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April 17, 2013

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

**RE: Response to Questions of the Board, EB-2012-0107 Bluewater  
Power Distribution Corporation Settlement Proposal**

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Dear Ms. Walli

Bluewater Power Distribution Corporation ("Bluewater Power") would like to respond to the two questions that were posed by the Board by letter dated April 11, 2013. As this letter is in response to a Board inquiry concerning a settlement proposal that has been presented jointly by all the parties to the proceeding, this letter is sent on behalf of all the parties to the settlement proposal, with a view to avoiding the disclosure of specific negotiations that led to the agreed upon proposals.

The first question is with respect to the issues described in the second paragraph of that letter concerning the large user study mandated by the Board in accepting the Settlement Agreement in EB-2008-0221. Shortly before the settlement conference in EB-2008-0221 was to take place, a member of Bluewater Power's Large Use rate class ceased operation. Several months earlier another member of that class closed down. These closures created a concern, both for Bluewater Power and for intervenors with respect to cost allocation and revenue-to-cost ratios which would result.

In order to effect a settlement in that matter, all of the parties agreed to accept the revenue-to-cost ratios proposed by Bluewater Power subject to the following:

"The parties agree that Bluewater Power shall undertake a study of its cost to serve its customers in the Large Use rate classes. The purpose of the study derives from the fact that Bluewater Power did not fully update its 2006 Cost Allocation Model (based on 2004 actual expenses) for the 2009 Test Year. Instead, Bluewater Power adjusted the Cost Allocation Model to reflect the impact of the loss of two customers. The study will assist both in determining the true costs to serve customers in this rate class and determining the balancing of costs among all rate classes in the future. The study will be filed as evidence in Bluewater Power's next rebasing rate application."

The revenue-to-cost ratio proposed by Bluewater Power for the Large Use class was 1.10. It was settled at 1.07.

The Board Decision and Order with respect to that application was made March 6, 2009. In it the Board accepted the Settlement Agreement and ordered its implementation and by implication, the implementation of the agreement to do the study just described.

It was the feeling of a number of the intervenors in this application that the Elenchus study which is contained in the Bluewater Power application herein at Exhibit 7, Tab 1, Schedule 1, Attachment 1 did not fulfill any of the requirements of the study described in EB-2008-0221 and ordered to be implemented in the Board's Decision and Order just mentioned. Bluewater Power felt it did.

In order to effect a settlement in EB-2012-0107, including acceptance of the proposed revenue-to-cost ratio for the Large Use rate class of 1.15, Bluewater Power agreed, again, to conduct a Large User Study. The Settlement Agreement herein dealt with it in the following way:

“Bluewater Power has agreed for the purposes of settlement to undertake a study to determine the costs of serving each of the three customers remaining in the Large Use rate class as of the date of this Agreement. The study is intended to determine the specific costs of serving the remaining customers in the class, to compare the results of the study to the cost allocated to the Large Use class using Board Cost Allocation Methodology. The study and its results shall be filed as evidence no later than the Bluewater Power’s application for 2015 rates.”

The new Large Use Study will differ in two ways from the Elenchus Study. First, the study will contain a further examination of the specific costs associated with serving each of the remaining Large Use customers of Bluewater Power. Second, Bluewater Power will undertake to invite the existing Large Use Customers to a consultation with respect to the results of the study. The information obtained from this examination and consultation will be specifically addressed in the final study filed with the OEB.

The Board also seeks information on why the study cannot be filed as evidence with the 2014 rates application. Bluewater Power believed that the timing would be too compressed to file a study with the 2014 rate application. The cost of service process will occupy internal resources fully until final rates are approved (2<sup>nd</sup> quarter of 2013), and then 2014 rates will be prepared and applied for in the 3<sup>rd</sup> quarter of 2013 that, in Bluewater Power’s estimation, does not leave adequate time to prepare the large use study. Thus for the purposes of settlement, all parties agreed file the study with the 2015 rate application.

Once filed, and depending on the results, some parties may make submissions concerning the appropriateness of the revenue to cost ratios embedded in Bluewater Power’s rates.

The second question is in regard to monthly billing; the Board asks Bluewater Power to specifically explain what is meant by the words “compelled to switch over to monthly billing” and which entity may compel us to move to monthly billing. Bluewater Power staff was aware of discussions in the fall of 2012 regarding the topic of Bill Presentment, which included questions from the Ministry of Energy regarding the impact and cost of LDC’s moving to monthly billing. Given these discussions, Bluewater Power felt that the Minister of Energy may mandate the movement to monthly billing.

Bluewater Power confirms that if monthly billing is implemented, a deferral account will be requested in order to record the incremental costs, on the presumption that such costs would be recoverable as a Z-Factor during IRM.

Sincerely,



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