2010 RATE APPLICATION
EB-2009-0213

Bluewater Power Distribution Corporation
Reply Submission
To

ONTARIO ENERGY BOARD
Board Staff

Bluewater Power Distribution Corporation
P.O. Box 2140
855 Confederation Street
Sarnia, ON N7T 7L6

March 25, 2010

REPLY SUBMISSION

Bluewater Power Distribution Corporation ("Bluewater Power") makes this submission in reply to the Board Staff Submission dated February 4, 2010.

Background:

Board Staff made submission on the following matters:

- Potential tax sharing rate rider;
- Effect of a Wholesale Market Participant on the Disposition of Variance accounts 1580 and 1588;
- Disposition of Deferral and Variance accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report");
- Treatment of Smart Meter Funding Adder;
- Adjustments to the Revenue to Cost Ratios;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax ("HST")

Bluewater Power will briefly address those issues under the headings included in the Board Staff submission. We have provided a detailed reply to items that were warranted or where a reply was specifically requested by Board Staff including the Wholesale Market Participant ("WMP") issue, the disposition of the deferral accounts, and the HST.

POTENTIAL TAX SHARING RATE RIDER

The first issue addressed is the Board Staff submission that Bluewater Power be directed to record the Tax Sharing refund amount of $54,424 in variance account 1595 for disposition in a future rate application. We want to clarify the record with respect to the Board Staff submission that the proposed rate riders would result in no return to rate payers when rounded to four decimal places. The table below details the Tax Change rate rider as calculated in Sheet F1.3 of the Supplemental Filing Model, with an added column to round the rate rider to only four decimal places. Obviously, each rate category receives some form of a positive rate rider.

Proposed Tax Change Rate Rider

Rate Class	Volumetric Amount per Rate Model	Metric	Rate Rider rounded to 4 decimals
Residential	-0.000109	kWh	-0.0001
General Service Less Than 50 kW	-0.000076	kWh	-0.0001
General Service 50 to 999 kW	-0.013213	kW	-0.0132
General Service 1,000 to 4,999 kW	-0.007808	kW	-0.0078
Large Use	-0.010286	kW	-0.0103
Unmetered Scattered Load	-0.000160	kWh	-0.0002
Sentinel Lighting	-0.069260	kW	-0.0693
Street Lighting	-0.058825	kW	-0.0588

We note that the rate rider rounded to 4 decimals for the residential class and the GS<50kW class are identical (-0.0001) even though the Volumetric Amount without rounding differ by 40%. This result is a tangible demonstration of why the OEB typically does not require adjustments that are not financially material. Accordingly, we support the Board staff submission.

EFFECT OF WHOLESALE MARKET PARTICIPANT ON THE DISPOSITION OF VARIANCE ACCOUTNS 1580 AND 1588

Bluewater Power confirms that one WMP is connected to the IESO controlled grid through our distribution assets. The WMP does not pay for its electricity commodity through Bluewater Power and therefore is not charged by our utility for energy consumption, wholesale market service charges or rural rate assistance charges.

Bluewater Power is the point of connection for the WMP to the IESO controlled electricity grid. The WMP is serviced by a primary feed from the St. Andrew’s Transmission Station and a back-up feed from the Modeland Transmission Station. It has one wholesale-grade electricity meter that is not owned by Bluewater Power. That meter is read by a meter service provider. We require that meter read to confirm daily settlement of our overall system load and we utilize that read to issue an invoice to this customer. That monthly invoice includes the fixed and variable distribution charges, transmission network charge, transmission connection charge, and a transformer ownership credit.

As requested by Board Staff we confirm that the annual kWh consumption and kW demand used for the allocation of balances in accounts 1580 and 1588 include the WMP’s kWh consumption and kW demand. These are the same allocators used for all the deferral and variance accounts and are based on the 2009 Forecast as filed and approved through Bluewater Power’s 2009 rebasing application (EB-2008-0221). In addition, the kWh consumption identified on Sheet “B1.3. Rate class and Bill Det” for the non-RPP customers also includes the kWh consumption for the WMP. These figures are based on 2009 actual statistics rather than forecast. Should a different treatment for the WMP be directed, the allocators for the disposition of the deferral and variance accounts would require an update.

Bluewater Power was unaware of the potential implications of the WMP to the disposition of Account 1580 and 1588 prior to considering the Board Staff Interrogatories related to RPP and non-RPP customers. Those IRs caused us to consider other potential mismatches in cost causality and we realized that the implications of the WMP greatly exceed those of non-RPP customers in financial significance.

Our view is that the situation ought to be resolved, but we would caution the Board that it ought to be resolved in a more generic process. Further to that point, Bluewater Power has not proposed the change in disposition of Account 1580 and 1588 in this rate application and we have not provided the WMP customer with notice of the potential impact of a change in the typical practice of disposition on a rate class basis. We would have a concern if the OEB were to make an order with respect to the disposition of this account different from established Board methodologies without notice to this customer. It is also our view that this situation is certainly not unique to Bluewater and, therefore, all distributors with WMP customers should be required to implement consistent treatment related to the disposition of the deferral and variance accounts.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

Annual Disposition

Bluewater Power does not agree with the Board Staff submission that the disposition for all Group one accounts should be within one year. Bluewater Power has proposed a four year disposition in order to smooth bill impacts associated with the introduction and removal of the rate rider itself.

We submit that a one year disposition creates customer confusion because significant rate riders are added and removed annually (discussed in more detail below) and the more rapid disposition exaggerates the magnitude of the rate rider. That exaggeration creates customer confusion in our opinion. For example, even with the four year disposition proposed the large use rate class will see a net impact of a negative variable distribution rate in 2010. Altering from a four-year to a one-year disposition exaggerates that impact from a credit of $0.2723 per kW to a credit of $1.5122 per kW. Furthermore, one more class (GS Intermediate) swings from a positive net variable distribution charge of $0.1087 per kW to a credit of $0.7071 per kW. All other classes would continue to have a net positive variable distribution charge, but it becomes significantly more difficult to explain to customers wildly varying rate impacts. Those wide variances are created by the exaggerated rate rider created by a one year disposition of deferral accounts.

To put that further into perspective, with the rate rider proposed in our rate application the total distribution rate increase for the residential class is $0.34 (1.2%); changing the disposition to one year results in a decrease for the residential class of $1.66 (-6.0%). That decrease is temporary and the result of removing the rate rider in 2011 is an increase in distribution charges of approximately 7.0% due to the removal of the rate rider alone. That degree of fluctuation creates significant customer confusion and the perception of rate instability. Combine that impact with the possibility of rate increases in relation to Smart Meters and a Conservation Assessment Recovery Rate Rider, there is potential that customer confusion will result in further negative reactions to important initiatives.

The Board Staff's expressed desire is to reduce inter-generational inequities. We submit that goal is less relevant in our distribution territory because we do not see a significant degree of customer migration. That might be a significant issue in the GTA, but Bluewater Power has a territory with a relatively slow growth rate and stability in our customer base.

Accordingly, Bluewater Power submits that our proposed disposition over four years is appropriate as the desire to smooth rates outweighs the need to achieve intergenerational equity. We submit that our four year disposition reduces customer confusion and creates greater rate stability and is, therefore, in the best interest of our customers.

Global Adjustment Sub-Account

In regard to the disposition of the deferral and variance accounts, Board Staff submitted that as a matter of principle, the global adjustment sub-account balance should be recovered by means of a separate rate rider that would apply prospectively to non-RPP customers only, and would exclude the MUSH sector and other designated customers that were on RPP prior to November 1, 2009.

Board Staff have acknowledged our responses to Interrogatories #5a, 5b and 7d wherein we disagree that a separate rate rider for non-RPP is warranted. We reiterate that if Bluewater were to implement the Board Staff proposal the reallocation of costs that would result when compared to the status quo, would not result in a material change in the disposition for the balances applied for, being the period ending December 2008. We submit that no change to the disposition proposed in our rate application is warranted. That is particularly true when one considers the prospect of expending already tapped IT resources in order to alter a disposition where the alterations do not result in a material alteration to the status quo. Regulation on a rate class basis requires some degree of rough justice in order to achieve regulatory efficiency and we believe that is the case with the disposition of these accounts.

Moreover, we noted in our IR Response that we do not currently have resources within our IT department to carry out the change to our billing system required, particularly given the complexities of implementing a rate-rider with a billing determinant differing from what currently underlies our rate rider structure.

The Board Staff submission suggested that we review the Board's Decision EB-2009-0405 dated January 29, 2010 and provide comment. We note that decision acknowledges the same concern we have identified and proposes an alternative as follows:

> (page 5) "In its reply submission, Enersource stated that it would be more transparent to non-RPP customers to reflect the disposition on the Provincial Benefit line of the bill, insofar as that is the origin of the funds being disposed of. Furthermore, Enersource noted that its billing system is capable of applying a global adjustment rate rider to non-RPP customers via the Provincial Benefit Charge within the next billing cycle. To change its bills to be able to reflect different distribution rate riders within a rate class is a much more problematic process that would take at least 6 months to implement."

Bluewater Power has further consulted with its Information Technology group to determine if this alternative implementation would be feasible. We acknowledge that the proposed implementation would be less demanding on our resources, although it would still require some individualized attention by at least two staff members and system testing that would impact all of the staff resources that are currently fully utilized. The simple fact is that Bluewater Power is in a 'development freeze' for the next six to eight months due to the numerous CIS initiatives already underway (IFRS, Smart Meter implementation, Time-of-use pricing design, CIS upgrade, and rate design for FIT and microFIT). Our IT group has indicated that a May 1, 2010 implementation is impossible to accommodate even utilizing the alternative implementation methodology. They have suggested that a January 1, 2011 date could be achieved, but that date is not conducive to the rate-making process.

Therefore, Bluewater confirms that our position remains unchanged on this issue, despite the proposed alternative methodology. We cannot achieve the modifications necessary for May 1, 2010. It might seem reasonable that the proposal could be implemented utilizing 100% external consultants, but that would be expensive and the implementation could not be properly tested without internal resources and would, therefore, be prone to error. We would not put our customers in that position, so we confirm that we would be unable to comply with a Board decision imposing a distinct treatment of non-RPP customers in any manner.

TREATMENT OF SMART METER FUNDING ADDER

We appreciate the Board Staff support of our request for an increase in the Smart Meter Rate adder from $0.26 to $1.00. We believe that is an important step in terms of creating base funding for current Smart Metering activity as well as creating smooth rates.

ADJUSTMENTS TO THE REVENUE TO COST RATIONS

We appreciate the Board Staff support of our requests to adjust revenue to cost ratios as they are in compliance with the Board decision (EB-2008-0221) for our 2009 rebasing application.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Board Staff note that two Uniform Transmission Rates (UTR) increases have occurred. The first change of July 1, 2009 was reflected in our 2010 IRM application; however the second change dated January 1, 2010 was not included. Bluewater agrees with the Board Staff submission and requests that the most recent rate changes be reflected in our rates to customers. The rates for RTSR Network service would increase about 15.6%, and the TRSR Line and Transformation Connection Service Rate would increase about 5.2%.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

Bluewater Power agrees that the potential savings on an annual basis from the introduction of HST are potentially beneficial. We are careful to avoid the word “significant” as utilized by Board Staff as that is not a relevant term for ratemaking, however we do confirm that the impact in savings to O&M are not “material”. To put that into real terms, we would estimate the saving on an annual basis for Bluewater Power would be an improvement to our net income of approximately $100,000.
That figure is below our materiality threshold of approximately $135,000. Bluewater Power submits that it would not be appropriate to adjust rates during an IRM period for a potential impact that is less than the materiality threshold.

The Board staff submission does not suggest adjusting rates. Rather, Board Staff submit that the Board “consider establishing a deferral account to record the amounts, after July 1, 2010 and until Bluewater’s next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred.”

To ensure that there is clarity on this issue, we want to demonstrate the difference in impact of the potential savings between Capital expenditures and O&M expenditures.

O&M:

An operating expenditure of $100,000 today is subject to $5,000 GST and $8,000 PST and, if that cost were baked into our current rates, it would be baked into rates exclusive of GST but inclusive of PST. That is agreed. After July 1, 2010, the Board Staff proposal would suggest that the Input Tax Credit on HST (ITC) of

$13,000 would be recorded, but that the $8,000 portion previously attributable to PST would be a credit to the new Deferral Account and a debit to Account 4080 to result in a decrease in distribution margin.

We might support such a process if the anticipated impacts were material however they are not anticipated to be material. Moreover, that process would require manual intervention to (i) ensure ITC's with respect to Capital are not included (see discussion below) and (ii) ensure ITC's for certain services are not included. That is, to exclude ITCs for services subject to HST after July 1, 2010 that are not subject to PST today. There is no PST baked into rates in respect of those services (ie. legal, audit, tree trimming, insulator washing, etc.) and it would not be appropriate to put any portion of HST recovery to a deferral account in respect to those services. That manual intervention will result in additional costs to this utility (contract staff or potentially consulting if an IT solution can be identified) and it is appropriate for those costs to be included in the deferral account. We would submit that the net amount recorded to the deferral account would not be material and may, in fact, be negligible having regard to the magnitude of the potential costs.

Capital:

A Capital expenditure of $100,000 today is subject to $5,000 GST and $8,000 PST and results in Fixed Assets increasing by $108,000 as the GST portion is never included in Fixed Assets. The PST portion is not refundable and, therefore, represents a real cost of the capital upgrade and is appropriately included in Fixed Assets. After July 1, 2010, the full HST is refundable so that only $100,000 will be included in Fixed Assets. There is no improvement in net income as a result of the change in taxation. Prior to July 1, 2010, we capitalize $108,000 and after July 1, 2010 we capitalize $100,000 and receive an additional $8000 in ITC. Our cash position has improved by $8,000 but the impact of those two transactions on Bluewater Power's net income is identical.

The real impact of the savings of $8,000 is realized when Bluewater Power rebases in 2013; our Fixed Assets will be lower by the cumulative savings in the PST portion of the HST. Accordingly, the savings are passed on to customers automatically at the time of rebasing. The savings are good for Bluewater Power in that we meet our capital needs at a slight savings and those savings are passed on to customers at rebasing.

To suggest the savings in capital should be passed on to ratepayers (through the proposed deferral account) is simply unsupportable from a rate-making perspective. It would result in ratepayers receiving the benefit twice.

In conclusion, the proposed deferral account would result in a reduction in Bluewater Power's net income until the matter is disposed of by the Board. That step should not be taken unless the Board believes, prior to establishing the deferral account, that it is likely to order disposition to the benefit of ratepayers. We submit that there is no support for an eventual disposition of savings in capital to ratepayers (for the reasons outlined above) so no such deferral account should be ordered in respect of savings in capital. We further submit that the savings in O&M net of the cost of tracking those savings are negligible; in any event, they are clearly not material. Therefore, the Board should not impose the undue burden of a deferral account in respect of potential savings in O&M attributable to the change in legislation respecting HST.