



January 16, 2024

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street Toronto,
Ontario M4P 1E4

Attention: OEB Registrar
Regarding: Chapleau Public Utilities Corporation 2024 IRM Application (EB-2023-0011) – Interrogatory Responses

Dear Registrar,

In accordance with Procedural Order No.1 issued November 21, 2023, please find attached an electronic copy of responses provided by Chapleau Public Utilities Corporation ("Chapleau") to interrogatory questions posed by Ontario Energy Board ("OEB") Staff.

An electronic copy of the Interrogatory Responses has been submitted using the Board's Regulatory Electronic Submission System.

Yours truly,

A handwritten signature in black ink, appearing to read "Ted Lyberogiannis", with a horizontal line underneath.

Ted Lyberogiannis
General Manager
110 Lorne Street South
P.O. Box 670
Chapleau, ON, P0M 1K0
Phone: 647-588-7290

OEB STAFF INTERROGATORY - 01

Reference:

1. Manager's Summary, Page 17
2. RRR 2.1.5.6 ROE Complete Filing Guide

Preamble:

Chapleau's current distribution rates were rebased and approved by the OEB in 2019 and included an expected (deemed) regulatory return on equity of 8.98%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. The actual return on equity for 2022 is 12.99% which indicates an over-earning compared to the OEB's approved 2019 rate of return based on Chapleau's 2019 cost of service application.

**Table 9 – Return on Equity
Table 2022**

Achieved ROE	12.99
Deemed ROE	8.98
Difference	4.01

Chapleau notes that its earnings are 1.01% above the dead band of 300 basis points. As reported to the OEB on September 22, 2023, this overearning occurred when Chapleau's financial statements were revised by KPMG to adjust the balances in seven accounts both upwards and downwards.

The revisions were as follows:

- 1330-Plant Materials and Operating Supplies: from \$132,568 to \$188,985
- 2294-Accrual for Taxes Payments in Lieu of Taxes, etc. from -\$8,800 to -\$14,000
- 3046-Balance Transferred from Income from \$82,191 to \$132,609
- 5020-Overhead Distribution Lines and Feeders - Operation Labour from \$113,835 to \$92,170
- 5025-Overhead Distribution Lines and Feeders – Operation Supplies and Expenses from \$47,918 to \$20,270
- 5085-Miscellaneous Distribution Expense from \$10,007 to \$2,903
- 6110-Income Taxes: from \$10,000 to \$16,000

1 **Interrogatory:**

- 2 a) Please provide a copy of Chapleau's 2022 ROE filing.
- 3
- 4 b) Please provide a variance analysis using the line items on the ROE summary of the
5 2022 ROE filing, comparing to the respective components in Chapleau's 2019 revenue
6 requirement as approved in its 2019 cost of service proceeding. Please provide the
7 explanation for any variance that is greater than 10% of the 2019 approved amount by
8 the OEB.
- 9
- 10 c) With respect to each revision listed above, please explain how the increase or decrease
11 in these accounts, separately, impacts the calculation of the return on equity.
- 12 i. Please quantify the impact of each revision as listed above on the 2022 ROE %.
- 13 ii. Regarding the adjustments made by KPMG to revise the balance in the seven
14 accounts, please elaborate on the rationale behind each of these revisions.
- 15 iii. Please discuss what mechanisms or procedures are in place to monitor and adjust
16 account balances regularly to prevent significant deviations.
- 17
- 18 d) Please detail any specific operational or financial changes that led to the observed
19 over-earning in 2022 compared to the Board Approved 2019 rate of return.
- 20
- 21 e) Please provide Chapleau's 2023 forecast ROE based on the 2023 actual and forecast
22 data.

23

24 **Response:**

- 25 a) Please see attached copy of Chapleau's 2022 RRR ROE filing 2.1.5.6.
- 26
- 27 b) The table below shows the itemized revenue requirement variance between the 2019
28 OEB-approved and 2022 actuals.
- 29
- 30 • The cost of power supply increased by 10.84%. In cost-of-service applications, the
31 cost of electricity is estimated. The actual load may fluctuate in response to
32 unforeseen circumstances, such as a pandemic or a change in utilization induced
33 by weather patterns.

- 1 • The Board Approved return is based on deemed cost of capital parameters which
- 2 include a debt and equity component. In actuality, CPUC does not hold any debt
- 3 instruments. The actual return on equity is instead based on the difference between
- 4 costs and revenues.
- 5 • The increase in property taxes is due to the fact that the property taxes included in
- 6 Chapleau's OEB-approved Revenue Requirement was based on 2019 estimates
- 7 which were lower than 2022 actuals.
- 8 • The decrease in revenue offset is due to anticipated revenues that did not occur in
- 9 2022 in comparison to the 2019 OEB-approved COS.
- 10

Particular	2019	2022	\$Chg	%Chg
	Board Approved	ROE Summary		
Controllable Expenses	\$793,425	\$761,117	(\$32,308)	-4.07%
Power Supply Expense	\$2,571,772	\$2,850,429	\$278,657	10.84%
Total Eligible Distribution Expenses	\$3,365,197	\$3,611,546	\$246,349	7.32%
Working Capital Allowance Rate	7.50%	7.50%	0.00%	0.00%
Total Working Capital Allowance ("WCA")	\$252,390	\$270,866	\$18,476	7.32%
Avg, Regulated PP&E	\$1,569,404	\$1,592,278	\$22,874	1.46%
Working Capital Allowance	\$252,390	\$270,866	\$18,476	7.32%
Rate Base	\$1,821,794	\$1,863,144	\$41,350	2.27%
Regulated Return on Capital	\$109,628	\$132,609	\$22,981	20.96%
Deemed Interest Expense	\$44,189	\$604	(\$43,585)	-98.63%
Deemed Return on Equity	\$65,439	\$132,005	\$66,566	101.72%
OM&A	\$785,163	\$754,707	(\$30,456)	-3.88%
Depreciation Expense	\$120,706	\$130,609	\$9,903	8.20%
PILs	\$0	\$0	\$0	
Property Taxes	\$8,262	\$10,544	\$2,282	28%
Revenue Offset	(\$51,964)	(\$31,683)	\$20,281	-39.03%
Revenue Requirement	\$971,796	\$996,786	\$24,990	2.57%

- 11
- 12 c) Chapleau assumes this interrogatory is asking about revisions made to accounts by
- 13 KPMG.

1 i. The answer below shows the impacts of each revision and reconciles between the
 2 ROE submitted prior to the revised submission and the revised submission as
 3 reported by Chapleau to the OEB on September 22, 2023.

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Revisions made in the following four expense accounts impacted Chapleau's Regulated Net income:

- 5020-Overhead Distribution Lines and Feeders - Operation Labour from \$113,835 to \$92,170
- 5025-Overhead Distribution Lines and Feeders – Operation Supplies and Expenses from \$47,918 to \$20,270
- 5085-Miscellaneous Distribution Expense from \$10,007 to \$2,903
- 6110-Income Taxes: from \$10,000 to \$16,000

Particulars	Amount (\$)	ROE (%)	Comments
Regulated Net Income reported prior to Sept 2023 RRR revision	82,191	6.20	Underearning by 2.78
Revisions impacting ROE			
5020-Overhead Distribution Lines and Feeders - Operation Labour from \$113,835 to \$92,170	21,665	2.92	Increase in Net Income
5025-Overhead Distribution Lines and Feeders – Operation Supplies and Expenses from \$47,918 to \$20,270	27,648	3.72	Increase in Net Income
5085-Miscellaneous Distribution Expense from \$10,007 to \$2,903	7,104	0.96	Increase in Net Income
6110-Income Taxes: from \$10,000 to \$16,000	(6,000)	-0.81	Decrease in Net Income
Regulated Net Income as per RRR revision reported on Sept 22, 2023	132,609	12.99	Overearning by 4.01

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Revisions made in the following three Balance sheet accounts did not impact Chapleau's Regulated Net income and are therefore not included in the above table.

- 1330-Plant Materials and Operating Supplies: from \$132,568 to \$188,985

- 1 • 2294-Accrual for Taxes Payments in Lieu of Taxes, etc. from -\$8,800 to -\$14000
2 • 3046-Balance Transferred from Income from \$82,191 to \$132,609
3
4 ii. The adjustments made by KPMG were simply year end adjustments that were
5 inadvertently missed by the interim employees (who were working to fill in the
6 gaps left due to employees having left the utility) and consultant at a time when
7 the resources were in the transition from CPUC to Hydro One.
8 iii. With Hydro One as manager for Chapleau, CPUC will be adopting Hydro One
9 processes going forward and therefore last-minute adjustments should be for the
10 most part avoidable in the future.
11
12 d) There are no specific operational or financial changes that have led to the over-earning
13 in 2022 compared to the 2019 OEB-approved return on equity. Instead, the 2022 over-
14 earning is the result of the fact that modest deviations in revenues or costs have a
15 large impact on return on equity for small utilities, as has been the case for Chapleau.
16 Prior to the revisions made by KPMG, Chapleau was under-earning by 2.78%.
17
18 e) Chapleau notes that in light of the fact that small changes in revenues or costs can
19 result in dramatic changes to ROE, it is challenging for Chapleau to provide a forecast
20 of ROE. Only once KPMG has completed its year-end audits and all necessary year-end
21 adjustments are made and books closed will Chapleau be in a position to provide final
22 ROE.

23
24 The above being said, Chapleau is forecasting negative ROE for 2023. Factors behind this
25 result are the following:

- 26
27 • reduced load due to the Township's conversion of streetlights to LED and
28 unfavourable weather; and
29 • an approximately \$100,000 unplanned expense related to PCB testing in 2023.
30

31 Even if the \$100,000 unplanned expense related to PCB testing had not been incurred,
32 Chapleau predicts it would still be in an underearning position.

Filed: 2024-01-16
EB-2023-0011
Exhibit I
Tab 1
Schedule 1
Page 6 of 6

1

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E2.1.5.6 Regulated Return on Equity (ROE)

Report Summary

Filing Due Year 2023	Filing Form Name 2.1.5.6	RRR Filing No 34396
Reporting Period and Company Name April	Licence Type Distributor	Status Revised
Report Version 1	Extension Granted	Extension Deadline
Filing Due Date May 01, 2023	Reporting From January 1, 2022	Reporting To December 31, 2022
Submitted On September 08, 2023	Submitter Name Jennifer Cyr	Expiry Date September 15, 2023

Checklist

Checkbox Overview

No.	Questions
Y	1. Have you read the ROE filing guide for completing the RRR 2.1.5.6 ROE filing?
Y	2. Have you reviewed and confirmed the accuracy of the RRR 2.1.7 trial balance?
Y	3. Have you reviewed and confirmed all auto-populated/linked cells on the form for accuracy?
Y	4. Have you resolved (i.e. re-filing the RRR 2.1.7 trial balance or contact the IRE) any issues that you may have noted with the auto-populated/linked cells?
Y	5. Regarding the input cells, have you ensured that the signs of the numbers entered align with the RRR 2.1.7 trial balance?

Input Appendices tab

Y	1. Have you completed and reviewed Appendix 1 if you have non-rate regulated business that is recorded in the RRR 2.1.7 trial balance?
Y	2. Have you included all other adjustment(s) in Appendix 1?
Y	3. Have you identified and included in Appendix 1 all adjustments for non-rate regulated activities?
Y	4. Have you completed and reviewed Appendix 2 if you have non-recoverable donations that are recorded in the RRR 2.1.7 trial balance?
Y	5. Have you completed and reviewed Appendix 3 regarding net interest/carrying charge from DVAs?
Y	6. Have you included in Appendix 4 all adjustments so that the interest expense in cell dc is related to debt only?
Y	7. Have you completed and reviewed Appendix 4 on deemed debt?
Y	8. Have you included all adjustments regarding regulated PP&E in Appendix 5?
Y	9. Have you completed and reviewed Appendix 5 regarding regulated PP&E?
Y	10. Have you completed and reviewed Appendix 6 regarding current tax for regulatory purposes?
Y	11. Have you included in Appendix 6 the tax effects of all non-regulatory items?
Y	12. Have you reviewed the RRR Filing Guide and determined the accurate tax treatment regarding the activities in regulatory accounts in Appendix 6?

ROE Summary tab

Y	1. Have you entered the input cells for the the Unrealized (gains)/losses on interest rate swaps (cell c) and identified the USoA(s), if applicable?
Y	2. Have you entered the input cells for the Actuarial (gains)/losses on OPEB and/or Pensions not approved by the OEB (cell d) and identified the USoA(s), if applicable?

Over and Under-earning driver tabs

Y	1. Have you completed and reviewed Appendices 7 and 8 if the ROE status for the year (cell z2) shows "Over-earning"?
Y	2. Have you completed and reviewed Appendices 9 and 10 if the ROE status for the year (cell z2) shows "Under-earning"?
Y	3. Have you submitted the Q4 RRR 2.1.2 customers if you are required to complete over/under-earning driver tabs?
Y	4. Have you submitted the RRR 2.1.5.4 annual billings if you are required to complete over/under-earning driver tabs?

Submitting the form

Y	1. Have you clicked the Checkmark button to update all the calculations on the form?
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- Y 2. Have you validated the accuracy of the Achieved ROE% as calculated in cell y on the ROE Summary tab?
 Y 3. Have you retained the necessary supporting documents for the ROE filing?

Input Appendices (1 to 6)

Appendix 1

Non-rate regulated items and other adjustments

CDM revenues (recorded in Account 4375)	- aa		
CDM expenses (recorded in Account 4380)	- ab		
CDM - Net revenues/expenses	- ac=aa+ab	0.00	
Renewable generation revenues (recorded in Account 4375)	- ad		
Renewable generation expenses (recorded in Account 4380)	- ae		
Renewable generation - Net revenues/expenses	- af=ad+ae	0.00	
Water services revenues (recorded in Account 4375)	- ag		
Water services expenses (recorded in Account 4380)	- ah		
Water services - Net revenues/expenses	- ai=ag+ah	0.00	
Non-rate regulated utility rental income/investment income (recorded in Account 4385)	- aj		Please provide USoAs
Depreciation expense on non-rate regulated assets	- ak		

Other adjustments:

Please list the other revenue items that were not approved by the OEB (Please specify):

- al
- am

Please list the other expense items that were not approved by the OEB (Please specify):

- an
- ao
- ap

Total non-rate regulated items and other adjustments - aq =ac+af+ai+aj+ak+al+am+an+ao+ap
0.00

Appendix 2

Non-Recoverable Donations

Data Source

Recoverable donations:	- ba	4,135.94	All donations RRR 2.1.7 - Control account USoA 6205
	- bb	0.00	LEAP Funding RRR 2.1.7 - Sub-account LEAP Funding USoA 6205
LEAP Funding approved in the distributor's last CoS	- bb1	2,000.00	CoS Decision and Order (for reference only)
Other recoverable donations approved, please specify:	- bb2		(the greater of 0.12% of a distributor's OEB-approved distribution revenue requirement, or \$2,000)
Calculated LEAP funding as per Board approved formula (for reference only)	- bc		
	- bd		
	- be=ba-bb-bc-bd	4,135.94	

Non-Recoverable Donations

Appendix 3

Net interest/carrying charges on Deferral and Variance Accounts (DVAs)

Interest expense on DVAs (recorded in Account 6035)	- ca	604.18
Interest income on DVAs (recorded in Account 4405)	- cb	-2,848.88
	- cc=ca+cb	
Net interest/carrying charges from DVAs		-2,244.70

Appendix 4**Interest Adjustment for Deemed Debt**

Interest expense as per RRR 2.1.7	- da	604.18	Data Source RRR 2.1.7 - Sum of USoA 6005-6045 inclusive
Less:	- db = ca		
Interest expense on DVAs (recorded in Account 6035)		604.18	Appendix 3 cell (ca)
Unrealized (gains)/losses on interest rate swaps if recorded in Account 6035	- db1		
Other adjustments, please specify:	- db2		
	- db3		
	- dc=da-db-db1-db2-db3		
Interest expense after adjustments		0.00	
Regulated deemed debt, as per ROE Summary tab	- dd	1,117,887	ROE Summary tab cell (v1) + (w1)
Weighted average debt rate (%)	- %de	4.04	
Deemed interest	- df=dd*de	45,162.62	CoS Decision and Order
	- dg=dc-df		
Interest adjustment for deemed debt		-45,162.62	

Appendix 5**Property Plant & Equipment (PP&E)**

Prior year "Closing balance - regulated PP&E (NBV)"	- ea	1,610,208.91	Data Source Prior year "Closing balance - regulated PP&E (NBV)" data in RRR 2.1.5.6
Adjustments if required, please explain the nature	- eb		
Opening balance - regulated PP&E (NBV)	- ec=ea+eb	1,610,208.91	
Total PP&E (NBV) - Closing Balance	- ed	1,574,347.64	RRR 2.1.7 - Sum of USoA 1605-2075, 2440 , and 2105-2180 inclusive
Construction Work-in-Progress (CWIP)	- ee	0.00	RRR 2.1.7 - USoA 2055
Non-distribution assets (NBV)	- ef	0.00	RRR 2.1.7 - USoA 2075 + USoA 2180
Less other adjustments, please specify:	- eg		
	- eh		
	- ei		
	- ej		
	- ek		
	- el=ed-ee-ef-eg-eh-ei-ej-ek		
Adjusted closing balance - regulated PP&E (NBV)		1,574,347.64	

Appendix 6

Current Tax for Regulatory Purposes		Tax Provision/ (Recovery)	
Current Tax Provision/(Recovery) as per the Audited Financial Statments (AFS)		- fa	16,000.00
Reassessment of taxes from prior years included in current tax provision as per AFS (add Tax Payable/(Recovery))	- fa1		
Loss carry forward from prior years included in current tax provision as per AFS	- fa2		
Actual Tax rate (%)	- %xy	12.20	
Current Tax Adjustment required to reconcile to RRR 2.1.7 trial balance		- fb	
Current Tax Provision/(Recovery) as per RRR 2.1.7 USoA 6110		- fc	16,000.00
Check balance - Does fa+fb=fc?		- fa+fb = fc?	CORRECT
Adjustment items	(Income)/Expense		
Non-rate regulated items (Appendix 1)	- gd=aq	0.00	- fd=gd*xy 0.00
Non-recoverable donations (Appendix 2)	- ge=be	4,135.94	- fe=ge*xy 504.58
Activity in Regulatory Accounts included in taxable income on Schedule 1, if applicable	- gf		- ff=gf*xy 0.00
Net carrying charges on DVAs (Appendix 3)	- gg=cc	-2,244.70	- fg=gg*xy -273.85
Add back Actual interest expense (Appendix 4)	- gh=dc	0.00	- fh=gh*xy 0.00
Deduct Deemed Interest Expense (Appendix 4)	- gi=-df	-45,162.62	- fi=gi*xy -5,509.84
CCA on Non-rate regulated assets	- gj		- fj=gj*xy 0.00
CEC adjustment on Goodwill from acquisitions or other intangible assets that were not approved in the distributor's last CoS	- gk		- fk=gk*xy 0.00
CCA adjustment on PP&E from acquisitions that were not approved in the distributor's last CoS	- gl		- fl=gl*xy 0.00
Other adjustments (Please specify)			
	- gm		- fm=gm*xy 0.00
	- gn		- fn=gn*xy 0.00
	- go		- fo=go*xy 0.00
Total Adjustment Items	gp=gd+ge+gf+gg+gh+gi+gj+gk+gl+gm+gn+go	-43,271.38	fp=fd+fe+ff+fg+fh+fi+fj+fk+fl+fm+fn+fo -5,279.11
Current Tax Provision/(Recovery) for the purposes of calculating Regulated ROE	- fq=fc+fp		10,720.89

ROE Summary

Instructions

A distributor shall report, in the form and manner determined by the OEB, the Regulated Return on Equity (ROE) earned in the reporting year.

The reported ROE is to be calculated on the same basis as was used in the distributor's last Cost of Service (CoS).

The sign of the input cells are to be aligned with the sign of the accounts reported in RRR 2.1.7. Generally, revenue/gain items are to be entered as negative numbers and expense/loss items are to be entered as positive numbers.

Please read the RRR Filing Guide for the detailed guidance on the inputs of the form and appendices.

[Click here for tips and examples \(from RRR Filing Guide\)](#)

Information from the distributor's last CoS Decision and Order and the successfully submitted RRR 2.1.7 trial balance have been pre-populated in this form.

Please review each input for accuracy and contact Industry Relations Enquiry if you have any questions

CoS Decision and Order Info

			Data Source
The CoS Decision and Order EB number for the ROE	- xx	EB-2018-0087	CoS Decision and Order (last CoS establishing the current reporting year's base rates)
Accounting standard used in CoS Decision and Order	- YY	Modified International Financial Reporting Standards (MIFRS)	CoS Decision and Order

Regulated Net Income

			Data Source
Regulated net income (loss), as per RRR 2.1.7	- a	132,608.94	RRR 2.1.7 - USoA 3046 * (-1)
Adjustment items:			
Non-rate regulated items and other adjustments (Appendix 1)	- b	0.00	Appendix 1 cell (aq)
Unrealized (gains)/losses on interest rate swaps (Not applicable if recorded in Other Comprehensive Income)	- c		Please provide USoAs
Actuarial (gains)/losses on OPEB and/or Pensions not approved by the OEB	- d		
Non-recoverable donations (Appendix 2)	- e	4,135.94	Appendix 2 cell (be)
Net interest/carrying charges from DVAs (Appendix 3)	- f	-2,244.70	Appendix 3 cell (cc)
Interest adjustment for deemed debt (Appendix 4)	- g	-45,162.62	Appendix 4 cell (dg)
Adjusted regulated net income before tax adjustments			
Add back:	- h=a+b+c+d+e+f+g	89,337.56	
Future/deferred taxes expense	- i	2,200.00	RRR 2.1.7 - USoA 6115
Current income tax expense (Does not include future income tax)	- j	16,000.00	RRR 2.1.7 - USoA 6110
Deduct:			
Current income tax expense for regulated ROE purposes (Appendix 6)	- k	10,720.89	Appendix 6 cell (fq)
Adjusted regulated net income	- l=h+i+j-k	96,816.67	

Deemed Equity

			Data Source
Rate base:	- m	2,850,428.91	RRR 2.1.7 - Sum of USoA 4705-4751 inclusive
Cost of power	- n1	761,117.46	RRR 2.1.7 - Sum of USoA 4505-4640, 4805-5695, 6105, 6205, 6210, and 6225, then subtract ROE Summary cell (d) and subtract ROE Summary cell (e)
Operating expenses before any applicable adjustments			Please provide USoAs
Other Adjustments:	- n2		
Adjusted operating expenses	- n=n1-n2	761,117.46	
Total Cost of Power and Operating Expenses	- o=m+n	3,611,546.37	
Working capital allowance % as approved in the last CoS Decision and Order	- % p	7.50	CoS Decision and Order
Total working capital allowance (\$)	- q=o*p	270,865.98	
PP&E			
Opening balance - regulated PP&E (NBV) (Appendix 5)	- r	1,610,208.91	Appendix 5 cell (ec)
Adjusted closing balance - regulated PP&E (NBV) (Appendix 5)	- s	1,574,347.64	Appendix 5 cell (el)
Average regulated PP&E	- t=(r+s)/2	1,592,278.28	
Total rate base	- u=q+t	1,863,144.26	
Regulated deemed short-term debt % and \$	- % v 4.00	- v1=v*u 74,525.77	Cell (v) from CoS Decision and Order
Regulated deemed long-term debt % and \$	- % w 56.00	- w1=w*u 1,043,360.79	Cell (w) from CoS Decision and Order
Regulated deemed equity % and \$	- % x 40.00	- x1=x*u 745,257.70	Cell (x) from CoS Decision and order

Regulated Rate of Return on Deemed Equity (ROE)

			Data Source
Achieved ROE %	- % y=l/x1	12.99	
Deemed ROE % from the distributor's last CoS Decision and Order	- % z	8.98	CoS Decision and Order
Difference - maximum deadband 3%	- % z1=y-z	4.01	
ROE status for the year (Over-earning/Under-earning/Within 300 basis points deadband)	- z2 Over		If the distributor is in an over-earning position as indicated in cell (z2), please complete Appendices 7 & 8. If the distributor is in an under-earning position as indicated in cell (z2), please complete Appendices 9 & 10.

Over Earning Drivers

Over-earning Drivers - Appendices 7 & 8

Instructions If the distributor's achieved ROE % is 300 basis points **above** the deemed ROE %, please complete Appendices 7 and 8.

Table 7.2 Regulated Net Income Variances: The revenue/gain variances are to be calculated as the achieved revenue/gain amounts for the reporting year minus the approved amounts in the last CoS. The cost/expense variances are to be calculated as the approved cost/expense amounts in the last CoS minus the achieved amounts for the reporting year.

Table 7.3 Regulated Deemed Equity Variances: The variances are to be calculated as the achieved working capital allowance/average regulated PP&E for the reporting year minus the approved amounts in the last CoS.

Appendix 7

Drivers for Over-earners

Table 7.1: 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	96,817	31,378	48
Regulated Deemed Equity (\$)	728,718	745,258	16,540	2
ROE (%)	9	13		4

* Variance % for ROE Amount and Regulated Deemed Equity are calculated using the following equation :

$$\text{Variance \%} = \text{Variance \$} / \text{Deemed last CoS} * 100$$

Table 7.2: Regulated Net Income Variances

Nature of the Variances		Variance \$	Detailed Explanation
Change in Distribution revenues	- ha	43,796	The increase in revenues from is due to the increase in Price Cap Increase since CPUC's last Cost of Service in 2019.
Rate riders that are recorded in distribution revenues collected for the year	- hb=ii	0	
Change in Other revenues	- hc	-20,281	The change in Other Revenues is due to anticipated revenues that did not occur in 2022 in comparison to the 23K in Other Utility Operating Income (4215) budgeted in its Cost of Service.
Cost Variances:			
Change in OM&A expenses	- hd	30,456	CPUC incurred less Operating and Maintenance Costs in 2022 than expected. Slightly more work was done on the Capital side.
Change in Amortization expense	- he	-9,903	The change is in line with the capital expenditure and age of assets.
Change in Other expenses	- hf	-2,282	

Change in Current tax expense	- hg	-18,200	The variance can be attributed to the fact that CPUC did not project PILs in its 2019 Cost of Service.
Other variances for revenues, costs, etc. if any (Please specify the nature of the other variances provided below):			
Deemed Interest Expenses	- hh	43,585	CPUC does not have any debt but is allowed to recover a component of debt expenses in its rates.
Non-Recoverable Donations	- hi	4,136	These represent adjustments to the net income which are not included in the Cost of Service calculations (Appendix)
Net Interest/Carrying Charges from DVA	- hj	-2,245	These represent adjustments to the net income which are not included in the Cost of Service calculations (Appendix)
Interest Adjustment for deemed debt	- hk	-45,163	These represent adjustments to the net income which are not included in the Cost of Service calculations (Appendix)
Current Income Tzx	- hl	7,479	These represent adjustments to the net income which are not included in the Cost of Service calculations (Appendix)
Total variance explained for regulated net income in Table 7.2		- hm=ha+hb+hc+hd+he+hf+hg+hh+hi+hj+hk+hl	31,378
Total variance for regulated net income per Table 7.1 (\$)	- hn		31,378
Total variance explained (%)	- % ho=hm/hn		100

Table 7.3: Regulated Deemed Equity Variances

Nature of the Variances		Variance \$	Detailed Explanation
Change in Working capital allowance (\$)	- hp	18,784	This reflects changes in OM&A and Cost of Power from its Cost of Service in 2019 to 2022
Change in Average regulated PP&E (NBV)	- hq	22,874	This represents the addition of assets from its Cost of Service in 2019 to 2022
Total variance explained for rate base (A) (\$)	- hr=hp+hq	41,658	
Total variance for regulated deemed equity per Table 7.1 (\$)	- hs=hr*40%	16,663	
Total variance for regulated deemed equity per Table 7.1 (\$)	- ht	16,540	
Total variance explained (%)	- % hv=hs/ht	101	

Appendix 8

Earning above the 300 Basis Points per Customer/Connection per Month by main rate classes

Table 8.1: Rate riders that are recorded in distribution revenues

Rate riders (Note 1)	Revenue collected (+) / refunded (-) in the year (\$)	Effective date	Sunset date
Foregone revenue rate rider	- ia		
Smart meters disposition rate rider	- ib		
Lost revenue adjustment mechanism (LRAM) rate rider	- ic		
Other rate riders (please specify as below):			
	- id		
	- ie		
	- if		
	- ig		
	- ih		
Total	ii=ia+ib+ic+id+ie+if+ig+ih		
			0

Note 1: Please do not include the revenues collected from SMIRR. For the rate rider revenues, please show the calculation by each of the rate rider.

Table 8.2: Net \$ for ROE over the 300 basis points excluding rate rider revenues

Regulated Deemed Equity approved in the distributor's last CoS (\$)	ROE % above the 300 Basis points deadband	ROE \$ above the 300 Basis points deadband	Rate rider revenues collected in the year (Table 8.1) (\$)	Net \$ for ROE over the 300 basis points excluding rate rider revenues
ij 728,718	% ik=z1-3 1	il=ij*ik 7,360	im=ii 0	in=il-im 7,360

Table 8.3: Estimated customer impact (per month) for ROE over the 300 basis points

Rate Class	Annual billings distribution revenue account 4080 (RRR 2.1.5.4)	Prior year number of customers/co nnections (RRR 2.1.2)	Current year number of customers/co nnections (RRR 2.1.2 q4)	Average number of customers / connections	Allocated Net \$ for ROE over the 300 basis points per customer/connection per month
Residential	702,254	1,061	1,061	1,061	0
General Service < 50 kW	185,627	151	151	151	1
General Service >= 50 kW	101,615	12	12	12	5
Large User	0	0	0	0	0
Sub Transmission Customers	0	0	0	0	0
Embedded Distributor(s)	0	0	0	0	0
Street Lighting Connections	12,702	324	324	324	0
Sentinel Lighting Connections	2,237	22	23	23	0
Unmetered Scattered Load Connections	960	4	4	4	0
Total Annual Billing Distribution	1,005,395				

Under Earning Drivers

Under-earning Drivers - Appendices 9 & 10

Instructions

If your achieved ROE% is 300 basis points **below** the deemed ROE%, please complete Appendices 9 and 10.

Table 9.2 Regulated Net Income Variances: The revenue/gain variances are to be calculated as the achieved revenue/gain amounts for the reporting year minus the approved amounts in the last CoS. The cost/expense variances are to be calculated as the approved cost/expense amounts in the last CoS minus the achieved amounts for the reporting year.

Table 9.3 Regulated Deemed Equity Variances: The variances are to be calculated as the achieved working capital allowance/average regulated PP&E for the reporting year minus the approved amounts in the last CoS

Appendix 9

Drivers for Under-earners

Table 9.1: 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 (\$)	65,439.00	96,816.67	31,377.67	47.95
Regulated Deemed Equity (\$)	728,718.00	745,257.70	16,539.70	2.27
ROE (%)	8.98	12.99		4.01

* Variance % for ROE Amount and Regulated Deemed Equity are calculated using the following equation :

$$\text{Variance \%} = \text{Variance \$} / \text{Deemed last CoS} * 100$$

Overall comment on variance between approved and achieved ROE

Table 9.2: Regulated Net Income Variances

Nature of the Variances	Variance \$	Detailed Explanation
Revenue Variances:		
Change in Distribution revenues	- ja	
Rate riders that are recorded in distribution revenues collected for the year	- jb=ki 0.00	
Change in Other revenues	- jc	
Cost Variances:		
Change in OM&A expenses	- jd	
Change in Amortization expense	- je	
Change in Other expenses	- jf	
Change in Current tax expense	- jg	
Other variances for revenues, costs, etc., if any (Please specify the nature of the other variances provided below):		
	- jh	
	- ji	
	- jj	
	- jk	
	- jl	
Total variance explained for regulated net income in Table 9.2 (\$)	- im=ja+jb+jc+id+je+if+ig+ih+ji+ij+ik+jl 0.00	

Total variance for regulated net income per Table 9.1 (\$)

- jn 31,377.67

Total variance explained (%)

- % jo=jm/jn

Table 9.3: Regulated Deemed Equity Variances

0.00

Nature of the Variances	Variance \$	Detailed Explanation
Change in Working capital allowance (\$)	- jp	
Change in Average regulated PP&E (NBV)	- jq	

Total variance explained for rate base (A) (\$)

Total variance explained for rate base (A) (\$)	- jr=jp+jq	0.00
Total variance explained for regulated deemed equity (A X 40%) (\$)	- js=jr*40%	0.00
		Total variance for regulated deemed equity per Table 9.1 (\$)
Total variance for regulated deemed equity per Table 9.1 (\$)	- jt	16,539.70
Total variance explained (%)	$\%jv=js/jt$	0.00

Appendix 10

Earning below the 300 basis points per Customer/Connection per month by main rate classes

Table 10.1: Rate riders that are recorded in distribution revenues

Rate riders (Note 1)	Revenue collected (+) / refunded (-) in the year (\$)	Effective date	Sunset date
Foregone revenue rate rider	- ka		
Smart meters disposition rate rider	- kb		
Lost revenue adjustment mechanism (LRAM) rate rider	- kc		
Other rate riders (Please specify as below):			
	- kd		
	- ke		
	- kf		
	- kg		
	- kh		
Total	- ki=ka+kb+kc+kd+ke+kf+kg+kh		0.00

Note 1: Please do not include the revenues collected from SMIRR. For the rate rider revenues, please show the calculation by each of the rate rider.

Table 10.2: Net \$ for ROE under the 300 basis points excluding rate rider revenues

Regulated Deemed Equity approved in the distributor's last CoS (\$)	ROE % below the 300 Basis points deadband	ROE \$ below the 300 Basis points deadband	Rate rider revenues collected in the year (Table 10.1)
Net \$ for ROE under the 300 basis points excluding rate rider revenues	kj 728,718.00	% kk=z1+3 0.00	kl=kj*kk 0.00
km=ki 0.00	kn=kl+km 0.00		

Table 10.3: Estimated customer impact (per month) for ROE under the 300 basis points

Rate Classes	Annual Billings Distribution Revenue Account 4080 (RRR 2.1.5.4)	Prior Year number of Customer Connections (RRR 2.1.2Q4)	Current Year number of Customer Connections (RRR 2.1.2Q4)	Average of customers/ connections	Allocated net \$ for ROE under the 300 basis points per customer/connec tion per month
Residential	702,254.00	1,061	1,061	1,061.00	0.00
General Service < 50 kW	185,627.00	151	151	151.00	0.00
General Service >= 50 kW	101,615.00	12	12	12.00	0.00
Large User	0.00	0	0	0.00	0.00
Sub Transmission Customers	0.00	0	0	0.00	0.00
Embedded Distributor(s)	0.00	0	0	0.00	0.00
Street Lighting Connections	12,702.00	324	324	324.00	0.00
Sentinel Lighting Connections	2,237.00	22	23	22.50	0.00
Unmetered Scattered Load Connections	960.00	4	4	4.00	0.00
Total Annual Billing Distribution	1,005,395.00				

1 **OEB STAFF INTERROGATORY - 02**

2
3 **Reference:**

- 4 1. Manager's Summary, Page 17
5 2. Chapter 3 Filing Requirements For Electricity Distribution Rate Applications - 2023
6 Edition for 2024 Rate Applications, Page 24
7

8 **Preamble:**

9 The Chapter 3 Filings Requirements for Electricity Distributor Rate Applications state that
10 a distributor whose earnings are in excess of the dead band is expected to refrain from
11 seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If
12 a distributor whose earnings are in excess of the dead band nevertheless applies for an
13 increase to its base rates, the OEB expects it to substantiate its reasons for doing so.
14 Chapleau Public Utilities states that the reasons for the over-earning are due to revisions
15 to its financial statements. Chapleau Public Utilities is still seeking a price-cap adjustment
16 because it expects that significant investments in its distribution system will be required in
17 the near future. Chapleau expects that rate increases will be required as a result of
18 significant investment needs.
19

20 **Interrogatory:**

- 21 a) Please explain further why Chapleau Public Utilities should be eligible for a price cap
22 adjustment.
23
24 b) Please explain the impact on Chapleau Public Utilities' distribution system plan and
25 any other impacts if the price cap adjustment is not approved by the OEB.
26

27 **Response:**

- 28 a) In the past five years, Chapleau has been in an under-earning position in three of the
29 five years. This is because small changes in costs and revenue result in an impact on
30 ROE that often results in either under or over-earning. For 2022, the changes in costs
31 and revenue resulted in Chapleau being in an over-earn position by 1.01% above the
32 OEB's dead band. This 1.01% over the dead band over-earning position is simply a
33 result of the large impact on ROE of small changes in costs and revenue, and is not an

1 indication that Chapleau does not require the increased revenue associated with the
2 price-cap increase.

3
4 Chapleau expects to require the increased revenue associated with the price-cap
5 increase. One reason for this is that based on PCB testing, three transformer units will
6 need to be replaced in 2024 due to PCBs. Another reason is increased labour rates
7 (escalation of 4.0%) starting January 1, 2024, as negotiated during the collective
8 bargaining process.

9
10 b) Chapleau's Distribution System Plan (DSP) was to 2020 and is therefore expired.
11 However, significant investments have been identified as needed for the Chapleau
12 distribution system. Please see Hydro One's Observation Report on Chapleau's current
13 distribution operations filed in EB-2023-0144 and attached hereto.

14
15 Approving the price cap adjustment will allow for a reasonable increase in rates for
16 customers while providing near-term revenue for needed investment.

BY EMAIL AND RESS

September 29, 2023

Ms. Nancy Marconi
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2023-0144 – Hydro One Networks Inc. – Chapleau Public Utilities Corporation – Observation Report

In accordance with Hydro One's interim distribution licence, issued May 23, 2023 pursuant to the OEB's decision and order in proceeding EB-2023-0144, Hydro One, under the management of CPUC's General Manager, Ted Lyberogiannis, is providing the attached observations to inform the OEB of the current distribution operations of the utility.

Hydro One is providing this report, on a best-efforts basis and in accordance with good utility practice, to give information on our observations of CPUC's current asset and operating conditions necessary to supply electricity to consumers in the Township of Chapleau.

An electronic copy of this Report has been filed through the OEB's Regulatory Electronic Submission System.

Sincerely,



Joanne Richardson

HYDRO ONE'S OBSERVATION REPORT ON OPERATION OF CHAPLEAU PUBLIC UTILITIES CORPORATION (EB-2023-0144)

On May 23, 2023, the OEB ordered Hydro One Networks Inc. to take possession and control of the electricity distribution system owned and operated by Chapleau Public Utilities Corporation (CPUC). On June 13, 2023, Hydro One took over management and control of CPUC.

Hydro One met with OEB staff on August 17, 2023, and provided an oral status report on the operations and the condition of the assets of CPUC. This report provides written documentation of Hydro One's comments on findings since managing the operations of CPUC.

EXISTING ASSET CONDITION

In general, lines assets are in relatively good condition. Hydro One has significant concerns however with the station assets and the submarine cables. There may also need to be several replacements based on the discovery of PCB oil.

STATIONS ASSETS

The biggest risk to the supply of power in Chapleau is the failure of station equipment – specifically the two transformers located inside the station. The CPUC station is located next to Hydro One's Distribution station. The relatively small customer base and the desire to mitigate rate impacts are likely why a large investment to renew the station has not been executed in the past.



Panorama View of Hydro One & Chapleau Stations

The transformers at the station are more than 50 years old and diagnostic testing has confirmed that they are at their expected service life. In addition, the manufacturer, General Electric, has released a bulletin indicating that certain transformer components, as contained in the transformers at the CPUC station, are defective.



Side View of Both Transformers

Although the transformers can back each other up most of the year, there are likely certain periods during the peak winter season where the failure of one unit may result in rotating blackouts for the community. The transformers are a non-Hydro One standard voltage (115kV-4kV) and therefore neither CPUC nor Hydro One have any spares. An appropriate contingency plan to restore power to customers in the event of a transformer failure during peak winter season would be to utilize a Mobile Unit Substation. This is not currently available to CPUC customers however, in the interim, this contingency plan could be addressed via Hydro One Mobile Unit Substations in conjunction with another temporary transformer, to be delivered and set up in Chapleau during the event of a failure.

In addition to the transformer condition, there are another four major concerns within the station. First, the clearances from live equipment to ground are not consistent with current industry standards and extra care and safety steps and processes are required when working within the station when compared to current standard-compliant stations.

Second, the CPUC station has fuses instead of reclosers. The existence of this old fuse technology means that any time a temporary fault occurs on a feeder, customers will remain

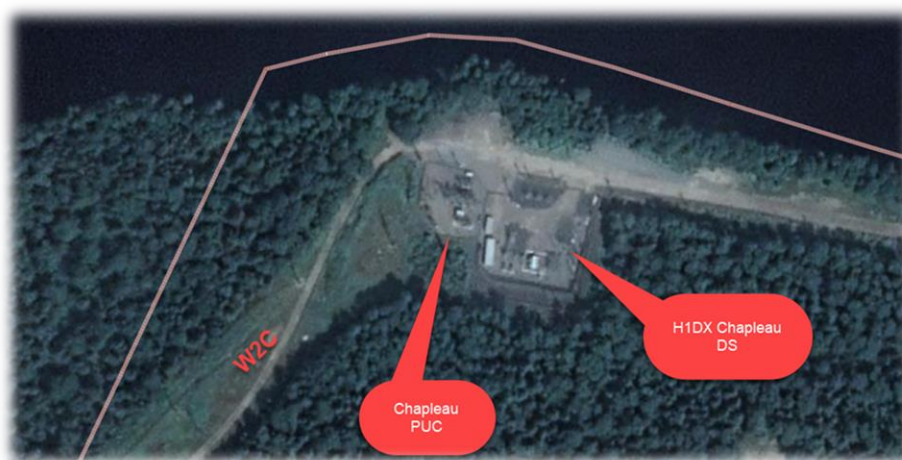
without power until the fuse is replaced manually by field staff. Comparatively, the Hydro One standard requires Distribution station to be fitted with reclosers that can automatically restore power when a temporary fault occurs.



Fuses on Station Structure

Thirdly, with CPUC's station secondary voltage at 4kV, CPUC's distribution system is subject to a large number of line losses. A consultant (METSCO) report from 2018 calculated the system losses to be more than \$100k per year when compared to the system if converted to 25kV.

Finally, the station is located next to a body of water often used by the community. In the event of a catastrophic transformer failure, oil may be released into the water.



Overhead View of Hydro One & Chapleau Stations

Given the above reasons, Hydro One believes that a large-scale investment to address the station assets' age and safety related deficiencies will be required within the next few years. Planning for this should begin immediately such that the Town's reliability and quality of service do not deteriorate.

SUBMARINE CABLES

CPUC has a submarine feeder (4 separate cables) that leaves the station and supplies the northern part of the town. Earlier this year, Hydro One assisted CPUC field staff with a temporary assessment and repair of several exposed cables. Based on observations made at that time, Hydro One believes that these cables have reached their expected service life and will need to be replaced within the next few years. Hydro One recommends testing to validate the remaining expected service life of these cables.



Hydro One and Chapleau PUC Staff Repairing Sub Cable

PCB EQUIPMENT REPLACEMENTS

CPUC will be testing approximately 150 pieces of oil-filled equipment for PCB. Depending on how many of them test above the PCB threshold, investments may be required to replace equipment to be compliant with the 2025 deadline.



A Pole-Mounted Transformer

OBSOLETE BILLING SYSTEM

CPUC is currently using a very old billing system that is being supported by a single external individual who is the only person that knows how to program and make changes. Updating of rates and extracting reports from the system is cumbersome and the utility is entirely dependent on this individual.

CONCLUSION

The issues identified in this report encapsulate the findings of Hydro One to date. Should any further material observations be made, Hydro One will update this report and the OEB, accordingly.