BLUEWATER POWER DISTRIBUTION CORPORATION

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February 2, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: <u>EB-2008-0221 Bluewater Power 2009 Rate Application</u>
<u>Supplemental Interrogatory Responses</u>

Please find attached the Interrogatory Responses of Bluewater Power to School Energy Coalition supplemental interrogatories.

Two hard copies will follow via courier.

Should there be any questions please contact me at the number below.

L. Dugas

Leslie Dugas
Manager of Regulatory Affairs
Bluewater Power Distribution Corporation
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cc: All Intervenors

Bluewater Power Distribution Corporation
Responses to Supplemental Interrogatories of School Energy Coalition
2009 Electricity Distribution Rates
EB-2008-0221

1. Ref. Board Staff IR#1.2(d)- Table 4 and explanations thereto; and Exhibit 4/2/1, Attachment 1

   (a) Regulatory Costs: please explain why the increase of $98,040 for 2006, which appears to have been a one-time expense, was carried through to subsequent years, including the test year where an additional $122,987 is added to that amount.

   (b) Please explain the increase in over-time of $114,000 in 2009.

Response:

Part (a)

The $98,040 variance relates to OEB assessment costs. The reason it appears as a one-time expense is because the OEB assessment costs ceased to be added to a deferral account effective May 1, 2006 once they were fully included in rates. Starting May 1, 2006 these costs were expensed.

This variance of $98,040 is not carried through to subsequent years. It relates solely, and forms part of, the total O&M variance between 2005 and 2006.

The variance of $122,148 (not $122,987 per the question) relates to the change in regulatory costs between 2008 and 2009. Of this amount, $113,007 (or 93%) relates to the costs associated with this 2009 Rebasing application. The $113,007 is discussed at Exh 4, Tab 2, Sch 2, page 3 of 26 of the evidence and is further discussed in detail at Exh 4, Tab 2, Sch 3 pages 10-11 under the 2008 to 2009 variance for account group Administration and General Expense (Section 'Non-material Variances).

Part (b)

The increase in overtime of $114,000 is due to three main drivers. First, $46,000 is attributable to the Lines department to accommodate the increase in staffing levels expected as well as a slight increase over historical actual levels. Second, $52,000 is attributable to the SAP upgrade project which comes from several departments directly involved in the testing phase. Lastly, $14,000 is attributable to the control room to partially mitigate the retirement of an operator who is not being replaced.

2. Ref. Board Staff IR#1.13 (a)/Exhibit 4/2/9, Attachment 1:

   (a) Please explain the large increase in incentive compensation to executives from 2008 to 2009 (from $67,157 to $124,175, an 85% increase in a single year.) In particular, please explain what portion of the increase is due to new staff and what portion is due to a change in the incentive compensation structure.

<u>Response:</u>

The incentive compensation for executives is based on their salary level at the end of the respective year multiplied by a percentage. The increase from 2008 to 2009 is made up of two main drivers. First, the increase in salary levels which encompasses cost of living increases and progression increases. Second, there was an increase in the percentage rate used for the incentive.

Of the $57,018 increase, $5,400 relates to cost of living increases and progression increases, and the remainder relates to an increase in the percentage rates used.

The reason for the increase in the percentage rates is to move Bluewater Power's executive employees to more closely approximate equivalent industry levels. As provided in response to VECC IR #1.13(b), Incentive Compensation for Bluewater Power is significantly below average for all positions when compared to the Industrial Organizations and significantly below average for the majority of positions when compared to the Utility group.

No part of the increase is due to new executive staff.

3. Ref. Board Staff IR#3.1- Updated Fixed Continuity Statements; CME IR#1

The following is a summary of the fixed continuity schedule:

	2006 EDR	2006a	2007	2008	2009
Opening Balance	$34,847,813	35,014,869	37,364,171	37,626,977	37,944,816
Additions		4,065,093	4,748,586	4,558,147	7,558,628
Ret./Other		**6,376,771**	(637,878)	(195,039)	0
Amortization		**(8,092,563)**	(3,847,902)	(4,045,269)	(4,358,109)
Closing Balance	$35,014,869	37,364,171	37,626,977	37,944,816	**41,145,335**
Plus: Working Capital allowance	11,711,67601	12,143,269	12,180,537	13,308,482	**13,613,408**
Total Rate Base	$46,642,942	$49,424,965	$49,676,110	$51,094,378	**$53,158,483**

[See Board Staff IR#3.1, Attachment 1, CME IR#1]

Questions:

(a) Please explain why there is a positive value for Retirements and other charges ($6.4 million) for 2006 and also why amount for amortization in 2006 ($8.1 million) is approximately double the average of the subsequent years.

Response:

The fixed asset continuity statement presented in response to Board Staff Interrogatory 3.1 provides a variance between 2006 EDR values and 2006 actual values. In order to understand the result, one must note that the asset values for 2006 EDR were based on the average ending balances from 2003 and 2004. Therefore any variance from 2006 EDR to 2006 Actual reflects two and a half years of growth and amortization.

That is the entire explanation for why the amortization for 2006 ($8.1Million) is approximately double all other years. The explanation for the positive balance of

$6.4Million in “Retirements/Other” is explained by the fact that “Additions” for 2006 include only those additions that took place in 2006. All other asset additions were assessed to the “Retirement/Other” column; in other words, the retirements are offset by one and a half years of asset additions for a positive balance of $6.4 Million.

Table 1 below is a reproduced from the table in the question above, isolating 2006 actuals to indicate the true retirements and amortization related to the fixed assets, which are more comparable to 2007, 2008 and 2009.

Table 1

	2006 EDR	2006 Actual	2007	2008	2009
Opening Balance	$34,847,813	37,199,221	37,364,171	37,626,977	37,944,816
Additions		4,065,093	4,748,586	4,558,147	7,558,628
Ret./Other		**-78,427**	-637,878	-195,039	0
Amortization		**-3,821,717**	-3,847,902	-4,045,269	-4,358,109
Closing Balance	$35,014,869	37,364,171	37,626,977	37,944,816	**41,145,335**
Plus: Working Capital allowance	1,171,167,601	12,143,269	12,180,537	13,308,482	**13,613,408**
Total Rate Base	$46,642,942	$49,424,965	$49,676,110	$51,094,378	**$53,158,483**