Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

EB-2007-0755

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 Chapleau Public Utilities Corporation for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Cynthia Chaplin
Member

DECISION

June 2, 2008

BACKGROUND

Chapleau Public Utilities Corporation ("Chapleau PUC") filed an application with the Ontario Energy Board (the "Board"), received on November 22, 2007, under section 78 of the *Ontario Energy Board Act*, *1998*, seeking approval for changes to the rates that Chapleau PUC charges for electricity distribution, to be effective May 1, 2008.

Chapleau PUC operates within the municipal boundaries of the Township of Chapleau and serves approximately 1,300 customers as well as street lighting and sentinel lighting loads.

Chapleau PUC is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On May 4, 2007, as part of the plan, the Board indicated that Chapleau PUC would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, Chapleau PUC filed a cost of service application based on 2008 as the forward test year.

Chapleau PUC originally requested a revenue requirement of $723,891, later amended to $736,568, to be recovered in new rates effective May 1, 2008. The resulting requested rate increase was estimated as 13.5% on the distribution component of the electricity bill for a typical residential customer consuming 1,000 kWh per month. However, other aspects of the application would have the effect of reducing rates for residential customers.

The Board assigned file number EB-2007-0755 to the application and issued a Notice of Application and Hearing dated December 17, 2007. The Vulnerable Energy Consumers Coalition ("VECC") intervened in the proceeding. The application was dealt with by the Board by way of a written hearing. Board staff and VECC submitted written interrogatories on January 28, 2008 and January 30, 2008 respectively. Chapleau PUC provided responses on March 28, 2008. Board staff and VECC filed written submissions on April 21, 2008 and April 24, 2008 respectively. Chapleau PUC filed its reply submission on May 5, 2008.

On April 30, 2008 the Board issued an Interim Rate Order declaring Chapleau PUC's current rates interim as of May 1, 2008.

The full record of the proceeding is available at the Board's offices.

THE ISSUES

The following issues were raised in the submissions filed by Board staff and VECC:

- Load Forecast
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Cost of Capital
- Cost Allocation and Rate Design
- Line Losses
- Smart Meters
- Deferral and Variance Accounts

LOAD FORECAST

Chapleau PUC's application contained virtually no textual information supporting the load forecast and also did not clearly identify the load forecast it requested the Board to approve. Some clarification was provided in response to Board staff and VECC interrogatories, and in Chapleau PUC's submission. The load forecast is summarized in the table below:

Customer Number and Load Forecast
2005 to 2008

	Actual 2005	Actual 2006	Bridge 2007 forecast	Test 2008 forecast
Residential				
Customer numbers	1,171	1,190	1,164	1,164
kWh	14,813,125	14,458,522	14,765,266	14,611,894
General Service: <50 kW				
Customer numbers	167	165	166	166
kWh	5,764,746	5,457,642	5,543,664	5,500,653
General Service: >50 kW				
Customer numbers	15	15	14	14
kWh	8,109,945	7,723,163	7,801,575	7,762,369
kW	22,939	20,894	21,175	21,169
Un-metered Scattered Load				
- Customer numbers	6	6	6	6
- kWh	7,236	6,770	7,212	6,991
Sentinel Lighting				
- Connections	24	24	24	24
- kWh	23,831	23,397	24,345	23,871
- kW	66	66	66	66
Street Lighting				
- Connections	341	341	341	341
- kWh	295,687	294,503	295,625	295,064
- kW	780	780	780	780

Because of fluctuations in customer numbers during the period 2002-2005, Chapleau PUC developed its forecast of customer numbers by using only 2005, 2006 and some 2007 data. Chapleau PUC provided no explanation in its application for the development of its kWh forecast, but it clarified in an interrogatory response that it had used the simple average of the two preceding years' data. Chapleau PUC did not include any weather normalization in its forecast and did not provide any explanation for the development of its kW forecast.

The updated forecasted customer number change is negative 0.7% per year from 2006 to 2008, compared with zero historical change. The forecasted kWh change is positive 0.4% per year compared with negative 4.2% per year historical change.

Board staff expressed concern with the lack of information filed in response to interrogatories. VECC concurred with Board staff's submissions regarding the quality and clarity of the evidence as to how Chapleau PUC prepared its load forecast. VECC also noted that it received inadequate responses to its questions. Chapleau PUC responded with some clarification and provided an updated forecast.

VECC submitted that it did not agree with Chapleau PUC's suggestion regarding the single-year method of forecasting its residential customer count and that an average of the last two years was reasonable. Chapleau PUC noted in its reply the fluctuations in residential customers between 2002 and 2007 and, given the reduced population over the same time period, considered its estimate of the number of residential customers as reasonable.

VECC also submitted that the load forecasting methodology it understood Chapleau PUC to have used was extremely simplistic and included no real attempt at weather normalization. VECC also submitted that while the quality of the load forecast is suspect, there is nothing on the record to suggest it is biased one way or the other. VECC reluctantly submitted that Chapleau PUC's forecast should be adopted.

Board Findings

Chapleau PUC has failed to meet a basic regulatory requirement, which is to clearly present and fully substantiate its customer number forecast and a weather normalized load forecast in its application. Through significant effort on the part of Board staff and VECC there has been an attempt to understand, through interrogatories, the underpinnings of the forecast data presented. VECC's conclusion is that the forecast does not appear to have a particular bias, and therefore concludes, reluctantly, that it should be accepted. The Board agrees. The Board expects Chapleau PUC's next application to show substantial improvement in this area.

OPERATING, MAINTENANCE & ADMINISTRATIVE ("OM&A") EXPENSES

The following table is derived from Board staff's submission and sets out details of controllable OM&A amounts (Operations, Maintenance, Billing & Collection and Administration & General Expenses) for Chapleau PUC.

Operations, Maintenance and Administrative Expenses

2006 to 2008 ($)

	2006 Board Approved	2006 Actual	2007 Bridge Year	2008 Test Year
Operations and Maintenance	263,311	274,181	296,913	302,585
Billing & Collecting	65,879	60,018	66,539	64,112
Community Relations	2,607	1,707	1,063	1,200
Executive Salaries and Expense	59,881	59,331	62,672	64,552
Office Supplies and Expense	22,176	19,432	21,661	22,248
Outside Services Employed	38,352	47,795	104,528	72,425
Property Insurance	13,601	12,119	13,000	13,500
Regulatory Expenses	5,734	4,584	5,769	6,000
Misc. General Expenses	6,546	10,612	15,000	12,000
Bank Charges	8,247	8,941	9,883	9,200
Total Controllable OM&A	**486,334**	**498,720**	**597,028**	**567,822**

Overall Controllable OM&A costs are forecast to increase by about 14% from 2006 actual to the 2008 test year. Board staff and VECC both questioned whether Chapleau PUC had provided sufficient justification for the increases in two specific areas: additional repairs and maintenance costs, regulatory expenses and recovery of one-time costs.

Chapleau PUC stated in its reply submission that repairs and maintenance costs were forecast to increase by $13,700 in 2008 over 2006. Chapleau PUC indicated that the increase was for repairs and maintenance of its distribution system in 2007 but could not specifically identify what maintenance or repair activity contributed to the increase.

Chapleau PUC identified three areas for which recovery of regulatory expenses are needed: ongoing regulatory expenses; expenses related to its 2008 cost-of-service application; and one-time regulatory expenses. Based on Chapleau PUC's response to Board staff interrogatory #3, its ongoing regulatory costs are $4,584 in 2006, $7,497 in 2007 and $7,800 in 2008. Chapleau PUC also identified one-time regulatory expenses for the years 2006, 2007, and 2008 of $8,241, $62,575 and $18,000 respectively. These amounts include the 2008 COS application costs.

Chapleau PUC proposed to recover the one-time costs for 2006, 2007 and 2008 by amortizing the total over the next 3 year period, resulting in an amount of $29,605 being added to operating expenses (under the Outside Services Employed category) for recovery in the 2008 revenue requirement.

Board staff and VECC both expressed concerns about this proposed recovery. Board staff stated that it appeared Chapleau had misinterpreted the purpose of a Board staff interrogatory which had requested that Chapleau PUC set out how it proposed to recover one-time costs related to the 2008 rate application only, and was not intended to include other 2006 to 2008 period costs.

VECC argued that Chapleau PUC's recovery should be limited to only those costs directly related to the current application and not all one-time costs incurred over a three-year period. VECC submitted that the 2006 costs shown in the above table should be excluded, as should all of the 2007 costs except those related to the 2008 application. As to the cost for Business Planning, VECC questioned why these costs should be considered a regulatory cost or just part of the cost of effectively managing one's business.

Chapleau PUC, in its reply submission, stated that it was a small utility which had chosen not to increase staff to undertake the ongoing rate submissions and financial reporting required by the Board on a quarterly and annual basis. Chapleau PUC stated that it would have been justified in increasing staff and would have included such salaries and benefits in rate base and accordingly felt justified in recovering past one-time consultant regulatory costs over the future period.

In response to the additional concerns raised by VECC, Chapleau PUC stated that there appeared to be some misunderstanding or confusion in regard to the one-time costs, as the $25,000 of 2007 costs associated with the 2nd generation IRM was for the current application as was the $15,000. Chapleau PUC further stated that the cost associated with the three year business plan of $11,450 was at the request of the Board.

Board Findings

The Board finds that it is inappropriate to recover past one-time expenses through amortization in future rates. Chapleau PUC maintains that its proposal is appropriate because instead of hiring additional staff, it elected to contract out various pieces of work, including regulatory-related work. Chapleau PUC's approach to ensuring adequate resources for its work, including its regulatory work, is not determinative of the appropriate ratemaking treatment. Recovery of past one-time expenses is only appropriate if the utility has sought and received prior Board approval for such treatment (for example, through the use of a deferral and variance account).

It is appropriate to recover the costs associated with the preparation of its 2008 rates case over the future period as these are one-time costs which will not be incurred again until the next rebasing, and they are current costs. Chapleau PUC has included $29,605 in its 2008 OM&A forecast for the one-time costs. This amount will be reduced by $11,272 to establish a revised figure of $18,333. The total costs for the 2008 rates application appear to be about $55,000 based on the clarification provided by Chapleau PUC in its reply submission. One-third of that amount is $18,333, and that is the appropriate amount to be included in the forecast OM&A. Chapleau PUC's OM&A 2008 forecast of $567,822 will be reduced by $11,272.

PAYMENTS IN LIEU OF TAXES ("PILs")

Chapleau PUC indicated that it has $728,423 of non-capital tax losses that it can carry forward until 2012 at which time the losses will expire. Both Board staff and VECC noted that Chapleau PUC will not be subject to PILs in the near future due to the past corporate losses and that Chapleau PUC is not subject to capital tax due to its size.

Board Findings

The Board accepts Chapleau PUC's evidence and its proposal that no taxes be included in 2008 rates.

CAPITAL EXPENDITURES and RATE BASE

Capital Expenditures

Chapleau PUC forecast 2008 capital expenditures of $63,861, as shown in the table below. This represents an increase of 579.2% compared to 2007 projected capital expenditures of $9,402, and 162.9% compared to 2006 actual capital expenditures of $24,292.

	2006 Actual	2007 Bridge	2008 Test
Capital Expenditure	$24,292	$9,402	$63,861
percent change		-61.3%	579.2%
Capital Expenditure (less smart meters)	$24,292	$9,402	$34,500
percent change		-61.3%	266.9%

The budget included $29,361 for smart meters, which Chapleau PUC subsequently proposed to remove from the budget for purposes of establishing its rate base. Chapleau PUC's Smart Meter proposal is discussed later in this Decision.

Chapleau PUC's application identified the main drivers for the large increase in 2008 capital expenditures (267%, excluding smart meters) as the installation of three regulators to balance voltage levels within its distribution system, and the replacement of existing assets (12 poles and three line transformers).

VECC noted that the planned expenditure on the three voltage regulators was documented in the application and the proposed costs were in line with the consultant report as submitted. However, VECC submitted that it was not clear how Chapleau PUC determined the number of poles and transformers to be replaced in each year, which suggested that there was no underlying asset management plan. VECC also questioned the 30% increase in replacement costs per pole from 2006 to 2008. VECC submitted that given a lack of supporting evidence, the Board should consider directing Chapleau PUC to make a 5% reduction to its planned capital expenditures.

<u>Board Findings</u>

The Board accepts Chapleau PUC's proposed capital expenditures (excluding smart meters). The Board notes that given the relatively small level of capital expenditures, small variations year-to-year in the absolute level of expenditures can result in large changes when expressed in percentage terms.

Assessment of Asset Condition and Asset Management Plan

Chapleau PUC did not submit information in relation to its asset management and asset assessment with its application. Both Board staff and VECC commented on the lack of a documented plan despite the size of Chapleau PUC's assets and relatively low annual capital expenditures. VECC submitted that Chapleau PUC should be directed to prepare and file an asset management plan that addresses all major assets and sets out planed activities for the next 3 years.

In its reply submission, Chapleau PUC responded that it "prioritizes its work plans and expenditures on a short and long term basis in order to maintain its assets". Chapleau PUC listed a number of specific tests and studies which it undertakes related to its assets. The company also advised that it performs annual maintenance based on these programs and other maintenance, repairs, upgrades and rebuilds as required, and that all the tests and field projects are inspected annually by the Electrical Safety Authority, through both an internal audit and a field audit.

Board Findings

The Board notes that the only significant explanation of Chapleau PUC's asset assessment and management activities came through the reply submission. This is inadequate in the Board's view. This type of information should be provided in the initial application as it can provide important evidence in consideration of proposed capital expenditures. The Board is satisfied with the explanation of the work undertaken by Chapleau PUC's and concludes that a formal asset management plan is not required at this time.

Rate Base

Board staff observed that Chapleau PUC had not used the average of the opening and closing net fixed assets for the 2008 test year; rather, it used the year end value of net fixed assets for the 2008 test year to determine its rate base for 2008. Chapleau PUC's evidence was that it used the year end value of the net fixed assets to achieve a higher rate base. Board staff and VECC submitted that Chapleau PUC's explanation is not a satisfactory reason for departure from the standard regulatory rate-setting practice. Chapleau PUC responded that it intended to follow the Board's guidelines for consistency.

While Chapleau PUC has initially included an amount of $29,361 for smart meter capital, it proposed in its reply submission to remove this amount. Chapleau PUC's Smart Meter proposal is discussed later in this Decision.

Board Findings

The Board policy with respect to the determination of rate base is clear: it is to be the average of the opening and closing balance for the test year. The Board finds that Chapleau PUC's rate base will be determined using the average of the opening and closing balance. Chapleau PUC's Draft Rate Order should include a restatement of rate base on this basis.

Working Capital Allowance

Chapleau PUC applied for a Working Capital Allowance ("WCA") using the 15% of Operations and Maintenance Expense formula.

VECC and Board staff noted that Chapleau PUC had used a cost of power of $58.50/MWh instead of the most current (at the time of filing) forecast of $54/MWh available from the Navigant study. Chapleau PUC did not address this matter in its reply submission.

VECC also noted that Chapleau PUC included retail transmission costs that reflected reductions of 9.2% for network charges and 3.2% for connection charges. VECC noted that these reductions are less (in absolute terms) than the proposed reductions in 2008 transmission rates, and submitted that Chapleau PUC's WCA should be updated to reflect the proposed reductions in transmission rates of about 20% for network charges and 9% for connection charges.

As discussed elsewhere in this Decision, Chapleau PUC provided updated calculations in its reply submission for the reductions in retail transmission charges of 17.3% for network and 76.5% for connection.

Board Findings

The Board concludes that the most accurate data should be used in the calculation of working capital. For this reason, Chapleau PUC is directed to recalculate working capital to reflect the lower retail transmission rates. (This adjustment is further described below in the section Retail Transmission Rates.)

The Board also directs Chapleau PUC to update the cost of power to reflect the most recent data contained in the April 2008 RPP report, the "all in" supply cost of $0.0545/kWh.

COST OF CAPITAL

The Board's guidelines for the cost of capital are set out in its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report sets out the formulas and policy guidelines to be used to determine the return on equity and the deemed costs of long term and short term debt and sets out the process by which these figures will be updated.

The Board announced updated cost of capital parameters on March 7, 2008. Chapleau PUC amended its proposed cost of capital to adhere to the policies documented in the Board Report. While Chapleau PUC initially proposed a long-term debt rate of 7.25% pertaining to long-term debt owed to the municipal shareholder, it subsequently proposed to use the Board's updated deemed long-term debt rate of 6.10%.

Board Findings

The Board finds that Chapleau PUC's final proposals for the capital structure and cost of capital are in accordance with the Board's Report and are appropriate. The table below sets out Chapleau PUC's capital structure and cost of capital. Chapleau PUC's weighted average cost of capital for 2008 is 7.19%.

Board-approved 2008 Capital Structure & Cost of Capital

Capital Component	% of Total Capital Structure	Cost (%)
Short-Term Debt	4.0	4.47%
Long-Term Debt	49.3	6.10%
Equity	46.7	8.57%
Preference Shares	-	
Total	**100.0**	**7.19%**

COST ALLOCATION AND RATE DESIGN

The following issues are dealt with in this section:

- Revenue to Cost Ratios
- Retail Transmission Service Rates
- Low Voltage Charges
- Wholesale Market Service Rate
- Monthly Charges

Revenue to Cost Ratios

Chapleau PUC filed its Cost Allocation study from its earlier Informational Filing (EB-2007-0001), which provides revenue to cost ratios based on the costs and rates approved for 2006. Chapleau PUC also provided revenue to cost ratios for the proposed 2008 revenues and forecast costs, but the sets of ratios are not directly comparable because the latter include other charges such as transmission charges and the wholesale market service charges. This makes it difficult to determine how the proposed rates yield the updated revenue to cost ratios.

The revenue to cost ratios from the Informational Filing are found in column 1 of the following table. The Board's target ranges are shown in column 2 and are taken from the Board's *Directions on Cost Allocation Methodology for Electricity Distributors*, November 28, 2007. Chapleau PUC's proposed increase in the Monthly Service Charge is found in column 3, and proposed increase in the volumetric charge in column 4. The latter includes the proposed LV rate adder. Columns 3 and 4 are based on Exhibit 9, section 6 of the Application.

The increases shown in Columns 3 and 4 indicate the respective increases in rates and revenues in each class and show the extent to which revenues are increasing proportionally. The table indicates that directionally, Chapleau PUC is moving to increase rates by the greatest amount in the classes most in need of revenue adjustment.

	Revenue to Cost Ratios (%)		Proposed Rate Increases (%)	
	1	2	3	4
Customer Class	**Informational Filing Run 2**	**Policy Range**	**Monthly Service Charge**	**Volumetric Rate (kWh or kW)**
Residential	113.5	85 – 115	9.5	21.0
GS < 50 kW	91.4	80 – 120	28.3	42.4
GS > 50 kW	78.8	80 – 180	46.0	102.1
Street Lights	17.4	70 – 120	83.8	103.9
Sentinel Lights	45.4	70 – 120	63.4	75.9
USL	78.7	80 – 120	26.8	42.4

Board staff noted that under current rates, the ratio for two of the classes, Street Lights and Sentinel Lights, are substantially below the target range and that two are quite close to the lower boundary of the range. Board staff indicated that recent 2008 Cost of Service Decisions have required distributors in such situations to increase the rates to the relevant classes so as to yield ratios that are moved toward the target range in a step-wise fashion. VECC pointed out that four classes are outside the respective target ranges, all below the lower boundaries of the target ranges. In VECC's view, the adjustment for Street Lights in particular should be more aggressive than that proposed by Chapleau PUC.

Chapleau PUC expressed its reservations about the cost allocation methodology insofar as it allocates costs to the Street Light and Sentinel classes in proportion to the number of connections. In Chapleau PUC's view, these uses are similar to a light or an appliance within a home, which attract no customer-related cost on their own. Chapleau PUC submitted that changes to the pricing for these classes should not be made fully until there has been discussion and a resolution of the issue.

Board Findings

Chapleau PUC has expressed concerns about the approach to allocating costs to the Street Lights and Sentinel Lights classes. However, the Board has clearly stated that number of connections, or weighted customer numbers, are the two appropriate alternatives for allocating costs to these classes. The result is that these two classes are under-contributing substantially. The Board directs Chapleau PUC to adjust the rates in its Draft Rate Order so as to increase the rates for Street Lights and Sentinel Lights so that they achieve ratios of 35% and 70%, respectively and to allocate the additional revenue to the Residential class, the only class which is currently over-contributing.

Chapleau PUC is further directed to increase the ratio for Street Lights to at least 53% in its 2009 application and to at least 70% in its 2010 application.

Retail Transmission Service Rates

Chapleau PUC is an embedded distributor, served by host distributor Hydro One Networks Inc. Chapleau PUC originally proposed a decrease of approximately 12% in its Retail Transmission Rate – Network Service ("RTR-N") and of approximately 62% in its Retail Transmission Rate – Line and Transformation Connection Service ("RTR-C"). Board staff submitted that the company's proposal appears to have been made on the basis of Hydro One's existing retail transmission service rates and not the proposed lower rates. VECC submitted that it was not clear that Chapleau PUC's proposed rate reductions were consistent with Hydro One's proposed rate changes.

In its reply submission, Chapleau PUC recalculated the forecast cost for 2008 using the average load from 2006 and 2007 and the new lower wholesale transmission rates and Hydro One's proposed lower rates for embedded distributors. On the basis of forecast revenue matching forecast cost, Chapleau PUC proposed a rate decrease of 17.3% in its RTR-N and a decrease of 76.5% in its RTR-C. The latter is a reflection of Chapleau PUC's attempt to minimize differences captured in variance accounts as the company is only charged for line connection service whereas in the past it has effectively recovered from its customers costs for both line connection service and transformation connection service.

Board Findings

The Board accepts Chapleau PUC's proposal.

Low Voltage Charges

Chapleau PUC is an embedded distributor, and receives service from the host distributor Hydro One Networks in two ways, shared line and a shared High Voltage Distribution Station. As a result of the latter, Chapleau PUC does not require Retail Transmission Transformation Connection service. Chapleau PUC provided a forecast cost of Low Voltage ("LV") charges, $36,947, based on its ongoing costs. Board staff noted that Hydro One Networks has applied for new LV rates in its 2008 distribution rates application (EB-2007-0681), and that both of the services relevant to Chapleau PUC would be less costly assuming that Hydro One's application is approved. Chapleau PUC provided a calculation of its cost using the rates in the Hydro One application, at $31,486, and stated that it is prepared to re-calculate the Low Voltage component of its distribution rates.

Board staff noted that the allocation of Low Voltage costs to the rate classes is on the basis of energy consumption, whereas the approved method is to allocate in proportion to revenue from the Retail Transmission Service Connection rate. VECC submitted that Chapleau PUC should be directed to allocate its Low Voltage costs based on the shares of Retail Transmission cost, and to recover the costs through an energy rate adder.

Board Findings

The Board accepts Chapleau PUC's proposal to base the Low Voltage charges on Hydro One's proposed lower charges, and directs Chapleau to allocate this cost in proportion to the revenue from the Retail Transmission Service Connection rate.

Wholesale Market Service Rate

Chapleau PUC applied to reduce its Wholesale Market Service Rate from $0.0052/kWh to $0.0041/kWh. Board staff submitted that it was unusual to propose an adjustment to the Wholesale Market Service Rates and questioned the assumptions made in the data used to justify the decrease. In its reply submission, Chapleau PUC reaffirmed that the cost and revenue data in the application are correct. However, Chapleau PUC also expressed its willingness to adjust its proposed rate from $0.0041 to $0.0050 per kWh.

Board Findings

This issue is related to the balance in account 1580. Later in this Decision the Board provides its reasons for not disposing of that account at this time. For that reason, the Board will also not order a change to the wholesale market service rate.

Monthly Charges

The following table sets out Chapleau PUC's current and proposed monthly service charges as well as the ceiling reference charges based on the Board's Report *Application of Cost Allocation for Electricity Distributors* dated November 28, 2007 (EB-2007-0667).

Monthly Service Charges

Customer Class	Customer-related Cost (Upper Boundary)[1]	Monthly Service Charge (less Smart Meter adder)	
		current	proposed
	$ / month	$ / month	$ / month
Residential	12.99	19.66	22.01
GS < 50 kW	20.32	30.91	40.31
GS > 50 kW	45.13	152.56	226.77
Street Lights	8.05	0.80	1.50
Sentinel Lights	8.35	2.65	4.42
USL	23.27	15.46	20.17

Board staff submitted that the Monthly Service Charges in 2006 were already higher than the ceiling amounts calculated in the cost allocation model for the main customer classes, and indicated that the proposed charges are higher again. However, for the smaller revenue classes, Street Lights, Sentinel Lights and Unmetered Scattered Load, the Monthly Service Charges are in the range between the floor and ceiling values from the cost allocation model. VECC submitted that the Monthly Service

[1] EB -2007-0667, "Application of Cost Allocation for Electricity Distributors", November 28, 2007, p. 12

Charge for the Residential class should be maintained at the current approved amount of $19.62.

Chapleau PUC, in its reply submission indicated that it is prepared to hold monthly service charges at the current approved level, with adjustments to the volumetric charges allowing for the same revenues from each class.

Board Findings

The Board accepts Chapleau PUC's revised proposal that the monthly service charges for the Residential and GS service classes remain unchanged.

LINE LOSSES

Chapleau PUC sought approval for a Total Loss Factor (TLF) of 1.0654 based on an underlying Distribution Loss Factor (DLF) of 1.0606 and a Supply Facilities Loss Factor (SFLF) of 1.0045. As Chapleau PUC is embedded within the Hydro One distribution system, this DLF includes losses that occur in the Hydro One distribution system.

In its original Application, Chapleau PUC proposed a 2008 DLF of 1.0565 based on the average of the 5-yr period from 2003 to 2007. In response to a Board staff interrogatory Chapleau PUC revised its proposed DLF to 1.0606 using the average of the 3-yr period from 2004 to 2006 because of errors in the recording of 2003 kWh figures. VECC submitted that given data problems in 2002 and 2003, the revised loss factors are a better reflection of Chapleau PUC's circumstances.

Chapleau PUC has acknowledged that the resulting proposed TLF of 1.0654 is higher than the approved TLF of 1.0497 for each of 2006 and 2007, but submitted that these TLFs were set too low due to data errors in earlier years (2002 and 2003).

Board Findings

The Board notes that Chapleau PUC is planning to spend $10,000 in third tranche CDM funds for 2 capacitors in a system improvement program which will reduce system losses and improve power factors. The use of these CDM funds for this purpose was approved by the OEB on October 31, 2007 (RP-2004-0203).

The Board approves a TLF of 1.0654 and encourages Chapleau PUC to continue its efforts to improve its loss factor.

SMART METERS

Chapleau PUC is not named under Ontario Regulation 153/07 as being authorized to undertake smart meter activity. The company stated that it does not intend to install smart meters until authorized to do so. However, the company has formulated a plan to install 1,300 smart meters in 2009. Chapleau PUC estimated capital expenditures of $29,361 and $76,793 for associated operating expenses in 2008. (This latter figure is the average of estimated smart meter operating expenses over 2008, 2009 and 2010.) These amounts were included in the company's 2008 rate base and revenue requirement.

VECC submitted that there are two fundamental flaws in Chapleau PUC's proposal: the company has not been authorized to undertake smart meter installations and the proposed amount for 2008 includes spending that is planned for 2009 and 2010 (i.e. outside of the test year). In VECC's view, the smart meter rate adder should be established by using only Chapleau PUC's forecast costs for 2008 and should be discounted in recognition of the uncertainty of Chapleau PUC being authorized to undertake smart meter deployment. VECC suggested that the new rate adder should be set at about 75% of the value derived from the model. Alternatively, VECC submitted that the current smart meter rate adder of $0.26 should be maintained until the company is authorized to proceed with smart meter installations.

Board staff also questioned the appropriateness of Chapleau PUC's proposal given that the majority of these investments are planned to occur in 2009 and 2010, beyond the 2008 test year for which rates are being set. Board staff noted that Chapleau PUC's proposal is inconsistent with regulatory rate-making principles and practice, as it is proposing to recover the return, depreciation expense and associated operating expense as if these smart meters were in service and "used and useful" during the 2008 rate year, even though Chapleau PUC indicated that it does not forecast installing smart meters until 2009.

In its reply submission, Chapleau PUC proposed that its smart meter rate adder be determined based on $602,834 for capital expenditures and rate base and $230,378 in operating expenses to be incurred in 2008, 2009 and 2010. Chapleau PUC further noted that the capital amount of $29,361 would be removed from 2008 rate base, and that the estimated average OM&A of $76,793 would be removed from the determination of the working capital allowance and the revenue requirement. Chapleau PUC opposed any arbitrary discount factor which would reduce the rate adder.

Board Findings

The Government has established a phased approach to the implementation of smart meters across the province. The Board notes the letter from the Ministry of Energy which indicates that the Government is aware that Chapleau PUC and others are seeking authorization and that it intends to consider those proposals in due course.

The Board agrees that the forecast smart meter costs should be removed from OM&A and rate base. Chapleau PUC is directed to make the appropriate adjustments to the revenue requirement and provide the details of these adjustments as part of its Draft Rate Order.

Unlike other distributors (for example, Lakefront and PUC Distribution), Chapleau PUC is not forecasting to install any smart meters during the test year, nor is it forecasting significant expenditures for smart meters in 2008. For this reason, the Board finds that it is premature to establish a new smart meter rate adder for 2008 rates. If the company receives authorization through regulation to undertake smart meter activities, then it may apply to the Board for a revised smart meter rate adder as part of its 2009 rate application.

The Board therefore directs continuation of the existing smart meter rate adder of $0.26 per month per metered customer.

DEFERRAL AND VARIANCE ACCOUNTS

The following table shows the deferral and variance account balances for which Chapleau PUC is seeking disposal.

Deferral and Variance Accounts Proposed for Disposition (as at April 30, 2008 – principal as of December 31, 2006)

Account Number	Account Name	Balance
1508	Other Regulatory Assets	$ 22,965
1550	LV Variance	$ 14,121
1580	RSVA Wholesale Market Service Charge	($ 27,372)
1584	RSVA Retail Transmission Network Charges	($ 27,480)
1586	RSVA Retail Transmission Connection Charges	($207,193)
1588	RSVA Power	($ 36,389)
Total		**($261,348)**

The total balance is a credit of $261,348. Chapleau PUC's proposal is to refund these balances to customers over a period of three years.

Accounts 1580, 1584, 1586, 1588

The Applicant is requesting the disposition of these accounts including account 1588, RSVA Power. This account (1588) is part of the Board's ongoing "Bill 23" process. The Board has recently announced (by letter dated February 19, 2008) that it intends to launch an initiative for the review and disposition of Account 1588 and that it will consider the use of "disposition triggers". In this letter, the Board also indicated it will consider whether to extend this initiative to all of the RSVA and RCVA accounts. Chapleau PUC did not directly respond to concerns raised by Board staff in regards to this initiative.

In the response to Board staff interrogatory #33, Chapleau PUC listed an adjustment of ($45,642) to energy sales. Board staff noted that the explanation provided for this adjustment, "energy sales includes regulatory asset variances", was not clear nor was the impact of this adjustment on the variance accounts proposed for disposition articulated. Chapleau PUC did not address these concerns in its reply submission.

Board staff noted that Chapleau PUC stated that it accrued costs in account 2405 from Hydro One invoices for Phases I and II of Hydro One's regulatory asset recovery as approved by the Board prior to May 1, 2006. Board staff submitted that total Hydro One charges for Phase I and II of Hydro One's regulatory assets should be accrued in accounts 1586 as per the APH and December 2005 Frequently Asked Questions #8 and #9. Board staff noted that it was unclear whether the balances were appropriately accounted for in 1586, which is being requested for disposition. Chapleau PUC did not address these concerns in its reply submission.

VECC noted that a substantial balance had accumulated in account 1584. VECC submitted that the Board may wish to approve at least a partial disposition of this account. However, VECC also noted that Board staff had raised concerns regarding the balances in a number of the accounts and submitted that it was important that these issues be fully resolved before the Board considers disposition of the balances in the respective accounts.

Board Findings

The Board has recently announced an initiative which may result in the development of "disposition triggers" for these accounts. For this reason, in some recent decisions the Board has decided not to dispose of the balances in the RSVA and RCVA accounts and instead to use the upcoming generic process to address final disposition of those account balances. In the case of Chapleau PUC, however, the Board is concerned with the quality of information provided to support the requested disposition of variance and deferral accounts. The Board has therefore determined not to defer these issues for Chapleau PUC to the upcoming generic process related to these accounts.

Although there is uncertainty around the balances in these accounts, the Board has determined that it is appropriate to begin disposition of these balances given the large credit position of total balance. However, because of the uncertainty regarding the balances, the Board will approve Chapleau PUC's proposed clearance of deferral accounts over three years on an interim basis. By this Decision, the Board informs the Board's Chief Regulatory Auditor ("CRA")of this situation and suggests that an audit review may assist the Board in determining how best to finalize the amounts in these accounts. When the CRA has concluded an audit of the accounts, and depending upon the CRA's conclusions, the Board will determine whether it is necessary to revise the account balances, and therefore the disposition of the accounts, for purposes of issuing a final order. If necessary, Chapleau PUC will be required to prepare a final draft order to that effect at that time.

Account 1508

Board staff noted that there were some uncertainties regarding the adjustments to the financial statements. These uncertainties involved account 1508, for which disposition is being requested, and Accounts 1565 and 1590, for which disposition is not being requested. In its reply submission, Chapleau PUC provided an updated regulatory asset worksheet and identified the credit adjustments made to the 2006 balance of Account 1508.

Board Findings

The Board has the same concerns regarding the balances in account 1508 as it does with respect to the RSVA and RCVA accounts. For that reason, the Board will adopt the same approach for this account as set out above for the RSVA and RCVA accounts. The balance will be disposed of on an interim basis, and the Board hereby informs the Board's Chief Regulatory Auditor of this situation and suggests that an audit review may assist the Board in determining how best to finalize the amount in this account. As with the RSVA and RCVA accounts, when the CRA has concluded an audit of the accounts, and depending upon the CRA's conclusions, the Board will determine whether it is necessary to revise the account balances, and therefore the disposition of the accounts, for purposes of issuing a final order. If necessary, Chapleau PUC will be required to prepare a final draft order to that effect at that time.

IMPLEMENTATION

The Board has made findings in this Decision which change the revenue requirement claimed and the proposed monthly charges and charges for Street Lights and Sentinel Lights. These are to be reflected in a Draft Rate Order prepared by Chapleau PUC. This Draft Rate Order is to be developed assuming an effective date of May 1, 2008, but the Board will not implement new rates on May 1, 2008.

The Board issued an Interim Rates Order on April 30, 2008 which allows for an effective date as early as May 1, 2008. However, Chapleau PUC was late in filing its application. The Board therefore finds that it is appropriate in the circumstances of this case for the effective date to be the date of the final Rate Order that will follow this decision. The current interim rates are in effect until the Board approves the Rate

Order and the Board notes, again, that the Rate Order will include an interim disposition of the deferral accounts discussed above.

In filing its Draft Rate Order, it is the Board's expectation that Chapleau PUC will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Chapleau PUC to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Chapleau PUC's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Chapleau PUC should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision.

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

THE BOARD THEREFORE DIRECTS THAT:

1. Chapleau PUC shall file with the Board, and shall also forward to VECC a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall include the final base rates and interim rate rider with respect to the deferral accounts discussed above. The Draft Rate Order shall indicate that it is an interim order pending review by the CRA of the deferral accounts at which time a final rate order will be fixed. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the rates.

2. Board staff and VECC shall file any comments on the Draft Rate Order with the Board and forward to Chapleau PUC within 20 days of the date of this Decision.

3. Chapleau PUC shall file with the Board and forward to VECC responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

4. VECC shall file with the Board and forward to Chapleau PUC a cost claim within 26 days from the date of this Decision.

5. Chapleau PUC shall file with the Board and forward to VECC any objections to the claimed costs within 40 days from the date of this Decision.

6. VECC shall file with the Board and forward to Chapleau PUC any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Chapleau PUC shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, June 2, 2008.

Original Signed By

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Gordon Kaiser
Vice Chair and Presiding Member

Original Signed By

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Cynthia Chaplin
Member