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BY EMAIL

January 26, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission
Chapleau Public Utilities Corporation
2023 Distribution Rate Application
OEB File Number: EB-2022-0021**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Chapleau Public Utilities Corporation is reminded that its reply submission is due on February 9, 2023.

Yours truly,

Vince Mazzone
Advisor, Application Policy & Conservation

Encl.



ONTARIO ENERGY BOARD

OEB Staff Submission

Chapleau Public Utilities Corporation

2023 Electricity Distribution Rates

EB-2022-0021

January 26, 2023

Application Summary

Chapleau Public Utilities Corporation (Chapleau Public Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 11, 2022, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2023. The purpose of this document is to provide the OEB with the submissions of OEB staff based on its review of the evidence submitted by Chapleau Public Utilities.

Consistent with the Chapter 3 Filing Requirements¹, Chapleau Public Utilities applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. As part of the interrogatory process in this proceeding, OEB staff updated Chapleau Public Utilities' calculated Price Cap IR adjustment, to reflect the OEB's 2023 inflation factor of 3.70%.² The stretch factor assigned to Chapleau Public Utilities is 0.45%, resulting in a rate adjustment of 3.25%, based on the Price Cap IR adjustment formula. OEB staff supports Chapleau Public Utilities' request for a Price Cap IR adjustment for 2023 rates. In its response to interrogatories, Chapleau Public Utilities confirmed that it is in the final year of its transition to a fully fixed monthly distribution charge for residential customers.³ OEB staff submits that Chapleau Public Utilities has demonstrated that no rate mitigation is required as a result of this transition.

Chapleau Public Utilities is partially embedded within Hydro One Networks Inc.'s (HONI) distribution system. Chapleau Public Utilities has requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by HONI and by the Independent Electricity System Operator. OEB staff has updated the Uniform Transmission Rates⁴ and HONI's 2023 host-RTSRs⁵ in the Rate Generator Model as part of its interrogatories. Chapleau Public Utilities has confirmed the accuracy of these adjustments.⁶ OEB staff has no concerns with Chapleau Public Utilities' requested adjustments to its RTSRs.

OEB staff makes detailed submissions on the following:

- Group 1 Deferral and Variance Accounts
- Lost Revenue Adjustment Mechanism Variance Account
- Achieved Return on Equity

¹ Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications - Chapter 3 Incentive Rate-Setting Applications, May 24, 2022.

² OEB Letter, 2023 Inflation Parameters, October 20, 2022

³ Staff-2

⁴ EB-2022-0250, Decision and Order, December 8, 2022

⁵ EB-2021-0110, Decision and Order, November 29, 2022

⁶ Staff-1

OEB Staff Submission**Group 1 Deferral and Variance Accounts**Background

Chapleau Public Utilities requested disposition of its December 31, 2021 Group 1 Deferral and Variance Account (DVA) balances in the debit amount of \$23,988 on a final basis over 12 months. This includes interest projected to April 30, 2023. The components of this balance are shown in Table 1. The Group 1 account balances exceed the OEB's \$0.001/kWh threshold for disposition. The OEB most recently approved the disposition of Chapleau Public Utilities' Group 1 DVA balances on a final basis, as of December 31, 2020, as part of its 2022 rate application.

Table 1: Group 1 DVA Balances

Account Name	Account Number	Principal Balance (\$)	Interest Balance (\$)	Total Claim (\$)
		A	B	C = A + B
LV Variance Account	1550	5,432	82	5,514
Smart Metering Entity Charge	1551	(653)	(14)	(667)
RSVA - Wholesale Market Service Charge	1580	16,960	460	17,419
Variance WMS – Sub-account CBR Class B	1580	(3,334)	(72)	(3,405)
RSVA - Retail Transmission Network Charge	1584	8,208	211	8,419
RSVA - Retail Transmission Connection Charge	1586	(3,025)	(90)	(3,115)
RSVA - Power	1588	(1,643)	(53)	(1,697)
RSVA - Global Adjustment	1589	1,555	(34)	1,520
Totals for all Group 1 accounts excluding RSVA – Global Adjustment		21,945	524	22,468
Totals for all Group 1 accounts		23,500	490	23,988

Submission

OEB staff supports Chapleau Public Utilities' request to dispose of its December 31, 2021 Group 1 DVAs on a final basis. OEB staff has reviewed the DVA balances and the supporting evidence substantiating these balances. In OEB staff's opinion, the Group 1 DVA balances appear reasonable.

Lost Revenue Adjustment Mechanism Variance Account

Background

Distributors filing an application for 2023 rates are required to seek disposition of all outstanding Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balances pertaining to program savings related to Conservation First Framework programs or other conservation programs they delivered unless they do not have complete information on eligible program savings.⁷ Chapleau Public Utilities disposed of its LRAMVA balances in its 2019 cost of service application. Accordingly, there is no request for the disposition of any LRAMVA balances related to these activities in the current application.

Submission

OEB staff recommends that no further entries to the LRAMVA be permitted at this time, but that the LRAMVA not be discontinued, in the event that Chapleau Public Utilities requests the use of the LRAMVA for a CDM activity in a future application, which the OEB can consider on a case-by-case basis. OEB staff is recommending this approach for all distributors who have disposed of all outstanding LRAMVA balances as part of their 2023 rate applications.

Achieved Return on Equity

Background

The Chapter 3 Filing Requirements state that a regulatory review may be triggered if a distributor's earnings are outside of a dead band of +/- 300 basis points from the OEB-approved Return on Equity (ROE).⁸ A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR.⁹ Chapleau Public Utilities' 2021 ROE reported in the OEB's *Reporting and Record-Keeping Requirements* 2.1.5.6 - Regulated Return on Equity was 24.43%, or 15.45% (1,545 basis points) greater than its ROE of 8.98% as approved in its 2019 cost of service proceeding.¹⁰ Chapleau Public Utilities is requesting an adjustment to its base rates in this proceeding.

Chapleau Public Utilities provided¹¹ the following main drivers for the 2021 over-earning:

⁷ Chapter 3 Filing Requirements, section 3.2.6.1

⁸ Chapter 3 Filing Requirements, section 3.2.9

⁹ Ibid

¹⁰ EB-2018-0087, Decision and Rate Order, June 6, 2019

¹¹ Manager's Summary, pages 21-22

1. An increase in 2021 Other Revenues of \$46,944 due to a “one-time” administrative fee charged to a Hydro One mining customer who hired Chapleau Public Utilities to administer the transfer of Chapleau Public Utilities’ pole attachments to Hydro One upgraded poles.
2. A temporary decrease in OM&A of \$52,695 due to an operations employee taking an unpaid leave of absence for medical reasons (the position was left vacant from February 2021 to December 2021).
3. Not having any debt instruments in 2021 compared to the deemed interest collected through rates and based on the deemed cost of capital parameters.

Chapleau Public Utilities noted that the Price Cap IR adjustment is needed for it to keep up with the post-pandemic inflationary pressures and that the penalty in denying the price cap adjustment has a compounding effect on future IRMs and rates. Chapleau Public Utilities suggests that this is unfair given the one-time nature of the events that affected its earnings.¹² Chapleau Public Utilities further noted that it does not pay dividends to the shareholder, and any revenues are reinvested back in its capital or operational expenditures.¹³

In response to an OEB staff interrogatory,¹⁴ Chapleau Public Utilities has provided the 2021 ROE filing. OEB staff notes that the 2021 over-earning is mainly driven by the increase of \$112,775 in the regulated net income as shown in Table 2.

Table 2: Breakdown of the ROE difference into Regulated Net Income and Regulated Deemed Equity

Components of the ROE Calculation	Deemed Last CoS	Achieved	Variance (\$)	Variance (%)
ROE Amount	\$65,439	\$178,214.14	\$112,775.14	172.34%
Regulated Deemed Equity	\$728,718	\$729,421.10	\$703.10	0.10%
ROE	9.36%	24.43%		15.07%

In addition, Chapleau Public Utilities provided a detailed variance analysis in Excel comparing the 2021 actual revenues and expenses with the 2019 approved revenues and expenses. Chapleau Public Utilities noted that the detailed variances total the expected integrity check variances as calculated by the OEB.¹⁵

Regarding the “one-time” administrative revenues of \$46,944, Chapleau Public Utilities

¹² Staff-7

¹³ Ibid

¹⁴ Staff-6a

¹⁵ Staff-8d

confirms that it has not come across a similar situation in any of its historical years nor is it expecting a similar situation to occur in 2022 or beyond.¹⁶

Regarding the temporary decrease in OM&A of \$52,695 due to staff absence, Chapleau Public Utilities confirms that the medical leave has not affected the OM&A in 2022 as the employee returned in December of 2021 and the wages accounts were reduced by \$55K and the pension/benefits were reduced by \$6K.¹⁷

Regarding the deemed interest, OEB staff asked Chapleau Public Utilities to explain how not having any debt instruments in 2021 impacted its regulatory ROE, given that the deemed interest expense is used in the calculation of the achieved ROE for the year. Chapleau Public Utilities referred to the detailed variance analysis that it provided in the Excel file.¹⁸

Lastly, while being asked for the 2022 forecasted ROE %, Chapleau Public Utilities states that it is not in a position to provide the projected ROE for 2022 as the year is not fully complete and year-end journal entries have not yet been done.¹⁹

Submission

OEB staff does not object to Chapleau Public Utilities' request for the price cap adjustment in this rate application, given that the two main drivers that have caused the 2021 over-earning appear to be one-time in nature and not recurring. As explained by Chapleau Public Utilities, the work related to the Hydro One customer was a one-time event that was out of its control.²⁰ Chapleau Public Utilities further explained that Hydro One should have done the work but declined to do so leaving Chapleau Public Utilities to assist the customer. Chapleau Public Utilities also confirmed that the employee medical leave has not affected its OM&A in 2022 as the employee returned in December of 2021.

OEB staff calculated the impact of these two main drivers on 2021 achieved ROE percentage in the Table below and notes that the impact of these two drivers on the 2021 ROE percentage is substantial (13.7%). Excluding the impact of these two main drivers, Chapleau Public Utilities' 2021 achieved ROE is 10.77%, which is within 300 basis points of the deemed ROE of 8.98% approved in the 2019 cost of service proceeding.

¹⁶ Staff-8a

¹⁷ Staff-8b

¹⁸ Staff-8d

¹⁹ Staff-6

²⁰ Staff-7

Table 3: Impact of the Two Main Over-earning Drivers on 2021 Achieved ROE %

	2021
One-time Administration Fee (Other revenue)	\$46,944
Temporary decrease in OM&A	\$52,695
Increase in Regulated Net Income from the above two items	\$99,639
Deemed Equity (from RRR 2.1.5.6)	\$729,421
% Impact on the 2021 ROE from the above two items (OEB staff calculation)	13.7%
2021 Achieved ROE % Reported	24.43%
2021 Achieved ROE % Adjusted for the above two items	10.77%

Chapleau Public Utilities has suggested that its lack of debt instruments in 2021 acts as a driver for overearning because while it had no actual interest expense, it collected \$44,189 through rates, based on its deemed interest expense.

OEB staff submits that this differential between deemed and actual interest expense is not included in the 2021 ROE of 24.43% and is not a driver for overearning, for the following reasons. The OEB's ROE Filing Guide states that "deemed interest expense, not actual interest expense, is treated as a deduction for the purposes of calculating regulated net income."²¹ OEB staff submits that Chapleau Public Utilities' lack of actual debt and associated interest expense as compared to the deemed debt and deemed interest does not contribute to over-earning in 2021. Chapleau Public Utilities provided working Excel calculations of the variances between the OEB-Approved and 2021 actuals and noted that these calculations are not approximations but detailed variances corresponding to the expected integrity check variances as calculated by the OEB. OEB staff notes from the Excel file that the saving of \$43,908 in interest (between the 2021 actual interest paid of \$282 and the 2019 approved interest expense of \$44,189 based on the deemed structure) is offset by the interest adjustment of \$44,203 on the deemed debt in the ROE calculation. This offset demonstrates that the fact that Chapleau Public Utilities not having any debts is not relevant to the calculation of the regulated ROE percentage.

To summarize, OEB staff submits that there are only two main drivers for the 2021 over-

²¹ RRR 2.1.5.6 ROE Complete Filing Guide, pp. 13-14

earning, and they are likely one-time events. Furthermore, Chapleau Public Utilities is a small distribution company with approximately 1,200 customers and small rate base (\$1.82M, as approved in its 2019 cost of service application). As a result, any fluctuation of the revenues and expenses in temporary nature may result in the utility exceeding the ± 300 basis point dead band in its incentive rate period. OEB staff therefore submits that Chapleau Public Utilities' request for a Price Cap IR adjustment in 2021 appears reasonable.

~All of which is respectfully submitted~