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Ontario

BY E-MAIL

October 1, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Bluewater Power Distribution Corporation
Application for 2012 Smart Meter Cost Recovery effective November 1, 2012
Board File Number EB-2012-0263

On September 26, 2012, Bluewater Power Distribution Corporation ("Bluewater") filed an amendment to its evidence to revise the proposed Smart Meter Disposition Riders ("SMDRs") to correspond with the actual tax treatment of certain computer software investments. In the Amendment, Bluewater re-categorized certain software investment costs from CCA class 46 to CCA class 12.

On September 27, 2012, Board staff issued a letter requesting that "Bluewater confirm that the re-classification of software costs from class 46 to class 12 in all years from 2006 to 2011 conforms with the tax treatment in Bluewater's tax filing for each year during this period." Board staff stated that "[s]ubject to Bluewater's confirmation of this, Board staff submits that it would see no further need for a process for discovery through interrogatories or submissions on the amendment." On September 28, 2012, VECC submitted a letter supporting Board staff's inquiry and submission.

On September 28, 2012, Bluewater filed a letter stating that "[t]he Application Software investments from 2006 to 2011 were cumulated and treated as CCA class 12 assets in the 2011 Tax Return."

Bluewater's reply letter references only the 2011 Tax Return, and thus does not fully answer Board staff's query for confirmation of the tax treatment in each year from 2006 to 2011. Board staff understand that Applications Software costs were not claimed prior to the 2011 tax year on the basis that these software investments were not fully functional and hence were not "used and useful" for tax purposes.

Board staff takes no issue with the clarification. However, this raises an issue of symmetry of treatment for tax and rate regulatory purposes. In the amended models, the costs are documented in the years incurred, beginning in 2006. The deferred revenue requirement is calculated as if the assets went into service in the year in which they were incurred; in other words that they immediately became “used and useful”.

Bluewater’s clarification raises the concern that the investments prior to 2011, an amount close to $600,000, are earning a return and depreciation expense in prior years even though they only became “used and useful” in 2011. In other words, Board staff submits that the Board must consider whether there should be symmetrical treatment as to when these assets became “used and useful” for tax and for rate regulatory purposes.

Using the smart meter models submitted by Bluewater on September 26, 2012, Board staff has conducted an analysis where all “Applications Software” capital investments from 2006 to 2010 are removed from each year but instead introduced in 2011 when they become “used and useful”. No other changes have been made to the models. The results are as follows:

SMDRs	**Residential**		**General Service < 50 kW**	
Recovery Period	Bluewater amendment September 26, 2012	Board staff analysis – October 1, 2012	Bluewater amendment September 26, 2012	Board staff analysis – October 1, 2012
November 1, 2012 to April 30, 2013	$2.42	$1.74		
November 1, 2012 to October 31, 2014			$6.06	$5.36

The Board staff-amended smart meter models are attached to this letter. The SMDRs are reduced as the Applications Software assets become used and useful at a later date, and hence there is less of a deferred return on capital and depreciation expense. There is minimal impact on PILs as Class 12 assets have a CCA rate of 100% subject to the usual half-year rule.

Deferring the investments becoming “used and useful” until 2011 will have an upward impact on Bluewater’s rate base and hence on distribution rates in its 2013 cost of service application, as these assets will be less depreciated. Other than the impact from the increased return on capital because of the higher net book value of the Applications Software assets, there is no additional impact on taxes or PILs in 2013 and beyond, as there will be no UCC remaining for Class 12 assets incurred prior to January 1, 2012 due to the CCA treatment of this class of assets.

Board staff submits that the Board must consider, on a principled basis, whether symmetrical treatment for these Applications Software capital investments for tax and rate regulatory purposes is warranted. It is really a matter of timing, as, in the long run, Bluewater will recover fully its investment in and return on the amounts approved by the Board for recovery in rates. Board staff also submits that this tax treatment issue is separate from the Board's consideration of the prudence of costs for which Bluewater is seeking recovery in this Application.

Yours truly,

[Original signed by]

Keith C. Ritchie
Project Advisor, Applications & Regulatory Audit

cc: L. Dugas, Bluewater Power Distribution Corporation
M. Buonaguro, Counsel for the Applicant
S. Grice, VECC
M. Janigan, VECC

Attachments: Bluewater_Updated Smart Meter Model_GSLT50_20120926_kcr.xls
Bluewater_Updated Smart Meter Model_residential_20120926_kcr.xls