



**EB-2013-0119**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by Chapleau  
Public Utilities Corporation for an order approving just and  
reasonable rates and other charges for electricity distribution  
to be effective May 1, 2014.

**BEFORE:** Marika Hare  
Presiding Member

Allison Duff  
Member

### **DECISION and RATE ORDER**

**March 13, 2014**

Chapleau Public Utilities Corporation (“Chapleau PUC”) filed an application with the Ontario Energy Board (the “Board”) on September 10, 2013 under section 78 of the Act, seeking approval for changes to the rates that Chapleau PUC charges for electricity distribution, effective May 1, 2014 (the “Application”).

The Application met the Board’s requirements as detailed in the *Report of the Board: Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (the “RRFE Report”) dated October 18, 2012 and the *Filing Requirements for Electricity Distribution Rate Applications* dated July 17, 2013. Chapleau PUC selected the Price Cap Incentive Rate-Setting (“Price Cap IR”) option to adjust its 2014 rates. The Price Cap IR methodology provides for a mechanistic and formulaic adjustment to distribution rates and charges in the period between cost of service applications. Chapleau PUC last appeared before the Board with a full cost of service application for the 2012 rate year in the EB-2011-0322 proceeding. In this proceeding, Chapleau PUC

also seeks approval for its request to recover amounts related to a billing error from Hydro One Networks Inc. ("Hydro One") for Low Voltage Service and adjustments to its Low Voltage Service rates.

The Board conducted a written hearing and Board staff participated in the proceeding. The Vulnerable Energy Consumers Coalition ("VECC") applied for and was granted intervenor status and cost eligibility with respect to the proposals regarding Low Voltage Service. No letters of comment were received.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Rate Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection Charge;
- Revenue-to-Cost Ratio Adjustments;
- Retail Transmission Service Rates;
- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Hydro One Billing Error for Low Voltage Service; and
- Proposed Adjustments to Low Voltage Service Rates.

### **Price Cap Index Adjustment**

The Board issued the *Report on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (the "Price Cap IR Report") which provides the 2014 rate adjustment parameters for distribution companies selecting either the Price Cap IR or Annual IR Index option.

Distribution rates under the Price Cap IR option are adjusted by an inflation factor, less a productivity factor and a stretch factor. The inflation factor for 2014 rates is 1.7%. Based on the total cost benchmarking model developed by Pacific Economics Group Research, LLC, the Board determined that the appropriate value for the productivity factor is zero percent. The Board also determined that the stretch factor can range from 0.0% to 0.6% for distributors selecting the Price Cap IR option, assigned based on a distributor's cost evaluation ranking. In the Price Cap IR Report, the Board assigned Chapleau PUC a stretch factor of 0.45%.

As a result, the net price cap index adjustment for Chapleau PUC is 1.25% (i.e. 1.7% - (0% + 0.45%)). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across all customer classes. The price cap index adjustment does not apply to the components of delivery rates set out in the list below.

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural or Remote Electricity Rate Protection Charge;
- Standard Supply Service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFit Charge; and
- Retail Service Charges.

### **Rural or Remote Electricity Rate Protection Charge**

The Board issued a Decision and Rate Order (EB-2013-0396) establishing the Rural or Remote Electricity Rate Protection (“RRRP”) benefit and charge for 2014. The Board determined that the RRRP charge to be paid by all rate-regulated distributors and collected by the Independent Electricity System Operator shall be increased to \$0.0013 per kWh effective May 1, 2014, from the current \$0.0012 per kWh. The draft Tariff of Rates and Charges flowing from this Decision and Rate Order reflects the new RRRP charge.

### **Revenue-to-Cost Ratio Adjustments**

Revenue-to-cost ratios measure the relationship between the revenues expected from a class of customers and the level of costs allocated to that class. The Board has established target ratio ranges for electricity distributors in its report *Application of Cost Allocation for Electricity Distributors*, dated November 28, 2007 and in its updated report *Review of Electricity Distribution Cost Allocation Policy*, dated March 31, 2011. Pursuant to the Board’s Decision in its 2012 cost of service application EB-2011-0322,

Chapleau PUC proposed to increase the revenue-to-cost ratio for its Sentinel Lighting and Street Lighting classes, offset by a reduction in that of the GS >50 kW class.

The table below outlines the proposed revenue-to-cost ratios.

**Current and Proposed Revenue-to-Cost Ratios**

Rate Class	Current 2013 Ratio	Proposed 2014 Ratio
Residential	0.97	0.97
General Service Less Than 50 kW	1.04	1.04
General Service 50 to 4,999 kW	1.23	1.22
Street Lighting	0.78	0.80
Sentinel Lighting	0.61	0.68
Unmetered Scattered Load	1.19	1.19

Board staff submitted that the proposed revenue-to-cost ratio adjustments were in accordance with the Board's decision in Chapleau PUC's 2012 cost of service proceeding.

The Board agrees that the proposed revenue-to-cost ratios are consistent with the decision arising from the 2012 cost of service proceeding and therefore approves the revenue-to-cost ratios as filed.

### **Retail Transmission Service Rates**

Electricity distributors are charged for transmission costs at the wholesale level and then pass on these charges to their distribution customers through the Retail Transmission Service Rates ("RTSRs"). Variance accounts are used to capture differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e. variance Accounts 1584 and 1586).

The Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the “RTSR Guideline”) which outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2014. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new Uniform Transmission Rates (“UTR”) levels and the revenues generated under existing RTSRs. Similarly, embedded distributors must adjust their RTSRs to reflect any changes to the applicable Sub-Transmission RTSRs of their host distributor(s), e.g. Hydro One Networks Inc.

Chapleau PUC is a partially embedded distributor whose host is Hydro One Networks Inc.

The Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the UTRs effective January 1, 2014, as shown in the following table:

#### 2014 Uniform Transmission Rates

Network Service Rate	\$3.82 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.82 per kW
Transformation Connection Service Rate	\$1.98 per kW

The Board also approved new rates for Hydro One Networks’ Sub-Transmission class, including the applicable RTSRs, effective January 1, 2014 (EB-2013-0141), as shown in the following table.

#### 2014 Sub-Transmission RTSRs

Network Service Rate	\$3.23 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.65 per kW
Transformation Connection Service Rate	\$1.62 per kW

The Board finds that these 2014 UTRs and Sub-Transmission class RTSRs are to be incorporated into the filing module.

## Review and Disposition of Group 1 Deferral and Variance Account Balances

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

Chapleau PUC's 2012 actual year-end total balance for Group 1 accounts including interest projected to April 30, 2014 is a credit of \$108,948. This amount results in a total credit claim of \$0.0041 per kWh, which exceeds the preset disposition threshold.

### *Low Voltage Billing Error*

Chapleau PUC recorded a principal debit balance of \$93,387 and interest of \$1,831 in Account 1550 and proposed recovery within its 2012 Group 1 balances to reflect adjusted low voltage charges resulting from a billing error by Hydro One. Chapleau PUC received an invoice for \$93,387 from Hydro One in September 2013, which adjusted the billed demand quantity (kW) from January 28, 2009 to April 3, 2013. Chapleau PUC proposed to recover the debit balance with its 2012 deferral and variance account balances to offset the credit balance of \$108,948, reducing the total credit balance for disposition to \$13,730. This would result in a total credit claim of \$0.0005, which does not meet the preset disposition threshold.

Chapleau PUC confirmed that the \$93,387 consists of two components:

- \$34,296 related to transactions subsequent to December 31, 2011, where the account balance has not yet been disposed on a final basis; and
- \$59,091 related to transactions prior to December 31, 2011, where the account balance was approved by the Board and disposed on a final basis in Chapleau PUC's 2013 IRM rate proceeding EB-2012-0114.

Chapleau indicated that it had an internal process for checking the accuracy of amounts payable and that it had questioned Hydro One's billed amounts on three occasions since 2009. Hydro One assured Chapleau PUC that the invoiced amounts were correct. In early 2013, Chapleau PUC again questioned the invoice received and was informed by Hydro One that there was indeed an error.

Board staff submitted that Chapleau PUC's 2011 deferral and variance account balances had been disposed of on a final basis in Chapleau PUC's 2013 IRM decision, and that the proposal to recover the adjustment of \$59,091 relating to this period from Chapleau PUC's customers would result in retroactive ratemaking<sup>1</sup>.

Board staff submitted that both the Retail Settlement Code and Hydro One's Conditions of Service addressed under-billing situations, limiting the amount of time over which a distributor must be repaid. Specifically, Board staff noted that Section 7.7.7 states the following:

Where the distributor has under billed a customer or retailer, the maximum period of under billing for which the distributor is entitled to be paid is 2 years. Where the distributor has over billed a customer or retailer, the maximum period of over billing for which the customer or retailer is entitled to be repaid is 2 years.

Board staff also noted in its submission that Hydro One's Conditions of Service provide for recovery of billing errors, as follows:

Where a billing error, from any cause, has resulted in a Customer or Retailer being under-billed, and where Measurement Canada has not become involved in the dispute, the Customer or Retailer shall pay to Hydro One the amount that was not previously billed. In the case of an individual Customer who is not responsible for the error, the allowable period of time for which the Customer may be charged is two (2) years for residential customers, including seasonal and farm residence, and all other customers<sup>2</sup>.

Board staff submitted that Chapleau PUC may choose to consider the Retail Settlement Code and Hydro One's Conditions of Service as a basis by which to pursue further discussions with Hydro One.

VECC submitted that, based on past Board decisions, it would be inappropriate for Chapleau PUC to include an out-of-period adjustment and that the Board should not approve Chapleau PUC's request.

Chapleau PUC included Hydro One's comments in its reply submission. Therein, Hydro

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<sup>1</sup> EB-2013-0022, Decision and Order, Veridian Motion to Review, April 25 2013, p. 10

<sup>2</sup> Hydro One Networks Inc. Conditions of Service, May 21, 2013, s. G. Billing Errors, p. 71c

One indicated that its settlement practices with its embedded distributors are consistent with the approach used by the Independent Electricity System Operator with market participants, which incorporates the correction of billing errors without regard to any time limitation. Failure to mirror this approach would result in cross-subsidization and improper allocation of costs among the parties involved.

Chapleau PUC submitted that the disputed amount of \$59,091 represents 7.3% of its distribution revenue, and that failure to recover this amount from customers would create a serious cash flow risk. Chapleau PUC submitted that it should not be penalized for Hydro One's error. Chapleau PUC requested that the Board allow it to recover the full amount of \$93,387, or the Board should not allow Hydro One to pass on its billing errors, if a distributor is unable to recover those costs from its customers.

The Board cannot approve the proposal to recover the adjustment of \$59,091 relating to Chapleau PUC's 2011 deferral and variance account balances. The 2011 account balances were disposed on a final basis in Chapleau PUC's 2013 IRM decision. To subsequently adjust the balances would result in retroactive ratemaking. The courts have made it very clear that retroactive rate-making, the adjustment to rates after a final rate order has been issued, is not allowed. Rather, the principles of certainty and finality are a necessary component of effective rate regulation.

The Board approves the disposition of a debit amount of \$34,296 as the account balance has not yet been disposed on a final basis.

Chapleau did not ask for disposition of its Group 1 balances in this proceeding. However, with the exclusion of the \$59,091 the disposition threshold is met. In making this decision, the Board is mindful of the efforts made by Chapleau PUC to rectify the Hydro One billing error beginning in 2009. It is through no fault on the part of Chapleau PUC that it is faced with a significant adjustment to its past low voltage payments that cannot be recovered by way of a rate application to the Board.

The Board notes that both the Retail Settlement Code and Hydro One's Conditions of Service in effect during the period of overbilling, and when the invoice was dated, appear to provide some remedy for this situation; however, the onus is on Chapleau to pursue these options. The Board's opinion is that neither Chapleau PUC nor its current customers should pay for costs that go back as far as 2009, given it was solely the result of Hydro One's billing error.



The Board approves the disposition of a credit balance of \$73,980 as of December 31, 2012, including interest as of April 30, 2014 for Group 1 accounts. This credit balance includes the additional debit amount of \$34,295 in Account 1550 as discussed above. Under normal circumstances, the default period for the disposition of deferral and variance account balances is one year. In this case, in order to mitigate the impact on Chapleau's cash flow, these balances are to be disposed over a two-year period from May 1, 2014 to April 30, 2016.

The table below identifies the principal and interest amounts approved for disposition for Group 1 accounts.

### Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	\$19,399	(\$41)	\$19,358
RSVA - Wholesale Market Service Charge	1580	(\$36,071)	(\$1,512)	(\$37,583)
RSVA - Retail Transmission Network Charge	1584	\$7,449	\$507	\$7,956
RSVA - Retail Transmission Connection Charge	1586	\$635	\$413	\$1,048
RSVA - Power	1588	(\$6,511)	(\$2,766)	(\$9,277)
RSVA - Global Adjustment	1589	\$34,451	\$950	\$35,401
Recovery of Regulatory Asset Balances	1590	0	0	0
Disposition and Recovery of Regulatory Balances (2008)	1595	0	\$135	\$135
Disposition and Recovery of Regulatory Balances (2010)	1595	0	(\$3)	(\$3)
Disposition and Recovery of Regulatory Balances (2011)	1595	(\$88,552)	(\$2,462)	(\$91,014)
<b>Total Group 1 Excluding Global Adjustment – Account 1589</b>		<b>(\$103,651)</b>	<b>(\$5,729)</b>	<b>(\$109,381)</b>
<b>Total Group 1</b>		<b>(69,200)</b>	<b>(\$4,779)</b>	<b>(\$73,980)</b>

The balance of each Group 1 account approved for disposition shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*. The date of the transfer must be the same as the effective date for the associated rates, generally, the start of

the rate year. Chapleau PUC should ensure these adjustments are included in the reporting period ending June 30, 2014 (Quarter 2).

### **Low Voltage Rates**

Chapleau PUC withdrew its request to change its low voltage rates, and stated that it would address these changes in its next cost of service application.

### **Rate Model**

With this Decision and Rate Order, the Board is providing Chapleau PUC with a rate model, applicable supporting models and a draft Tariff of Rates and Charges (Appendix A). The Board also reviewed the entries in the rate model to ensure that they were in accordance with the 2013 Board-approved Tariff of Rates and Charges and the rate model was adjusted, where applicable, to correct any discrepancies.

### **THE BOARD ORDERS THAT:**

1. Chapleau PUC's new distribution rates shall be effective May 1, 2014.
2. Chapleau PUC shall review the draft Tariff of Rates and Charges set out in Appendix A and shall file with the Board, as applicable, a written confirmation of its completeness and accuracy, or provide a detailed explanation of any inaccuracies or missing information, within **7 days** of the date of issuance of this Decision and Rate Order.
3. If the Board does not receive a submission from Chapleau PUC to the effect that inaccuracies were found or information was missing pursuant to item 2 of this Decision and Rate Order, the draft Tariff of Rates and Charges set out in Appendix A of this Decision and Rate Order will become final. Chapleau PUC shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

4. If the Board receives a submission from Chapleau PUC to the effect that inaccuracies were found or information was missing pursuant to item 2 of this Decision and Rate Order, the Board will consider the submission of Chapleau PUC prior to issuing a final Tariff of Rates and Charges.
5. Chapleau PUC shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

## **COST AWARDS**

The Board will issue a separate decision on cost awards once the following steps are completed:

1. VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Chapleau PUC shall file with the Board and forward to VECC any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.
3. VECC shall file with the Board and forward to Chapleau PUC any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.
4. Chapleau PUC shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2013-0119**, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/> and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax

number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to [BoardSec@ontarioenergyboard.ca](mailto:BoardSec@ontarioenergyboard.ca). Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 2 paper copies.

**DATED** at Toronto, March 13, 2014

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary

**Appendix A**

**To Decision and Rate Order**

**Draft Tariff of Rates and Charges**

**Board File No: EB-2013-0119**

**DATED: March 13, 2014**