influence on Operations

The ACM Report states that any amount being requested for ICM funding must clearly have a significant influence on the operation of a distributor. Hearst Power states that purchase of a new digger derrick truck makes up a significant portion of its total capital expenditure forecast and will have a significant influence on its operations.

Submission

OEB staff agrees and submits that the new digger derrick truck will have a significant influence on Hearst Power’s operations as it is a critical asset for the distributor’s day-to-day and emergency operations. As Hearst Power currently only owns one such vehicle, it depends on this asset to operate its utility in a safe and reliable manner.

Need

The ACM Report describes the “need” criterion as follows:

The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.²⁹

Means Test

Under the Means Test, if a distributor’s regulated ROE exceeds 300 basis points above the deemed ROE embedded in the distributor’s rates, then the funding for any incremental capital project will not be allowed.³⁰ Hearst Power states that its 2024 actual ROE was 13.96%, which is 562 basis points higher than its deemed ROE of 8.34%.

Submission

OEB staff submits that, on the basis of exceeding its deemed ROE by 300 basis points, Hearst Power does not pass the Means Test for the new digger derrick truck. However,

²⁹ The ACM Report, p. 17

³⁰ *Ibid.*

OEB staff submits that despite not passing the Means Test, the OEB should consider granting a reduced ICM amount of \$383,175.

Hearst Power notes that the ROE variance in 2024 was driven by an isolated, non-recurring factor. In 2024, Hearst Power was sub-contracted for utility locate services more often than previous years, following the amendment of the OUIINS Act, which centralized and streamlined the locate process across the province.³¹ Hearst Power states that these revenues reflect extraordinary and time-limited sub-contracting activity related to unusually large requests received in 2024. Hearst Power states that it does not expect this revenue to recur. In response to interrogatories,³² Hearst Power highlights that, on a preliminary basis, its 2025 achieved ROE has been calculated as 6.15%, which would be below its deemed ROE of 8.34% and within the +/- 300 basis point deadband. OEB staff is of the view that this preliminary result supports Hearst Power's argument that the 2024 ROE was an outlier and is unlikely to continue.

OEB staff notes that very small distributors are more susceptible to large ROE variances due to their relative size (see Table 2 below for a history of ROE for Hearst Power).

Table 2: Hearst Power Historical ROE

Year	Approved ROE	Achieved ROE	Over (Under) Earned
2024	8.34%	13.96%	5.62%
2023	8.34%	8.12%	(0.22%)
2022	8.34%	7.50%	(0.84%)
2021	8.34%	20.43%	12.09%
2020	9.19%	7.18%	(1.01%)
2019	9.19%	13.91%	4.72%

Source: 2024/23 Scorecard

Despite supporting the ICM request on an exceptional basis, OEB staff submits that the ICM request should be reduced by \$127,300, equivalent to the cost of the chassis delivered in early 2025, due to Hearst Power's over-earning in 2024. OEB staff supports the reduced ICM claim of \$383,175 given the magnitude of the cost of the digger derrick truck when compared to Hearst Power's average annual capital budget of \$203,000.³³

³¹ EB-2025-0033, Manager's Summary, p. 23

³² EB-2025-0033, Staff Interrogatory Response - 11

³³ EB-2020-0027, Settlement Proposal, p. 16

OEB staff notes that the purchase of a vehicle like a digger derrick truck for \$510,475 exceeds Hearst Power's annual budget by \$307,475 (or 151%). OEB staff submits that this purchase is a significant investment for a utility of Hearst Power's size and the denial of the claim would cause significant underearning in the future and significantly impact the distributor's operations.

Discrete Project

The ACM Report indicates that incremental capital funding is for discrete projects and not for ongoing capital programs. Hearst Power states that the replacement of its primary digger derrick truck is a distinct, non-discretionary project, and is unrelated to Hearst Power's recurring annual capital projects.

Submission

OEB staff submits that the proposed ICM project is discrete and is not related to ongoing capital programs.

Directly Related to the Claimed Driver

Hearst Power states that the digger derrick truck is an indispensable asset for Hearst Power's day-to-day and emergency operations. It is the only vehicle in Hearst Power's fleet capable of safely lifting, setting and maintaining poles and large distribution equipment. Without a reliable digger derrick truck, Hearst Power notes that it would not be able to carry out plant renewal programs, respond effectively to outages, or ensure safe working conditions for its crews.³⁴ Hearst Power further confirmed that after 25 years, its current digger derrick is well beyond its expected service life and is no longer reliable as a frontline vehicle.³⁵

Submission

OEB staff submits that the incremental capital request directly relates to the claimed driver of a new digger derrick truck as identified by Hearst Power.

Outside of Base Upon Which Rates Were Derived

Hearst Power states that it is replacing a 2000 Freightliner FL80 chassis with a Telelect C4047 boom and Protek PVT134 fiberglass utility body. The current digger derrick truck entered into service in 2000, and Hearst Power notes that after 25 years, it is well

³⁴ EB-2025-0033, Manager's Summary, p. 20

³⁵ *Ibid.*, p. 20

beyond its expected service life and that the new digger derrick truck will replace Hearst Power's current one. In response to an OEB staff interrogatory, Hearst Power confirmed that the current vehicle has been fully depreciated.³⁶

Submission

OEB staff submits that the new digger derrick truck is a project that is outside of the base upon which rates were derived.

Prudence

The ACM Report describes the “prudence” criterion as follows:

The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.³⁷

Based on Hearst Power's evidence, OEB staff submits the amounts incurred are prudent. Hearst Power states that it considered multiple options before proceeding with the new purchase including:³⁸

- Continuing Maintenance and Repairs: Already over \$55,000 in five years with growing risks; not sustainable
- Used Units (2014 Terex RBDs): ~\$119,500 each; mileage 155,000–174,000 km; ~3,600 hrs. Limited useful life and ongoing risk.
- New Units (POSI+ / Terex quotes): \$510,000–\$516,000, comparable to final procurement

Hearst Power states that a Request for Quotation was issued in 2024 and the chosen supplier (Freightliner / Wajax) provided competitive pricing (i.e., lowest bid) and full warranty support. Procurement followed Hearst Power's purchasing policy³⁹, and the new truck ensures long-term safety, compliance, and reliability.

Submission

OEB staff reviewed the bids received by Hearst Power, as well as the maintenance and

³⁶ EB-2025-0033, Staff Interrogatory Response - 8

³⁷ ACM Report, p. 17

³⁸ EB-2025-0033, Manager's Summary, p. 21

³⁹ *Ibid.*

repair costs that would be incurred for the existing truck or in replacing the truck with a used unit, and submits that the purchase of the new digger derrick truck is prudent.

CCA Amounts

In its application, Hearst Power used ten-year amortization periods for its chassis (Freightliner M2 106 Plus) and 15-year periods for the boom and utility body installation (Wajax). In response to interrogatories, Hearst Power noted that the amortization periods, while not fully aligned with the useful life ranges approved in Hearst Power's most recent rebasing application for fleet and equipment, are consistent with International Financial Reporting Standards accounting standards.⁴⁰

Submission

OEB staff takes no issue with the amortization periods proposed by Hearst Power.

In conclusion, OEB staff submits that the OEB should approve a reduced ICM claim of \$383,175.

Gain on Disposition - Sale of Truck

Background

In its pre-filed evidence, Hearst Power notes that following the delivery of the new digger derrick truck, it intends to sell the retired truck (2000 Freightliner FL80 chassis with a Telelect C4047 boom and Protek PVT fiberglass utility body). Hearst Power states that it expects salvage proceeds between \$25,000 and \$50,000 to be credited back to ratepayers.⁴¹ In response to interrogatories, Hearst Power confirmed that the retired digger derrick truck is expected to be sold in 2026 following the commissioning of the replacement unit.⁴²

Hearst Power provided a draft accounting order to record the proceeds of the truck, such that any gains are returned to ratepayers at the time of disposition in Hearst Power's next rebasing application. Hearst Power states that the proposed deferral account meets the OEB's criteria for causation, materiality, and prudence for establishing a new DVA⁴³ because the gain arises from the disposition of a utility asset

⁴⁰ EB-2025-0033, Staff Interrogatory Response - 9(a)

⁴¹ EB-2025-0033, Manager's Summary, p. 21

⁴² EB-2025-0033, Staff Interrogatory Response - 7(a)

⁴³ [Hearst Power addendum letter](#), dated February 10, 2026

used in the provision of regulated electricity distribution service and is, therefore, causally related to Hearst Power's regulated operations. While the proceeds from the sale of the retired digger derrick truck are expected to be modest, deferral is appropriate given the timing mismatch between the expected sale in 2026 and Hearst Power's next rebasing application in 2028. Hearst Power notes that the replacement of the digger derrick truck and subsequent disposition of the retired unit reflect prudent utility asset management and are consistent with established OEB practice.⁴⁴

Submission

OEB staff submits that it supports Hearst Power's proposal regarding the gain on the disposition of the retired truck. While Hearst Power indicates that the potential gain is modest, OEB staff is of the view that refunding the gain on the retired truck is justified, as it would mitigate the rate impact arising from any ICM funding of the replacement truck in this proceeding.

Causation

OEB staff submits that the causation criterion is satisfied. OEB staff notes that in support of its request to establish a deferral account, Hearst Power states that the gain on disposition arises directly from the sale of a utility asset that was used in the provision of regulated distribution services. While OEB staff agrees that the retired digger derrick truck formed part of Hearst Power's regulated operations, OEB staff submits that the causation criterion under the OEB's Chapter 2 of the Filing Requirements for Electricity Distribution Rate Applications requires that, in order to be eligible for a new DVA, the cost or revenues proposed for deferral must be clearly outside of the base upon which rates were derived.⁴⁵

Hearst Power last rebased in 2021. Hearst Power confirms that the retired digger derrick truck was fully depreciated at that time, however, it remained in use.⁴⁶ Furthermore, no gain / loss on the disposition of utility and other property was included in Appendix 2-H Other Revenues as part of the 2021 rebasing application. As a result, the gain arising from the disposition of the asset in 2026 is outside of base rates.

Materiality

OEB staff submits that the materiality criterion is satisfied. Hearst Power estimates that

⁴⁴ [Hearst Power addendum letter](#), dated February 10, 2026

⁴⁵ [2026 Chapter 2 Filing Requirements for Distributors](#), Section 2.9.2

⁴⁶ EB-2025-0033, Staff Interrogatory Response - 8

the salvage proceeds may be in the range of \$25,000 to \$50,000. OEB staff notes that \$50,000 was accepted as Hearst Power’s materiality threshold in its last cost of service proceeding.⁴⁷

Prudence

Per the OEB’s filing requirements regarding prudence, the nature of the amounts and forecast quantum to be recorded in the proposed account must be based on a plan that sets out how the amounts will be reasonably incurred.⁴⁸ OEB staff submits that Hearst Power’s decision in disposing of the truck is prudent and the forecast quantum is based on appropriate planning. In its pre-filed evidence, Hearst Power discussed its operational needs and the competitive procurement process it undertook to demonstrate that the decision and investment to replace the existing digger derrick truck was made based on reasonable planning.⁴⁹ OEB staff submits that the expected disposition proceeds are a natural and foreseeable outcome of that decision; however, final determination of prudence will be assessed at disposition.

In addition to the above, Hearst Power is requesting ICM funding for a new truck to replace the existing digger derrick truck in this proceeding. If approved, the ICM funding will be an additional charge to ratepayers during the IRM term. OEB staff is of the view that it would be appropriate for the proceeds from the disposition of the replaced asset to be returned to customers to ensure regulatory fairness.

OEB staff supports Hearst Power’s proposed accounting treatment, including the establishment of a sub-account under Account 1508 to record the gain, the application of OEB-prescribed carrying charges, and disposition to be brought forward in Hearst Power’s next rebasing application.

Commodity Account 1588 – RSV Power – Line Losses

Background

In response to OEB staff questions during its 2025 IRM proceeding, Hearst Power filed a detailed line loss analysis to explain the relatively large balance in Account 1588 – RSV Power, which represented -2.7% of Account 4745 – Power Purchased for 2023.⁵⁰ Hearst Power provided its own analysis and supporting explanations demonstrating that

⁴⁷ EB-2020-0027, Exhibit 1, Section 1.6 Materiality Threshold

⁴⁸ [2026 Chapter 2 Filing Requirements for Distributors](#), Section 2.9.2

⁴⁹ Managers Summary, Section 14: ICM/ACM/Z-factor

⁵⁰ EB-2024-0029, [HPDCL 2025 GA Analysis Workform 20250206](#), Tab 1588

the variance was primarily attributable to differences between the OEB-approved Supply Facility Loss Factor (SFLF) and the actual loss factors charged by Hydro One.

Hearst Power stated that in its 2021 cost of service application, it applied the OEB's approved methodology and default parameters to calculate its SFLF. Subsequent review of Hydro One's billing data and totalization tables revealed that the actual loss factors applied in practice differed materially from the approved values. Specifically, Hearst Power determined that:

- The OEB-approved line loss factor of approximately 5.98% did not reflect the weighted average of actual supply losses, which were closer to 4.60%; and
- The divergence was a significant driver of the Account 1588 balance⁵¹

Hearst Power estimated that approximately 86% of the variance was attributable to the difference between approved and actual loss factors, representing approximately \$107,894 of the balance of Account 1588 – RSVA Power in 2023.⁵²

In response to OEB staff's questions in its 2025 IRM proceeding, Hearst Power stated that it would address this issue in its next rebasing application by calculating its SFLF using a weighted average of actual purchased power rather than relying on the default OEB values.⁵³

In the current proceeding, Hearst Power's balance in Account 1588 – RSVA Power for 2024 of -\$98,589 (or -1.9% of Account 4705 – Power Purchased) exceeds the OEB's 1% reasonability threshold. In its pre-filed evidence, Hearst Power attributes -\$88,961 of the variance to unaccounted for energy, or to an overstated line loss factor.⁵⁴ This is approximately 90% of the total Account 1588 activity in 2024 related to the line loss-related variance.

Submission

OEB staff submits that the magnitude and composition of the 2024 balance in Hearst Power's Account 1588 Commodity Accounts Analysis Workform is consistent with the findings of Hearst Power's line loss investigation for its 2025 IRM proceeding. OEB staff notes that in both proceedings:

⁵¹ EB-2024-0029, Staff Interrogatory Response - 11

⁵² *Ibid.*

⁵³ EB-2024-0029, Response to Follow-up Question 4

⁵⁴ [HPECL 2026 IRM Commodity Accounts Workform 20251015](#), Tab 1588

- The variance is in the same direction (i.e., the approved line loss is greater than actual line losses and Hearst Power over-collected from ratepayers, resulting in a credit balance in Account 1588, representing a refund to ratepayers); and
- Line loss-related impacts represent the main contributor to the balance in Account 1588

The Commodity Accounts Analysis Workform filed in this proceeding demonstrates that Hearst Power has quantified the impact and linked the majority of the -1.9% variance to loss factor discrepancies through its own analytical disclosures. Removing the impact of the line losses, Account 1588 is -0.19% of the cost of power,⁵⁵ and no longer exceeds the OEB's 1% reasonability threshold. OEB staff is satisfied that the primary driver of the 2024 Account 1588 activity is known and is consistent with prior-year results.

While OEB staff is satisfied that the current variance is reasonably explained, OEB staff remains concerned that similar variances continue to arise under incentive-rate setting. OEB staff submits that Hearst Power should provide a similar quantification and analysis in its future IRM applications – until the approved line loss factor can be updated in its next cost of service application.

~All of which is respectfully submitted~

⁵⁵ Calculated using Hearst Power's inputs in [HPECL 2026 IRM Commodity Accounts Workform 20251015](#), Tab 1588. Total 2024 transactions in Account 1588 are -\$98,589, of which - \$88,961 is related to line losses = -\$9,628 remaining balance. $-\$9,628 / \$5,162,454$ Account 4705 = - 0.19%