



Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

January 30, 2024

Ms. 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
2024 Distribution Rate Application
OEB File Number: EB-2023-0011**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No.1. Chapleau Public Utilities Corporation has been copied on this filing.

Yours truly,

Original Signed By

Kelli Benincasa

Kelli Benincasa
Case Manager

Encl.

cc: All parties in EB-2023-0011



ONTARIO ENERGY BOARD

OEB Staff Submission

Chapleau Public Utilities Corporation

2024 Distribution Rate Application

EB-2023-0011

January 30, 2024

Introduction

Chapleau Public Utilities Corporation (Chapleau Public Utilities) filed an incentive rate-setting mechanism (IRM) application with the Ontario Energy Board (OEB) on October 11, 2023, under section 78 of the *Ontario Energy Board Act, 1998* seeking approval for changes to its electricity distribution rates to be effective May 1, 2024.

Chapleau Public Utilities has requested to update its Low Voltage Service Rates. OEB staff have reviewed the updates and have no concerns with Chapleau Public Utilities' updates.

Chapleau Public Utilities has also requested an update to its Retail Transmission Service Rates (RTSRs) to recover the wholesale transmission rates charged by the Independent Electricity System Operator and its host distributor, Hydro One Networks Inc. OEB staff has no concerns with Chapleau Public Utilities' requested adjustments to its RTSRs.

OEB Staff Submission

In this document, OEB staff makes detailed submissions on the Chapleau Public Utilities' Price Cap Adjustments for 2024 rate year.

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's approved Return on Equity (ROE).¹ 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.² Chapleau Public Utilities' achieved ROE after revision in 2022 was 12.99%, or 4.01% (401 basis points) greater than its deemed ROE of 8.98% as approved in its 2019 cost of service proceeding.³ Chapleau Public Utilities revised its 2022 ROE reported in the OEB's Reporting and Record-Keeping Requirements (RRR) 2.1.5.6 - Regulated ROE as of September 22, 2023 due to a number of financial statement adjustments made by its external financial statement auditor. The revisions have resulted in Chapleau Public Utilities moving to an overearning position.

Despite its 2022 reported over-earning, Chapleau Public Utilities is requesting the price cap increase to its 2024 base rates in this proceeding.

In its application, Chapleau Public Utilities noted that KMPG revised its financial statements as follows:⁴

¹ Chapter 3 Filing Requirements, section 3.2.9

² *Ibid*

³ EB-2018-0087, Decision and Rate Order, June 6, 2019

⁴ Manager's Summary, pages 17-18

- 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 -\$14000
- 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

Chapleau Public Utilities noted that the slightest change in revenues and expenses can trigger Chapleau Public Utilities' actual ROE to land above or below the 300 basis points.⁵

In response to an OEB staff interrogatory, Chapleau Public Utilities has provided the 2022 ROE filing. OEB staff notes that the 2022 over-earning is mainly driven by the increase of \$50,418 in the regulated net income due to adjustments in its expense accounts as shown below in Table 1.⁶

Description	Amount (\$)	Change in ROE (%)
Regulated Net Income Reported prior to Sep 2023 RRR Revision	82,191	6.2
5020 – Overhead Distribution Lines and Feeders – Operation Labour from \$113,835 to \$92,170	21,665 (A)	+2.92
5025 – Overhead Distribution Lines and Feeders – Operation Supplies and Expenses from \$47,918 to \$20,270	27,648 (A)	+3.72
5085 – Miscellaneous Distribution Expense from \$10,007 to \$2,903	7,104 (A)	+0.96
6110 – Income Taxes from \$10,000 to \$16,000	(6,000) (A)	-0.81
Regulated Net Income as per RRR revision reported on Sep 22, 2023	132,609	12.99

Sum of (A) – \$50,418 with small difference for rounding

Chapleau Public Utilities explained that the adjustments made by its external financial statement auditor KPMG were year-end adjustments that were inadvertently missed by the interim employees (who were working to fill in the gaps left due to employees having

⁵ Manager's Summary, page 18

⁶ Chapleau Public Utilities Interrogatory Responses, Staff - 1c

left the utility) and consultant at a time when the resources were in the transition from Chapleau Public Utilities to Hydro One.⁷ Chapleau Public Utilities states that there were no specific operational or financial changes that led to the over-earning in 2022 compared to the 2019 OEB-approved return on equity. Prior to the revisions made by KPMG, Chapleau Public Utilities' 2022 achieved ROE was 6.2%, representing 2.78% below the deemed ROE of 8.98% that was approved in its 2019 cost of service proceeding.⁸

Chapleau Public Utilities provided a best effort estimate of its 2023 ROE and forecasted that it would be in an underearning position due to reduced load from the Township conversion of streetlights to LED and unfavourable weather; and approximately \$100,000 in unplanned expenses related to polychlorinated biphenyls (PCB) testing in 2023.⁹

Chapleau Public Utilities stated that it is appropriate to mechanistically adjust its rates upwards in 2024 pursuant to the OEB's IRM adjustment mechanism because, despite its overearning position in 2022, Chapleau Public Utilities expects that significant investments in its distribution system will be needed soon, and require the increased revenue associated with the price-cap increase.¹⁰ Chapleau Public Utilities provided Hydro One Network Inc.'s Observation Report to inform the OEB of the current distribution operations.¹¹ It noted significant concerns with Chapleau Public Utilities' station assets and the submarine cables and the possibility of replacing several based on the discovery of PCB oil.¹²

Submission

In principle, OEB staff does not support Chapleau Public Utilities' request for the price cap adjustment in this rate application, because the utility has not demonstrated that the adjustments made by Chapleau Public Utilities in its revision of achieved ROE were one-time in nature nor has it demonstrated that these adjustments were out of its control. OEB staff is of the view that there may not be sufficient reasons provided by Chapleau Public Utilities to justify its request for a price cap increase for the 2024 rates. Moreover, OEB staff notes that Chapleau Public Utilities has not provided the driver for why its OM&A expense in 2022 was lower than what had been approved in its last rebasing application. OEB staff recommend that Chapleau, in its reply submission, provide the main drivers of the decrease of its 2022 OM&A expense of \$30,456 (from \$785,163 in 2019 approved to \$754,707 in 2022).

⁷ Chapleau Public Utilities Interrogatory response, Staff – 1c,ii

⁸ Chapleau Public Utilities Interrogatory response, Staff – 1d

⁹ Chapleau Public Utilities Interrogatory response, Staff – 1e

¹⁰ Manager's Summary, page 18

¹¹ EB-2023-0144

¹² Chapleau Public Utilities Interrogatory response, Staff – 2b

OEB staff is of the view that this information will provide more insight into how the utility is managing its business and help the OEB to make a decision.

In its 2023 IRM proceeding, Chapleau Public Utilities had requested the price cap increase for its 2023 rates notwithstanding the reported over-earning position for 2021. In the 2023 IRM submission, OEB staff did not object to Chapleau Public Utilities' price cap request because the utility was able to demonstrate that two main drivers (driver one: a one-time fee charged to assist a particular customer, which caused other revenues to increase; driver two: a temporary decrease in OM&A due to an employee taking unpaid medical leave) to its overearning were one-time in nature.¹³ Excluding the impact of these two main drivers, Chapleau Public Utilities' 2021 achieved ROE was 10.77%, which is within 300 basis points of the deemed ROE of 8.98% approved in the 2019 cost of service proceeding.¹⁴

However, in this proceeding, Chapleau Public Utilities stated, in its interrogatory responses, that there were no specific operational or financial changes that led to the over-earning in 2022 and that these were simply year-end adjustments that were missed by interim employees.

As per section 3.2.10 of the Filing Requirements for Electricity Distribution Applications¹⁵, the OEB states that:

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 or Annual IR Index plan. If a distributor whose earnings are in excess of the dead band nevertheless applies for an increase to its base rates, the OEB expects it to substantiate its reasons for doing so. However, if in the distributor's view this ROE has been affected by out-of-period or other items (for example, revenues or costs that pertain to a prior period but recognized in a subsequent one), it may also file a proposal to normalize its achieved regulated ROE for those impacts, for consideration by the OEB. The distributor should anticipate that the level of earnings will be raised as an issue in the application.

OEB staff notes that small variances in revenues and expenses generating large fluctuations in the ROE is not an issue unique to Chapleau Public Utilities. This issue also applies to other utilities in Ontario. However, utilities are still expected to manage their revenues and expenses during their incentive period, based on what has been approved in its base rates (including the OM&A envelope and the distribution system plan).

¹³ EB-2022-0021 Decision and Order, March 23, 2023

¹⁴ EB-2022-0021 OEB Staff Submission, pages 5-6

¹⁵ Chapter 3 Filing Requirements, Section 3.2.10

In response to a staff interrogatory, Chapleau Public Utilities provided an itemized revenue requirement variance between the 2019 OEB-approved revenue requirement and 2022 actuals, noting a number of variances including the cost of power, other revenues and the differences between the deemed capital structure and the actual capital structure of the utility. First, OEB staff notes that the difference between the deemed capital structure and Chapleau Public Utilities' actual capital structure has no bearing on this issue because the achieved ROE filing calculates the ROE on a deemed basis (i.e., the interest expense is being adjusted using the deemed structure, even when the utility is 100% equity funded) for an apples-to-apples comparison for the purpose of determining the off-ramp. Second, OEB staff notes, among all the variances between the 2022 actuals and 2019 approved revenue requirement items, the OM&A savings of \$30,456 (which is approximately 3% of the approved revenue requirement in 2022 appears to be the main reason for the 2022 over-earning by Chapleau Public Utilities. Chapleau Public Utilities did not provide an explanation regarding the 2022 OM&A expense variance of a negative \$30,456 as compared to 2019 approved OM&A. As a result, OEB staff would like to inquire further about the driver(s) of the 2022 OM&A savings and recommend that Chapleau Public Utilities provide the driver(s) in its reply submission.

In the absence of any further justification from Chapleau Public Utilities in its reply submission, OEB staff submits that OEB staff does not support the utility's request for a 2024 price cap increase.

~All of which is respectfully submitted~