2012 ELECTRICITY DISTRIBUTION RATES

Chapleau Public Utilities Corporation

2012 Cost of Service Application

EB-2011-0322

STAFF SUBMISSION

August 24, 2012

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Board Staff Submission

Introduction

Chapleau Public Utilities Corporation ("CPUC") filed a cost of service application (the "Application") with the Ontario Energy Board (the "Board") on January 30, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B) (the "Act"), seeking approval for changes to the rates that CPUC charges for electricity distribution, effective May 1, 2012. Board staff and the Vulnerable Energy Consumers Coalition ("VECC") submitted written interrogatories on May 11 and 15, 2012 respectively. CPUC provided responses on June 20, 2012 to Board staffs interrogatories and on June 25, 2012 to VECC's interrogatories. Supplemental interrogatories were filed on July 25 and the responses to those interrogatories were filed on August 10, 2012. The following submission is based on the Application and the two sets of interrogatory responses.

Implementation and Effective Dates

In a letter dated March 1, 2011, the Board stated that applicants should file their cost of service application no later than August 26, 2011 for rates to become effective May 1, 2012. CPUC filed its 2012 cost of service application on January 30, 2012 requesting rates to be effective May 1, 2012. Upon review of the Application, the Board found that it was incomplete, and issued a letter dated February 8, 2012 identifying the deficiencies in its Application. The Board stated that it expected CPUC to file the missing material as soon as possible and no later than April 13, 2012. CPUC filed the additional material on March 16, 2012. On April 26, 2012, the Board issued an Interim rate Order declaring CPUC's current Board-approved Tariff of Rates and Charges interim effective May 1, 2012.

While CPUC is proposing an Effective Date of May 1, 2012 for its distribution rates, it is proposing an Implementation Date of November 1, 2012. The estimated $22,858 of foregone revenue for the 6 months from May 1, 2012 to October 31, 2012 would be collected through a rider to be determined in a future application, and the forgone revenue would be tracked using Account 1574 Deferred Rate Impact and reviewed in a future application.[1]

Board staff finds that the proposal to use Account 1574 is reasonable from the perspective that it implements ongoing rates on November 1, 2012. Staff notes that foregone revenues are not lost but would be recorded and reviewed in a future application.

CPUC did file late; January 30, 2012 as opposed to the Board's set deadline of August 26, 2011 and the Application was incomplete. CPUC's filing did not include a proposal for the disposition of Account 1562 as directed by the Board in its Decision issued on June 24, 2011 in the EB-2008-0381 Combined PILS proceeding. In that Decision the Board stated that distributors that were not part of the proceeding would be expected to apply for final disposition of Account 1562 with its next general rates application, either IRM or cost of service.

The Board also advised, in a letter dated April 23, 2010, that a distributor is required to apply to the Board no later than April 15, 2012 for an order authorizing it to clear Account 1521. While CPUC was not required to file for clearing for Account 1521 by January 30, 2012, the Board did require that CPUC file for final disposition in its letter of February 8, 2012. By including Account 1521 in this Application, CPUC filed its proposal for disposition before the April 15, 2012 deadline.

In the interrogatory phase, Board staff inquired into the lateness of the filing and why May 1, 2012 should be the Effective Date. CPUC stated that it was late in filing its Application due to the enormity of detail required to complete the Application to ensure its accuracy. CPUC stated that it is one of the smallest distribution utilities in Ontario with only two administrative employees: the

[1] Response to Board staff Interrogatory 24

secretary treasurer and a secretary/clerk who are responsible for all office activities that include billing and collecting, accounts payable, payroll, bookkeeping, customer inquiries, RRR filings, etc. and find that a rate rebasing application is very onerous on their time. [2]

It also should be noted that, while it may have taken additional time to respond to interrogatories, CPUC did complete its filing a month earlier than was allotted, including the additional requirement of including a proposal to clear Account 1521.

Board staff is of the view that CPUC lacked the resources to make a timely filing. Board staff notes that for other comparable distributors such as Hydro 2000 and Atikokan, the Board established July 1 as the effective date or the first of the month closest to the issuance of the decision.[3], [4] Board staff submits that the same approach should apply to CPUC which will likely mean an effective date of October 1, 2012.

In the event that the Board allows for recording foregone revenue Board staff notes that CPUC was expecting total foregone revenues of $78,700 if the Implementation Date was to be October 1, 2012 with an effective date of May 1, and now estimates total foregone revenues of $22,858 for a November 1, 2012 Implementation Date.[5, 6] In the event the Board approves an effective date of May 1, 2012, Board staff submits that CPUC should explain this significant reduction in estimated foregone revenues. CPUC should also confirm the amount of forgone revenues in the event the Board approves an effective date of October 1, with a November 1 implementation date.

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[2] Response to Board staff Interrogatory 2
[3] *Hydro 2000 Inc. Decision and Order EB-2011-0326*
[4] *Atikokan Hydro Inc. Decision and Order EB-2011-0298*
[5] ibid
[6] Response to Board staff Interrogatory 24

Transition from Canadian Generally Accepted Accounting Principles ("CGAAP) to International Financial Reporting Standards ("IFRS")

In its Application, CPUC stated that it filed its 2012 rates application on the basis of CGAAP, and that to file this Application on a modified IFRS basis would have imposed an unreasonable burden on the utility's office staff of only 2 employees.

The Board, in a letter dated April 30, 2012, provided guidance to all electricity utilities on the impacts of a decision by the Canadian Accounting Standards Board to defer the mandatory changeover to IFRS to January 1, 2013. The Board stated that it would not require regulatory accounting and reporting for 2012 to be in Modified IFRS ("MIFRS") if a distributor is not required to adopt IFRS for financial reporting and opts to remain on CGAAP.

On page 8 of CPUC's 2010 Audited Financial statement in note 1 (i), it states: "The Corporation has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements." While CPUC was not required to file the 2012 test year or report to the Board based on the Board established MIFRS, CPUC will be required to do so in 2013 for the purpose of regulatory accounting and regulatory reporting.

In response to a Board staff interrogatory, CPUC confirmed that:

- It will adopt IFRS as of January 1, 2013;
- CPUC estimates the total costs of approximately $29,500 for transition to IFRS, and has already incurred costs to date of approximately $19,500;
- CPUC has not included in its OM&A any costs for transition to IFRS; and
- It has engaged KPMG to assist with transition to IFRS. [7]

Board staff submits that CPUC has justified filing its Application under CGAAP and is taking appropriate steps to implement MIFRS in 2013.

[7] Response to Board staff interrogatory 3

Volumetric Forecast

In its Application CPUC developed its load forecast using the average of actual historical data from 2006 to 2010 and the estimate for the 2011 Bridge Year. The 2011 estimate was developed using actual data to August 2011 and forecast from September to December (average monthly consumptions 2008 to 2010). Incorporated into the forecast is 242,000 kWh of savings for CDM which is 20% of CPUC's 2011-2014 net cumulative energy savings target is 1.210 GWh.

CPUC provided a weather sensitive regression model in response to a Board staff interrogatory that forecasted the 2012 volumes based on a negative intercept and five variables:

i. Heating Degree Days;
ii. Cooling Degree Days;
iii. Number of Peak Hours;
iv. Number of Customers; and
v. Number of Days in the Month. [8]

An overriding factor that affects the reasonableness of any forecast is the economic conditions of the distributor's market. In the recent past CPUC's customers have experienced economic hardship, with several plant closures prior to 2006 in the forestry industry causing a population reduction of 16.9%, which resulted in a 17.1% reduction in CPUC's customer consumption.[9] CPUC stated that the economy has not improved; however, economic levels have been maintained through 2006 and into 2011. Since both forecasting methods only used data from this period, they both take into account the change in economic conditions.

The development of the forecast based on averages calculates average uses at a very low granular level; use per customer/connection by month. This approach accounts for monthly variability in customer count (loss or gain). It also makes it sensitive to the varying consumptions by month/season. Board staff submits that the problem in this method, however, is that it does not take into consideration the variability of weather in a sufficient enough manner. As an example, it

[8] Board staff Interrogatory 5 c Appendix A
[9] Application p 102

determines a January average use, but does not determine the level of use for a colder or warmer than average January.

CPUC stated that 70% - 75 % of their residential and almost 50% of their businesses use electricity to heat. Thus, heating is an important factor in consumption. CPUC also pointed out that it is a winter peaking distributor. Examining the average use per residential customer for 2006 – 2010 found on the second table on page 105 of the Application, the average use, excluding the 2008 Board approved forecast, is 1072 kWh, ranging from 1,000 kWh to 1,112 kWh. While board staff do not have the January average use to examine, combining the variability that occurs from one winter to the next, and the fact that 70% – 75% of residential customers have electric heating, it is highly likely that weather is a large contributor to this variability.

CPUC showed that the average use approach forecasts 2012 volumes to be 27,574,774 kWh and the regression model forecasts 27,622,647 kWh.[10] The regression based model forecasts 47,903 kWh more, or 0.17%. Board staff submits that given the relatively consistent results between the two methods, the use of the results arising from the average use method is sufficient at this time. With the advent of smart meter data, and the penetration of heating loads in CPUC's market, the regression approach could, in the future to be a better forecasting and revenue explanatory tool. Board staff submits that in the future, as smart meter data become available, that CPUC should revisit developing a regression based volumetric forecasting model.

Working Capital

CPUC filed its Application under the 2012 Chapter 2 Filing Guidelines in which a distributor could file a working cash study underpinned by a lead-lag study, or to use 15% of OM&A plus the cost of power as an estimate of its working capital requirements in the test year.[11] CPUC filed using the 15% approach.

On April 12, 2012, the Board issued a letter stating that a utility that does not file a working capital study should now use 13% of OM&A plus the cost of power as an estimate of its working capital requirements in the test year.

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[10] Response to Board staff Interrogatory 5c. Table T, page 34

[11] Chapter 2; Filing Requirements for Transmission and Distribution Applications June 22, 2011

In response to an interrogatory, CPUC stated:

- CPUC does not intend to use 13%;
- 15% is allowed under the filing requirements CPUC filed under; and
- CPUC has limited funds and could not afford to commission a lead/lag study.[12]

Board staff submits that this Application is for 2012 rates, and for consistency, CPUC should be allowed the same 15% other 2012 COS applicants have been allowed. For those utilities that apply for 2013 rates, the default, in the absence of a lead-lag study or other support, is 13%.

Capital Expenditures and Asset Management

CPUC has been investing only $8,325 per year on average in its distribution system over 2009, 2010, and 2011.[13] CPUC states that this low level of CAPEX is because of the implementation of smart meters, which strained the company in terms of investments and man hours.[14] As a result, CPUC is now planning to invest in its distribution system, and in an asset management plan.

CPUC is proposing to invest $58k in 2012. The following table prepared by staff was taken from the evidence:[15]

Capital Expenditures ($)

	Historical & Bridge Years						Test Year
	2006	2007	2008	2009	2010	2011	2012
1 Dist. St. Equip , 50 kV				3,081	2,228		19,765
2 Poles Towers & Fixtures	1,551		4,530	1,936	1,790	2,361	23,162
3 Underground Conduit				211			
4 Underground Conductors						4,850	
5 Line Transformers	21,899		25,362	2,365			8,863
6 Meters and Smart Meters	842		1,296		5,500		1,500
7 Computer Equipment				661			
8 Computer Software			11,186				5,000
9 Total	24,292	-	42,374	8,254	9,518	7,211	58,290

12 Response to VECC Interrogatory 3

13 Application Appendix 2-A Capital Projects Table

14 Response to VECC Interrogatory 1

15 Application page 90

A capital budget of $58,290 is high compared to immediate prior years. However, CPUC's low investments for 2008-2011 were in conjunction with installing smart meters which was $435,130 over 3 years. In comparison to the 2008 expenditures, $58k is approximately 30% greater. However, staff have no concerns with the specific projects listed above. CPUC should in future attempt to smooth its capital planning and an asset management plan should assist in this regard. A cost of service application is not intended as a way to catch up on previous capital under spending but rather to demonstrate a typical year of capital investments.

Board staff notes that CPUC is proposing to slightly increase its loss factor in this Application from 1.0654 to 1.0671. In CPUC's 2008 cost of service application, EB-2007-0755, CPUC proposed to increase its loss factors, stating that the increase in loss factors was due to the age of CPUC's infrastructure in certain parts of Chapleau. At that time, the Total Loss Factor increased from 1.0392 to 1.0654. It is noteworthy that a significant proportion of the 2012 CAPEX is directed at facilities that would improve load factors. CPUC stated that the 2012 expenditures are of the highest priority.[16]

CPUC planned to spend the $23.5k mentioned above in 2007 for the installation of 3 Regulators to bring its losses down.[17] CPUC completed that project in 2008. Board staff has serious concerns that losses were not reduced after investing $23.5k on its aging facilities in 2008 for the sole purpose of reducing losses. CPUC has not explained why this occurred, nor how it will manage its losses going forward. Board staff suggests that CPUC address this observation in its Reply Argument and specifically, why losses have not been reduced since 2008, and to state specifically what if any component of the $58,290 for 2012 is to improve load factors.

Smart Meters

Background

CPUC has applied to:

- Include smart meters in rate base;

[16] Application page 24
[17] CPUC Cost of Service Application EB-2007-0755 page 22

- Remove stranded meters from rate base;
- Charge a Smart Meter Disposition Rider ("SMDR") of $1.98 per month for both the Residential and General Service < 50 kW classes for the 4 year period of May 1, 2012 to April 30, 2016; and
- Charge a Stranded Meter Rate Rider ("SMRR") of $0.77 per month for the Residential class, and charge $1.40 per month for the General Service < 50 kW class for the 4 year period of May 1, 2012 to April 30, 2016.

The smart meter evidence was not in accordance with the Board's policy and practice with respect to recovery of smart meter costs.[18] Through the interrogatory process, CPUC complied with the policy and corrected costs for training and communications that should have been included as operating costs rather than capital costs.

Board staff submits that authorization to procure and deploy smart meters has been done in accordance with Government regulations, including successful participation in the London Hydro RFP process, overseen by the Fairness Commissioner, to select (a) vendor(s) for the procurement and/or installation of smart meters and related systems.

Smart Meter Installation Costs

CPUC provided the following unit costs:

1	Procurement & Installation	289.68
2	CIS	48.40
3	Changes to Ancillary Systems	-
4	Sub Total	338.08
5	OM&A	65.00
6	Total incl OM&A	403.08
7	Stranded Meters	67.29
8	Grand Total	470.37

The total costs including capital costs and OM&A, but excluding the stranded meters, is $403 per meter. This is beyond the range for 9 out of 13 utilities found

[18] *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery*, issued October 22, 2008. On December 15, 2011, the Board issued *Guideline -2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition.*

in the generic smart meter Decision which ranged from $123.59 to $189.96 per meter, with Hydro One Networks Inc. being the main exception at $479.47.[19] The Board's Monitoring Report, which summarizes the life-to-date investments by distributors with respect to the implementation of smart meters up to September 30, 2010, indicated that 4,382,194 meters had been installed at a cost of 994,426,187, or $226.92 per meter.[20]

In addressing the higher costs, CPUC pointed out the following:

- The comparison utilities are upwards of 50 to 200 times larger than CPUC;
- CPUC is one of the smallest utilities in the Province and has no neighboring utilities to share costs;
- Collectors cost upwards of $160,000 each, and are able to service up to 15 square km and 50,000 meters, while CPUC is only 2 sq. km. and 1,308 meters;
- CPUC's cost of a data collector unit is $161,374, if spread over 50,000 meters would be $3.23, while for CPUC's 1,308 meters is $123.37; and
- Installation costs for distributors by contractors in the Northern region of the Province are higher due to the remote location of some of the distributors.

CPUC also pointed out that its budgeted cost, as prepared by a consultant, was $469 per meter.

While Board staff is sympathetic to the higher costs that small northern distributors incur, Board staff submits that $403 per meter is amongst the highest that have been reviewed by the Board. In its Decision in Atikokan the Board found that $443 was high.[21] In that application, the Board allowed recovery of 50% of the requested smart meter costs, and a final determination of the costs is to be made after an audit is conducted by the Board's Regulatory Accounting and Audit branch.

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[19] Smart Meter Cost Recovery Combined Hearing Decision; EB-2007-0032, August 8, 2007
[20] Board issued *Monitoring Report Smart Meter Investment – September 2010; March 3, 2011*
[21] *Atikokan Hydro Inc. Decision and Order; EB-2011-0293; June 18, 2012*

However, in its Decision in Sioux Lookout Hydro ("SLH"), the Board made a different finding related to high unit costs.[22] SLH had an average cost of $339 per meter. In this case the Board found that the costs reflected the nature of the service territory, its topography and low customer density. In addition, the Board found that SLH was able to provide support for the high operating costs and that it should also reflect operating efficiencies and savings in its next cost of service application (2013).

Board staff notes that CPUC used its own personnel to make the installations.[23] In spite of this CPUC has one of the highest unit costs in the Province. Board staff submits that CPUC should address the cost drivers for its high costs and quantify any resulting operational efficiencies and savings in its Reply. In addition, CPUC should clarify if installations were performed by contractors as well as by CPUC employees.

In accepting Sioux Lookout Hydro's costs, the Board noted that it would be expected to review any operating efficiencies in Sioux Lookout Hydro's cost of service rates application for 2013, expected to be filed shortly. This Application is CPUC's rate application to rebase its rates through a detailed review of a cost of service application; CPUC is not expected to rebase next until 2016. In light of CPUC's high costs and the fact that this is the only opportunity to review the costs, Board staff submits that in the absence of a persuasive explanation regarding the cost drivers in CPUC's Reply Argument, the Board may wish to approve only 50% of claimed smart meter costs at this time, and that an audit of smart meter costs be undertaken by the Board's Regulatory Audit & Accounting branch, as the Board directed in its decision for Atikokan Hydro's 2012 rates application. Within 3 months of the results of the smart meter audit being conducted, CPUC should file a stand-alone application for review and disposition of the remainder of smart meter costs taking into account the results of the audit.

Cost Allocation

CPUCs Application did not include class specific SMDRs. CPCU proposed to apply a single customer charge to each class per month of $1.98. However

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[22] *Sioux Lookout Hydro Inc. Decision and Order; EB-2012-0245; August 23, 2012*

[23] Response to Board staff Interrogatory 8 f.

CPUC did develop class specific SMDRs for the Board's consideration.[24] The Resulting SMDRs as a unit charge per customer per month by class are:

	SMDR		Period
Residential	$1.90		May 1, 2012 - April 30, 2016
GS<50 kW	$2.81		May 1, 2012 - April 30, 2016
GS>50kW	$5.21		May 1, 2012 - April 30, 2016

Board staff submits that these SMDRs are appropriate subject to the Board's findings on the quanta.

<u>Stranded Meters</u>

CPUC removed $52,585, which is the balance for its stranded meters from its assets at the 2011 year end. [25] This balance was reviewed by the auditors. Board staff submits that this is an audited amount, however, notes that it equates to approximately $40 per stranded meter. This number appears high to Board staff and CPUC should confirm the net book value of the stranded meters in its Reply Argument. To recover this balance, CPUC is requesting a residential SMRR of $0.77 over a 4 year period, and a General Service < 50 kW SMRR of $1.40, also over a 4 year period. Board staff comments on this cost recovery period are found below.

<u>Implementation</u>

CPUC has applied for its SMDR and SMRR to be in place for a 4 year period; May 1, 2012 to April 30, 2016. If the Board approves the costs as proposed, Board staff does not have concerns with the longer than average recovery period. The recovery period could be shortened for the SMDRs, depending on the Boards finding on allowable costs and on the approved effective and implementation dates. Board staff notes that for a November 1 implementation date, the recovery period for the SMDRs could be adjusted to 42 months (November 1, 2012 to April 30, 2016) as was done with Atikokan.

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[24] Response to Board staff Interrogatory 20
[25] Response to Board staff Interrogatory 9

Operating Expenses

Board staff has reviewed CPUC's proposed OM&A expenses of $664,490. This total is $80,000 over the estimated 2011 expenses. In assessing this increase Board staff considered that there are several contributing factors; the Sensus contract for $28.5k, forecasted total compensation for $11.5k, and retaining a consultant to develop an Asset Management Plan ("AMP") for $30k. Subject to the comments below, Board staff finds the proposed level of OM&A to be reasonable given that the remainder is consistent with prior years.

Sensus Contract

CPUC has an annual contract with Sensus for $28,500.[26] This contract is for maintaining the WAN for smart meters and this is the first year that smart meters are included in the revenue requirement. Over a forecast of 1,287 customers this is $1.85 per month per customer. Board staff considers this to be high when one looks at the total costs for smart meters. As pointed out above, CPUC has one of the highest installed costs for smart meters. On Tab 5 *Smart Meter Revenue Requirement* of CPUC's smart meter Model, the "2012 and Later" revenue requirement is $ 59,366 or $3.84 per customer per month. Taken together incremental smart meters costs are $5.69 per customer per month. Board staff submits that the Board may wish to consider applying the same treatment to this cost as Board staff suggested for the historical smart meter deployment claim discussed above. The Board may wish to allow 50% of the Sensus contract to be included in the revenue requirement at this time and the remaining 50% be tracked in account 1556 (smart meter OM&A) pending the outcome of an audit.

Compensation

CPUC has increased compensation by 2%.[27] This aligns with the negotiated settlement with the Town of Chapleau's unionized employees. While staffing levels remain at previous years' levels, CPUC has confirmed that, for the 2012 test year, it has not allocated any compensation to capital.[28] CPUC is again undertaking capital projects, as pointed out above. Board staff expects that as a

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[26] Application. page 124
[27] Application, page 118
[28] Response to VECC Interrogatory 21

result of capital expenditures, CPUC would probably have supervisory and labour costs that should be capitalized. Board staff submits that CPUC address this matter in its Reply Argument.

AMP Consultant

CPUC has budgeted $30k in 2012 to develop an Asset Management Plan ("AMP"). The project will take four years to implement. CPUC currently uses deficiency inspection reports to prioritize its work.[29] To improve upon managing its distribution system, CPUC plans to spend in total the following.

Asset Management Plan

	2012	2013	2014	2015	Total
Expense	30,000	30,000	10,000	10,000	80,000
Capital	-		50,000		50,000
Total	30,000	30,000	60,000	10,000	130,000

Board staff is of the view that a plan of this magnitude with its financial and operating implications to CPUC, should be thorough in detailing what CPUC needs to do in improving its investment and operations of its distribution system for the betterment of its ratepayers and municipal shareholder. The plan should be measurable, realistic, and contain achievable goals. The plan should also contain a component for reducing losses, including lessons learned from previous experiences. It appears that the previous study either was incorrect, or CPUC's implementation of the study was faulty. Board staff recommends that CPUC augment its AMP for the 2012 year and beyond by including a component to reduce losses.

CPUC is spending $30k in 2012 for the AMP to be developed by Burman Energy. It engaged Burman without going to tender. There are other planned future expenses. It is unclear as to whether any future costs are already contracted. Board staff submits that any future contracting be done through a tendering process.

In its Reply Argument, CPUC should explain the cost of the project in more detail, including the planned asset management solution and training.

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[29] Response to VECC Interrogatory 1 c)

Cost of Capital

CPUC filed before the Board issued its letter on March 22, 2012 setting the parameters for the Cost of Capital for rates beginning May 1, 2012. The following is CPUC cost of capital as submitted in the Application compared to the cost of capital based in the Board's letter.[30]

Cost of Capital per Application

		Structure		Return	
		%	$	Rate (%)	Cost ($)
Debt					
1	LTD	56.00%	850,421	6.10%	51,876
2	STD	4.00%	60,744	4.47%	2,715
3	Total Debt	60.00%	911,165	5.99%	54,591
Equity					
4	Common	40.00%	607,443	8.57%	52,058
5	Pref	0.00%			-
6	Total Equity	40.00%	607,443	8.57%	52,058
7	Total	100.00%	1,518,608	7.02%	106,649

Cost of Capital per Board's Letter 2012-03-02

		Structure		Return	
		%	$	Rate (%)	Cost ($)
Debt					
1	LTD	56.00%	850,421	4.41%	37,504
2	STD	4.00%	60,744	2.08%	1,263
3	Total Debt	60.00%	911,165	4.25%	38,767
Equity					
4	Common	40.00%	607,443	9.12%	55,399
5	Pref	0.00%			-
6	Total Equity	40.00%	607,443	9.12%	55,399
7	Total	100.00%	1,518,608	6.20%	94,166

CPUC is owned by the Town of Chapleau and has no outstanding debt. Board staff submits that the deemed capital structure using the costs of capital per the

[30] Response to Board staff Interrogatory 23 Appendix F RRWF

Board's Letter of March 22, 2012 is appropriate and that CPUC has agreed to use the updated cost of capital parameters when filing its draft Rate Order.[31]

Cost Allocation

CPUC submitted the Board's Cost Allocation Model (the "Model") with adjustments to the load profiles, weighting factors for services and for billing and collection, and to the density factor.

Load Profiles

Several plant closures prior to 2006 in the forestry industry caused a population reduction of 16.9% resulting in 17.1% reduction in CPUC's customer consumption. Board staff noted that the load profiles that underpinned the cost allocation informational filings were based on loads prior to 2006 and asked if the profiles had been updated. CPUC responded that it had updated the load profiles.[32]

Weighting Factors

CPUC stated that it calculated weighting factors for Services to reflect the costs to install service. CPUC also calculated weighting factors for Billing and Collecting to reflect the costs to prepare and mail bills, record revenues and other incidental costs. On August 5, 2011, the Board issued version 2 of the Model in which a new worksheet, I5.2 Weighting Factors, was added. This modification to the Model allowed distributors to use relative weights to reflect the differences in the respective costs for a service drop, and billing and collection by class. Board staff submits that CPUC's propsoal is appropriate.

CPUC adjusted its meter costs to reflect updated expenditures through to 2012. CPUC demonstrated that the meter costs used for the SMDR calculation and those for the cost allocation study differ very little. Board staff submits that he updated meter costs are appropriate.

[31] ibid

[32] Response to Board staff Interrogatory 16 a.

Density Factor

CPUC modified the Cost Allocation Model to address its concern that it is one of the smallest utilities in Ontario and has only 27 km of roads in its service area. The Model then categorises CPUC into the 22 to 44 km category, which is the medium density category.

Density is calculated as customers per km of line, and is used to determine the level of capacity related costs that would be a component of the fixed customer related costs. CPUC is attempting to fine tune the Model to better reflect its size.

The Board has taken steps so that the Model responds to the uniqueness of a distributor. As examples, the model allows each distributor to use its own demand levels and load profiles, and to use weighting factors and actual costs that exist for each distributor. The model recognizes differences in the densities between distributors as well, by classifying them as low, medium, or high density distributors. This set of classifications adjusts the level of costs classified as customer related to better reflect the distributors density. Proposing to modify the Model further in an effort to better reflect CPUC's density, while it may appear to be appropriate, should be done cautiously.

CPUC's density is 50 customers per km, which is quite close to the middle of the range for the medium density group; midpoint would be 45. The model produces the same outcome for distributors within a range so that, for the medium density range, 23 km gives the same outcome as 44 km. However, when at the boundary of a range, 22 km results in a different outcome than does 23 km.

CPUC stated that, in order to allocate costs more accurately, it determined the cost differential between the 0 - 22 and 22 - 44 km on a per km basis and apportioned costs for 27 km. This approach would apply if the change in costs by one km was a uniform rate. However, the change to costs in the Model are not a smooth per km transition, but, as pointed out above, a lumpy transition in blocks of km; 0-22, 23-44, etc.

Board staff submits that the adjusted Model proposed by CPUC should not be used for rate making purposes. Given the performance of the Model, and that CPUC is close to the middle of that range, CPUC should classify itself as a medium density distributor for the purposes of the Model.

Quanta and Allocation of Transmission and Sub-Transmission ("LV") Charges

CPUC filed using the January 1, 2011 rates for 2012 Uniform Transmission Rates. Through the interrogatory process it updated for the January 1, 2012 rates.[33]

CPUC stated that for determining the LV charges, it used its current rates for service from Hydro One to estimate total LV charges of $16,000. It also stated that in estimating its total LV costs, CPUC does not expect an increase in kW consumption levels.

Board staff find the resulting rates by class for Retail Sale Transmission and Low Voltage service to be appropriate.

Revenue-to-Cost Ratios.

The following is CPUC's proposal for class revenue-to-cost ratios:

Revenue-to-Cost Ratios

	Cost Study	Proposed	Board Ranges
Residential	97.77%	97.64%	85% - 115%
GS < 50 kW	99.93%	99.33%	80% - 120%
GS > 50 kW	119.59%	119.59%	80% - 120%
USL	127.93%	100.00%	80% - 120%
Sentinel Lighting	61.46%	80.00%	80% - 120%
Street Lighting	92.40%	92.40%	70% - 120%

There are two classes out of range, the Unmetered Scattered Load class and the Sentinel Lighting class. CPUC is proposing that:

- The Unmetered Scattered Load class will be adjusted from 127.93% down to 100.0% in; and
- For the Sentinel Lighting class, CPUC is proposing bringing this class into range over a three year period by increasing its revenue to cost ratio of 61.46% by 6.18% annually. For 2012, the ratio will be 67.64%, for 2013, the ratio will be 73.82% and for 2014 ratio will be 80.00%.

Board staff does not object to the three year phase-in for the Sentinel Lighting class as the resulting bill impacts as proposed by CPUC for the affected classes

[33] Response to Board staff Interrogatory 29 Appendix "A"

above ranges from 0.1% to 1.0% for USL and ranges from 30% to 37.5% over the proposed three year period for Sentinel. The impact on a residential customer using 800 kWh per month is 8.4% and on a General Service < 50 kW using 2,000 kWh per month is 5.7%

Total Loss Factor

CPUC is proposing a five year average Total Loss Factor of 1.0671. This represents a slight increase of 0.0017 from the current loss factor of 1.0654. As mentioned previously in this submission, CPUC's loss factors have not been reduced, in spite of investments to reduce the losses. Board staff submits that the marginal increase in the Total Loss Factor be denied and that CPUC develop a plan as part of its greater Asset Management Plan to reduce losses in future years.

Lost Revenue Adjustment Mechanism ("LRAM")

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board noted that distributors should use the most current input assumptions available at the time of the third party review when calculating an LRAM amount.

CPUC seeks to recover a total LRAM claim of $15,475.71, which includes $940 in carrying charges, to be recovered over a one-year period. CPUC updated its LRAM request from the original amount of $23,131.15 to $15,475.71.[34] This update was necessary to account for the updated results applicable to the OPA's Great Refrigerator Round Up 2009-2010 program. The lost revenues include the effect of CDM programs implemented from 2006-2010. CPUC has requested approval of these savings persisting until December 31, 2011.

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[34] Response to VECC Interrogatory 16 b)

2006 to 2010 Lost Revenues

CPUC has requested the recovery of an LRAM amount that includes lost revenues for 2006, 2007, 2008, 2009, and 2010 CDM programs from January 1, 2006 to December 31, 2011.

Board staff notes that CPUC's last cost of service application was filed on November 23, 2007, prior to the issuance of the Board's CDM Guidelines which were issued on March 28, 2008. As CPUC's last cost of service application was filed prior to the issuance of the CDM Guidelines, the rules regarding LRAM and lost revenues in general were not available to CPUC. Since CPUC could not be reasonably expected to have adhered to direction from the Board regarding the inclusion of CDM effects in its load forecast due to the timing, Board staff supports the recovery of the requested LRAM amounts in 2006, 2007, 2008, 2009, and 2010. Board staff notes that this is consistent with what the Board noted in its decision on the application from PUC Distribution Inc.[35] In that case the Board found that, due to timing associated with PUC not able to update a forecast to include CDM savings because it was applying under IRM, the Board allowed the recovery of the amounts associated with the IRM period in its LRAM.

2011 lost revenues

Board staff submits that it is premature to consider any lost revenues persisting in 2011. Board staff requests that CPUC provide an updated LRAM amount and subsequent rate riders that only includes lost revenues from 2006 to 2010 CDM programs from 2006 to 2010, and the associated rate riders.

Carrying Charges

CPUC is requesting $940 in carrying charges is based on $23,131.15.[36] However, as mentioned that balance has been reduced. Board staff submits that CPUC should update the carrying charges to reflect the new balance of $15,475.71.

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[35] PUC Distribution Inc. Decision and Order EB-2011-0101, April 4, 2012
[36] Response to Board staff Interrogatory f.

Deferral and Variance Accounts ("DVA")

Balances Proposed for Disposition

CPUC has requested clearing the following deferral and variance account balances as of December 31, 2010, and interest forecasted to April 30, 2012:

Account Balances for Disposition[37]

Account Description	Acct. #	Balance as of Dec. 31/10 $	Forecast interest to Apr. 30/12 $	Total for Disposition $
Low Voltage Variance Account	1550	(24,813)	(485)	(25,298)
RSVA – Wholesale Market Service Charge	1580	(41,538)	(808)	(42,346)
RSVA – Retail Transmission Network	1584	20,743	404	21,147
RSVA – Retail Transmission Connection	1586	22,008	521	22,529
RSVA – Power (excluding Global Adjustment)	1588	(91,303)	(1,745)	(93,048)
RSVA – Power – Sub-account Global Adjustment	1588	915	39	954
Retail Costs Variance Account	1518	3,192	61	3,253
Conservation and Demand Management	1565	(4,731)	0	(4,731)
Disposition and Recovery of Regulatory Balances 2008	1595	13,665*	77	13,742
Other Regulatory Assets – Deferred IFRS Transition Costs	1508	15,104	294	15,398
PILs and Tax Variance – HST/OVAT ITC	1592	(7,170)	(141)	(7,311)
Deferred Payments in Lieu of Taxes	1562	(134,430)	(2,174)	(136,604)
Special Purpose Charge	1521	698*	3	701
Total for Disposition		**(227,660)**	**(3,954)**	**(231,614)**

*Balance is as of December 31, 2011.

[37] Compiled from the IR responses to Board staff IR #22, Supplemental IR #30 (Rate Rider calculation), VECC supplemental IR #43.

Board staff does not have any concerns with the balances proposed for disposition, with the exception of Account 1592 and Account 1562. Both will be discussed below.

The balance in Account 1592 is shown as a debit in the rate rider calculation. However, this balance relates to savings achieved due to incremental Input Tax Credits received on distribution revenue requirement items that were previously subject to PST and became subject to HST beginning July 1, 2010. Board staff submits that this amount should therefore, be shown as a credit. Board staff has shown the balance in question as a credit in the Table above.

Board staff submits that CPUC should confirm the amount including the sign in its reply submission and CPUC, if confirmed, should adjust the rate rider calculation accordingly.

Deferred PILs 1562

Background

The PILs evidence filed by CPUC in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[38] Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance. Board staff has conducted a prudence review of the final evidence to recalculate the Account 1562 PILs variances to be refunded to its customers.

In its pre-filed evidence, CPUC applied to refund to customers a credit balance of $136,604 consisting of a principal credit balance of $110,373 plus related credit carrying charges of $26,231.

Submission

CPUC's 2002 rate base was $1,609,408. CPUC chose the minimum income tax rates as shown on page 17 of the Board's Decision in the Combined

[38] Spreadsheet implementation model for payments-in-lieu of taxes

Proceeding[39] to calculate the true-up variances. Board staff submits that CPUC chose the appropriate income tax rates based on its specific tax facts.

CPUC calculated the PILs recoveries from customers using the PILs rate slivers from the 2002, 2004 and 2005 applications. These rate slivers were multiplied by the actual billing determinants for the periods 2002 through April 30, 2006 to calculate the dollar amounts billed to customers. Board staff submits that the recovery amounts from customers as calculated by CPUC are reasonable.

Interest Expense True-up

CPUC's maximum deemed interest approved in its 2002 rate application was $58,341. When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in the TAXCALC worksheet in the SIMPIL model as an extra deduction in the true-up calculations. The Board has decided that the prudential stand-by charges or fees will be included in the interest true-up and that interest on regulatory assets and customer deposits will be excluded.[40]

CPUC provided the following interest expense table in its evidence. The interest amount for 2001 is for the entire year and not just the three month short tax year that ended on December 31, 2001.

Appendix B, Page 1

Interest Expense	**2001**	**2002**	**2003**	**2004**	**2005**
Interest on Long Term Debt	160,954	153,171	153,171	185,368	203,905
Interest on Regulatory Assets and Liabilities				5,420	8,815
Interest Charge from Affiliates (Chargebacks)	19,655	41,348			
Total Interest as per Financial Statements	180,609	194,519	153,171	190,788	212,720
Adjustments					
Interest on Regulatory Assets and Liabilities				-5,420	-8,815
Interest Expense on Customer Deposits				59	656

[39] EB-2008-0381

[40] Burlington Hydro, EB-2011-015, March 20, 2012. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012. Thunder Bay Hydro Electricity Distribution Inc., EB-2011-0197, April 4, 2012.

Interest Charge from Affiliates (Chargebacks)	-19,655	-41,348			
Interest Expense used for True-up in SIMPIL Models	160,954	153,171	153,171	185,427	204,561

Board staff has prepared the table below that shows interest expense from the audited financial statements for the year shown that was audited. CPUC had both a loan and a mortgage payable to the Corporation of the Township of CPUC during the period 2001 to 2005.[41]

Board staff requests that in its Reply, CPUC provide the amounts for the IESO prudential stand-by charges or fees by year related to the letter of credit.

Interest Expense	**2001**	**2002**	**2003**	**2004**	**2005**
Interest on loans & mortgage payable	180,609	194,519	191,162	229,175	203,905
Other interest				5,420	8,815
Prudential stand-by charges					
Total Interest	180,609	194,519	191,162	234,595	212,720
Adjustments					
Interest on Regulatory Assets and Liabilities				-5,420	-8,815
Interest Expense on Customer Deposits				-59	-656
Interest Expense used for True-up in SIMPIL Models	180,609	194,519	191,162	229,116	203,249

Board staff submits that CPUC has not used the correct actual interest amounts in its SIMPIL models on sheet TAXCALC. Board staff submits that CPUC should recalculate the interest true-up variances in its SIMPIL models based on the above table provided by staff, after entering the IESO prudential charges, in order to conform to decisions already made by the Board in other cases.[42]

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[41] Chapleau, audited financial statements.

[42] Hydro One Brampton, EB-2011-0174, December 22, 2011, pg9-10. Burlington Hydro, EB-2011-015, March 20, 2012. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012. Thunder Bay Hydro Electricity Distribution Inc., EB-2011-0197, April 4, 2012.

Board staff cannot find the chargeback interest identified in the audited financial statements to support the deduction in the table above prepared by CPUC. Board staff requests CPUC to provide clarify its position with respect to why the Board should allow this deduction in determining interest expense for the true-up calculations.

Board staff requests CPUC to clarify that other interest, as shown in the audited financial statements, actually related to regulatory assets.

Board staff requests that applicable clarifying evidence be filed in active Excel worksheets as well as in document formats.

Disposition Period

CPUC filed an "Addendum to 2012 Cost of Service Rate Application" on March 16, 2012. In this Addendum, CPUC proposed two rate-rider terms – a one-year term for all accounts other than account 1562, and a 3-year term for account 1562. On aggregate basis, CPUC has a credit balance in its DVAs, and would therefore, be returning money to customers. CPUC stated that the total amount for disposition is 30.8% of CPUC's net revenue requirement of $823,030, and that this will place CPUC at risk.

In response to the Supplemental Board staff IR #30, CPUC provided an alternative rate rider calculation for all accounts (excluding GA), and a separate rate rider calculation for GA, each over a 2-year term. Board staff notes that the annual disposition amount is slightly over 14% of CPUC's proposed 2012 revenue requirement, based on 2-year disposition period.

According to the Board report EB-2008-0046[43], the default disposition period used to clear the account balances through a rate rider should be one year. However, a distributor could propose a different disposition period to mitigate rate impacts or address any other applicable considerations, where appropriate.

Board staff notes that the CPUC had cash of $35,623 and held investments of $248,152 as at December 31, 2011. The 2011 net income was reported as at approximately $74,000.[44] Board staff also notes that the DVAs credit balance of

[43] Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)

[44] CPUC's 2011 Audited Financial Statements, Response to the Board staff IR #3(g)

$231,614 is approximately 28% of CPUC's 2012 revenue requirement of $823,030. Board staff does not have information regarding CPUC's cash position as at the date of this submission. However, Board staff has concern with CPUC's returning an amount of this magnitude , to its customers over a period of one year given its financial position as at December 31, 2011 and concerns raised by CPUC. This could cause depletion of the CPUC's cash, have a negative impact on CPUC's ongoing cash flow, and impose possible financial risk to the CPUC's operation.

CPUC proposed a 3-year disposition term for account 1562 and one year term for all other accounts. Board staff notes a single rate rider would be simpler for CPUC to administer. Given the concerns expressed by CPUC over the possible financial risk that the rate rider may impose, Board staff does not take any issue with a 3-year term for all DVAs, which amount to 9% of 2012 revenue requirement on an annual basis. Board staff submits that a longer disposition period of 3 years could help reduce any potential financial risk to the utility. Another option may be to align the DVA disposition period with the SMDRs. The DVA riders will be credits while the SMDRs will be debits and would partially offset to mitigate both rate increases and cash flow concerns. Board staff invites CPUC and parties to comment on the 2-year, 3-year and 4-year disposition periods assuming CPUC's smart meter claim is approved as proposed.

Board staff notes that the balance in the GA sub-account being less than $1,000 may be disposed over one year.

- All of which is respectfully submitted -