



Ontario  
Energy  
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de l'énergie  
de l'Ontario

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# **DECISION AND RATE ORDER**

**EB-2020-0010**

## **CHAPLEAU PUBLIC UTILITIES CORPORATION**

**Application for rates and other charges to be effective May 1, 2021**

**By Delegation, Before: Jane Scott**

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**[ date ]**

# 1 INTRODUCTION AND SUMMARY

Through this Decision and Rate Order, the Ontario Energy Board (OEB) approves the incentive rate-setting mechanism (IRM) application filed by Chapleau Public Utilities Corporation (Chapleau Public Utilities) for new rates effective May 1, 2021.

Chapleau Public Utilities serves approximately 1,200 mostly residential and commercial electricity customers in the Town of Chapleau. The company is seeking the OEB's approval for the rates it charges to distribute electricity to its customers, as is required of licensed and rate-regulated distributors in Ontario.

A distributor may choose one of three rate-setting methodologies approved by the OEB. Each of these is explained in the [Handbook for Utility Rate Applications](#).

Chapleau Public Utilities' application is based on a Price Cap Incentive Rate-setting option (Price Cap IR), with a five-year term. The Price Cap IR option involves the setting of rates through a cost of service application in the first year. Mechanistic price cap adjustments, based on inflation and the OEB's assessment of the distributor's efficiency, are typically then approved through IRM applications in each of the ensuing four (adjustment) years.

As a result of this Decision, there will be a monthly total bill decrease of \$2.72 for a residential customer consuming 750 kWh, effective May 1, 2021. The decrease does not factor in applicable taxes or the Ontario Electricity Rebate.<sup>1</sup>

The estimated monthly total bill continues to include the effect of the Distribution Rate Protection (DRP) program. The DRP program caps the base distribution charge for certain residential customers in the province of Ontario. Chapleau Public Utilities is one of eight electricity distributors in Ontario to which the DRP applies.<sup>2</sup> This tax-funded program has been in effect since July 2017 and the current monthly distribution charge is capped at \$36.86. If there is a change to the DRP cap as of July 1, 2021, there could be a further bill impact for residential customers.

Chapleau Public Utilities has also applied to change the composition of its distribution service rates. Residential distribution service rates have historically included a fixed monthly charge and a variable usage charge. In 2015, the OEB issued a policy to transition these rates to a fully fixed structure over a four-year period beginning in 2016.<sup>3</sup> Chapleau Public Utilities deferred filing rate applications for a three-year period

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<sup>1</sup> O.Reg 363/16, S. 3, effective November 1, 2019

<sup>2</sup> O. Reg. 198/17, s. 2

<sup>3</sup> OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015

from 2016 to 2018. As a result, Chapleau Public Utilities did not implement the OEB's policy until 2019. In Chapleau Public Utilities' 2019 cost of service rate proceeding,<sup>4</sup> in order to mitigate the customers' bill impact, the OEB approved a five-year period for Chapleau Public Utilities to transition its residential customers to fully fixed structure. Therefore, Chapleau Public Utilities started the transition to fully fixed residential rates in 2019. This is the third year of Chapleau Public Utilities' transition and, accordingly, Chapleau Public Utilities' residential rates will be adjusted by more than the mechanistic adjustment alone. The variable usage rate is commensurately lower. This policy change does not affect the total revenue that distributors collect from residential customers.

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<sup>4</sup> EB-2018-0087, Settlement Proposal, May 22, 2019

## 2 THE PROCESS

This Decision is being issued by delegated authority, without a hearing, under section 6 of the *Ontario Energy Board Act, 1998* (the OEB Act).

The OEB follows a standardized and streamlined process for hearing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements.<sup>5</sup> A distributor will then review and complete the Rate Generator Model, and include it with its application.

Chapleau Public Utilities filed its application on November 2, 2020 under section 78 of the OEB Act and in accordance with the OEB's [Filing Requirements for Electricity Distribution Rate Applications, Chapter 3 - Incentive Rate-Setting Applications](#) (Filing Requirements).

The application was supported by pre-filed written evidence and a completed Rate Generator Model. During the course of the proceeding, the applicant responded to OEB staff questions through emails and, where required, updated and clarified the evidence.

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<sup>5</sup> The Rate Generator Model is a Microsoft Excel workbook that is used to update base rates, retail transmission service rates and, if applicable, shared tax saving adjustments. It also calculates rate riders for the disposition of deferral and variance account balances. During the course of an IRM proceeding, the Rate Generator Model may be updated in order to make any necessary corrections, or to incorporate new rate-setting parameters as they become available.

### 3 ORGANIZATION OF THE DECISION

In this Decision, the OEB addresses the following issues, and provides reasons for approving or denying Chapleau Public Utilities' proposals relating to each of them:

- Price Cap Adjustment
- Revenue-to-Cost Ratio Adjustments
- Retail Transmission Service Rates
- Group 1 Deferral and Variance Accounts
- Residential Rate Design

In the final section, the OEB addresses the steps to implement the final rates that flow from this Decision.

This Decision does not address rates and charges approved by the OEB in previous proceedings, which are not part of the scope of an IRM proceeding (such as specific service charges<sup>6</sup> and loss factors). No further approvals are required to continue to include these items on a distributor's Tariff of Rates and Charges.

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<sup>6</sup> Certain Service Charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. The Decision and Order EB-2020-0285, issued December 3, 2020 established the adjustment for energy retailer service charges, effective January 1, 2021. The Order EB-2020-0288, issued December 10, 2020, set the Wireline Pole Attachment Charge for January 1, 2021 on an interim basis.

## 4 PRICE CAP ADJUSTMENT

Chapleau Public Utilities seeks to change its rates, effective May 1, 2021, based on a mechanistic rate adjustment using the OEB-approved *inflation minus X-factor* formula applicable to Price Cap IR applications.

The components of the Price Cap IR adjustment formula applicable to Chapleau Public Utilities are set out in Table 4.1, below. Inserting these components into the formula results in a 1.75% increase to Chapleau Public Utilities' rates: **1.75% = 2.20% - (0.00% + 0.45%)**.

**Table 4.1: Price Cap IR Adjustment Formula**

Components		Amount
Inflation Factor <sup>7</sup>		2.20%
X-Factor	Productivity <sup>8</sup>	0.00%
	Stretch (0.00% to 0.60%) <sup>9</sup>	0.45%

A maximum inflation factor of 2.20% applies to all Price Cap IR applications for the 2021 rate year, provided that a utility does not elect a lower inflation factor to be used.

The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that will vary among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income.

The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all Price Cap IR and Annual IR Index applications for the 2021 rate year.

The stretch factor component of the X-factor is distributor-specific. The OEB has

<sup>7</sup> For the 2021 Inflation Factor, see Ontario Energy Board 2021 Electricity Distribution Rate applications webpage – November 9, 2020

<sup>8</sup> Report of the OEB – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, Issued November 21, 2013, corrected December 4, 2013

<sup>9</sup> The stretch factor groupings are based on the Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2019 Benchmarking Update”, prepared by Pacific Economics Group LLC., August 2020

established five stretch factor groupings, each within a range from 0.00% to 0.60%. The stretch factor assigned to any particular distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The most efficient distributor would be assigned the lowest stretch factor of 0.00%. Conversely, a higher stretch factor would be applied to a less efficient distributor (in accordance with its cost performance relative to expected levels) to reflect the incremental productivity gains that the distributor is expected to achieve. The stretch factor assigned to Chapleau Public Utilities is 0.45%.

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities and customers alike, for 2021 rate adjustment applications, the OEB allowed utilities the discretion of applying either the calculated inflation factor in accordance with the OEB-approved methodology or a lower value. Utilities were also given the discretion to forego the inflationary increase entirely.<sup>10</sup>

The OEB required all utilities that filed (or were planning to file) 2021 rate adjustment applications to file a letter on the record of their rates proceedings, indicating the inflation factor that the utility has elected.

On January 21, 2021, Chapleau Public Utilities filed a letter advising the OEB that it is electing an inflation factor of 2.20% for 2021 rates, resulting in a rate adjustment of 1.75%.<sup>11</sup>

## Findings

The OEB finds that Chapleau Public Utilities' request for a 1.75% rate adjustment is in accordance with the annually updated parameters set by the OEB, as well as the process established for the implementation of the 2021 inflation factor. The adjustment is approved, and Chapleau Public Utilities' new rates shall be effective May 1, 2021.

The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.<sup>12</sup>

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<sup>10</sup> [OEB Letter, 2021 Inflation Parameters, issued November 9, 2020](#)

<sup>11</sup> EB-2020-0010, Letter re: Chapleau Public Utilities' 2021 Inflation Factor, January 21, 2021

<sup>12</sup> Price Cap IR and Annual IR Index adjustments do not apply to the following rates and charges: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charge, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors and microFIT charge.

## 5 REVENUE-TO-COST RATIO ADJUSTMENTS

A revenue-to-cost ratio measures the relationship between the revenues that a distributor expects to receive from a class of customers and the level of costs allocated to that class. Generally, an increase to the revenue-to-cost ratio of one rate class will result in a decrease to the ratio of one or more of the other rate classes. A distributor may implement the adjustment to its revenue-to-cost ratios during an IRM term, in accordance with OEB-established target ranges, if the adjustment was approved by the OEB in a previous proceeding.<sup>13</sup>

In this proceeding, Chapleau Public Utilities proposes an increase to the revenue-to-cost ratio for the Residential service classification. The additional revenues from these adjustments would be used to reduce the revenue-to-cost ratio for the Street Lighting service classification, as per the approved settlement proposal.<sup>14</sup>

Table 5.1, below, outlines the revenue-to-cost ratios for which the applicant seeks approval for the 2021 rate year.

**Table 5.1: Revenue-to-Cost Ratios**

<b>Rate Classification</b>	<b>2020 Ratio (%)</b>	<b>Proposed 2021 Ratio (%)</b>
RESIDENTIAL SERVICE	93.82	96.00
GENERAL SERVICE LESS THAN 50 KW SERVICE	118.00	118.00
GENERAL SERVICE 50 TO 4,999 KW SERVICE	99.00	99.00
UNMETERED SCATTERED LOAD SERVICE	120.00	120.00
SENTINEL LIGHTING SERVICE	101.00	101.00
STREET LIGHTING SERVICE	233.00	120.00

<sup>13</sup> Report of the OEB – “Application of Cost Allocation for Electricity Distributors.” EB-2007-0667, November 28, 2007; and, Report of the Board – “Review of Electricity Distribution Cost Allocation Policy.” EB-2010-0219, March 31, 2011

<sup>14</sup> EB-2018-0087, Decision and Rate Order, June 6, 2019



## Findings

The OEB agrees that the proposed adjustments for the 2021 rate year are consistent with the OEB's findings in its decision for Chapleau Public Utilities' 2019 rates.

Chapleau Public Utilities' revenue-to-cost ratios are approved, as set out in Table 5.1 above.

## 6 RETAIL TRANSMISSION SERVICE RATES

Distributors charge retail transmission service rates (RTSRs) to their customers in order to recover the amounts they pay to a transmitter, a host distributor, or both, for transmission services. All transmitters charge Uniform Transmission Rates (UTRs) to distributors connected to the transmission system. Host distributors charge host-RTSRs to distributors embedded within the host's distribution system. Each of these rates is OEB-approved.

Chapleau Public Utilities is partially embedded within Hydro One Networks Inc.'s distribution system and is requesting approval to adjust the RTSRs that it charges its customers to reflect the currently approved rates that it pays for transmission services included in Table 6.1 and Table 6.2.

**Table 6.1: UTRs<sup>15</sup>**

UTRs (2021)	per kW
Network Service Rate	\$4.67
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.77
Transformation Connection Service Rate	\$2.53

**Table 6.2: Hydro One Networks Inc. Sub-Transmission Host-RTSRs<sup>16</sup>**

Sub-Transmission Host RTSRs (2021)	per kW
Network Service Rate	\$3.4778
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.8128
Transformation Connection Service Rate	\$2.0458

<sup>15</sup> EB-2020-0251, Decision and Order, December 17, 2020

<sup>16</sup> EB-2020-0030, Decision and Order, December 17, 2020

## Findings

Chapleau Public Utilities' proposed adjustment to its RTSRs is approved. The OEB notes that the OEB-approved 2021 UTRs and Hydro One Networks Inc.'s 2021 host-RTSRs were incorporated into the rate model to adjust the RTSRs that Chapleau Public Utilities will charge its customers.

## 7 GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts in order to determine whether their balances should be disposed.<sup>17</sup> OEB policy requires that Group 1 accounts be disposed if they exceed (as a debit or credit) a pre-set disposition threshold of \$0.001 per kWh unless a distributor can justify why balances should not be disposed.<sup>18</sup> If the balance does not exceed the threshold, a distributor may elect to request disposition.

The 2019 actual year-end total balance for Chapleau Public Utilities' Group 1 accounts including interest projected to April 30, 2021, is a debit of \$1,717. This amount represents a total debit claim of \$0.0001 per kWh, which does not exceed the disposition threshold, and the utility has not requested disposition. Chapleau Public Utilities has requested that the OEB approve on a final basis the 2014 to 2018 Group 1 account balances that were previously disposed on an interim basis.

In 2018, the OEB suspended its approvals of Group 1 rate riders on a final basis pending the development of further accounting guidance on commodity pass-through variance accounts.<sup>19</sup> The OEB issued accounting guidance<sup>20</sup> on the commodity accounts on February 21, 2019 (Accounting Guidance). In an accompanying letter, the OEB indicated that it expects distributors to consider the Accounting Guidance in the context of historical balances that have not yet been disposed on a final basis. Distributors are expected to make any adjustments needed prior to filing for final disposition.

In its 2019 rates proceeding, Chapleau Public Utilities received approval to dispose of its 2017 Group 1 balances on an interim basis, except for Account 1588 and Account 1589. The OEB had concerns with the Account 1588 and Account 1589 balances and, in its decision and rate order, the OEB stated that it expected Chapleau Public Utilities to perform a detailed internal review to ensure that the determination of the Account 1588 and Account 1589 balances is consistent with the Accounting Guidance.<sup>21</sup>

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<sup>17</sup> Group 1 accounts track the differences between the costs that a distributor is billed for certain IESO and host distributor services (including the cost of power) and the associated revenues that the distributor receives from its customers for these services. The total net difference between these costs and revenues is disposed to customers through a temporary charge or credit known as a rate rider.

<sup>18</sup> Report of the OEB – "Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)." EB-2008-0046, July 31, 2009

<sup>19</sup> OEB letter to all rate-regulated licensed electricity distributors – "Re: OEB's Plan to Standardize Processes to Improve Accuracy of Commodity Pass-Through Variance Accounts." July 20, 2018.

<sup>20</sup> Accounting Procedures Handbook Update – Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589, February 21, 2019

<sup>21</sup> EB-2018-0087, Decision and Rate Order, June 6, 2019, p. 6

In its 2020 rates application, Chapleau Public Utilities confirmed that it had adopted the OEB's Accounting Guidance in 2019 and applied that guidance to historical periods that have not yet been disposed on a final basis (effective to January 1, 2014). Due to the magnitude of the adjustments necessary to comply with the Accounting Guidance related to the 2014 to 2018 fiscal years, Chapleau Public Utilities requested that the balances be disposed of on an interim, rather than final basis, stating its preference to wait until its 2019 year-end external audit is complete. The OEB approved disposition of the Group 1 balances as of December 31, 2018 on an interim basis, noting its expectation that as part of its application for 2021 rates, the distributor would:

- addresses the outcome of this external audit, and
- submit details regarding its principal adjustments, as well as provide summary journal entries that are required for each fiscal year, as confirmed by its external auditor<sup>22</sup>

In the current proceeding, Chapleau Public Utilities provided a detailed explanation of the review that it undertook to comply with the OEB's Accounting Guidance, including the nature of the adjustments required. Chapleau Public Utilities noted that its use of the cash basis for accounting for power purchased and sold appeared to be the primary driver between its prior processes and those outlined in the Accounting Guidance. Chapleau Public Utilities quantified the historical adjustments necessary (debit of \$37,851 to Account 1588 and a credit adjustment of \$42,069 to Account 1589).<sup>23</sup> Chapleau Public Utilities further explained that its external auditors performed a review of its implementation process of the OEB's Accounting Guidance and that the adjustments required were deemed appropriate with regard to Chapleau Public Utilities' December 31, 2019 financials.<sup>24</sup>

## Findings

The OEB finds that the Group 1 account balances appear reasonable and confirms that the threshold calculation is correct. No disposition is required at this time, as the disposition threshold has not been exceeded and the utility did not request disposition.

The OEB is also satisfied with the documentation provided regarding the outcome of Chapleau Public Utilities' 2019 year-end audit process and approves, on a final basis, the 2014 to 2018 balances that were previously disposed on an interim basis.

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<sup>22</sup> EB-2019-0026 Decision and Order, page 11

<sup>23</sup> Rate Generator Model, Tab 3 Continuity Schedule 2018 Principal Adjustments Column, filed January 11, 2021

<sup>24</sup> EB-2020-0010, Manager's Summary, pages 16-18

## 8 RESIDENTIAL RATE DESIGN

Chapleau Public Utilities' residential distribution rates currently include a fixed monthly charge and a variable usage charge. The OEB's residential rate design policy stipulates that distributors will transition residential customers to a fully fixed monthly distribution service charge over a four-year period, beginning in 2016.<sup>25</sup> Distributors, such as Chapleau Public Utilities, who are in a transition period that is greater than four years, are required to continue with this transition until the monthly service charge is fully fixed.

Chapleau Public Utilities deferred its rebasing application, originally scheduled for 2016, for three consecutive years. During that period, Chapleau Public Utilities did not file IRM rate applications either. In August 2018, Chapleau Public Utilities filed its cost of service application with the OEB for its 2019 rates.<sup>26</sup> The OEB approved a five-year period for Chapleau Public Utilities to transition its residential rates to fully fixed structure, starting in 2019 to mitigate the customers' bill impact.<sup>27</sup> The 2021 rate year is the third year of the transition.

The OEB expects a distributor to apply two tests to evaluate whether mitigation of bill impacts for customers is required during the transition period. Mitigation usually takes the form of a lengthening of the transition period. The first test is to calculate the change in the monthly fixed charge, and to consider mitigation if it exceeds \$4. The second is to calculate the total bill impact of the proposals in the application for low-volume residential customers (defined as those residential RPP customers whose consumption is at the 10<sup>th</sup> percentile for the class). Mitigation may be required if the bill impact related to the application exceeds 10% for these customers.

In Chapleau Public Utilities' case, the implementation of the transition results in an increase to the fixed charge prior to the price cap adjustment of \$4.03. The bill impacts arising from the proposals in this application, including the fixed rate change, are below 10% for low-volume residential customers. As noted in the introduction of this Decision, Chapleau Public Utilities is one of eight electricity distributors in Ontario to which the DRP applies. Chapleau Public Utilities' previously approved 2020 fixed charge is \$39.72, which exceeds the current DRP-capped charge of \$36.86. As a result, residential customers are not exposed to any increases to the fixed charge.

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<sup>25</sup> OEB Policy – "A New Distribution Rate Design for Residential Electricity Customers." EB-2012-0410, April 2, 2015

<sup>26</sup> EB-2018-0087, Chapleau Public Utilities' cost of service application, filed on August 31, 2018

<sup>27</sup> EB-2018-0087, Decision and Rate Order, June 6, 2019

## Findings

The OEB finds that the proposed 2021 increase to the monthly fixed charge is calculated in accordance with the OEB's residential rate design policy. The results of the monthly fixed charge, and total bill impact after DRP is considered for low consumption residential consumers, demonstrate that no mitigation is required. The OEB approves the increase as proposed by the applicant and calculated in the final Rate Generator Model.

## 9 IMPLEMENTATION AND ORDER

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A).

Model entries were reviewed in order to ensure that they are in accordance with Chapleau Public Utilities' last cost of service decision and to ensure that the 2020 OEB-approved Tariff of Rates and Charges, as well as the cost, revenue and consumption results from 2019, are as reported by Chapleau Public Utilities to the OEB.

The Rate Generator Model was adjusted, where applicable, to correct any discrepancies. The Rate Generator Model incorporates the rates set out in the following table.

**Table 9.1: Regulatory Charges**

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0005
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0030
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the “Regulatory Charge” on a customer’s bill, established annually by the OEB through a separate, generic order. The RRRP, WMS and CBR rates were set by the OEB on December 10, 2020.<sup>28</sup>

The Smart Metering Entity Charge is a component of the “Distribution Charge” on a customer’s bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB on March 1, 2018.<sup>29</sup>

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,<sup>30</sup> the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On February 25, 2021, the OEB announced that the microFIT charge for

<sup>28</sup> EB-2020-0276, Decision and Order, December 10, 2020

<sup>29</sup> EB-2017-0290, Decision and Order, March 1, 2018

<sup>30</sup> EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011



the 2021 rate year will remain at \$4.55 per month.<sup>31</sup>

**THE ONTARIO ENERGY BOARD ORDERS THAT:**

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective May 1, 2021 for electricity consumed or estimated to have been consumed on and after such date. Chapleau Public Utilities Corporation shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new final rates.

**DATED** at Toronto, Month Day, 2021

**ONTARIO ENERGY BOARD**

Christine E. Long  
Registrar

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<sup>31</sup> OEB letter: Review of Fixed Monthly Charge for microFIT Generator Service Classification, issued February 25, 2021

**Schedule A**

**To Decision and Rate Order**

**Tariff of Rates and Charges**

**OEB File No: EB-2020-0010**

**DATED: [Date]**