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BY EMAIL

January 26, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Chapleau Public Utilities Corporation
 2011 IRM3 Distribution Rate Application
 Board Staff Submission
 Board File No. EB-2010-0073**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Chapleau Public Utilities Corporation and to all other registered parties to this proceeding.

In addition please remind Chapleau Public Utilities Corporation that its Reply Submission is due by February 16, 2011.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Chapleau Public Utilities Corporation

EB-2010-0073

January 26, 2011

**Board Staff Submission
Chapleau Public Utilities Corporation
2011 IRM3 Rate Application
EB-2010-0073**

Introduction

Chapleau Public Utilities Corporation (“Chapleau”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on September 30, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Chapleau charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 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.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application models by Chapleau. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, Chapleau confirmed that they were errors and provided the corrected data.

Board Staff will make the necessary corrections to Chapleau’s models at the time of the Board’s decision on the application.

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”); and
- Smart Meter Funding Adder.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

General Background

For purposes of 2011 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account

balance and determine whether the balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2009 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 2011 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.

Chapleau Specific Background

OEB Regulatory Audit Review

Background

In an addendum to its Manager's Summary filed on October 29, 2010, Chapleau indicated that the results of an OEB Regulatory Audit review from proceeding EB-2007-0755 determined that a previous disposition of a credit amount of \$261,348 was incorrect as it should have been a credit of \$215,662. The difference is an over refund of \$45,686. The previous disposition amount was approved by the Board on an interim basis.

Submission

In response to Board staff interrogatories #8a and #8b, Chapleau indicated that it will be making a debit adjustment of \$45,686 in account 1595 and will be requesting the disposition of the residual balance in account 1595, and the inclusion of the over refund of \$45,686 in their next rate application. Therefore, Board staff submits that this matter does not need to be addressed by the Board in this proceeding.

Disposition of Group 1 Account Balances

Background

Chapleau requested that the Board review and approve the disposition of its December 31, 2009 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2011. The total balance of the Group 1 accounts is a credit of

\$15,424. Credit balances are amounts payable to customers. This amount results in a total claim per kWh of (0.000597).

Chapleau proposed to dispose of its Group 1 account balances over a one-year period.

Submission

Board staff notes that when rounded up to three decimal places, Chapleau's total claim per kWh is (\$0.001) which equals but does not exceed the preset disposition threshold contained in the EDDVAR Report.

Board staff considers that the disposition threshold has only been narrowly missed and does not materially differ from the preset disposition threshold of \$0.001/kWh provided for in the EDDVAR Report. Board staff submits that Chapleau's proposal is substantively consistent with the rationale of the EDDVAR Report, which endorses a systematic approach to the review and disposition of deferral and variance accounts.

Board staff further notes that the Board has previously considered a case where the preset disposition threshold was narrowly missed (EB-2009-0405). In this Decision, the Board Panel opined that while recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, the Panel found that the public interest required it to deviate from the EDDVAR Report under certain circumstances. Board staff submits that since Chapleau's Group 1 deferral and variance account balance is in a credit position, i.e. amounts are payable to customers, the public interest would be served by disposing of Chapleau's Group 1 deferral and variance account balances.

Were the Board to approve the disposition of the deferral and variance account balances at this time, Board staff notes that the principal amounts to be disposed as of December 31, 2009 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the amounts should be disposed of on a final basis. Board staff also submits that Chapleau's proposal for a one year disposition period for its Group 1 account balances is in accordance with the EDDVAR Report.

Global Adjustment Sub-Account Disposition: Separate Rate Rider

Background

Chapleau is proposing to dispose of the global adjustment sub-account balance by means of a rate rider that would prospectively apply to non-RPP customers.

Submission

In its Decision and Order in the EB-2009-0219 proceeding, the Board agreed in principle with Board staff that a separate rate rider should apply to non-RPP customers to dispose of the global adjustment sub-account balance. However, the Board noted that Chapleau's billing system was not capable of implementing such a change, and as a result, the Board approved the disposition of the allocated global adjustment sub-account balance from all customers in the affected rate class. The Board further directed Chapleau to investigate and report to the Board, in a proceeding no later than its next rebasing application, Chapleau's projection of the costs that it would incur to accommodate a separate rate rider that would prospectively apply to non-RPP customers only.

Therefore, Board staff submits that Chapleau's proposal should be approved by the Board.

SMART METER FUNDING ADDER

Background

Chapleau completed the Smart Meter Rate Calculation Model ("Model") found on the Board's website. Chapleau included the revenue requirement of the smart meter installed to date and the revenues collected from its current smart meter funding adder of \$1.00 per metered customer per month. The Model calculated a proposed smart meter rate adder of \$9.04 per metered customer per month. In its Manager's Summary, Chapleau indicated that this increase was not acceptable to Chapleau's Board of Directors and Senior Staff. As an alternative, Chapleau proposed a rate adder of \$3.50 per metered customer per month until 2012; that is until such time that Chapleau is expected to file its next cost of service rate application.

Chapleau is not seeking approval for capital and operating costs incurred to date or in 2011 in this application, but will track the revenues received from the funding adder and actual costs incurred in the established smart meter related variance accounts for review and disposition in a subsequent application.

Submission

In Board staff interrogatory #4a, Board staff asked Chapleau to explain why Chapleau's total smart meter capital costs per meter appeared to be high in comparison to other selected Ontario electricity distributors. Chapleau explained that due to its size and remote location, its capital cost and operating expenses would be higher than urban and larger size distributors.

Board staff notes that the total bill impact attributable to this proposed change alone (keeping all other proposals in the 2011 IRM3 Rate Generator Model as filed) is 2.5% for the residential class. While the Board has previously approved smart meter funding adders as high as \$3.50 per metered customer per month for other distributors, the Board may wish to consider whether an impact of greater than 2% is appropriate given that the funding adder is only a temporary funding tool intended to bridge the gap leading up to the next rebasing application or standalone application involving a prudence review of incurred costs for installed smart meters. Board staff notes as an alternative, a \$3.00 per metered customer per month adder would lead to a bill impact of 2% for the residential class. However, it is further noted that the proposed \$3.50 per metered customer per month is already a significant reduction from the number calculated by Chapleau using the Model.

All of which is respectfully submitted