



RP-2005-0020
EB-2005-0339

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Hearst
Power Distribution Company Limited for an order or
orders approving or fixing just and reasonable distribution
rates and other charges, effective May 1, 2006.

BEFORE: Paul Vlahos
Presiding Member

DECISION AND ORDER

Hearst Power Distribution Company Limited (“Hearst Power” or the “Applicant”) is a licensed distributor providing electrical service to consumers within its defined service area. Hearst Power filed an application (the “Application”) with the Ontario Energy Board (the “Board”) for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other matters, to be effective May 1, 2006.

Hearst Power is one of over 90 electricity distributors in Ontario that are regulated by the Board. To streamline the process for the approval of distribution rates and charges for these distributors, the Board developed and issued the *2006 Electricity Distribution Rate Handbook* (the “Handbook”) and complementary spreadsheet-based models. These materials were developed after extensive public consultation with distributors, customer groups, public and environmental interest groups, and other interested parties. The Handbook contains requirements and guidelines for filing an application. The models determine the amounts to be included for the payments in lieu of taxes (“PILs”) and calculate rates based on historical financial and other information entered by the distributor.

Also included in this process was a methodology and model for the final recovery of regulatory assets flowing from the Board's decision dated December 9, 2004 on the Review and Recovery of Regulatory Assets – Phase 2 for Toronto Hydro, London Hydro, Enersource Hydro Mississauga and Hydro One Networks Inc (“Hydro One”). In Chapter 10 of the decision, the Board outlined a Phase 2 process for the remaining distributors. By letter of July 12, 2005, the Board provided guidance and a spreadsheet-based model to the distributors for the inclusion of this recovery as part of their 2006 distribution rate applications.

In its preliminary review of the 2006 rate applications received from the distributors, the Board identified several issues that appeared to be common to many or all of the distributors. As a result, the Board held a hearing (EB-2005-0529) to consider these issues (the “Generic Issues Proceeding”) and released its decision (the “Generic Decision”) on March 21, 2006. The rulings flowing from that Generic Decision apply to this Application, except to the extent noted in this Decision. The Board notes that pursuant to ss. 21 (6.1) of the *Ontario Energy Board Act, 1998*, and to the extent that it is pertinent to this Application, the evidentiary record of the Generic Issues Proceeding is part of the evidentiary record upon which the Board is basing this Decision.

In December 2001, the Board authorized the establishment of deferral accounts by the distributors related to the payments that the distributors make to the Ministry of Finance in lieu of taxes. The Board is required, under its enabling legislation, to make an order with respect to non-commodity deferral accounts once every twelve months. The Board has considered the information available with respect to these accounts and orders that the amounts recorded in the accounts will not be reflected in rates as part of the Rate Order that will result from this Decision. The Board will continue to monitor the accounts with a view to clearing them when appropriate.

Public notice of the rate Application made by Hearst Power was given through newspaper publication in its service area. The evidence filed was made available to the public. Interested parties intervened in the proceeding. The evidence in the Application was tested through written interrogatories from Board staff and intervenors, and intervenors and Hearst Power had the opportunity to file written argument. While the Board has considered the entire record in this proceeding, it has made reference in this Decision only to such evidence and argument as is necessary to provide context to its findings.

On April 28, 2006, the Board issued an Order declaring rates then existing for Hearst Power to be interim, effective May 1, 2006, until such time as the Board issued a final rate order for 2006 rates. This Decision and Order is final with respect to 2006 rates and supersedes the Order of April 28.

Hearst Power has requested an amount of \$966,091 as revenue to be recovered through distribution rates and charges. Included in this amount is a credit of \$126,094 for the recovery of regulatory assets. Except where noted in this Decision, the Board finds that Hearst Power has filed its Application in accordance with the Handbook and the guidelines for the recovery of regulatory assets.

Notwithstanding Hearst Power's general compliance with the Handbook and associated models, in considering this Application the Board reviewed the following matters in detail:

- Cost of Debt;
- Mitigation Plan;
- Conservation and Demand Management(CDM) Funding;
- Pole Rental Revenue; and
- Consequences of the Generic Decision (EB-2005-0529).

Cost of Debt

The Applicant has applied for a cost of debt of 7.25%, based on a promissory note held by its municipal shareholder. Hearst Power described the debt as a demand loan with interest payments at the lesser of 12% or part of the net income for the year, payable on a monthly basis with no fixed capital repayment. The Applicant stated that the 7.25% rate from the original Distribution Rate Handbook is appropriate because the debt instrument was put in place at the time that Handbook was in effect.

The Handbook allows for affiliated debt negotiated prior to May 13, 2005 to have a cost of debt up to the deemed size-related debt rate as documented in the initial Distribution Rate Handbook issued in March 2000. For debt negotiated on or after May 13, 2005, the debt rate is to be set at the lower of the actual rate and 6.25%.

In this instance, the Board finds that promissory note is a demand loan from an affiliate, and it does not have a fixed term. The Board finds that the deemed debt rate in the previous Handbook (March, 2000) does not apply to a demand note because such an instrument cannot be considered embedded debt with an enduring interest rate; the note can be called at any time. Therefore, the Board finds that the deemed debt rate in the current Handbook of 6.25% should be used for this loan, and has made the necessary adjustments to the revenue requirement.

Mitigation Plan

Hearst Power proposed a mitigation strategy for the residential class, based on altering the fixed and variable charge proportions, due to the bill impacts for customers at the 100 kWh monthly consumption level. To date, however, the Board has not assessed the need to mitigate rates for a specific class based on the impacts on customers at the lowest consumption level.

Consequently, the Board finds that the mitigation plan is not necessary and that the rate impacts at all other consumption levels are reasonable. The Board has made the necessary adjustments to remove the effects of the mitigation plan.

CDM Funding

Unlike most distributors, the Applicant's 2005 rates do not include recovery of the CDM expenditures associated with the third tranche of MARR. At the time of this Application, Hearst Power was awaiting approval of its CDM plan (RP-2004-0203). The Applicant adjusted both its rate base and distribution expenses on the assumption that the plan would be approved. The total cost of the plan is \$70,000 split between capital (\$39,750) and operating (\$30,250) expenses.

The Board approved Hearst Power's CDM plan on November 24, 2005. In that decision the Board stated, "Since Hearst Power cannot include this expenditure in its 2005 rates, Hearst Power should make the appropriate adjustments to its 2006 rate application". The Board finds that Hearst Power's adjustments conform to the November 24, 2005 approval of its CDM plan and are consistent with adjustments made by other distributors relating to CDM cost recovery.

Pole Rental Revenue

In accordance with the Rate Handbook, Hearst Power included future pole rental revenue as a revenue offset. However, no adjustment was made to remove the historic revenue from the revenue offset total as per the Board's June 16, 2005 instructions in the Rate Handbook. This resulted in a double counting of pole rental revenue and an unwarranted reduction of the Applicant's revenue requirement by approximately \$17,000.

The Board has made the necessary adjustments to ensure that Hearst Power's revenue requirement reflects the removal of historic pole rental revenue from the revenue offset total.

Consequences of the Generic Decision on this Application

The Generic Decision contains findings relevant to funding for smart meters for electricity distributors. The Applicant did not file a specific smart meter investment plan or request approval of any associated amount in revenue requirement. Absent a specific plan or discrete revenue requirement, the Generic Decision provides that \$0.30 per residential customer per month be reflected in the Applicant's revenue requirement. The Board finds that this increase in the revenue requirement amount will be allocated equally to all metered customers and recovered through their monthly service charge. This increment is reflected in the approved monthly service charges contained in the Tariff of Rates and Charges appended to this Decision. Pursuant to the Generic Decision, a variance account will be established, the details of which will be communicated in due course.

Resulting Revenue Requirement

As a result of the Board's determinations on these issues, the Board has adjusted the revenue requirement to be recovered through distribution rates and charges to \$962,534, including a credit amount of \$126,094 for the recovery of Regulatory Assets.

In its letter of December 20, 2004 to electricity distributors, the Board indicated that it would consider the disposition of the 2005 OEB dues recorded in Account 1508 in this proceeding. However, given that the final 2005 OEB dues are not available because of the difference in fiscal years for the Board and the distributors, and given that the model used to develop the Application does not incorporate this provision, the Board will review and dispose of the 2005 OEB dues at a later time.

Cost Awards

This Application is one of a number of applications before the Board dealing with 2006 rates chargeable by distributors. Intervenors may be parties to multiple applications and, if eligible, their costs associated with a specific distributor may not be separable. Therefore, for these applications, the matter of intervenor cost awards will be addressed by the Board at a later date, upon the conclusion of the current rate applications. If an intervenor that is eligible to recover its costs is able to uniquely identify its costs associated with this Application, it must file its cost claim within 10 days from the receipt of this Decision.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix "A" of this Order is approved, effective May 25, 2006, for electricity consumed or estimated to have been consumed on and after May 25, 2006. The application of the revised distribution rates shall be prorated to May 25, 2006. If Hearst Power Distribution Company Limited's billing system is not capable of prorating changed loss factors jointly with distribution rates, the revised loss factors shall be implemented upon the first subsequent billing for each billing cycle.
2. The Tariff of Rates and Charges set out in Appendix "A" of this Order supersedes all previous distribution rate schedules approved by the Ontario Energy Board for Hearst Power Distribution Company Limited, and is final in all respects.
3. Hearst Power Distribution Company Limited shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, May 25, 2006.

ONTARIO ENERGY BOARD



Peter H. O'Dell
Assistant Board Secretary

Appendix "A"

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May 25, 2006

ONTARIO ENERGY BOARD

Hearst Power Distribution Company Ltd.

TARIFF OF RATES AND CHARGES

Effective May 25, 2006

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

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APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

EFFECTIVE DATES

DISTRIBUTION RATES - May 25, 2006 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES - May 25, 2006 for all charges incurred by customers on or after that date.
LOSS FACTOR ADJUSTMENT – May 25, 2006 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

SERVICE CLASSIFICATIONS

Residential

This classification refers to accounts for customers residing in single dwelling units that consist of a detached house, semi detached, duplex, triplex or quadruplex house, or individually metered apartment building. Further servicing details are available in the utility's Conditions of Service.

General Service Less Than 50 kW

This classification refers to a non-residential account taking electricity at 750 volts or less whose monthly peak demand is less than or expected to be less than 50 kW. Further servicing details are available in the utility's Conditions of Service.

General Service 50 to 2,999 kW

This classification refers to a non residential account whose monthly average peak is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 3,000 kW. Further servicing details are available in the utility's Conditions of Service.

General Service 3,000 to 4,999 kW

This classification refers to a non residential account whose monthly average peak is equal to or greater than, or is forecast to be equal to or greater than, 3,000 kW but less than 5,000 kW. Further servicing details are available in the utility's Conditions of Service.

Sentinel Lighting

This classification is a sub-category of the street lighting load. These customers are billed on a fixed load based on the size of bulb. Further servicing details are available in the utility's Conditions of Service.

Street Lighting

This classification refers to roadway lighting within the town, and private roadway lighting operation, controlled by photo cells. The consumption for these customers is based on the calculated connected load times the required lighting times established in the approved OEB street lighting load shape template. Further servicing details are available in the utility's Conditions of Service.

Hearst Power Distribution Company Ltd.

TARIFF OF RATES AND CHARGES

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	7.52
Distribution Volumetric Rate	\$/kWh	00095
Regulatory Asset Recovery	\$/kWh	(0.0005)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0049
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

General Service Less Than 50 kW

Service Charge	\$	5.13
Distribution Volumetric Rate	\$/kWh	0.0094
Regulatory Asset Recovery	\$/kWh	(0.0010)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0044
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0045
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge	\$	0.25

General Service 50 to 2,999 kW

Service Charge	\$	29.08
Distribution Volumetric Rate	\$/kW	2.8938
Regulatory Asset Recovery	\$/kW	(0.4674)
Retail Transmission Rate – Network Service Rate	\$/kW	1.8141
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7882
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

General Service 3,000 to 4,999 kW

Service Charge	\$	55.48
Distribution Volumetric Rate	\$/kW	0.6313
Regulatory Asset Recovery	\$/kW	(0.6214)
Retail Transmission Rate – Network Service Rate	\$/kW	2.0289
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	2.1090
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Sentinel Lighting

Service Charge (per connection)	\$	3.90
Distribution Volumetric Rate	\$/kW	1.6701
Regulatory Asset Recovery	\$/kW	0.7676
Retail Transmission Rate – Network Service Rate	\$/kW	1.3751
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.4113
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Hearst Power Distribution Company Ltd.

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Street Lighting

Service Charge (per connection)	\$	0.97
Distribution Volumetric Rate	\$/kW	1.0769
Regulatory Asset Recovery	\$/kW	(0.5719)
Retail Transmission Rate – Network Service Rate	\$/kW	1.3681
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3824
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Regulated Price Plan – Administration Charge (if applicable)	\$	0.25

Specific Service Charges

Customer Administration		
Arrears Certificate	\$	15.00
Easement Letter	\$	15.00
Credit reference/credit check (plus credit agency costs)	\$	15.00
Returned Cheque charge (plus bank charges)	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Special meter reads	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of Account Charge – no disconnection	\$	30.00
Disconnect/Reconnect at Meter - during Regular Hours	\$	40.00
Disconnect/Reconnect at Pole - during Regular Hours	\$	time and materials
Install/Remove load control device – during regular hours	\$	40.00
Temporary service install and remove – overhead – no transformer	\$	time and materials
Temporary service install and remove – underground – no transformer	\$	time and materials
Specific Charge for Access to the Power Poles – per pole/year	\$	22.35
Allowances		
Transformer Allowance for Ownership - per kW of billing demand/month	\$	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0509
Total Loss Factor – Secondary Metered Customer > 5,000 kW	N/A
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0404
Total Loss Factor – Primary Metered Customer > 5,000 kW	N/A