

Bluewater Power Distribution Corporation (Bluewater Power)

2018 IRM Application

EB-2017-0027

Responses to Board Staff Interrogatories

January 25, 2017

Question #1

**Ref: Chapter 3, Managers Summary Pg 8 of 27 and Rate Generator Model, Tab 16
Rev2Cost GDPIPI**

Chapter 3, section 3.2.3 states “In 2018, a distributor is expected to apply to extend its OEB-approved transition period if necessary, to continue to comply with the policy. For 2018, the monthly service charge would have to rise more than \$4 per year in order to affect the length of the transition to fixed rates. It is expected that in most cases, only an additional transition year would be required to make the changes within the \$4 impact threshold identified in the policy. A distributor shall propose an alternative or additional strategy in the event that an additional transition year is insufficient. Consistent with OEB policy regarding mitigation, a distributor may propose as part of its application that no extension is necessary; such a position must be substantiated with reasons.”

The \$4.00 threshold was intended to be applied before the price cap adjustment.

Bluewater Power stated in its manager’s summary “Bluewater is proposing the 3rd of 4 annual increases to the fixed charge. The rate model produces an increase to the base fixed charge of \$3.77 and a decrease to the variable charge of \$.0056/kWh in the 2018 rate year. Although the change to the base fixed rate is below the \$4.21 to the fixed charge and a decrease of \$.0055//kWh to the variable charge. Bluewater proposes that even though the total increase is \$4.21 to the fixed charge, results in a rate increase for the average residential RPP customer of 1.2%. We therefore submit the increase to the fixed charge of \$4.21 is reasonable.


- a) Please confirm that Bluewater Power did not in fact exceed the \$4.00 when applied prior to the price cap adjustment.

Confirmed.

Question #2

Ref: A portion of Sheet 8 “STS – Tax Change” is reproduced below.

Summary - Sharing of Tax Change Forecast Amounts		
For the 2013 year, enter any Tax Credits from the Cost of Service Tax Calculation (Positive #)		54,764
I. Tax Related Amounts Forecast from Capital Tax Rate Changes		
	2013	2018
Taxable Capital (if you are not claiming capital tax, please enter your OEB-Approved Rate Base)	64,468,782	\$ 64,468,782
Deduction from taxable capital up to \$15,000,000		\$
Net Taxable Capital	\$ 64,468,782	\$ 64,468,782
Rate		0.00%



Revenue Requirement Workform

Rate Base and Working Capital

Line No.	Rate Base Particulars		Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
1	Gross Fixed Assets (average)	(3)	\$60,605,008	\$59,476,565	\$120,002,373	\$ -	\$120,002,373
2	Accumulated Depreciation (average)	(3)	(\$7,153,078)	(\$60,638,352)	(\$87,791,430)	\$	(\$87,791,430)
3	Net Fixed Assets (average)	(3)	\$53,452,730	(\$1,161,707)	\$52,290,943	\$ -	\$52,290,943
4	Allowance for Working Capital	(1)	\$13,349,086	(\$170,249)	\$13,177,839	(\$13,177,839)	\$ -
5	Total Rate Base		\$66,800,816	(\$1,332,035)	\$65,168,782	(\$13,177,839)	\$52,290,943

- a) OEB staff has been unable to confirm the amount entered in for “Taxable Capital” with the OEB approved amount from Bluewater Power’s 2013 cost of service Revenue Requirement Work Form (EB-2012-0107). Please provide evidence supporting this amount. If this amount is entered in error, OEB staff will make any necessary updates to the model.

Bluewater does not seek to claim a Capital Tax. Accordingly, Sheet 8 of the rate model requires that we insert the OEB approved rate base as the input for

“Taxable Capital”. In preparing the response to this IR, we noted that we had made a typographical error while inputting our 2013 OEB Approved Rate Base. The rate base approved for the 2013 cost of service application (EB-2012-0107) is \$65,468,782. We had inadvertently made an error with one digit and typed \$64,468,782. We ask that the OEB Staff kindly update the model to reflect \$65,468,782 in Sheet 8.

Board Staff have provided an excerpt of the Revenue Requirement Work Form (“RRWF”) in the prelude to the question above. We want to point out that, given that the 2013 cost of service application was fully settled, the RRWF was only completed as far as the “Settlement Agreement” column for each sheet in the model. The Board accepted the Settlement Proposal in its Decision with a rate base value of \$65,468,782. OEB Staff should understand that the RRWF was not updated to reflect the settlement proposal values under the column headed “Per Board Decision” since the RRWF was completed prior to the Board Decision. Had it been updated, the columns “Settlement Agreement” and “Per Board Decision” would have been identical.

Question #3

Ref: Manager's Summary, pages 25 of 27 – Tax Sharing

In this section of the Manager's Summary, Bluewater Power is requesting a rate rider to recover the accumulated amount of \$92,430 including carrying charges over a one year period.

OEB staff notes that as per the Decision and Rate Order issued on March 17, 2016 in Bluewater Power's 2016 IRM application (EB-2015-0053), the OEB directed Bluewater Power to record the tax sharing charge of \$30,493 in variance Account 1595 by June 30, 2016 for disposition at a future date.

OEB staff also notes that as per the Decision and Rate Order issued on March 30, 2017 in Bluewater Power's 2017 IRM application (EB-2016-0057), the OEB directed Bluewater Power to record the tax sharing charge of \$30,493 in variance Account 1595 by June 30, 2017 for disposition at a future date.

OEB staff further notes that in the *Filing Requirements for Electricity Distribution Rate Applications* dated July 20, 2017, section 3.2.7 states that "if one or more customer classes does not generate a rate rider to the fourth decimal place, the entire 50/50 sharing amount will be transferred to Account 1595 for disposition at a future date."

- a) Please confirm whether the amounts in 2016 and 2017 were recorded in variance Account 1595. If not, please explain why.

Confirmed, the approved amounts are recorded in a sub-account of account 1595.

The amount related to the 2016 IRM application (EB-2015-0053) is reflected in row 36 of the Continuity Schedule. However, this row was not selected for disposition because we have, instead, proposed to group the amounts for all three years (2016 IRM, 2017 IRM and 2018 IRM) to form one disposition amount totalling \$92,430.

The amount related to the 2017 IRM (EB-2016-0057) application was also recorded to a sub-account of Account 1595 when the application was approved in March 2017. This amount is not yet reflected in the continuity schedule because the continuity schedule only reflects balances up to December 31, 2016.

- b) Please explain why Bluewater Power is asking for the one-year rate rider accumulated balance instead of recovering the 2016 and 2017 amounts through the 1595 sub-account as per the OEB's Decision and Rate Order.

The tax sharing value for any one year individually (2016 IRM value, 2017 IRM value and 2018 IRM value) does not generate a rate rider to the fourth decimal place. However, the combination of the three annual values does constitute a valid rate rider to the fourth decimal place for all rate classes. Therefore, Bluewater is seeking recovery of the accumulation of the three annual values in this proceeding.

Question #4

**Ref: Chapter 3, Managers Summary Pg 23 of 27 and
 Bluewater Power’s response 5)a) and 5)b) to OEB staff’s preliminary
 questions dated October 11, 2017 on Global Adjustment**

Bluewater Power has indicated that it began its RPP settlement true-up process with the IESO effective consumption from January 1, 2017. Prior to this date, the RPP settlement was done on billed consumption. Therefore, the balance for disposition as of December 31, 2016 is not trued up. Bluewater Power has provided a spreadsheet “Bluewater Power RPP Settlement for COP and GA – January to December 2016”. However, this spreadsheet is based on billings, not consumption. Please complete the following Table to provide:

1. For 2016 consumption only, the amounts settled with the IESO that were posted to Account 1588 and Account 1589 respectively.
2. For 2016 consumption only, the additional amounts that would need to be settled with the IESO for Account 1588 and Account 1589 respectively.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
RPP Consumption for Year 2016	Amount Settled With the IESO for 2016 RPP consumption	Portion of Column (2) booked in 1588	Portion of Column (2) booked in 1589	True-up of RPP Amount settled in (2) to be done	Portion of Column (5) to be booked in 1588	Portion of Column (5) to be booked in 1589
Jan-16						
Feb-16						
Mar-16						
Apr-16						
May-16						
Jun-16						
Jul-16						
Aug-16						
Sep-16						
Oct-16						
Nov-16						
Dec-16						

Bluewater would like to clarify that the spreadsheet called 'Bluewater Power RPP Settlement for COP and GA – January to December 2016' contains 2 tables. Table 1 is the initial amounts submitted to the IESO, which were estimates of the consumption for each month that were based on the billings in each month. However, Table 2 provides the actual consumption amounts for each calendar month. The difference between Table 1 and Table 2 is the RPP true-up amount for 2016.

We have completed Table 1 below, as requested. It contains a summary of the initial estimated consumption (Column (2) which is based on billings) and the subsequent true-up based on actual consumption (Column (5)). For clarity, the sum of columns (2) and (5) total (\$1,597,152) which represents the total RPP settlement based on actual calendar month consumption for 2016. This amount is also found as the sum of row 39 in Table 2 of the spreadsheet 'Bluewater Power RPP Settlement for COP and GA – January to December 2016'.

It should be noted that the true-up presented in Table 1 below has been settled with the IESO, as is further explained in response to question 5.

The supporting back-up calculation to this table is provided as an excel spreadsheet.

Table 1 – 2016 Calendar Month allocation to Accounts 1588 and 1589

RPP Consumption for year 2016	(2) Amount Settled with the IESO for 2016 RPP consumption	(3) Portion of Column (2) booked to 1588	(4) Portion of Column (2) booked to 1589	(5) True-up of RPP Amount settled in (2) to be done	(6) Portion of Column (5) to be booked in 1588	(7) Portion of Column (5) to be booked in 1589
Jan-16	\$ 25,946	\$ 3,252,976	-\$ 3,227,030	-\$ 432,909	-\$ 452,136	\$ 19,227
Feb-16	-\$ 64,858	\$ 2,640,769	-\$ 2,705,627	-\$ 67,237	\$ 307,332	-\$ 374,569
Mar-16	-\$ 61,247	\$ 3,648,199	-\$ 3,709,446	-\$ 65,534	-\$ 603,062	\$ 537,528
Apr-16	\$ 77,355	\$ 2,799,118	-\$ 2,721,763	-\$ 354,868	-\$ 8,523	-\$ 346,344
May-16	-\$ 126,063	\$ 3,027,704	-\$ 3,153,767	-\$ 178,348	-\$ 260,133	\$ 81,785
Jun-16	-\$ 270,285	\$ 3,035,312	-\$ 3,305,597	\$ 158,616	-\$ 90,250	\$ 248,866
Jul-16	-\$ 474,505	\$ 2,778,114	-\$ 3,252,619	\$ 679,927	\$ 914,261	-\$ 234,334
Aug-16	-\$ 111,602	\$ 3,317,577	-\$ 3,429,179	\$ 454,175	\$ 136,106	\$ 318,069
Sep-16	\$ 70,341	\$ 3,740,991	-\$ 3,670,651	-\$ 120,743	-\$ 791,922	\$ 671,179
Oct-16	\$ 305,069	\$ 3,069,331	-\$ 2,764,262	-\$ 692,613	-\$ 458,401	-\$ 234,213
Nov-16	\$ 376,925	\$ 3,065,995	-\$ 2,689,071	-\$ 778,088	-\$ 436,523	-\$ 341,566
Dec-16	-\$ 215,239	\$ 2,321,608	-\$ 2,536,846	\$ 268,634	\$ 715,363	-\$ 446,728
Total	-\$ 468,163	\$ 36,697,695	-\$ 37,165,858	-\$ 1,128,989	-\$ 1,027,887	-\$ 101,101

*Negative value indicates receivable from IESO.

1. Column (2) - This is the amount initially settled with the IESO. This amount was an estimate of consumption based on billings that occurred in that month.
2. Column (5) - This is the difference between Table 1 (using billings as the initial estimate of consumption) and Table 2 (based on actual consumption) from the 'Detailed Data' tab of this spreadsheet.

Question #5

Ref: Bluewater Power Follow Up Responses – December 7, 2017 and RPP True-Up Table

RPP True-up – Further Explanation – December 15, 2017 provided to the OEB staff by Bluewater Power

1. The Table provided on December 7, 2017 includes a line regarding adjustments required to be made with respect to 2015 unbilled settlement amounts. OEB staff notes that the 2015 balances were approved on a final basis. Please comment on the appropriateness of Bluewater Power's proposal to retroactively change OEB approved balances that were disposed on a final basis.

Bluewater Power disagrees with the premise of the question. We have not proposed (through Table #1 in our response dated December 7, 2017, hereinafter referred to as "2016 RPP True-up Table") to retroactively change OEB approved balances. What the 2016 RPP True-up Table demonstrates is the consequence of implementing the OEB's "Guidance on the Disposition of Accounts 1588 and 1589" letter dated May 23, 2017 (hereinafter referred to as the "2017 Guidance") with an effective date of January 1, 2016. Through this 2018 IRM application process, OEB staff have taken the position that the 2017 Guidance requires an RPP true-up with an effective date of January 1, 2016 instead of January 1, 2017 as originally proposed by Bluewater Power in our application.

Regardless of the implementation date, there is a transition from one methodology to another. The 2016 RPP True-up Table highlights the fact that the 2015 balances include (as they would in any year for any distributor following the accrual methodology for Accounts 1588 and 1589) an accrued amount for unbilled kWh's in 2015. Those accrued amounts from 2015 would ordinarily be reversed at the start of 2016, once the unbilled consumption from November and December were fully reflected in the January and February billings. However, when Bluewater Power transitions to the RPP True-up methodology, there is no opportunity to reverse the accrual in the following year. That is because the RPP True-ups performed in January and February in compliance with the 2017 Guidance now reflect the consumption months January and February, instead of November and December. Therefore, we need to settle these unbilled kWh's from the end of 2015 with the IESO directly, otherwise these amounts would remain accrued indefinitely.

This settlement of the unbilled kWh's with the IESO is not retroactive ratemaking; nor is it retroactively adjusting an OEB approved balance. It is simply the settlement of an accrual through a different means brought about by the transition from one methodology to another. From an accounting perspective, that settlement has taken place in the 2017 Accounting Year and will, therefore,

be reviewed through the normal audit process for 2017; accordingly, the account balances will be considered by the OEB on our next rate application, based on audited balances.

2. In light of the fact that Bluewater Power had never true up its RPP settlements with the IESO until January 1, 2017, and the true-up amounts that were calculated only for the purpose of OEB's staff questions, would Bluewater agree that it is appropriate for Bluewater Power to obtain further validation of balances through a more detailed review of its balances in Accounts 1588 and 1589, and its IESO Settlement processes?

Before answering this question, we must clarify that Bluewater Power did perform the RPP True-up to January 1, 2017 prior to submitting our 2018 IRM Application. That action was taken in compliance our interpretation of the 2017 Guidance. Through this interrogatory process, the OEB Staff position has been clear that the proper interpretation of the 2017 Guidance is that Bluewater Power was required to perform the RPP True-up to January 1, 2016. Bluewater Power is financially indifferent as to the implementation date. However, since the OEB Staff interpretation has been clear, and we now agree it is a reasonable interpretation, we have already performed the True-up with the IESO effective to January 1, 2016.

Turning to the question now, Bluewater Power does not agree that a more detailed review is required at this time. As discussed in answer to Question 5(1) above, the \$518,517 settlement from the IESO to Bluewater (see row 5 of the 2016 RPP True-up Table) has taken place and will impact the 2017 Accounting year. It will, therefore, be reviewed through the 2017 Financial Audit of the corporation and will be submitted to the OEB for final approval with our next rate application, if not approved in this rate application.

However, if OEB Staff would be more comfortable with a delayed disposition, then Bluewater Power would be prepared to withdraw its application for disposition of Accounts 1588 and 1589 (as discussed further below). We could then undertake a special purpose audit of these accounts, which would be a separate report to be submitted with Bluewater's 2019 rate application to supplement the audited balances for the 2017 Accounting year.

3. In light of the fact that the balances in Accounts 1588 and 1589 have not yet been validated, would Bluewater Power agree to withdraw its request to dispose of these accounts in the current proceeding?

Bluewater Power wants the record to be clear on two items. First, Bluewater Power is already in receipt a \$518,517 payment from the IESO (relating to the RPP True-up applied effective January 1, 2016). Once Bluewater Power was satisfied with the revised interpretation of the 2017 Guidance, we believed time was of the essence and we settled with the IESO on the December 2017 statement. Secondly, based on the fact we are in receipt of funds from the IESO, the amount of the necessary adjustments are known amounts (as shown in the 2016 RPP True-up Table). Moreover, the 2017 Guidance contemplates exactly what Bluewater would have proposed in order to implement the adjustments shown in the 2016 RPP True-up Table. Namely, we would be following the third bullet on page 2 of 2017 Guidance which states:

“RPP settlement true-up claims for a given fiscal year that have not been reflected in the audited financial statements are to be identified separately as an adjustment to the balance requested for disposition in the DVA continuity schedule submitted in rate applications. The impact of such adjustment should be reversed on the continuity schedule for the following year.”

Therefore, Bluewater Power would be comfortable proceeding with the disposition as contemplated by the 2016 RPP True-up Table.

However, if the OEB would be more comfortable with a delayed disposition of Accounts 1588 and 1589, then we accept that direction provided that the remaining Group 1 balances are considered for disposition. The remaining balances for disposition without Accounts 1588 and 1589 are presented in Table 2 below:

Table 2 – Group 1 balances excluding disposition of Accounts 1588 and 1589

Account Descriptions	Account Number	Total Claim
Group 1 Accounts		
LV Variance Account	1550	92,234
Smart Metering Entity Charge Variance Account	1551	(5,802)
RSVA - Wholesale Market Service Charge*	1580	(1,137,796)
Variance WMS – Sub-account CBR Class A ⁵	1580	0
Variance WMS – Sub-account CBR Class B ⁵	1580	56,310
RSVA - Retail Transmission Network Charge	1584	130,462
RSVA - Retail Transmission Connection Charge	1586	247,709
RSVA - Power*	1588	0
RSVA - Global Adjustment*	1589	0
Disposition and Recovery/Refund of Regulatory Balances (2009)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2010)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2011)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2012)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2013)*	1595	<input checked="" type="checkbox"/> Check to Dispose of Account (36,512)
Disposition and Recovery/Refund of Regulatory Balances (2014)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2015)*	1595	<input type="checkbox"/> Check to Dispose of Account 0
Disposition and Recovery/Refund of Regulatory Balances (2016)		<input type="checkbox"/> Check to Dispose of Account 0
<i>Not to be disposed of until a year after rate rider has expired and that balance has been</i>	1595	<input type="checkbox"/> Check to Dispose of Account 0
RSVA - Global Adjustment	1589	0
Total Group 1 Balance excluding Account 1589 - Global Adjustment		(653,395)
Total Group 1 Balance		(653,395)
LRAM Variance Account (only input amounts if applying for disposition of this account)	1568	0
Total including Account 1568		(653,395)

The remaining balances in the Group 1 accounts do not meet the materiality threshold for disposition, however, Section 3.2.5 of the 2017 Filing Requirements for Electricity Rate applications indicates that “distributors may elect to dispose of Group 1 account balances below the threshold. Distributors should assess the practicality of disposing what may be small balances for one or more classes.” Bluewater Power would seek to use its discretion to request disposition of the remaining Group 1 balance of (\$653,395) for two reasons. First, the delay of disposition of Accounts 1588 and 1589, together with the remaining Group 1 balances (if not disposed of), represents a significant total of \$1.6M delayed from being returned to ratepayers. (-\$653,395 Group 1 balance per Table 2 above, and the Revised RSVA amounts of -\$942,904 for Account 1588 and 1589 per Line 8 of the RPP True-up Table). Second, Bluewater Power has a high level of confidence that further review of Accounts 1588 and 1589 will support the further disposition to ratepayers proposed in the 2016 RPP True-up Table; therefore, there is very little risk that Bluewater Power would be returning funds to ratepayers in this 2018 IRM Application and, then, claiming recovery from ratepayers in 2019.