



EB-2007-0537

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, to be effective May 1, 2007.

BEFORE: Paul Sommerville
Presiding Member

Paul Vlahos
Member

Ken Quesnelle
Member

DECISION AND ORDER

Hearst Power Distribution Company Limited (“Hearst Power”) is a licensed distributor providing electrical service to consumers within its licensed service area. Hearst Power filed an 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 charges, to be effective May 1, 2007.

Hearst Power is one of 85 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 issued its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors* (the “Report”) on December 20, 2006. The Report contained the relevant guidelines for 2007 rate adjustments (“the guidelines”) for distributors applying for rates only on the basis of the cost of capital and 2nd generation incentive regulation mechanism policies set out in the Report.

Public notice of Hearst Power's rate application was given through newspaper publication in Hearst Power's service area. The evidence filed as part of the rate application was made available to the public. The Board granted intervenor status to the Vulnerable Energy Consumers Coalition ("VECC"). Both Hearst Power and the intervenor had the opportunity to file written submissions in relation to the rate application. The Board received a submission from VECC. While the Board has considered the entire record in this rate application, it has made reference only to such evidence and submissions as is necessary to provide context to its findings.

Hearst Power's rate application was filed on the basis of the guidelines. In fixing new rates and charges for Hearst Power, the Board has applied the policies described in the Report.

After confirming the accuracy of the 2006 rate tariff and accompanying materials submitted in the rate application, the Board applied its approved price cap index adjustment to distribution rates (fixed and variable) uniformly across all customer classes. The price cap index is calculated as a price escalator less an X-factor of 1.0%, intended to represent input price and productivity trends. Based on the final 2006 data published by Statistics Canada, the Board has established the price escalator to be 1.9%. The resulting price cap index adjustment is therefore 0.9%.

The 2006-approved Conservation and Demand Management ("CDM") funding component included in 2006 rates was removed prior to the application of the price cap index adjustment.

The price cap index adjustment was not applied to the following components of the rates:

- the specific service charges;
- the regulatory asset recovery rate rider; and
- the smart meter rate adder (an amount in the fixed components of the rates associated with smart meter cost recovery).

Hearst Power requested an amount for smart meter costs. The Board has approved an amount of \$0.25 per month per metered customer. Hearst Power's variance accounts for smart meter program implementation costs, previously authorized by the Board, are continued. It is the Board's understanding that Hearst Power will not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007. The amount collected through the smart meter rate adder will be booked into the existing variance accounts, and retained in those accounts, to help fund future smart meter activity. As

the notice of this application indicated, the Board will be holding a combined proceeding to consider, among other things, appropriate recovery of smart meter costs.

Notwithstanding Hearst Power's general compliance with the guidelines, the Board reviewed the following matters in detail:

- 2006 CDM to be equated to 2005 third tranche of incremental market adjusted revenue requirement ("MARR")
- New low voltage charges from Hydro One Networks Inc.

Recovery of CDM costs - "Third Tranche MARR equivalent"

Hearst Power requested approval to collect an amount of \$39,750 in capital expenses for CDM as part of its 2007 rates. Hearst Power characterized its request as a third tranche MARR equivalent. Hearst Power stated in its application; "As the CDM approval was third tranche equivalent, the recovery is incremental to the pre-CDM 2005 rate level".

On March 7, 2007 VECC filed a submission in respect to Hearst Power's CDM request. VECC submitted that Hearst Power's CDM amount of \$70,000 had been factored into the 2006 electricity distribution rates and that there was no justification for the inclusion of any incremental CDM in Hearst Power's 2007 electricity distribution rates.

The Board approved Hearst Power's CDM plan on November 24, 2005 (RP-2004-0203). 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". In its 2006 rate application (EB-2005-0020/EB-2005-0339), Hearst Power included a capital amount of \$39,750 in the calculation of rate base and an operating expense amount of \$30,250 as a rate adder.

Hearst Power was one of a few distributors that were earning at least 9.88% Return on Equity (ROE) at the time of deregulation. As a result, for the period of time when the other distributors were earning less than the full 9.88% ROE, Hearst Power was earning the full rate. On May 31, 2004, the Minister of Energy granted approval to all distributors to apply to the Board for an increase in their 2005 rates by the third instalment of MARR. This was conditional on a commitment by the distributors to reinvest an equivalent amount in CDM activities. Those distributors who were not already earning the full ROE were permitted to recover the full amount of their CDM expenses, and in addition include in rate base the CDM capital expenditures. This departure from traditional cost of service methodology was premised on the fact that the

money being invested in CDM (i.e. the third tranche of MARR) was money that would have normally gone to the account of the shareholder.

Hearst Power did not have a third instalment of MARR to invest, as it was already earning an ROE of 9.88%. It requested an equivalent amount to engage in CDM activities. Therefore, the money being invested in CDM by Hearst would otherwise not have been collected from ratepayers. As such, Hearst Powers' CDM expenditures would be viewed as a typical addition to rate base.

As VECC points out in its submission, under traditional rate making methodology, operating costs are collected once and expensed in the year. Capital costs are included in rate base, and it is only the annual capital-related expenses that are recovered through rates in any given year. Hearst Power is now asking for the capital costs previously included in rate base to be collected from rate payers as an expense in the 2007 rate year. Given the circumstances outlined above, the Board is of the opinion that the CDM costs of Hearst Power have already been appropriately included in the rates of Hearst Power, and therefore denies the request to recover \$39,750 for CDM as part of its 2007 rates.

New low voltage charges from Hydro One Networks Inc.

In its 2007 rate application, Hearst Power advised the Board that as of October 2006 Hydro One Networks Inc. had identified Hearst Power as an embedded distributor and as a result started to charge for the low voltage wheeling distribution services provided to Hearst Power. Because Hearst Power had not been identified as an embedded distributor, an allowance to recover this charge had not been incorporated in its 2006 rates. Hearst Power estimated its annual charge at \$75,000 and requested recovery of this amount. Reflecting a consistent treatment among all embedded distributors, the Board finds that Hearst Power should be able to include the recovery of the low voltage charge in its 2007 rates and that the estimated amount of \$75,000 is appropriate. The Board reminds Hearst Power that the 2006 EDR Generic Decision (RP-2005-0020/EB-2005-0529) provided for the establishment of a variance account so that embedded distributors could track the differences between low voltage charges by the host distributor and the corresponding revenues recovered from ratepayers.

The Board has made the necessary adjustments to Hearst Power's filed 2006 Tariff of Rates and Charges to produce a new Tariff of Rates and Charges to be effective May 1, 2007. The Board finds the rates and charges in the Tariff of Rates and Charges attached as Appendix A to this decision to be just and reasonable.

Cost Awards

VECC requested and was granted cost eligibility in this rate application. VECC shall submit its cost claims by May 4, 2007. A copy of the cost claim must be filed with the Board and one copy is to be served on Hearst Power. The cost claim must be done in accordance with section 10 of the Board's Practice Direction on Cost Awards.

Hearst Power will have until May 18, 2007 to object to any aspects of the costs claimed. A copy of the objection must be filed with the Board and one copy must be served on VECC.

VECC will have until May 25, 2007 to make a reply submission as to why its cost claim should be allowed. Again, a copy of the submission must be filed with the Board and one copy is to be served on Hearst Power.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix A of this order is approved, effective May 1, 2007, for electricity consumed or estimated to have been consumed on and after May 1, 2007.
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, and is final in all respects.
3. Hearst Power shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, April 12, 2007.

ONTARIO ENERGY BOARD

Original Signed By

Peter H. O'Dell
Assistant Board Secretary

Appendix A

EB-2007-0537

April 12, 2007

ONTARIO ENERGY BOARD

Hearst Power Distribution Company Ltd.

TARIFF OF RATES AND CHARGES

Effective May 1, 2007

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 1, 2007 for all consumption or deemed consumption services used on or after that date.
SPECIFIC SERVICE CHARGES - May 1, 2007 for all charges incurred by customers on or after that date.
LOSS FACTOR ADJUSTMENT – May 1, 2007 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.

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MONTHLY RATES AND CHARGES

Residential

Service Charge	\$	7.59
Distribution Volumetric Rate	\$/kWh	0.0101
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
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service Less Than 50 kW

Service Charge	\$	5.17
Distribution Volumetric Rate	\$/kWh	0.0096
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
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service 50 to 2,999 kW

Service Charge	\$	29.34
Distribution Volumetric Rate	\$/kW	2.9601
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
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

General Service 3,000 to 4,999 kW

Service Charge	\$	55.98
Distribution Volumetric Rate	\$/kW	0.8807
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
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Sentinel Lighting

Service Charge (per connection)	\$	3.94
Distribution Volumetric Rate	\$/kW	1.8733
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
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Hearst Power Distribution Company Ltd.

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Street Lighting

Service Charge (per connection)	\$	0.98
Distribution Volumetric Rate	\$/kW	1.2772
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
Standard Supply Service – Administrative 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	\$/kW	(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