2011 RATE APPLICATION
EB-2010-0065

Bluewater Power Distribution Corporation
Reply Submission
To

ONTARIO ENERGY BOARD
Board Staff

And

Vulnerable Energy Consumers Coalition
(“VECC”)

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February 15, 2011

REPLY SUBMISSION

Bluewater Power Distribution Corporation (“Bluewater Power”) makes this submission in reply to the Board Staff Submission dated January 25, 2011, and in reply to VECC submission dated January 25, 2011.

Background:

Both Board Staff and VECC made submission 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.

TREATMENT OF SMART METER FUNDING ADDER

Bluewater Power acknowledges the support from Board Staff of our request for an increase in the Smart Meter Rate adder from $1.00 to $2.00. We submit that the increase is an important step in terms of creating adequate base funding for current Smart Metering activity as well as smoothing the increase in rates.

VECC submits that using a single smart meter funding adder for all customer classes results in an ongoing cross-subsidy of the Commercial GS<50 Class by the Residential Class. Bluewater Power submits that will be an issue for the Ontario Energy Board to decide when Bluewater Power applies for final disposition. The evidence before the Board supports the interim rate adder proposed with our application and we confirm our position that the interim rate adder is fair and reasonable.

DEFERRAL AND VARIANCE ACCOUNT DISPOSITION

A. <u>Wholesale Market Participant</u>

Bluewater Power acknowledges VECC’s support for the proposal to exclude the WMP from the disposition of Accounts 1580 – RSVA Wholesale Market Service Rate, 1588- RSVA Power (excluding Global Adjustment), and 1588 – RSVA Power (sub account for Global Adjustment).

Board Staff also support excluding the WMP from the disposition of Account 1580 – RSVA Wholesale Market Service Rate and Account 1588- RSVA Power (sub account for

Global Adjustment). The reply submission of Board Staff notes the following two options for 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."*

Bluewater Power would like to respond to each option individually, with the conclusion that the first option ("Option #1") is the most reasonable approach for dealing with a WMP customer compared to the second option ("Option #2).

<u>Response to Option #1</u>

Our answer to OEB Staff IR#2 assumed that Board Staff's concern was the lack of accounting for the potential variance between deemed loss-factor and actual losses. Our answer to that potential concern is complete and on the record. Our overall position was (a) there is no mechanism to calculate any potential difference between deemed and actual losses and, (b) any variance that might exist related to this WMP would not be material.

To make the second point more clear, we have provided Table 1 below to illustrate the impact of the WMP on Bluewater Power's IESO bill. The consumption shown is for illustration purposes only, but the numbers are roughly representative using an assumed commodity cost of 6 cents/kWh. Table 1 illustrates that the kWh associated with the WMP are netted off Bluewater Power's total load prior to the utility receiving its IESO invoice. Therefore, Bluewater Power is not billing the WMP for any of the dollars associated with Wholesale Market Service Charge, Cost of Power (excluding Global Adjustment), or Global Adjustment.

Table 1: Example of Settlement

Item	Description	Illustrative Meter Reading (kWh)	Loss Factor	Net kWh (kWh * loss factor)	COP ($/kWh)	COP ($)
1	IESO Meter Read at BWP delivery point	600,000,000	1.0045	602,700,000		
2	Less: Meter Read at WMP delivery point (at customer site)	120,000,000	1.0045	120,540,000		
3	Net kWh charged to BWP on IESO invoice			482,160,000	0.06	$28,929,600
NOTE: The Loss Factor applied to the bill from the IESO to Bluewater Power is calculated each month by the IESO and it varied from 0.39% to 0.64% in 2010, for an average loss factor of 0.45%. However, the Loss Factor for the WMP is fixed at 1.0045. In any event, the two loss factors were identical in 2010.						

If we assume an actual loss factor for the WMP that is 10% higher than the deemed loss factor (1.00495 vs. 1.0045), Account 1588 – RSVA Power (excluding Global Adjustment) would carry an additional $3,240 to be disposed of at a later disposition date (representing a variance of 54,000kWh between deemed and actual losses). That is to say that the kWh netted off related to the WMP should have been 54,000kWh higher, and the remaining kWh attributable to the remaining Bluewater Power customers should have been lower by 54,000kWh. Although the variance between the actual and the deemed loss factor cannot be known for this WMP, we suggest that a 10% error is a reasonable assumption.

Bluewater Power submits that a variance of $3,240 is simply not material. We support Option 1 and that is further supported by our critique of Option 2 set-out below.

<u>Response to Option 2</u>:

We do not disagree with OEB Staff that the starting premise is that theoretically the variances attributable to the commodity (as opposed to losses discussed above) are temporary differences; if correct, that characterization could support two very different conclusions. On the one hand, as Board staff suggest, temporary variances are self-correcting so that all customers are kept whole over time and the Board need not concern itself with temporary inequities. On the other hand, in this situation the WMP does not contribute to that temporary variance and will experience a significant cash-flow impact in respect to disposition of a variance to which it clearly did not contribute.

The effect of <u>including</u> the WMP in the disposition of Account 1588- RSVA Power (excluding Global Adjustment) would be that the WMP would be charged $316,169 over the next 2 years as illustrated in the table below.

Rate Class	Billed kWh	% kWh	WMSR	Power – Excluding GA	Total
			1580	1588 1	
Residential	256,212,050	25.2%	(101,801)	652,966	551,165
General Service Less Than 50 kW	112,787,581	11.1%	(44,814)	287,443	242,630
General Service 50 to 999 kW	215,198,957	21.2%	(85,505)	548,443	462,938
General Service 1,000 to 4,999 kW	168,112,239	16.6%	(66,796)	428,440	361,644
Large Use	126,871,903	12.5%	(50,410)	323,338	272,928
Unmetered Scattered Load	2,155,483	0.2%	(856)	5,493	4,637
Sentinel Lighting	655,494	0.1%	(260)	1,671	1,410
Street Lighting	8,841,203	0.9%	(3,513)	22,532	19,019
Large Use – WMP	124,059,105	12.2%	(49,292)	316,169	266,877
	1,014,894,015	100.0%	(403,248)	2,586,496	2,183,248

The Board in the 'Electricity Distributors' Deferral and Variance Account Review Initiative' ("EDDVAR") paper had determined that certain accounts should be allocated differently between subsets of certain customers within a class. For example, Account 1588 – RSVA (sub account Global Adjustment) is allocated based on kWh for non-RPP customers in recognition that RPP customers do not contribute to the balance in that specific deferral account. Bluewater Power submits that our proposal is an extension of that same principal previously endorsed by the Ontario Energy Board. Given that the WMP does not contribute to the accumulation of the balance in the deferral account (except for a non material contribution related to a variance between deemed and actual losses), the WMP should not be party to the disposition of this account either. We note that, in times where the disposition of the deferral account balance is a credit, the WMP would be receiving a 'benefit' that really 'belonged' to all the other customers that contributed to the 'over-collection' in the account, and not the WMP.

The position of Board Staff would impose a $316,169 cash-flow impact on the WMP in order to capture a variance in losses that cannot be verified and that, even if it were a +/- 10% difference, would amount to $3,240 in avoided or additional charges (note also that the variance between deemed and actual loss factor could work in either direction).

In conclusion, Bluewater Power submits that Option #1 is preferred and that approach is reflected in this application with the proposed rates and tariffs.

B. Global Adjustment Sub-Account – Separate Rate Rider

Board Staff note that the prevalent practice among 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.

Bluewater Power had originally proposed that a separate line item be presented on each applicable bill, however, Bluewater Power would be able to comply with the prevalent practice and we can include the separate rate rider within the 'delivery' component of the bill for those customers that have a standardized bill (ie. low volume customers). For the customers that do not have a standardized bill, the rate rider is still proposed to be a separate line item, unless the Board directs otherwise. Bluewater Power requests the Boards clarification on bill presentment.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Bluewater Power acknowledges the support of Board Staff and VECC's support of our request to adjust revenue to cost ratios as they are in compliance with the Board decision (EB-2008-0221) for our 2009 cost of service application.

LOST REVENUE ADJUSTMENT MECHANISM ("LRAM")

Bluewater Power acknowledges the support from Board Staff and VECC of our LRAM claim in the amount of $241,149.