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December 20, 2016

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: 2018 Cost of Service Application**

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Dear Ms. Walli

Bluewater Power Distribution Corporation (“Bluewater”) is writing to seek a one-year deferral of its 2018 Cost of Service (“COS”) application. Bluewater completed its most recent COS application for rates effective May 1, 2013. We were scheduled to file our next COS application four year later (rates effective May 1, 2017), but in October of 2015, Bluewater requested to defer our COS application by one year. Approval of that deferral request was granted by the Ontario Energy Board by letter dated March 21, 2016, so this request is our second request for a one-year deferral.

Over the past several months, Bluewater has worked toward filing a COS application for 2018 rates. We have continued to finalize our Asset Management Plan, monitored customer needs, load forecast trends, the reliability of our system and progress on capital spending. As part of that process of preparation, we also sought to determine whether it would be beneficial for both Bluewater and its customers to delay rebasing for a further one-year period.

Bluewater believes it is incumbent upon the distributor to ask, each time before filing a COS application, whether the time and expense of a COS application is to the benefit of the utility and its customers. At this time, Bluewater believes that the utility can continue one more year under the 3<sup>rd</sup> Generation Price Cap IR process, and continue to provide reliable service, invest appropriately in capital and focus on key initiatives to manage costs for the utility while maintaining a customer centric focus.

Bluewater submits that the proposed one-year deferral is appropriate for the following reasons:

- Although Bluewater accepts that ROE toward 2018 could trend below OEB-approved ROE, we also believe that our customers are better served by continuing to focus on cost savings rather than investing the substantial time and expense required in order to conduct a COS application.
- Bluewater’s capital spending in 2016, as well as forecast spending in 2017, exceed the level of capital spending approved in our 2013 COS application (even if that spending is offset by the “lumpiness” in our capital spending discussed next). The OEB can be satisfied that Bluewater maintained investment in our infrastructure during 2016 despite the delay in rebasing, and we forecast the same level of capital investment in 2017.
- Capital spending has been relatively stable since the year 2013, however Bluewater is experiencing some “lumpiness” in Capital spending currently as we work with Hydro One Networks Inc. (“HONI”) on the upgrade of the Wanstead Transformer Station. That project will be complete in the last quarter of 2018; therefore, a one-year delay in rebasing will permit the Capital Spending driven by that HONI upgrade to be fully incorporated in Rate Base if the COS application is delayed until 2019.

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- Bluewater will continue to work toward finalizing its Asset Management Plan. If the OEB requests, we would be pleased to submit the document in the Fall of 2017, if not for review or approval by the OEB, but simply for the OEB's records.
- Bluewater's OEB scorecard for the year 2015 was favourable, and we continue to strive toward improved performance.

There are softer considerations that we believe support the direction to defer rebasing for a further one-year period. Like many other LDCs, the workload in the current regulatory and political environment has placed extreme pressure on all departments. In order to avoid cost increases required to "staff-up" in order to maintain current service as well as conduct a COS application, the proposed a one-year deferral will permit Bluewater to focus on longer term planning to ensure the time and resources will be available without incremental staff. Moreover, there is public pressure on electric utilities to control costs further, and by deferring a potential increase in base distribution rates, Bluewater and the OEB can provide assurance to the public that we are striving toward stable and predictable distribution rates for our customers.

Finally, we note that Bluewater's actual return on equity is within the acceptable range as determined by the OEB. For your ease of reference, the ROE for the most recent four years are indicated in the chart below.

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Deemed ROE in rates	8.01%	8.98%	8.98%	8.98%
Achieved ROE	9.70%	11.40%	10.17%	11.83%

Accordingly, Bluewater hereby requests to defer the Cost of Service application for one further year (for rates effective 2019) and, thereby continue under the 3<sup>rd</sup> Generation Price Cap IR framework for one additional year, being the rate year effective May 1, 2018.

Please feel free to contact me if you require any further information, or you wish to provide direction.

Sincerely,



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