



February 13, 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) -
– Reply Submission**

Dear Registrar,

In accordance with Procedural Order No.1 issued November 21, 2023, please find attached Chapleau Public Utilities Corporation's Reply Submission.

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

Yours truly,

A handwritten signature in black ink, appearing to read "Ted Lyberogiannis", is written over a horizontal line.

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

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998,
c.15, (Schedule B);

AND IN THE MATTER OF an Application by Chapleau Public
Utilities Corporation to the Ontario Energy Board for an Order or
Orders approving or fixing just and reasonable distribution rates
and other charges to be effective May 1, 2024.

**REPLY SUBMISSION OF
CHAPLEAU PUBLIC UTILITIES CORPORATION**

February 13, 2024

1 **A. OVERVIEW**

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

6
7 2. The OEB issued Procedural Order No. 1 on November 21, 2023, providing for
8 interrogatories and submissions. Chapleau filed replies to OEB Staff's interrogatories
9 on January 16, 2024. This was followed by OEB Staff's submissions filed January 30,
10 2024.

11
12 3. These are Chapleau's reply submissions.

13
14 **B. UPDATE TO LOW VOLTAGE SERVICE RATES AND RETAIL TRANSMISSION RATES**

15 4. Chapleau has requested to update its Low Voltage (LV) Service Rates and Retail
16 Transmission Service Rates (RTSR).

17
18 5. OEB Staff submitted that they have no concerns with these updates. Chapleau submits
19 these updates are appropriate.

20
21 **C. PRICE CAP ADJUSTMENTS**

22 6. OEB Staff submits that in principle, they do not support Chapleau's request for the
23 price cap adjustment because Chapleau has not demonstrated that the adjustments
24 made by Chapleau in its revision of achieved ROE were one-time in nature nor has
25 Chapleau demonstrated that these adjustments were out of its control. OEB Staff also
26 notes that Chapleau has not provided the driver for why its OM&A expense in 2022
27 was lower than what was approved in Chapleau's last rebasing.

1 7. Chapleau addresses the points made by OEB Staff below. In short, Chapleau's
2 underspending on OM&A was in fact the result of circumstances that are one-time in
3 nature and outside Chapleau's control. Chapleau also provides a detailed breakdown
4 of the driver of the lower OM&A.

5

6 ***Lower OM&A is one-time in nature and out of Chapleau's control***

7 8. OEB Staff interrogatory 1 d) reads as follows:

8 *"Please detail any specific operational or financial changes that led to the*
9 *observed over-earning in 2022 compared to the Board Approved 2019 rate*
10 *of return."*

11

12 9. Chapleau did not understand the above interrogatory to be asking whether
13 circumstances that occurred in 2022 were one-time in nature, or whether these were
14 outside Chapleau's control. Chapleau understood this question to be asking whether
15 Chapleau had made financial or operations changes such as productivity initiatives or
16 changes of a financial nature in 2022. This is why Chapleau replied to this interrogatory
17 answering that there had been no specific changes in 2022 and pointed to the fact
18 that following KPMG's revisions to Chapleau's accounts, Chapleau moved from an
19 under-earning position to an overearning position. This is similar to how on page 2,
20 the Staff submissions note "that the 2022 over-earning is mainly driven by the increase
21 of \$50,418 in the regulated net income due to adjustments in [Chapleau's] expense
22 accounts." In any event, Chapleau understands that it misunderstood the question
23 that was being asked in interrogatory 1 d).

1 10. In regards to 2022 OM&A underspending, this underspending is in fact driven by
 2 circumstances that are temporary in nature and outside Chapleau’s control.
 3 Specifically, Chapleau’s General Manager was working part-time (20 hours per week)
 4 for the entire year of 2022 instead of on a full-time basis as budgeted for in Chapleau’s
 5 2019 cost-of-service application. Details are provided in the table below.

Description	2019 Cost-of-Service	2022 Actuals
Salaries, wages & benefits (excluding group insurance, CPP & EI)	\$362,524 ¹	\$322,273 ²
	Difference (OMA underspend)	\$40,251

6
 7 11. The reason that Chapleau’s General Manager was working part time for 2022 instead
 8 of on a full-time basis is the result of the fact that Chapleau has experienced difficulty
 9 attracting and retaining qualified staff to oversee the general and financial

¹ See EB-2018-0087 Application and Evidence Exhibit 4 – Operating Expenses (Table 19), available at page 42 at the following link (see also Table 19 attached at Appendix “A” hereto): <https://www.rds.oeb.ca/CMWebDrawer/Record/627166/File/document>.

² 2022 Actuals (see financial statements attached at Appendix “B” hereto):

Description	2022 Actuals
Salaries, wages & benefits (see note 17 of audited financial statements)	\$389,583
Less: Group Insurance benefits (for apples-to-apples comparison with 2019 COS proceeding)	\$67,310*
	Net balance
	\$322,273

*\$67,310 is the difference between Chapleau’s Account 5645 (OMERS Pensions and Benefits) balance \$100,873 (as reported in RRR 2.1.7) and contributions to OMERS of \$33,563 as reported in Note 17 of Chapleau’s audited financial statements.

1 management of the utility. On May 9, 2023, Chapleau filed a letter with the OEB
2 explaining these circumstances.³

3
4 12. The \$40,251 underspending in OM&A was offset by overspending primarily in
5 administration and general expenses, resulting in the decrease of \$30,456 vis-à-vis the
6 OM&A approved for Chapleau in its 2019 cost-of-service application.

7
8 13. Chapleau submits that the above paragraphs provide a detailed description of the
9 drivers of the 2022 OM&A underspending and why it was temporary in nature and
10 outside Chapleau's control, as requested by OEB Staff.

11
12 ***Lower OM&A results in substantial impact to ROE***

13 14. In the table below, it can be seen that the impact of the OM&A underspend of \$40,251
14 on the 2022 ROE is substantial at 5.40%. Excluding the impact of this main driver,
15 Chapleau's 2022 achieved ROE is 7.59%, which is 1.39% below the deemed ROE of
16 8.98% that was approved in its 2019 cost of service proceeding.

17

	2022
Temporary Decrease in OM&A	\$40,251
Increase in Regulated Net Income from the above item	\$40,251
Deemed Equity Achieved (from RRR 2.1.5.6)	\$745,258
% Impact on the 2022 ROE from the above line item	5.40%
2022 Achieved ROE % Reported	12.99%
2022 Achieved ROE % Adjusted for the above line item	7.59%

³ See <https://www.rds.oeb.ca/CMWebDrawer/Record/788643/File/document>

1 ***Additional considerations***

2 15. Chapleau submits that there are additional considerations which support the price cap
3 increase for May 1, 2024, rates. These are the following:

4 a) The overearning which occurred in 2022 is not expected to continue into 2023: as
5 indicated in answer to OEB Staff interrogatory 1 e), Chapleau is forecasting
6 negative ROE for 2023 due to reduced load and an approximately \$100,000
7 unplanned expense related to PCB testing which Chapleau incurred in 2023.

8
9 b) As set out in answer to OEB Staff interrogatory 2 a), Chapleau expects to require
10 the increased revenue associated with the price-cap increase for at least two
11 reasons: one, the PCB testing completed in 2023 shows that three transformer units
12 will need to be replaced in 2024 and two, labour rates increased (escalation of
13 4.0%) starting January 1, 2024, as negotiated during the collective bargaining
14 process.

15
16 ***Conclusion***

17 16. In conclusion, Chapleau submits that the proposed 2024 distribution rates and charges
18 are reasonable and requests that the Application be approved as filed, including the
19 requested updates to Chapleau's Low Voltage Service Rates and to its Retail
20 Transmission Service Rates. Approving the price cap adjustment will allow for a
21 reasonable increase in rates for customers while providing near-term revenue for
22 necessary investments.

1 **All of which is respectfully submitted on February 13, 2024.**

2

3

By its counsel,

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7

8

Raman Dhillon

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BREAKDOWN OF MANAGEMENT & NON-MANAGEMENT COMPENSATION

3 **Table 19 – Breakdown of Management & Non-Management Compensation**

	2012	2013	2014	2015	2016	2017	2018	2019
<i>Management+linemen</i>	193,227	197,803	205,360	201,266	232,699	230,374	314,100	308,069
<i>Holiday &Sickness</i>	19,084	24,318	25,668	22,506	25,418	34,405	-	-
<i>On Call</i>	7,800	7,800	8,100	7,800	7,800	7,800	12,500	13,000
<i>Clerk</i>	30,259	32,227	34,038	31,078	30,506	27,731	40,950	41,455
<i>Var.</i>	-	-	-	428	-	-	-	-
	250,370	262,148	273,166	263,078	296,423	300,310	367,550	362,524

4
5

¹³ MFR - Employee Compensation - completed Appendix 2-K 

Financial Statements of

**CHAPLEAU PUBLIC UTILITIES
CORPORATION**

And Independent Auditor's Report thereon

Year ended December 31, 2022



KPMG LLP
Times Square
1760 Regent Street, Unit 4
Sudbury ON P3E 3Z8
Canada
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Fax 705-675-7586

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Chapleau Public Utilities Corporation

Opinion

We have audited the financial statements of Chapleau Public Utilities Corporation (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of income and comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its results of operations and its cash flows year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



Page 3

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

June 13, 2023

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position

As at December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 919,815	\$ 976,074
Accounts receivable (note 5)	244,520	221,870
Unbilled revenue	412,579	395,346
Short-term investments (note 6)	82,526	100,069
Plant materials and supplies	188,985	106,661
Total current assets	1,848,425	1,800,020
Non-current assets:		
Long-term investments (note 6)	33,664	66,582
Property, plant and equipment (note 7)	1,574,349	1,610,209
Total non-current assets	1,608,013	1,676,791
Total assets	3,456,438	3,476,811
Regulatory deferral account debit balances (note 10)	449,190	381,507
Total assets and regulatory deferral account debit balances	\$ 3,905,628	\$ 3,858,318

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Financial Position (continued)

As at December 31, 2022, with comparative information for 2021

	2022	2021
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 443,316	\$ 551,903
Due to related parties (note 18)	35,582	45,492
Payment in lieu of taxes (note 9)	14,800	8,500
Customer deposits (note 11)	13,130	12,880
Total current liabilities	506,828	618,775
Non-current liabilities:		
Deferred payment in lieu of taxes (note 9)	9,000	6,800
Total non-current liabilities	9,000	6,800
Total liabilities	515,828	625,575
Shareholder's equity:		
Share capital (note 12)	2,884,884	2,884,884
Retained earnings	199,186	66,877
Total shareholder's equity	3,084,070	2,951,761
Total liabilities and shareholder's equity	3,599,898	3,577,336
Regulatory deferral account credit balances (note 10)	305,730	280,982
Commitments and contingences (note 13)		
Total equity, liabilities and regulatory deferral account credit balances	\$ 3,905,628	\$ 3,858,318

See accompanying notes to financial statements.

Approved by the Board:

_____ Director

_____ Director

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Income and Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Energy sales (note 14)	\$ 2,861,904	\$ 2,824,542
Distribution services (note 14)	1,015,427	983,210
	<u>3,877,331</u>	<u>3,807,752</u>
Other operating revenue (notes 14 and 15)	37,998	107,681
Net operating revenue (note 14)	3,915,329	3,915,433
Expenses:		
Energy purchases	2,923,975	2,845,322
Operations and maintenance	183,487	160,938
General and administrative	449,270	449,339
Billing and collection	121,952	122,192
Depreciation and amortization	130,607	127,225
	<u>3,809,291</u>	<u>3,705,016</u>
Income from operating activities	106,038	210,417
Finance income (expense):		
Finance income	12,160	12,698
Finance charges	(11,149)	(10,570)
Other income and deductions	3,786	(29,889)
Unrealized gain (loss) on investments	(22,261)	8,419
Net finance loss	<u>(17,464)</u>	<u>(19,342)</u>
Income for the year before taxes and regulatory items	88,574	191,075
Payment in lieu of taxes (note 9)		
Current income tax	16,000	7,500
Deferred payment in lieu of taxes	2,200	18,800
	<u>18,200</u>	<u>26,300</u>
Net income	70,374	164,775
Net movement in regulatory deferral account balances, net of tax	62,235	20,616
Net income and comprehensive income for the year	<u>\$ 132,609</u>	<u>\$ 185,391</u>

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Changes in Equity

Year ended December 31, 2022, with comparative information for 2021

	Share Capital	Retained earnings (deficit)	Total
Balance, January 1, 2021	\$ 2,884,884	\$ (118,514)	\$ 2,766,370
Net income and comprehensive income	-	185,391	185,391
Balance, December 31, 2021	2,884,884	66,877	2,951,761
Net income and comprehensive income	-	132,609	132,609
Refundable taxes paid	-	(300)	(300)
Balance, December 31, 2022	\$ 2,884,884	\$ 199,186	\$ 3,084,070

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash flows from operating activities:		
Net income and comprehensive income	\$ 132,609	\$ 185,391
Items not involving cash:		
Depreciation and amortization	130,607	127,225
Unrealized loss (gain) on investments	22,261	(8,419)
Deferred payment in lieu of taxes	2,200	18,800
	<u>287,677</u>	<u>322,997</u>
Changes in non-cash working capital:		
Decrease (increase) in accounts receivables	(22,650)	204,237
Decrease (increase) in plant materials and supplies	(82,324)	1,714
Decrease (increase) in unbilled revenue	(17,233)	30,059
Increase (decrease) in accounts payable and accrued liabilities	(108,587)	419
Increase in payment in lieu of taxes	6,300	8,500
Decrease (increase) in regulatory deferral account balances	(42,935)	25,468
Decrease in deferred revenue	-	(83,776)
Increase (decrease) in customer deposits	250	(2,350)
Net cash from operating activities	<u>20,498</u>	<u>507,268</u>
Cash flows from financing activities:		
Decrease in advances from related company	(9,910)	(3,780)
Refundable taxes paid	(300)	-
Net cash from financing activities	<u>(10,210)</u>	<u>(3,780)</u>
Cash flows from investing activities:		
Purchase of investments	(48,800)	(99,900)
Proceeds on sale of investments	77,000	82,688
Purchase of property, plant and equipment	(94,747)	(150,306)
	<u>(66,547)</u>	<u>(167,518)</u>
Increase (decrease) in cash	(56,259)	335,970
Cash, beginning of year	976,074	640,104
Cash, end of year	<u>\$ 919,815</u>	<u>\$ 976,074</u>

See accompanying notes to financial statements.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

1. Reporting entity:

Chapleau Public Utilities Corporation (the "Corporation") is a rate regulated, municipally owned hydro distribution company incorporated under the laws of Ontario, Canada. The Corporation is located in the Township of Chapleau. The address of the Corporation's registered office is 110 Lorne Street, Chapleau, Ontario.

The Corporation delivers electricity and related energy services to residential and commercial customers in the Township of Chapleau. The Corporation is wholly owned by the Corporation of the Township of Chapleau.

The financial statements are for the Corporation as at and for the year ended December 31, 2022.

2. Basis of presentation:

(a) Statement of compliance:

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors on June 13, 2023.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following:

(i) Where held, financial instruments designated to be measured at fair value through profit or loss, including those held for trading, are measured at fair value.

(ii) Contributed assets are initially measured at fair value.

The methods used to measure fair values are discussed further in note 19.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

- (i) Note 7 - Property, plant and equipment
- (ii) Note 13 - Commitments and contingencies

(e) Rate regulation:

The Corporation is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Corporation, which may include, amongst other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate setting:

i) COVID-19 pandemic considerations:

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Consolidated Financial Statements continues to have, a significant impact on the Corporation.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022.

There was no impact to the net income to the Corporation as a result of these changes.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

2. Basis of presentation (continued):

(e) Rate regulation (continued):

Rate setting (continued):

ii) Distribution revenue:

For the distribution revenue included in electricity sales, the Corporation typically files a Cost of Service (COS) rate application with the OEB every five years where rates are determined through a review of the forecasted annual amount of operating and capital expenses, debt and shareholder's equity required to support the Corporation's business. The Corporation estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and the intervenors and rates are approved based upon this review, including any revisions resulting from that review. In the intervening years an Incentive Rate Mechanism application (IRM) is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflation for Final Domestic Demand (GDP IPI-FDD) net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers.

The Corporation filed an IRM application in 2021 for distribution rates effective as of May 1, 2022. The OEB approved the application on March 24, 2022.

iii) Electricity rates:

The OEB sets electricity prices for low-volume consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers pay the market price for electricity. The Corporation is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up. This rate setting pattern differed in the current and prior periods as a result of the COVID-19 pandemic as discussed in note 2 (e) i).

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies:

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

(a) Financial instruments:

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured in a manner consistent with their classification less any impairment as described in note 3(h).

The Corporation does not enter into derivative contracts.

Hedge accounting has not been used in the preparation of these financial statements.

i) Classification:

On initial recognition, a financial asset is classified and measured at: amortized cost, FVTPL or FVOCI.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition of an equity investment that is not held for trading, the Corporation may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Corporation may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies:

(a) Financial instruments (continued):

i) Classification (continued):

Business model assessment

The Corporation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Corporation considers:

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies:

(a) Financial instruments (continued):

i) Classification (continued):

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Corporation's claim to cash flows from specified assets (e.g. nonrecourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Corporation changes its business model for managing financial assets. There were no changes to any of the Corporation's business models related to previously designated assets for the years ended December 31, 2022 and December 31, 2021.

The classifications effective January 1, 2022 are noted below:

<u>Financial asset/liability</u>	<u>Classification</u>
Cash	Amortized cost
Accounts receivable and unbilled revenue	Amortized cost
Investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost

ii) Derecognition of financial instruments:

Financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in profit or loss.

Financial liabilities

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(b) Revenue recognition:

Electricity sales:

Electricity sales are recognized as the electricity is delivered to customers and includes the amounts billed to customers for electricity, including the cost of electricity supplied, distribution, and any other regulatory charges. Electricity revenue is recorded on the basis of regular meter readings and estimated customer usage since the last meter reading date to the end of the year. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Corporation has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges are recorded on a net basis as the Corporation.

Rendering of services:

Revenue earned from the provision of services is recognized as the service is rendered.

Conservation programs:

Incentive payments to which the Corporation is entitled from the Independent Electricity Systems Operation ("IESO") are recognized as revenue in the period when they are determined by the IESO and the amount is communicated to the Corporation.

(c) Dividends:

Dividends are recognized as revenue when the Corporation has a right to receive the dividend and are included within finance income.

(d) Inventory:

Inventory, comprising material and supplies, the majority of which is consumed by the Corporation in the provision of its services, is valued at the lower of cost and net realizable value, with cost being determined on an average cost basis, and includes expenditures incurred in acquiring the material and supplies and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

(e) Investments:

Short-term investments include securities and other investments with maturities of three months or less. Long-term investments include debentures and other investments with maturities greater than three months.

(f) Property, plant and equipment:

All items of property, plant and equipment are measured at cost, or, where the item is transferred from customers, its fair value, less accumulated depreciation.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, if any, with the carrying amount of the item of property, plant and equipment and, other income and are recognized within the statement of income and comprehensive income.

Major spare parts and standby equipment are recognized as items of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. In this event, the replaced part of property, plant and equipment is written off, and the related gain or loss is included in other income. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount and is recognized in income on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment. The depreciable amount is cost. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	25 years
Transmission and distribution systems	40 – 50 years
Meters	14 years
Transportation equipment	14 years
Equipment	5 years

Depreciation is taken at 50% of the above rates in the year of acquisition.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(g) Intangible assets:

(i) Computer software:

Computer software that is acquired or developed by the Corporation, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization and accumulated impairment losses

(ii) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are:

Computer software	55%
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Amortization is taken at 50% of the above rates in the year of acquisition.

Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate.

(h) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its current carrying amount (using prevailing interest rates), and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(h) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, impairment recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(j) Regulatory balances:

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation adopted IFRS 14 in 2015.

The Corporation has determined that certain asset and liability balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory asset and liability balances on the Corporation's balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB.

Regulatory deferral account asset balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. These amounts have been accumulated and deferred in anticipation of their future recovery in electricity distribution rates. Regulatory deferral account liability balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Corporation.

Regulatory deferral account asset balances are recognized if it is probable that future billings in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in profit and loss. The asset balance is reduced by the amount of customer billings as electricity is delivered to the customer and the customer is billed at rates approved by the OEB for the recovery of the capitalized costs.

Regulatory deferral account liability balances are recognized if it is probable that future billings in an amount at least equal to the liability balance will be reduced as a result of rate-making activities. The offsetting amount is recognized in profit and loss. The liability balance is reduced by the amounts returned to customers as electricity is delivered to the customer at rates approved by the OEB for the return of the regulatory account liability balance.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(j) Regulatory balances (continued):

The probability of recovery or repayment of the regulatory account balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover or repay the balance. Any resulting impairment loss is recognized in profit and loss in the year incurred.

Regulatory deferral accounts attract interest at OEB prescribed rates. In 2022, the interest rate was 0.57% for the first quarter, 1.02% for the second quarter, 2.20% for the third quarter and 3.87% for the fourth quarter. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's statement of income and comprehensive income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the statement of financial position as regulatory deferral account debit/credit balances and on the statement of income and comprehensive income as net movements in regulatory balances, net of tax. The netting of regulatory debit and credit balances is not permitted.

The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(k) Employee future benefits:

Pension plan:

The Corporation provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Corporation to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income when they are due.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(l) Finance income and finance costs:

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance income comprises interest earned on cash and short-term investments and on regulatory assets and dividend payments.

Finance charges comprise interest expense on borrowings and regulatory liabilities. Finance costs are recognized as an expense unless they are capitalized as part of the cost of qualifying assets.

(m) Payment in lieu of taxes:

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or equity, in which case, it is recognized in other comprehensive income or equity, respectively.

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the *Electricity Act*, 1998, the Corporation makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Corporation was not subject to income or capital taxes. Payments in lieu of taxes are referred to as income taxes.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes, as well as for tax losses available to be carried forward to future years that are likely to be realized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates, at the reporting date, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

3. Significant accounting policies (continued):

(n) Leased assets:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- i) The contract involves the use of an identified asset;
- ii) The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- iii) The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:
 - a) The Corporation has the right to operate the asset; or
 - b) The Corporation designed the asset in a way that predetermines how and for what purposes it will be used.

Short-term leases and low value assets

The Corporation has elected not to recognize right-of-use assets and related lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(o) Future changes in accounting policy:

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted; however, the Corporation has not early adopted them in preparing these financial statements. The following amended standards are not expected to have a significant impact on the Corporation's financial statements:

- Deferred tax related to assets and liabilities arising from a single transaction
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 1)

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

4. Cash and cash equivalents:

Cash consists of overnight deposits at a Canadian chartered bank and high interest savings accounts that are redeemable the next day.

5. Accounts receivable:

	2022	2021
Trade receivables	\$ 243,191	\$ 233,109
IESO receivables	16,188	7,005
Billable work	2,424	3,470
	261,803	243,584
Less: allowance for doubtful accounts	(17,283)	(21,714)
	\$ 244,520	\$ 221,870

6. Investments:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Equity securities	\$ 101,700	\$ 82,526	\$ 99,900	\$ 100,069
Provincial government debentures	34,781	33,664	64,569	66,582
	136,481	116,190	164,469	166,651
Less: short-term	(101,700)	(82,526)	(99,900)	(100,069)
Long-term investments	\$ 34,781	\$ 33,664	\$ 64,569	\$ 66,582

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

7. Property, plant and equipment:

Cost:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
Balance, January 1, 2021	\$ 30,141	\$ 1,131,500	\$ 343,985	\$ 135,085	\$ 81,485	\$ 556,141	\$ 2,278,337
Additions	-	133,628	4,250	4,380	2,628	5,420	150,306
Balance, December 31, 2021	30,141	1,265,128	348,235	139,465	84,113	561,561	2,428,643
Additions	-	66,181	1,362	12,794	14,410	-	94,747
Balance, December 31, 2022	\$ 30,141	\$ 1,331,309	\$ 349,597	\$ 152,259	\$ 98,523	\$ 561,561	\$ 2,523,390

Accumulated depreciation:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
Balance, January 1, 2021	\$ -	\$ 166,179	\$ 153,166	\$ 96,512	\$ 74,029	\$ 201,323	\$ 691,209
Depreciation charges	-	54,691	31,438	5,491	3,476	32,129	127,225
Balance, December 31, 2021	-	220,870	184,604	102,003	77,505	233,452	818,434
Depreciation charges	-	56,861	31,634	5,838	3,956	32,318	130,607
Balance, December 31, 2022	\$ -	\$ 277,731	\$ 216,238	\$ 107,841	\$ 81,461	\$ 265,770	\$ 949,041

Carrying amounts:

	Land	Transmission and distribution systems	Meters	Buildings	Equipment	Transportation equipment	Total
At December 31, 2021	\$ 30,141	\$ 1,044,258	\$ 163,631	\$ 37,462	\$ 6,608	\$ 328,109	\$ 1,610,209
At December 31, 2022	30,141	1,053,578	133,359	44,418	17,062	295,791	1,574,349

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

8. Intangible assets:

(a) Cost:

	Computer software
Balance at January 1, 2021	\$ 188,462
Additions	-
Balance at December 31, 2021 and December 31, 2022	\$ 188,462

(b) Accumulated amortization:

	Computer software
Balance at January 1, 2021	\$ 188,462
Additions	-
Balance at December 31, 2021 and December 31, 2022	\$ 188,462

(c) Carrying amounts:

	Computer software
At December 31, 2021 and December 31, 2022	\$ -

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

9. Payment in lieu of income taxes (PILS):

PIL's varies the amounts which would be computed applying the Corporation's combined statutory tax rate. The following is a reconciliation of the effective tax rate:

	2022	2021
Net income excluding payments in lieu for the period	\$ 150,809	\$ 211,691
Income tax using the Corporation's statutory tax rate	18,000	26,000
Other	200	300
	<u>\$ 18,200</u>	<u>\$ 26,300</u>

All deferred tax liabilities are expected to be settled after 12 months. The tax effect of temporary differences that give rise to deferred tax liabilities are as follows:

	Plant and equipment	Regulatory adjustment	Total
Balance, January 1, 2022	\$ 5,500	\$ (12,300)	\$ (6,800)
Change in deferred tax balance	3,000	(5,200)	(2,200)
Balance, December 31, 2022	<u>\$ 8,500</u>	<u>\$ (17,500)</u>	<u>\$ (9,000)</u>

10. Regulatory deferral account balances:

The following is a reconciliation of the carrying amount for each class of regulatory deferral account balances:

	January 1, 2022	Balances arising in the period	Recovery/ reversal	December 31, 2022
Regulatory deferral account debit balances				
Retail settlement variances	\$ 81,763	\$ 61,954	\$ (36,024)	\$ 107,693
Regulatory variances disposition	212,073	41,082	671	253,826
Other regulatory accounts	87,671	-	-	87,671
Total amount related to regulatory deferral account debit balances	<u>\$ 381,507</u>	<u>\$ 103,036</u>	<u>\$ (35,353)</u>	<u>\$ 449,190</u>

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

10. Regulatory deferral account balances (continued):

	January 1, 2022	Balances arising in the period	Recovery/ reversal	December 31, 2022
Regulatory deferral account credit balances				
Retail settlement variances	\$ 26,851	\$ 4,944	\$ (1,227)	\$ 30,568
Regulatory variances disposition	204,330	–	21,031	225,361
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account debit balances	\$ 280,982	\$ 4,944	\$ 19,804	\$ 305,730

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account debit balances				
Retail settlement variances	\$ 69,241	\$ –	\$ 12,522	\$ 81,763
Regulatory variances disposition	202,159	–	9,914	212,073
Other regulatory accounts	87,671	–	–	87,671
Total amount related to regulatory deferral account debit balances	\$ 359,071	\$ –	\$ 22,436	\$ 381,507

	January 1, 2021	Balances arising in the period	Recovery/ reversal	December 31, 2021
Regulatory deferral account credit balances				
Retail settlement variances	\$ 35,611	\$ 1,182	\$ (9,942)	\$ 26,851
Regulatory variances disposition	147,666	–	56,664	204,330
Other regulatory accounts	49,801	–	–	49,801
Total amount related to regulatory deferral account debit balances	\$ 233,078	\$ 1,182	\$ 46,722	\$ 280,982

For certain regulatory asset and liabilities identified above, the expected recovery or settlement period, or likelihood of recovery or settlement is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refunds of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

11. Customer deposits:

Customer deposits represent cash deposits from electricity distribution customers and retailers.

Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Corporation in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

12. Share capital:

	2022	2021
Authorized:		
Unlimited number of common shares		
Unlimited number of Class B special shares		
Issued:		
1,121,529 common shares	\$ 1,442,442	\$ 1,442,442
1,121,529 Class B special shares	1,442,442	1,442,442
	<u>\$ 2,884,884</u>	<u>\$ 2,884,884</u>

13. Commitments and contingencies:

General:

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Corporation's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance:

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange (MEARIE). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2022, no assessments have been made.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

14. Revenues:

The following table disaggregates revenues by type of customer:

	2022	2021
Revenue from contracts with customers:		
Energy sales:		
Residential service	\$ 1,545,013	\$ 1,460,094
General service	719,268	846,053
Other	597,623	518,395
	2,861,904	2,824,542
Distribution revenue:		
Residential service	578,319	569,482
General service	126,490	113,748
Other	310,618	299,980
	1,015,427	983,210
Revenue from other sources:		
Other charges	37,998	107,681
	\$ 3,915,329	\$ 3,915,433

15. Other operating revenue:

Other operating revenue comprises:

	2022	2021
Rendering of services	\$ 32,813	\$ 102,515
Late payment charges	5,185	5,166
Total other operating revenue	\$ 37,998	\$ 107,681

16. Pension agreement:

The Corporation provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. In 2022, the Corporation made employer contributions of \$33,563 to OMERS (2021 - \$25,211).

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

17. Salaries and employee benefits:

	2022	2021
Salaries, wages and benefits	\$ 389,583	\$ 357,478
CPP and EI remittances	22,024	19,375
Contributions to OMERS	33,563	25,211
	\$ 445,170	\$ 402,064

18. Related party transactions:

(a) Parent and ultimate controlling party:

The sole shareholder of the Corporation is the Corporation of the Township of Chapleau ("Township"). Chapleau Public Utilities Corporation is a wholly-owned subsidiary of the Township. The Township produces financial statements that are available for public use.

(b) Key management personnel:

The key management personnel of the Corporation have been defined as members of its board of directors and executive management team members, and is summarized below:

	2022	2021
Directors' fees	\$ 21,808	\$ 14,200
Salaries and other short-term benefits	103,588	157,103
	\$ 125,396	\$ 171,303

(c) Transactions with the Township of Chapleau:

The Corporation delivers electricity to the Township throughout the year for the electricity needs of the Township and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB.

The Corporation billed the Township \$305,148 (2021 - \$346,331) for power purchased. Included accounts receivable and unbilled revenue is \$41,118 (2021 - \$37,872) relative to power purchased as of December 31, 2022.

The Corporation provided labour services to the Township amounting to \$4,424 (2021 - \$11,504).

Due to related parties represents a non-interest-bearing amount due to the Township with no specified terms of repayment. The balance due to the Township is \$35,582 (2021 - \$45,492).

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

19. Financial instruments and risk management:

Fair value disclosure

Cash and short-term investments are measured at fair value. The carrying values of receivables, and accounts payable and accrued charges approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

Financial risks

The Corporation understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Corporation's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

(a) Credit risk:

Financial assets carry credit risk that a counterparty will fail to discharge an obligation which could result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the Township of Chapleau. No single customer accounts for a balance in excess of 4% of total accounts receivable.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in net income. Subsequent recoveries of receivables previously provisioned are credited to net income. The balance of the allowance for impairment at December 31, 2022 is \$17,283 (2021 - \$21,714). An impairment loss of \$Nil (2021 - \$Nil) was recognized during the year.

The Corporation's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2022, approximately \$15,081 (2021 - \$11,917) is considered 60 days past due. The Corporation has over 1,233 customers, the majority of whom are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2022, the Corporation holds security deposits in the amount of \$13,130 (2021 - \$12,880).

(b) Market risk:

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have any material commodity or foreign exchange risk.

CHAPLEAU PUBLIC UTILITIES CORPORATION

Notes to Financial Statements

Year ended December 31, 2022

19. Financial instruments and risk management (continued):

(c) Liquidity risk:

The Corporation monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure.

The Corporation is required to provide security to the IESO to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by default notice issued by the IESO. At December 31, 2022, no amounts have been drawn on this letter of credit in the amount of \$209,813 (2021 - \$209,813).

The majority of accounts payable, as reported on the statement of financial position, are due within 30 days.

(d) Capital disclosures:

The main objectives of the Corporation, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Corporation's definition of capital includes shareholder's equity. As at December 31, 2022, shareholder's equity amounts to \$3,084,070 (2021 - \$2,951,761).

20. Comparative information:

Certain 2021 comparative information has been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.