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BY EMAIL

January 21, 2008

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Bluewater Power Distribution Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0862

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

Original Signed By

Alison Cazalet
Policy Advisor, Regulatory Policy Development

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Bluewater Power Distribution Corp.

EB-2007-0862

January 21, 2008

INTRODUCTION

Bluewater Power Distribution Corp. ("Bluewater") submitted an application on October 31, 2007, seeking approval for changes to the rates that Bluewater charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 15, 2007, Bluewater filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of the evidence submitted by Bluewater.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

Bluewater proposes to dispose of the balances in accounts 1584 and 1586 through a rate rider beginning May 1, 2008, for a period of 12 months. Bluewater also proposes to reduce its RTR – Network Service Rate and its RTR – Line and Transformation Connection Service Rate in accordance with the reduction in wholesale transmission rates, adjusted to reflect a conservative approach, and the proportion of Bluewater's costs for transmission rates attributable to the IESO.

Discussion and Submission

Bluewater reports that the balances in accounts 1584 and 1586 have been fairly consistent over the past few years, and that as of September 30, 2007, account 1584 had a debit balance of $265,860, and account 1586 had a credit balance of $341,399. The balances in both accounts include carrying charges.

Bluewater also projected the variance for the period from November 1, 2007 to April 30, 2008. This analysis indicated an anticipated credit balance of $525,736 in the case of account 1584, and a credit balance of $214, 357 in the case of account 1586. Staff notes that carrying charges do appear to have been included in these forecast account balances.

The totals of each deferral account that Bluewater is proposing for disposition are, therefore, a credit balance of $259,876 in the case of account 1584 and a credit balance of $555,756 in the case of account 1586.

To derive the proposed rate riders, Bluewater allocated these balances to each customer class based on their proportion of total revenue from RTR – Network Service and RTR – Line and Transformation Connection Service respectively, using 2004 kWh or kW volumes. Bluewater reports that this was consistent with the volumes and allocation methodology used for 2006 electricity distribution rates.

The usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances are also generally dealt with in aggregate rather than clearing discrete accounts.

As noted above, in its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances. However, parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all Retail Settlement Variance Accounts (RSVA) at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition. Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as Bluewater applies to be rate rebased, which is scheduled to occur in 2009.

All of which is respectfully submitted.