Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

January 28, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission on Chapleau Public Utilities Corporation 2010 Electricity Distribution Rates Application Board File Number EB-2009-0219

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Chapleau Public Utilities Corporation and any intervenors and observers in this proceeding.

Chapleau Public Utilities Corporation reply to submissions is due February 17, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Chapleau Public Utilities Corporation

EB-2009-0219

January 28, 2010

Board Staff Submission
Chapleau Public Utilities Corporation
2010 IRM3 Rate Application
EB-2009-0219

Introduction

Chapleau Public Utilities Corporation ("Chapleau PUC") filed an application with the Ontario Energy Board (the "Board"), received on October 14, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Chapleau PUC charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Chapleau PUC.

Board staff makes submissions on the following matters:

- Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report");
- Adjustments to the Revenue to Cost Ratios;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax ("HST").

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

General Background

For purposes of 2010 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2008 Group 1 Deferral and Variance account balance and determine whether the balance exceeded the preset disposition threshold of $0.001 per kWh using the 2008 annual kWh consumption reported to the Board.

When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2010 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account Workform.

Chapleau PUC Specific Background

Annual Disposition

Although Chapleau PUC exceeded the disposition threshold, its initial filing did not utilize the Board staff Deferral and Variance Account Workform. Board staff interrogatory #1 requested that Chapleau PUC complete and submit an updated version 4 of the Deferral Variance Account Workform. Chapleau PUC complied with this request.

Chapleau PUC subsequently requested that the Board review and approve the disposition of the December 31, 2008 balances of Group 1 deferral and variance accounts as defined by the EDDVAR Report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of $125,047. The 1588 global adjustment sub-account balance is a debit of $66,191. Chapleau PUC has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2010. In addition Chapleau PUC reported, for informational purposes for the period January 1 to September 30, 2009, a credit of $79,741 for account 1588, excluding the global adjustment sub-account, and a debit balance of $40,310 for the 1588 global adjustment sub-account. Debit balances are amounts recoverable from customers.

Chapleau PUC expressed a concern with respect to the impact on its cash flow were they to use the one-year default disposition period contemplated in the EDDVAR Report to clear its deferral and variance account balances. Chapleau PUC indicated that it would be amenable to a 4-year disposition period.

Global Adjustment

In response to Board staff interrogatory #2, Chapleau PUC confirmed that it made adjustments subsequent to its initial application to comply with the Regulatory Audit & Accounting Bulletin 200901 with respect to account 1588 and the global adjustment sub-account.

In response to Board staff interrogatory #3a, Chapleau PUC agreed that a separate rate rider to be prospectively applied to non-RPP customers to dispose of the global adjustment sub-account balance would be appropriate. Chapleau PUC however noted that any costs required to effect changes to its billing system should also be borne by non-RPP customers.

In response to Board staff interrogatories #3b, Chapleau PUC stated that it did not currently have the billing capability to have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance. Chapleau PUC however indicated that reasonable costs could be incurred to effect such a change to its billing system were the Board to direct the applicant to do so.

As of November 1, 2009 the MUSH sector (Municipalities, Universities, Schools and Hospitals) and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status as per O. Reg. 95/05 of the Ontario Energy Board Act, 1998. In response to Board staff interrogatories #3d, Chapleau PUC indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Chapleau PUC further indicated that with some programming changes to its billing system, Chapleau PUC would have the capability to exclude customers in the MUSH sector if a separate rate rider were to apply.

Submission

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place. However, the Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that occurs both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer’s best interest. Board staff recognizes that some volatility in electricity bills may result. That aside, Board staff believes that a one year disposition would be in the interest of all parties.

The EDDVAR Report requires a distributor to file a reconciliation of the regulatory trial balance that is reported to the Board as part of the RRR and the audited financial statements. Board staff notes the original balances proposed for disposition (and supported by audited financial statements) might have been adjusted to account for events subsequent to the release of the EDDVAR Report. They include, but are not exclusive to the following:

1. The Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009 and subsequent communications clarified the accounting rules for account 1588 and the global adjustment sub-account. These communications required electricity distributors to review and correct transaction records dating back to January 1, 2005. The distributors were also advised that they may consider applying cash-based accounting versus accrual-based accounting for these transactions.

2. Applicants retroactively reviewing, and correcting Group 1 account balances over the January 1, 2005 to December 31, 2008 period.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor Chapleau PUC's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Staff notes that Chapleau PUC stated in response to staff's interrogatory #1e) that Chapleau PUC has complied with the Board's accounting policies and procedures. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. For this reason Board staff proposes that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis. Were the Board to have any concerns about these adjustments, Board staff proposes that the Board might consider declaring the rate riders interim until the revised balances can be brought forward in a future application and supported by a third party audit.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2007-0755) for Chapleau PUC's 2008 cost of service rate application prescribed a phase-in period to adjust its revenue to cost ratio   The 2010 Supplemental Filing Module included schedules for Chapleau PUC to complete to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment.

Submission

Board staff submits that Chapleau PUC has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Chapleau PUC's revenue to cost ratio adjustments.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

General Background

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charged for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs effective July 1, 2009 were as follows:

- Network Service Rate was increased from $2.57 to $2.66 per kW per month, a 3.5% increase;
- Line Connection Service Rate remained unchanged at $0.70 per kW per month; and
- Transformation Connection Service Rate was decreased from $1.62 to $1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates ("RTSRs") to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010.

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

- Network Service Rate has increased from $2.66 to $2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from $0.70 to $0.73 per kW per month; and
- Transformation Connection Service Rate has increased from $1.57 to $1.71 per kW per month, for a combined Line and Transformation Connection Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

Chapleau PUC Specific Background

Chapleau PUC applied for an adjustment to its RTSR rates that is based on a different methodology from the adjustments provided by the Board's RTSR Guideline. Chapleau PUC is requesting an increase of 6.21% for its Network Service Rate and an increase of 5.961% for its Line and Transformation Connection Service Rate. In Board staff's view, Chapleau PUC provided a reasonable analysis and explanation as part of its original application.

Submission

Board staff notes that very few distributors, including Chapleau PUC, effected in their 2009 rates the July 1, 2009 level of UTRs since for most of them, distribution rates would have been implemented on May 1, 2009. Therefore, in accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level, that is an increase of about 15.6% to the RTSR Network Service rate, and an increase of about 5.2% to the RTSR Line and Transformation Connection Service Rate.

Board staff has reviewed the evidence provided by the applicant and submits that the proposal by Chapleau PUC may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff asks Chapleau PUC to clarify if it wishes to continue with the as filed calculated RTSR adjustments, submit a revised calculation or reflect the January 1, 2010 UTR adjustments.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

General Background

The Ontario provincial sales tax (“PST”) (currently at 8%) and the Federal goods and services tax (“GST”) (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor’s OM&A expenses and capital expenditures. The PST is therefore included in the distributor’s revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

Chapleau PUC Specific Background

In response to Board staff interrogatory # 4a which asked if Chapleau PUC agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Chapleau PUC stated it would agree to capture reductions in OM&A and capital expenditures in a deferral account, bearing in mind that this action will place an added burden on Chapleau PUC's staff of 2 people.

Submission

Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization. Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like Chapleau PUC could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Chapleau PUC's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until Chapleau PUC's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Chapleau PUC would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

All of which is respectfully submitted