

CHAPLEAU PUBLIC UTILITIES CORPORATION
LICENCE NO. ED-2002-0528

2012 ELECTRICITY DISTRIBUTION RATES
COST OF SERVICE APPLICATION

BOARD FILE NO. EB-2011-0322

RESPONSE TO BOARD STAFF SUBMISSION

Chapleau Public Utilities Corporation
2012 Cost of Service Application
EB-2011-0322
Response to Board Staff Submission

Implementation and Effective Dates

The foregone revenue estimate amount of \$22,858 identified in the Board Staff Supplemental Interrogatories refers to cost recovery from the Smart Meter Disposition Rider and the Stranded Meter Rate Rider. See page 3 of the Board Staff Supplemental Interrogatories - item 24. This is also discussed under "Smart Meters - Implementation" where CPUC agrees with Board Staff to adjust the recovery period for SMDR and SMRR from 48 months to 42 months - November 1, 2012 to April 30, 2016. This is no longer an issue for consideration by the Board.

The foregone revenue estimate should now be \$94,415 based on an effective date of May 1, 2012 and an implementation date of November 1, 2012. This amount represents 6 months of CPUC's revenue deficiency amount of \$188,830 as per "Sheet 8. Rev. Def. Suff." of the "Revenue Requirement Worksheet".

In the event the Board approves an effective date of October 1, 2012 with an implementation date of November 1, 2012 the estimate amount of foregone revenue will be \$15,736.

The amount of capital spending for 2012 of \$58,290 depends entirely on the approval of rates with an effective date of May 1, 2012. CPUC therefore requests that the Board approve the effective date of May 1, 2012 to allow its capital spending to proceed as budgeted.

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

No response required

Volumetric Forecast

As suggested by Board staff and as smart meter data become available in the future, CPUC will revisit developing a regression based volumetric forecasting model that in the future may be a better forecasting and revenue explanatory tool.

Working Capital

No response required

Capital Expenditures and Asset Management

Losses have not reduced since 2008 and CPUC is unable to explain this. Development of the Asset Management Plan and working closely with Burman Energy engineers, it is imperative that system losses be addressed. There is no component in the 2012 capital budget of \$58,290 to improve load factors, however this will become a priority for Burman Energy to address with management.

Smart Meters

Installation Costs

CPUC together with 7 other District 9 Distribution Utilities collaborated together to reduce their Smart Meter costs and hired Util-Assist to prepare a Smart Meter budget and to assist District 9 utilities through the smart meter process.

The main cost drivers for CPUCs cost per smart meter of \$403.00 were costs for the following:

Util-Assist has a standard contracting fee for their services that was shared equally among the 7 utilities. If CPUC was to contract them alone the standard fee would be the same and CPUC would be required to pay the fee alone that would have resulted in much higher per unit cost. Given that these costs were shared equally, the per unit cost will be higher for CPUC due to its lower customer base. Out of the 7 utilities CPUC has the lowest customer base of 1,308. CPUCs cost for this fee was \$44,079.75 or \$33.70 per meter. The average cost per meter for all 7 utilities is \$3.95. CPUC experienced an additional cost of \$29.75 as compared to the average price for the group.

Legal fees for contracts with the various vendors (Sensus, Harris, Olameter) was also shared equally among the 7 utilities. Again, as above, given that these costs were shared equally, the per unit cost will be higher for CPUC due to its lower customer base. CPUCs cost for legal fees was \$7,305.24 or \$5.59 per meter. The average cost per meter for all 7 utilities is \$0.65. CPUC experienced an additional cost of \$4.94 as compared to the average price for the group.

CPUCs cost for a data collector unit is \$161,374. These units have the capability to service up to 15 square km and up to 50,000 customers. CPUC is 2 square km with 1,308 customers. CPUC does not have a neighbouring utility to share this cost with. (VECC noted that CPUC made no effort to coordinate its smart meter implementation with Hydro One. Hydro One is the only utility that CPUC could have shared costs with, however their start-up in CPUCs area was 1 to 2 years behind CPUC, the adjoining area is sparsely populated, meters are more expensive and they used a different provider). CPUCs cost per meter is \$123.37. Cost per meter for 50,000 customers is \$3.23; cost per meter for 25,000 customers is \$6.47. Based on the cost per meter for 25,000 customers, CPUC experienced an additional cost of \$116.90.

CPUC cannot share software improvements for smart meters with the other district 9 utilities due to different system applications.

In the Board Staff submission it was identified that ; "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". Given that there are 75 distribution utilities in the Province of Ontario the average price per meter of \$226.92 is based on an average of 58,429 metered customers per utility.

Based on the above observations CPUCs cost per meter of \$403 is justified. (CPUC has isolated invoices from Util-Assist, cost for legal fees and for the data collector unit and would be pleased to forward them to the Board for their information).

Board Staff submitted that the Board should undertake an audit of CPUCs smart meter program. CPUC disagrees, and respectfully submits that undertaking an audit of the program would result unnecessarily in higher costs to the proceeding. CPUC also submits that as of December 31, 2011 year-end 98.4% of smart meter costs have been audited by our external auditors.

Reductions in meter reading costs experienced to date are over 90.0%; meter reading accuracy improved up to 100.0%; and, expectations are that customers will shift their electricity use from peak to mid-peak or off-peak times.

CPUC believes the above circumstances sufficiently explain why the costs per meter are higher than average and that the benefits of undertaking an audit would not exceed the costs and effort involved in such a proceeding.

CPUC was asked to clarify if smart meter installations were performed by contractors as well as by CPUC employees. Installations of smart meters by contractors were over 95%.

Smart Meter Cost Allocation

No response required

Stranded Meters

No response required

Implementation

CPUC agrees with Board Staff to adjust the recovery period for SMDR and SMRR from 48 months to 42 months - November 1, 2012 to April 30, 2016 as per **Appendix A**

Adjustments to the rate riders to reflect the new recovery period will be adjusted depending on the Boards findings on allowable costs and the approved effective and implementation dates.

Operating Expenses

Sensus Contract

Following Phase I and Phase II of the Smart Meter processes District 9 Utilities initiated good faith contract negotiations with their "best value" bidder KTI/Sensus Limited. The Fairness Commissioner provided all District 9 Utilities with a letter of authorization.

The District 9 Utilities group was awarded the "Sensus FlexNet " AMI system that was the method by which AMI systems were selected for the majority of Utilities in the Province.

The Sensus pricing structure is as follows:

Base Station Service charge is \$2,017.02 each per month

Monitoring service charge is \$0.1246 per meter

CPUC being a Small Utility would pay for, 1 Base Station Service of \$2,017.02 per month plus the monitoring service charge, while a larger utility having 20,000 customers will pay for 2 Base Station Service of \$4,034.04 plus the monitoring service charge for 20,000 meters, and so on.

The number of Base Stations required for each utility varies, and is dependent on the terrain and size of the service territory as well as meter population.

CPUC as part of a group that has completed its installation of smart meters, is obligated to pay this cost.

Compensation

Response to VECC Interrogatory # 21(s/be # 12) - Reference: Exhibit 4, page 132-133 of the application.

CPUC was responding to the question, that the compensation table was inclusive of all labour costs for OM&A and for capital, not 100% capital. To clarify its reply, CPUC does allocate supervisory and labour costs to capital expenditures from OM&A expenses.

AMP Consultant

Burman Energy has been retained for all work related to the multi year effort to develop an Asset Management Plan for CPUC that meets the requirements of the OEB:

- Asset Management Plan development
- Provision of a GIS based system that captures all assets owned by Chapleau PUC, and associated records of maintenance and inspection
- Compilation of historical records maintained by Chapleau PUC, and insertion of these into the GIS based system
- Training and orientation for Chapleau PUC staff to enable integrated use of the GIS system, policies and procedures in its operations and future data collection
- Supporting services to ensure integration between the GIS system and existing accounting systems and processes
- Facilitation of decision making for Chapleau PUC staff and shareholders on Capital Planning and Capital Financing, in consideration of Asset Management data from the GIS system and the Asset Management Plan

This Plan will ensure a consolidated and structured data model is set in place that will provide the necessary tools to analyze, accurately forecast and align the requisite resources and costs and ensure data consistency and reliability for the development of the Asset Management Plan.

This plan will address loss reduction as part of CPUCs commitment to minimize losses. Loss reduction efforts undertaken in 2008 to balance loads may have been effective, but changes which have taken place since then will need to be revisited. CPUC working together with Burman Energy will augment if possible, the Asset Management Plan in 2012 and beyond by including a component to reduce future losses.

CPUC will continue to investigate ways and means to balance its load on its 3 feeders and balance its load on transformers.

Cost of Capital

No response required

Cost Allocation

Density Factor

CPUC now has a better understanding of the Cost Allocation model as regard to density factors and will change back to the original model calculations (without modifications), however CPUC believes that the performance of the model can be improved upon to better represent smaller utilities.

Quanta and Allocation of Transmission and Sub-Transmission (“LV”) Charges

No response required

Revenue-to-Cost Ratios.

Reverting back to the original model calculations (without modifications) in the Cost Allocation Model, as per Density Factors above, will change the proposed revenue to cost ratios as follows:

Customer Class	Revenue to Cost Ratios			
	Original Cost Study	Amended Cost Study	Proposed	Board Ranges
Residential	97.77%	97.47%	97.47%	85% - 115%
GS <50 kW	99.93%	104.28%	104.28%	80% - 120%
GS >50 kW	119.59%	124.66%	120.00%	80% - 120%
USL	127.93%	118.48%	118.48%	80% - 120%
Sentinel Lighting	61.46%	54.35%	80.00%	80% - 120%
Street Lighting	92.40%	75.78%	81.68%	70% - 120%

By applying the amended revenue to cost ratios CPUCs fixed and variable rates have been adjusted. See **Appendix B**

There are two classes out of range, the General Service > 50 kW class and the Sentinel Lighting class. CPUC is proposing that:

- The General Service > 50 kW class will be adjusted from 124.66% down to 120.0%;

- For the Sentinel Lighting class, CPUC is proposing bringing this class into range over a 4 year period by increasing its revenue to cost ratio of 54.35% by 6.41% annually. For 2012, the ratio will be 60.76%, for 2013, the ratio will be 67.17% for 2014, the ratio will be 73.58 and for 2015 ratio will be 80.00%.

The dollar offsets from the above adjustments will be allocated to the class that is furthest away below 100.0%. This being the Street Lighting class. The net adjustment will bring the Revenue to Cost Ratio of the Street Lighting class from 75.78% to 81.68%.

Total Loss Factor

Although VECC is proposing to adopt the new loss factor, CPUC is prepared to stay with the current loss factor of 1.0654. CPUCs priority will be to reduce losses upon development of the Asset Management Plan and will continue to investigate ways and means to balance its load on its 3 feeders and balance its load on transformers.

Lost Revenue Adjustment Mechanism (“LRAM”)

2011 Lost Revenues

CPUC will adjust the LRAM amount and subsequent rate riders that only includes lost revenues from 2006 to 2010 CDM programs and the associated rate riders.

Carrying Charges

CPUC has made the adjustment to the \$940.00 carrying charges to reflect the new balance of \$15,475.71(2006 to 2011). The new lost revenue from CDM programs, for 2006 to 2010 is \$13,362.13 and the carrying charges for the same period are \$584.08 as per **Appendix C**

Revenue Offsets

VECC in their final submission requested that CPUC clarify the difference showing in CPUCs response to board staff interrogatory # 6 b) "Other Revenue" and VECC interrogatory response to 8 b) "Revenue Offsets" that shows different actual amounts for Interest and Dividend Income, account 4405.

The amount of \$18,370.03 reported in board staff interrogatory # 6 b) is correct, while the amount reported in VECC interrogatory response to 8 b) of \$15,500 is the net amount of interest earned for \$18,370 and other interest (expense) for (\$2,870). Both amounts appear in CPUCs 2011 Audited Financial Statements on Statement of Income, page 2.

Deferral and Variance Accounts ("DVA")

Balances Proposed for Disposition

Account 1562 PILs and Tax Variance - HST/OVAT ITC

CPUC agrees with Board Staff that the amount in account 1562 should be a credit of \$7,311 and will adjust the rate rider calculation accordingly.

Deferred PILs 1562

Interest Expense True-up

The IESO prudential stand-by charges by year, related to the letter of credit have been entered into the table below.

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	0	2,907	4,139	4,128	4,203
Total Interest	180,609	197,426	195,301	238,723	216,923
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	197,426	195,301	233,244	207,452

The other interest, as shown in CPUCs audited financial statements and in the above table is related to regulatory assets. The attached **Appendix D** is true copies of CPUCs General Ledger reports for 2004 and 2005.

The above interest expense for true-ups has been entered in CPUCs SIMPIL models for 2001 to 2005 and are included as **Appendix E**

The above changes resulted in an increase to the principal credit balance of \$110,373 to \$ 142,790 and related credit carrying charges of \$26,231 to \$ 35,456 These changes have been applied to a live Excel worksheet that includes new rate riders for the refund of the Deferred Payments in Lieu of Taxes in **Appendix F**

Disposition Period

The following are the deferral and variance account balances for disposition.

Account Description	Account Number	Total as at Dec. 31/10	Forecast Interest to Apr. 30/12	Total For Disposition
LV Variance Account	1550	(24,813)	485	25,298
RSVA - Wholesale Market Service Charge	1580	(41,538)	808	42,346
RSVA - Retail Transmission Network Charge	1584	20,743	404	21,147
RSVA - Retail Transmission Connection Charge	1586	22,008	521	22,529
RSVA - Power (Excluding Global Adjustment)	1588	(91,303)	1,745	93,048
RSVA - Power (Global Adjustment Sub-account)	1588	915	39	954
Other Regulatory Assets - IFRS Transition Costs	1508	15,104	294	15,398
Retail Cost Variance Account - Retail	1518	3,192	61	3,253
Conservation and Demand Management	1565	(4,731)	-	4,731
Disposition and recovery of Reg. Bal. 2008 *	1595	13,665	77	13,742
PILs and Tax Variance - HST/OVAT ITC	1592	(7,170)	141	7,311
Deferred Payments in Lieu of Taxes	1562	(175,437)	2,809	178,246
Special Purpose Charge Account *	1521	698	3	701
				-
Total for Disposition		(268,667)	4,589	273,256

* Balance is as of December 31, 2011

Due to the changes made to the Deferred Payments in Lieu of Taxes a/c 1562 above the new total for Disposition of -\$273,256 represents 33.8 % of CPUCs Revenue Requirement of \$809,021, net of Revenue Offsets, and wish to revisit the disposition period by increasing it to 42 months beginning November 1, 2012 and ending April 30, 2016. This term is CPUCs preferred disposition term, however CPUC will abide by whatever disposition term the Board may decide.

CPUCs proposal of the 42 month term is the same term as the SMDR and SMRR and would partially offset to mitigate both rate increases and cash flow concerns.

	2 Years	3 Years	42 Months	4 Years	Total
Deferral Variance Accounts	-136,628	-91,085	-78,073	-68,314	-273,256
SMDR	65,139	43,426	37,222	32,569	130,277
SMRR	26,292	17,528	15,024	13,146	52,585
ANNUAL TOTAL	-45,197	-30,131	-25,827	-22,599	-90,394

Calculation of Rate Riders for Deferral Variance Accounts are in **Appendix G**

2012 Rate Schedule

CPUCs 2012 Rate Schedule has been amended and is included as **Appendix H**

- All of which is respectfully submitted -