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BY EMAIL

January 25, 2011

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Bluewater Power Distribution Corporation
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0065

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Bluewater Power Distribution Corporation and to all other registered parties to this proceeding.

In addition please remind Bluewater Power Distribution Corporation that its Reply Submission is due by February 15, 2011.

Yours truly,

Original signed by

Lawrie Gluck
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

BLUEWATER POWER DISTRIBUTION CORP.

EB-2010-0065

January 25, 2011

Introduction

Bluewater Power Distribution Corporation ("Bluewater") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on October 15, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Bluewater charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Bluewater.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Bluewater. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, Bluewater confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Bluewater's models at the time of the Board's decision on the application.

Board staff makes submissions on the following matters:

- Smart Meter Funding Adder;
- Deferral and Variance Account Disposition;
- Adjustments to the Revenue-to-Cost Ratios; and
- Lost Revenue Adjustment Mechanism.

Smart Meter Funding Adder

Background

Bluewater requested to increase its smart meter funding adder from $1.00 to $2.00 per metered customer per month.

In its Application, Bluewater filed supporting documentation in accordance with section 1.4 of the Smart Meter Guideline (G-2008-0002).

Bluewater noted that the Board's 2011 IRM3 Smart Meter Workform calculates a proposed smart meter funding adder of $2.95. However, Bluewater indicated that a smart meter funding adder of $2.00 per metered customer per month would be appropriate in order to smooth distribution rates.

Bluewater is not seeking approval for capital and operating costs incurred to date or in 2011 in this application, but will track revenues received from the funding adder, and actual costs incurred, in the established smart meter related variance accounts for review and disposition in a subsequent application.

Submission

Board staff notes that actual smart meter expenditures will be subject to a prudence review when Bluewater makes an application for the disposition of smart meter related variance account balances in a subsequent proceeding. Board staff takes no issue with Bluewater's proposal to increase its smart meter funding adder to $2.00 per metered customer per month.

Deferral and Variance Account Disposition

Background

General Background

For purposes of the 2011 IRM applications, the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (the "EDDVAR Report") requires a distributor to determine the total value of its December 31, 2009 Group 1 Deferral and Variance account balance and determine whether the balance exceeds the preset disposition threshold of $0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared. Bluewater requested that the Board review and approve the disposition of the December 31, 2009 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2011. The total balance of the Group 1 accounts is a debit of $4,636,569. This amount results in a total claim per kWh of $0.004569. Debit balances are amounts recoverable from customers.

Bluewater proposed to dispose of all its Group 1 account balances over a two-year period to smooth rates in consideration that the full recovery of smart meter related costs will be included in their 2013 cost of service application.

<u>Wholesale Market Participant</u>

Bluewater noted that it has one wholesale market participant ("WMP") embedded within its service territory. Bluewater invoices the customer for distribution charges, and retail transmission network and connection charges. Bluewater noted that the WMP customer has an arrangement with the IESO for the commodity and wholesale market service charges and settles with them directly for these items.

During the 2010 IRM proceeding (EB-2009-0213), an issue arose as to whether WMP should partake in the disposition of accounts 1580 and 1588. In its Decision and Order, the Board directed Bluewater to withhold $200,000, which was the approximate amount that would have been allocated to the WMP related to accounts 1580 and 1588, until the matter was thoroughly reviewed.

Below is the excerpt related to the WMP issue from the Board's Decision and Order dated April 13, 2010:

> "Bluewater has a Wholesale Market Participant ("WMP") that is connected to the Independent Electricity System Operator ("IESO") through its distribution system. A WMP has a contractually negotiated alternate energy arrangement with the IESO, and like any distributor, a WMP is billed directly by the IESO for energy consumption, wholesale market service rates ("WMSR"), and rural rate protection ("RRRP").
>
> In its submission, Board staff suggested that if a WMP is connected to the distribution grid (i.e. using the distributor's wires to receive electricity), the variances included in accounts 1580 (Wholesale Market Service Rates and Rural Rate Protection) and 1588 (energy consumption) should not be attributable to the WMP

since the WMP would have settled directly with IESO. Board staff stated that it was unclear on whether Bluewater's WMP fell into this category and submitted that it would be useful to the Board were Bluewater to provide additional information including its views on this particular issue.

In its reply submission, Bluewater noted that it was unaware of the potential implications of the WMP in respect of the disposition of Account 1580 and 1588 prior to considering Board staff's interrogatories related to RPP and non-RPP customers. Bluewater also noted that the financial implications for the WMP would greatly exceed those associated with the issue around the disposition of the global adjustment sub-account. Bluewater expressed the view that this issue needs to be resolved, but should be resolved in a more generic process. Bluewater further stated that it did not propose the exclusion of the WMP from the disposition of Account 1580 and 1588 in this rate application and had not provided notice to the WMP customer that of the impact of a potential change to the typical practice for disposing of account 1580 and 1588 balances. Bluewater concluded that this situation is not unique to it, and therefore all distributors with WMP should be treated consistently.

The Board agrees with Board staff and Bluewater that this is an issue that needs to be addressed. The Board also concurs that this application is not the appropriate forum to resolve this issue. The Board will not approve at this time the disposition of the credit amount in accounts 1580 and 1588 as proposed by Bluewater. The Board estimates that the credit amount that is attributable to the WMP by Bluewater is about $200,000. The Board will approve the disposition of the remaining net balance in accounts 1580 and 1588 and directs Bluewater to retain a credit balance of $200,000 in these accounts for disposition at a later time. Whether or not there will be a Board policy on this issue by the time Bluewater files its next rates application, Bluewater shall bring this matter forward at that time in any event."

Bluewater noted that no Board policy has been issued in respect of the treatment of WMP customers. Therefore, Bluewater proposed that the $200,000 credit balance held in accounts 1580 and 1588 be disposed to all other eligible customer classes, and that the WMP be denied of its proportionate share of the credit. .
Bluewater also proposed that the WMP be treated as a separate customer class in respect to the disposition of the 2009 Group 1 deferral and variance account balances.

Bluewater suggested that the Group 1 deferral and variance accounts be segregated so that a distinct rate rider can be established for the WMP that excludes disposition of the following accounts:

Account 1580 – RSVA Wholesale Market Service Charge
Account 1588 – RSVA Power (excluding Global Adjustment)
Account 1588 - RSVA Power (sub-account for Global Adjustment)

In Interrogatory No. 2, Board staff set out the following in regards to the IESO's billing process for wholesale settlements:

It is Board staff's understanding that for the purpose of wholesale settlements, the IESO adjusts the WMP's meter readings by the host distributor's total loss factor (TLF). The TLF is the OEB approved rate and is comprised of the supply facilities loss factor (SFLF) and distribution loss factor (DLF). Also, the IESO arrives at the net kWh for the host distributor by backing out the kWh pertaining to the WMP. Therefore, all customers, including WMPs are billed for the Board approved loss factor, and the difference between the actual losses experienced by the distributor, and losses recovered based on the approved loss factor accumulate in account 1588 – RSVA Power (excluding Global Adjustment).

Bluewater agreed with the above characterization of the billing process for WMPs. However, Bluewater noted that there are two components to Account 1588 – RSVA Power (excluding Global Adjustment). The main component is the commodity charge itself and the secondary component is the losses on the commodity. Bluewater stated that only losses on the commodity could apply to WMP but this component would be minor compared to the variance between what is charged by the IESO for the commodity and the corresponding collection from customers related to the commodity. Therefore, Bluewater stated that the WMP does not contribute in any material way to the accumulation of the variance in Account 1588 – RSVA Power (excluding Global Adjustment).

Global Adjustment Sub-Account – Separate Rate Rider

Bluewater is proposing to dispose of the global adjustment sub-account balance by means of a separate rate rider that would apply prospectively to non-RPP customers as either part of the delivery or the electricity component of the bill.

In Interrogatory No. 1, Board staff asked Bluewater to confirm that it has the billing capability to accommodate a separate rate rider in the delivery component of a non-RPP customer's bill. Bluewater stated that it would expect to be capable of implementing any disposition method approved by the Board. Bluewater also noted that it had used the wording "electricity component of the bill" to be consistent with the wording used in the 2011 IRM3 Deferral and Variance Account Workform. Bluewater however clarified that it is not proposing that the Global Adjustment Sub-account rate rider be part of the electricity component of the bill. Bluewater clarified that the proposed Global Adjustment Sub-account rate rider would occur as a separate line item, underneath the current "Global Adjustment" line item, and would be called the "Global Adjustment Rate Variance".

Submission

Wholesale Market Participant

Board staff agrees with Bluewater that the balances in Account 1580 – RSVA Wholesale Market Service Charge and Account 1588 - RSVA Power (sub-account for Global Adjustment) should not be allocated to WMP. With respect to Account 1588 – RSVA Power (excluding Global Adjustment), Board staff agrees with Bluewater that there are two components that accumulate in this account, the commodity charge, and the losses on the commodity. Board staff submits that the commodity component is due to estimations used to address timing differences between wholesale and retail billing cycles (e.g. the accrual for unbilled revenue); and that such differences are temporary in nature. On the other hand, the line losses component of the account balance in 1588 constitutes a permanent difference. Board staff submits that there are two options before in determining whether the WMP should partake in the disposition of account 1588 – RSVA Power (excluding Global Adjustment):

- Exclude the WMP from the disposition the balance in account 1588 – RSVA Power (excluding Global Adjustment). Under this scenario, the WMP would never contribute to the disposition of the difference between actual losses, and those recovered in rates. This treatment is based on the assumption that line losses would not be material, and as such, this would not amount to undue cross-subsidization from other customers
- Dispose of the balance in account 1588 – RSVA Power (excluding Global Adjustment) to all customers to recognize that all customers should bear the responsibility for commodity losses. Under this scenario, WMP would be subject to the disposition of temporary amounts related to timing differences relating to commodity charges for RPP and non-RPP customers. However, since these temporary variances reverse themselves from one year to the next, all customers would be kept whole over time.

Board staff invites Bluewater in its reply submission to comment on both options and to provide further evidence that would support the claim that the WMP does not contribute in any material way to the accumulation the variance in account 1588 – RSVA Power (excluding Global Adjustment). In the absence of further details on the materiality of the loss factor component, Board staff submits that the latter option should be adopted to ensure that the appropriate amounts are cleared to customers over time.

With respect to Bluewater's proposal to dispose of the $200,000 credit balance held in accounts 1580 and 1588 (as a result of the Board's Decision in EB-2009-0213) to all eligible customer classes, Board staff submits that the options relating to the disposition of account 1588 – RSVA Power (excluding Global Adjustment) are also applicable.

<u>Global Adjustment Sub-Account – Separate Rate Rider</u>

Board staff submits that Bluewater's proposal to dispose of the Global Adjustment Sub-account through a distinct rate rider applied only to non-RPP customers is appropriate as this method was approved by the Board for numerous other distributors as part of the 2010 IRM and cost of service applications.

Board staff notes that the prevalent practice amongst distributors is to dispose of the Global Adjustment Sub-account by means of a separate rate rider applicable to non-

RPP customers that is included in the delivery component of the bill. Board staff further notes that during the process for the 2010 IRM applications, the Board approved the recovery of the GA sub-account in the electricity component of the bill for non-RPP customers only in cases where the distributor could not readily accommodate a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill. Since Bluewater indicated that it is able to implement a separate rate rider, Board staff submits that this approach should be adopted by the Board.

Disposition of Group 1 Account Balances

Board staff notes that the principal amounts to be disposed as of December 31, 2009 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements (“RRR”). Board staff therefore submits that the amounts should be disposed on a final basis. Board staff also submits that it has no issue with Bluewater’s proposal for a two-year disposition period for its Group 1 account balances..

Adjustments to the Revenue-to-Cost Ratios

Background

Pursuant to its Settlement Agreement in its 2009 cost of service application (EB-2008-0221), Bluewater adjusted the revenue-to-cost ratio for the Unmetered Scattered Load (“USL”), Sentinel Lighting and Street Lighting rate classes by one half of the way to the minimum target range of 85%. The revenue was allocated proportionally to the General Service less than 50kW and the Large Use rate classes.

Submission

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board’s Decision in the EB-2008-0221 proceeding.

Lost Revenue Adjustment Mechanism

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outlined the information that is required when filing an application for LRAM or SSM recovery.

Bluewater has requested the recovery of $241,149 in lost revenue related to its CDM activities.

In response to VECC IR#3(a), Bluewater noted that it had received finalized 2009 program results from the OPA. The resulting change in Bluewater's LRAM claim was an increase of $1,507. As this amount did not affect the associated rate rider up to the fourth decimal place, Bluewater decided to request approval of its originally filed LRAM amount of $241,149.

Submission

Board staff submits that Bluewater has complied with the Board's CDM Guidelines in preparing the LRAM portion of its Application. Board staff submits that it has no issues with the LRAM claim as filed.

All of which is respectfully submitted.