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BY E-MAIL

June 24, 2008

Board Secretary
Ontario Energy Board
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Chapleau PUC 2008 Electricity Distribution Rates Application
Board File Number EB-2007-0755
Board staff submissions on Chapleau PUC draft Rate Order**

Please see attached Board staff's submissions on the draft rate order submitted by Chapleau PUC on June 11, 2008 in regard to the above noted proceeding. Please forward the attached to Chapleau PUC and all intervenors.

Yours truly,

Original Signed By

Harold Thiessen
Case Manager

**EB-2007-0755
2008 Distribution Rates
Chapleau PUC**

Board staff comments on the draft Rate Order, June 11, 2008

Board staff has reviewed Chapleau PUC's draft Rate Order as submitted on June 11, 2008.

While certain information can be verified, there are a number of areas where more information is requested to allow Board staff to fully determine that the draft Rate Order corresponds with the Board's EB-2007-0755 Decision. These areas are outline below:

Working Capital Allowance

The Board ordered adjustments to reflect the Board's April 2008 RPP report cost of power, the RPP price of \$0.0545/KWh. Chapleau PUC has used this in its calculation for the Working Capital Allowance, but Board staff have been unable to verify the forecasted volume (kWh) used in calculating the commodity costs used for deriving the working capital allowance. In the Board's Decision, at page 4, Chapleau PUC's load forecast approved by the Board for 2008 is shown, and the sum for all classes is 28,200,842 kWh. Multiplying this amount by the loss factor of 1.0654 shown on page 19 of the Decision gives a total loss-adjusted kWh forecast of 30,045,177 kWh. However, Chapleau PUC uses a forecasted kWh of 29,943,035 kWh for calculating the cost of power, as shown on page 3 of the draft Rate Order. Chapleau PUC should explain the figures used for forecasted kWh and loss factor or recalculate in accordance with the forecasted load documented in the Board's Decision and to be adjusted for losses.

In its Decision, the Board accepted Chapleau PUC's proposal for Retail Transmission Network and Connection charges and costs. Chapleau PUC documents the calculation of the updated costs on pages 7 and 8 of the draft Rate Order material, and has used the recalculated cost estimates in the derivation of the working capital allowance on page 4. Board staff notes that Chapleau PUC's approach complies with the Board's Decision.

Chapleau PUC has used updated Low Voltage costs of \$33,742 in the calculation of its Working Capital Allowance, as well as an expense directly recoverable in rates. Staff notes that the Board Decision references an amount of \$31,486 (p. 16 of the June 2, 2008 Decision). Chapleau PUC explains that the difference of \$2,256 is related to a monthly service charge of \$188, and is documented in its reply submission of May 5, 2008. Staff acknowledges this difference. If the Board accepts Chapleau PUC's explanation and correction to figures found in the Decision, then the amount is correctly

factored into the Working Capital Allowance calculation. If the Board rejects Chapleau PUC's explanation, Chapleau PUC must recalculate the working capital.

Cost of Capital and Capital Structure

Chapleau PUC had originally proposed a long-term debt rate of 7.25% on debt owed to the municipal shareholder. However, as the utility's capitalization is being restructured, it subsequently proposed to adhere to the Board's deemed long-term debt rate of 6.10% as announced by the Board on March 7, 2008. With respect to other parameters, Chapleau PUC proposed to adhere to the policies in the Board Report of December 20, 2006 and the updated cost of capital parameters announced on March 7, 2008. The Board approved Chapleau PUC's revised cost of capital, with a WACC of 7.19%.

Chapleau PUC has shown the cost of capital in a summary table at the top of page 4 of the draft Rate Order. The 7.19% WACC is used in the derivation of the revenue requirement at the bottom of page 4, but Board staff notes that the WACC has been applied to a service requirement rate base of \$1,261,122, which is different than Chapleau PUC's calculated rate base of \$1,260,325. There appears to be no explanation for the adjusted rate base or why it is used. Chapleau PUC should correct its calculation of the service revenue requirement or otherwise explain, with detailed calculations, how the table shown on page 4 complies with the Board's Decision.

Rate Design

Board staff notes that the draft Rate Order holds monthly service charges constant for all classes, while the Board's decision referred only to the Residential and General Service classes when accepting Chapleau PUC's revised proposal to leave monthly service charges unchanged. In this case, the draft Rate Order does not comply with the Board's decision. Chapleau PUC should correct its calculation of monthly service charges or otherwise explain how the draft Rate Order complies with the Board's decision.

Board staff has also noted that the USL rates appear to have been adjusted from those submitted in the Application and therefore have not been approved by the Board. Accordingly, the draft Rate Order does not comply with the Board's decision and Chapleau PUC should correct its calculation of USL rates or otherwise explain how the draft Rate Order complies with the Board's decision.

Revenue to Cost Ratios

Board staff submitted that the ratios in the Informational Filing were representative of the ratios yielded by the currently approved rates, in the absence of a new cost allocation study, because the structure of relative rates was not changed in 2006 and has not changed since that time. Board staff notes that Chapleau PUC's draft Rate Order now yields ratios that are different from the informational filing for all classes. Chapleau PUC's table from page 5 of the draft Rate Order is shown below, and indicates that the revenue to cost ratio for each class has been changed from the Informational Filing.

Customer Class	Informational Filing %	Proposal %
Residential	113.5	105.5
GS < 50 kW	91.4	100.0
GS > 50 kW	78.8	100.0
USL	78.7	84.7
Sentinel Lighting	45.4	70.0
Street Lighting	17.4	35.0

Staff notes that the ratios for the two lighting classes conform with the Board's Decision and that the additional revenue was used to adjust the ratio for the Residential class. Staff also notes that all of the changes move toward 100% in the remaining classes.

As the Board's decision did not approve changes to the General Service Classes or the USL Class, the draft Rate Order does not comply with the Board's decision and Chapleau PUC should correct its cost allocation or otherwise explain how the draft Rate Order complies with the Board's decision.