



BLUEWATER POWER

April 28th 2022

BOARD OF DIRECTORS MEETING



April 2022
Alex Palimaka

Regulatory Report

Part A - Essential or Action Section

1. 2022 IRM Rate Application

Bluewater Power received its OEB decision on March 24th for rates effective May 1, 2022.

The Decision approved all of our requests (increases as well as disposition of deferral accounts). The highlights of the approval are as follows:

- An increase of 2.7% to base rates, representing inflation of 3.3% and a stretch factor of 0.6%. The Board will recall the OEB commenced a proceeding to question this level of inflationary increase, but decided continue with the previously approved methodology.
- Recovery from customers of \$314,805 related to the disposition of net balance of deferral accounts for 2020.
- Recovery from customers of \$331,601 related to lost revenue attributed to conservation programs up to 2020.
- Bill impacts for the average residential customer of \$1.49 per month (1.19% on a total bill basis)

2. Optional Enhanced Time-of-Use (OETOU) Pricing

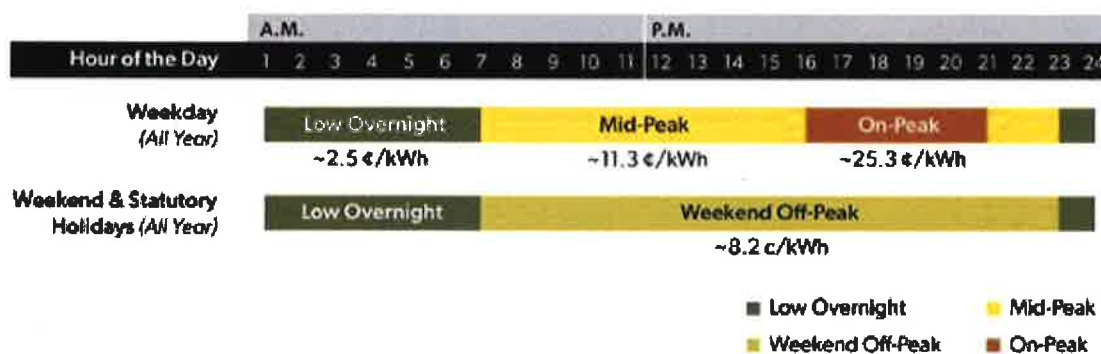
In November of 2021, the Minister of Energy asked the OEB to develop an Optional Enhanced Time-of-Use price plan for RPP customers to further incent demand-shifting away from peak periods to lower-demand periods. This program's purported aim is to help support the implementation of electric vehicles with the goal of reducing carbon emissions.

At first glance, the program seems to send a mixed message and also will present challenges for LDCs like Bluewater Power during roll-out. The program call for pricing at a heavily discounted 'low

overnight rate' between the hours of 11 pm and 7 am, but imposes a higher 'on-peak' rate (still to be approved, but expected to be 10x the low overnight rate) and extends the peak hours of 4 pm to 9 pm (instead of 7pm). The chart below shows an example with estimated prices.

Optional Enhanced TOU Electricity Price

An optional price plan available to all RPP consumers in addition to the standard TOU and Tiered price plans. Prices are illustrative, based on the RPP prices set for November 1, 2021.⁴



**Actual prices would be determined through the OEB's RPP price-setting process.*

The mixed message to consumers is that you can enjoy low off-peaks rates, but the more serious trade-off is that your peak is extended by 2 hours into the evening. Accordingly, we would expect that consumers would need to have opportunities to shift other load outside of the hours of 7pm to 9pm. The challenge for LDCs is that customers do not have the data to make that decision because the current TOU buckets do not overlap; accordingly, we would likely be required to develop a tool for customers or assist customers one-on-one to assess whether they could benefit from such a program.

The OETOU plan would be offered in addition to the current Time-of-use (on peak, mid peak, off peak) structure, and the Tiered pricing option that was implemented in November 2020 to low-volume customers who are eligible for the Regulated Price Plan (RPP).

As noted above, this plan was submitted to the Ministry of Energy in March of 2022. There has not been any indication yet of final approval, or potential timing for implementation.

3. Rebasing Application

As discussed during the last Board meeting, we will take the opportunity to provide necessary background information on the Rebasing Application process. This "Regulatory 101" session will serve as a reminder as we work toward filing our 2023 Rebasing Application. Attached to this report under separate cover is the PowerPoint presentation that we will walk through next week entitled "Overview of Rebasing Process"

In other updates on the Rebasing Application, we are pleased to report that a key component of the application was completed in Q1 2022. The customer engagement surveys, which sought to educate

customers on the Distribution System Plan (“DSP”) and to seek feedback on our spending plan, have been completed utilizing entirely internal resources.

We created the surveys internally instead of using external consultants which are often very costly. We sent direct emails to all customers for whom we had email addresses, and we broadcast over social media for a period of two weeks. We had over 1,141 residential and small commercial customers respond, 11 mid-sized commercial customers respond, and 5 responses from the Intermediate and Large Use rate class.

Given the importance of engaging with our Intermediate and Large Customer groups, we held a Zoom meeting on March 23rd over the lunch hour. We invited 13 Companies to the meeting, and we were happy to have 7 participants attend the meeting. The meeting went well as we did manage to prompt engagement over what is, admittedly a complicated subject; in the least, the meeting was a great opportunity to solidify our relationship with our largest customers.

The high level summary of the survey results are listed below. Overall, customers are very satisfied with Bluewater Power, however they are moderately satisfied with the number and duration of outages. More than half of customers support our investment plans as is, or support increasing it. The majority of customers rate high importance to continuously improve the safety and reliability of our system, which supports the efforts and capital spending in this area.

High Level summary of Customer Surveys

Satisfaction	Residential & Small Commercial 1,141 responses	Mid-sized Commercial 11 responses	Intermediate and Large 3-5 responses
Very or somewhat satisfied with the service from BWP	87%	82%	100%
Rank of 4 or 5/5 Satisfaction with the overall reliability based on the number of outages	69%	55%	67%
Rank of 4 or 5/5 Satisfaction about the amount of time to restore outages	63%	60%	67%
Rank of 4 or 5/5 satisfaction with the communication surrounding the outage	49%	70%	67%

Overall Spending	Residential & Small Commercial	Mid-sized Commercial	Intermediate and Large
Overall Spending	55% support planned investments	75% support planned investments	33% support, 33% should increase spending, 33% no opinion

Other Noteworthy Results	Residential & Small Commercial	Mid-sized Commercial	Intermediate and Large
Interest in Email or Text notifications of outages	· 55% rated 4-5/5 for importance; 16% rated not important	· 27% rated 4-5/5 for importance; 27% rated not important	· 33% rated 4-5/5 for importance; 33% rated not important
Interest in MyAccount mobile app	· 37% rated 4-5/5 for importance; 24% rated not important	· 18% rated 4-5/5 for importance; 18% rated not important	· 67% rated 4-5/5 for importance; 33% rated not important
Interest in using Credit Cards to pay bill without fees	· 53% rated 4-5/5 for importance; 23% rated not important	· 27% rated 4-5/5 for importance; 46% rated not important	Not applicable
Importance of Continuous improvement of reliability	· 79% rated 4-5/5 for importance; 4% rated not important	· 75% rated 4-5/5 for importance; 0% rated not important	· 67% rated 4-5/5 for importance; 0% rated not important
Importance of Improving technology to enhance system	· 65% rated 4-5/5 for importance; 5% rated not important	· 73% rated 4-5/5 for importance; 0% rated not important	· 67% rated 4-5/5 for importance; 0% rated not important
Interest in Smart phone app	· 37% rated 4-5/5 for importance; 26% rated not important	· 27% rated 4-5/5 for importance; 18% rated not important	· 33% rated 4-5/5 for importance; 33% rated not important
Plan to purchase Battery Storage	· 1% own; 8% plan in 5 yrs; 6% plan in 10 years; 52% don't plan to purchase; 33% don't know	· 20% own; 10% plan in 5 yrs; 0% plan in 10 years; 50% don't plan to purchase; 20% don't know	· 0% own; 0% plan in 5 yrs; 33% plan in 10 years; 67% don't plan to purchase; 0% don't know
Plan to purchase Electric or Hybrid Vehicle	· 2% own; 16% plan in 5 yrs; 16% plan in 10 years; 43% don't plan to purchase; 23% don't know	· 20% own; 10% plan in 5 yrs; 0% plan in 10 years; 50% don't plan to purchase; 20% don't know	· 0% own; 33% plan in 5 yrs; 0% plan in 10 years; 33% don't plan to purchase; 34% don't know
Plan to purchase Solar Panels	3% own; 7% plan within 5 yrs; 11% plan within 10 yrs; 54% don't plan to purchase; 25% don't know	10% own; 20% plan within 5 yrs; 10% plan within 10 yrs; 40% don't plan to purchase; 20% don't know	0% own; 33% plan within 5 yrs; 33% plan within 10 yrs; 34% don't plan to purchase; 0% don't know



Overview of Rebasing Process

- 1. Overview of Ontario Regulatory Environment**
- 2. Rate Setting Framework**
- 3. Rate Application – Components & Process**
- 4. Timeline**
- 5. Risks**
- 6. Historical Comparison**

Ontario's energy sector is regulated by the Ontario Energy Board (OEB). The OEB is a government agency and acts in the public interest.

Among other responsibilities their mandate includes:

- License entities in the electricity sector.
- Protect the interests of consumers by setting the rates and prices which utilities can charge.
- Establish and enforce codes and rules to govern the conduct of utilities and other industry participants.
- Address the particular needs of low-income consumers through the establishment and oversight of utility customer service rules and delivering financial assistance programs.

The key test in setting rates is that they must be “just and reasonable”.

Rates must be fair to consumers, consistent with need to protect consumer interests

Rates must be also provide compensation to utilities, consistent with need to facilitate a financially viable electricity industry, including the recovery of prudently incurred costs and a fair return on invested capital.

The onus is on the utility to demonstrate that its proposed rates are just and reasonable.

Rate applications are expected to demonstrate the alignment of the utility’s strategic objectives with customers’ expectations for reliable and reasonably priced service. Utilities must demonstrate that rate increases are necessary to deliver on the four OEB identified Performance Outcomes:

Customer Focus

Services provided in a manner that responds to identified customer preferences

Operational Effectiveness

Continuous improvement in productivity and cost performance; Deliver on system reliability and quality objectives

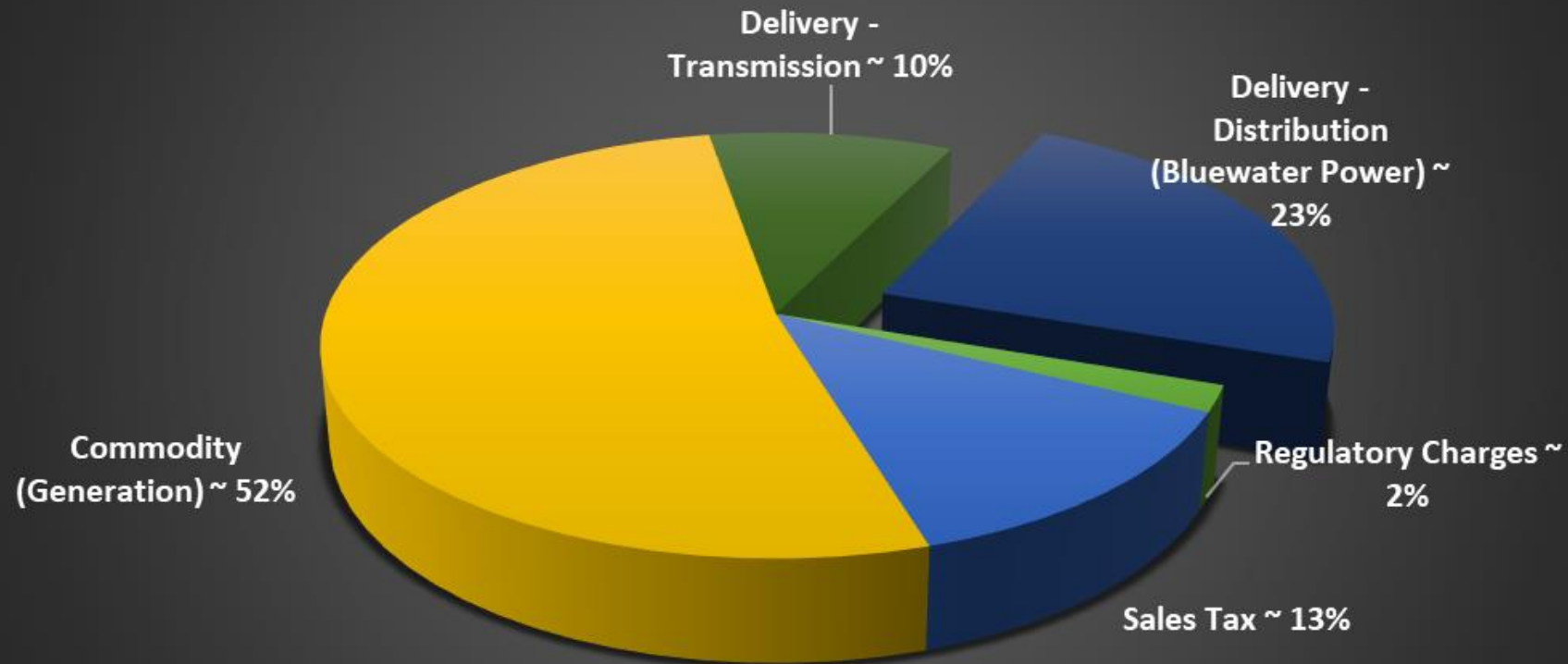
Public Policy Responsiveness

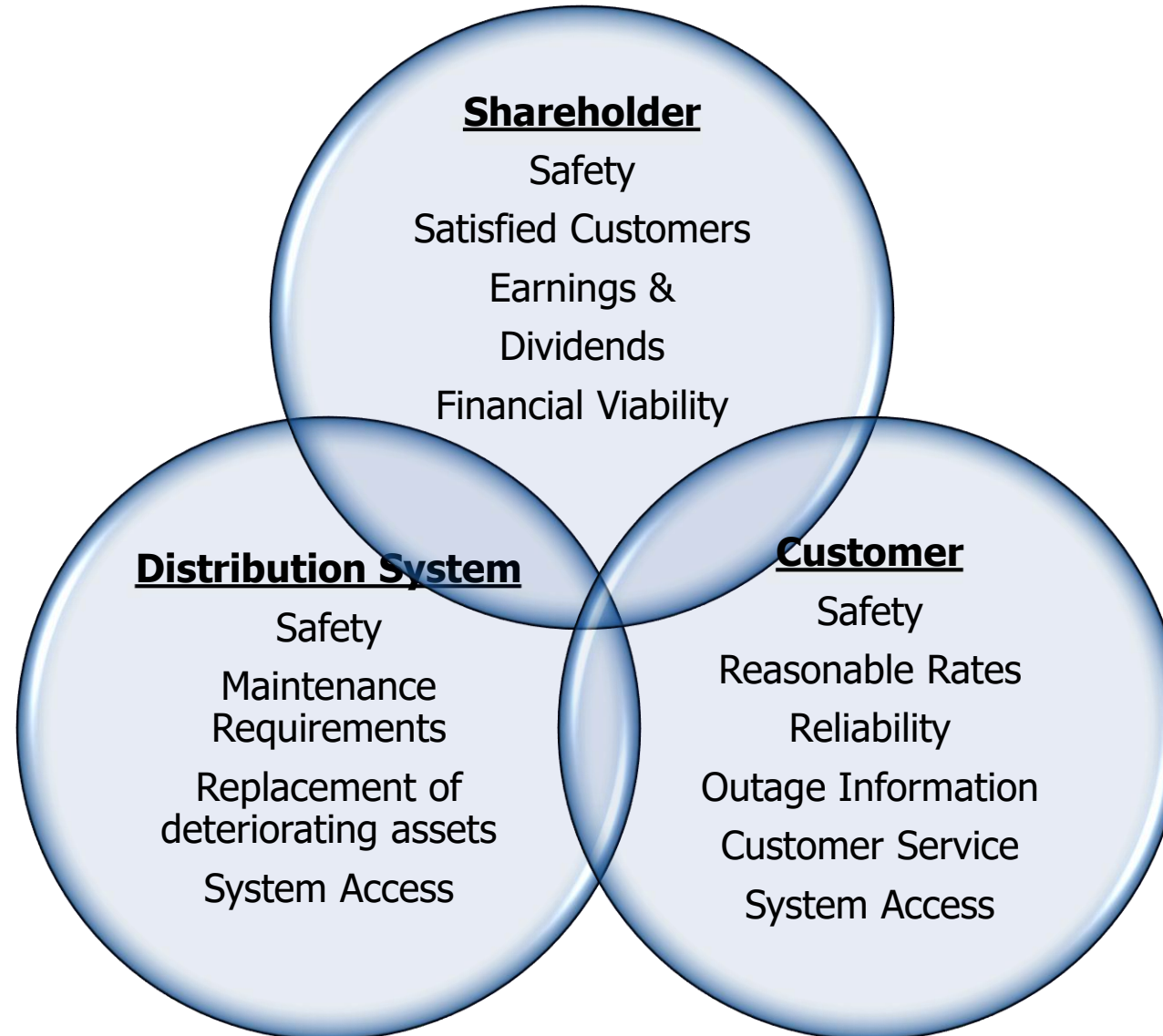
Deliver on obligations mandated by government

Financial Performance

Financial viability is maintained, Operational effectiveness improvements are sustainable

Components of a Typical Residential Electricity Bill





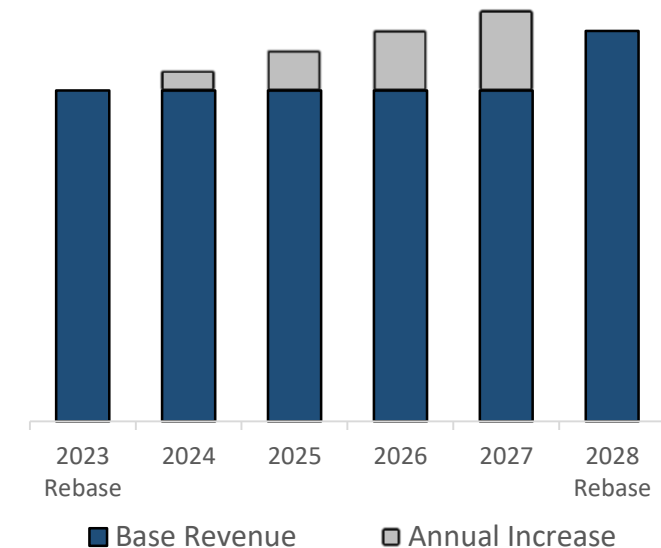
Price Cap Incentive Rate-setting

Base rates are established in year one (test year) through a cost of service process (the build up of forecasted costs) known as 'rebasing'

Rates in each of the following four years are adjusted based on a formula which includes inflation and productivity factors

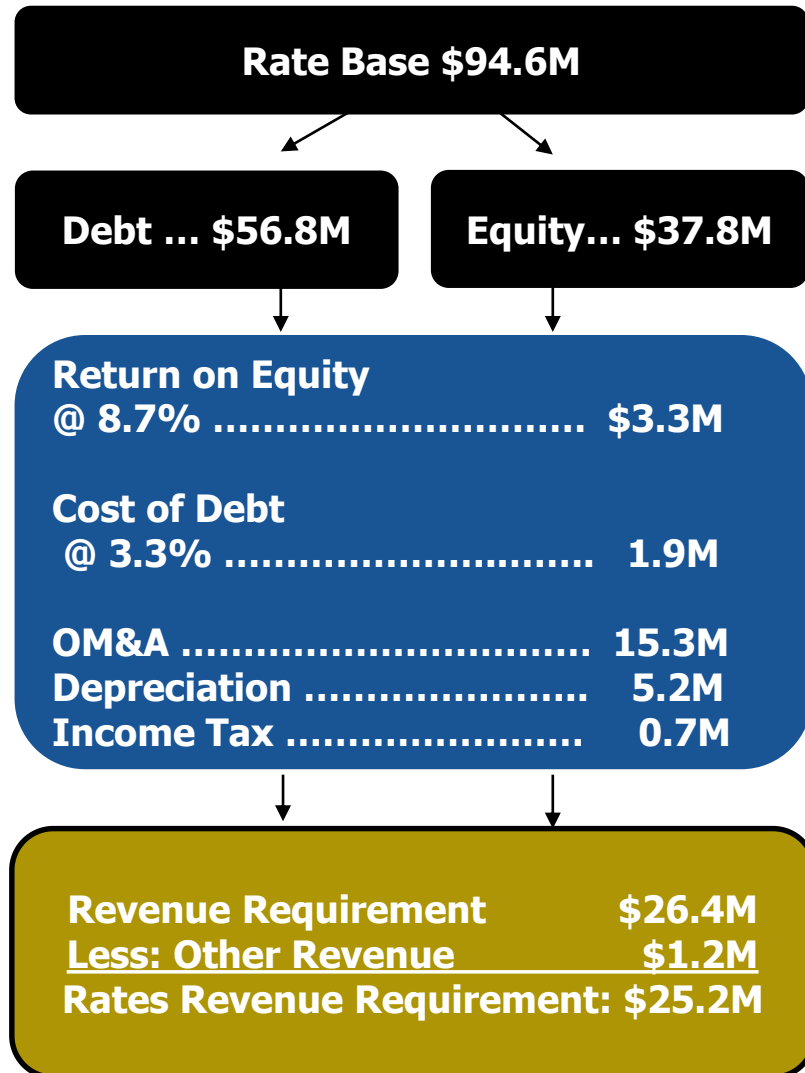
Productivity improvements achieved may be kept by the company until the next cost of service year (2028), when revenue requirement is recalculated based on the cost of service approach.

At this point, productivity improvements will transition from benefiting the utility to benefiting customers through lower rates.



Rate Setting Framework – Revenue Requirement

2023 Forecast (Draft)



Rate base is the total value of Net Fixed Assets (poles, conductor, meters, IT, vehicles, etc) plus an allowance for working capital.

Capital structure of 60% debt and 40% equity is deemed for rate making

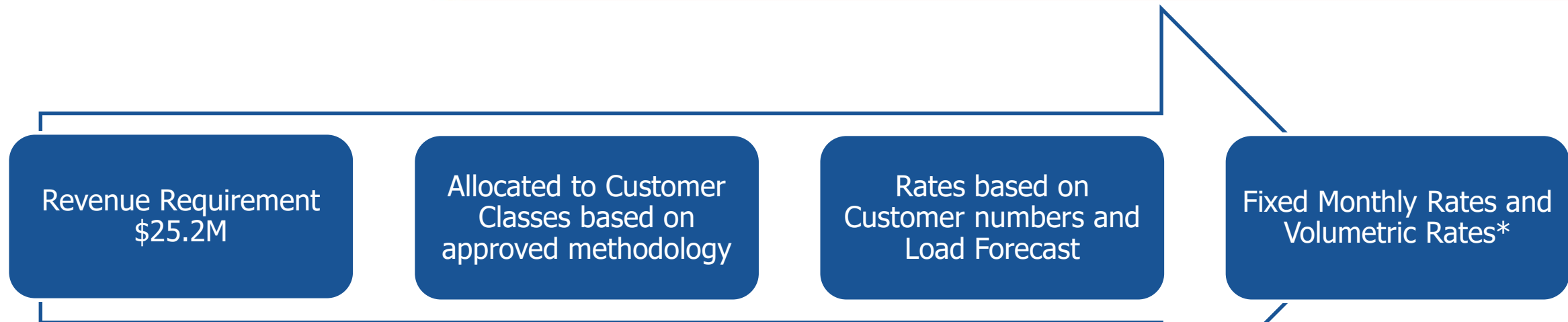
All reasonably incurred costs required to operating the utility are recovered through rates including, cost of capital, operating, maintenance and administrative expenses (OM&A), depreciation, and income taxes.

Revenue Requirement equals the sum of these costs.

Other Revenue includes revenue collected by the utility other than through distribution rates, such as late payment fees, interest revenue, billable work (net of expenses), etc.

Rates Revenue Requirement is based on collected through rates, based on cost allocation and rate design.

Total bill impact for residential customers is expected to be 2.8% or \$3.30 per month.



Revenue by Customer Class based on current cost allocation

Customer Class	2013 Allocation	Dist. Revenue	No. Customers
Residential	55.0%	\$13,860,000	33,174
Small Commercial	14.4%	\$3,628,800	3,447
Large Commercial	15.6%	\$3,931,200	377
Intermediate	4.0%	\$1,008,000	9
Large Users	6.6%	\$1,663,200	4
Street Lights	3.6%	\$907,200	7
Other	0.8%	\$201,600	605
Total	100.0%	\$25,200,000	

*75% of Bluewater's distribution revenue comes from fixed monthly charges and 25% from volumetric rates.

Application

Submission & Notice

Discovery

Settlement

Hearing

Decision

A rate application has three main components:

Business Plan – Overall strategy including utility goals and how those goals will be accomplished, supported by:

- Customer engagement activities
- Distribution system plan
- Benchmarking, and
- Operating plans

Historical and Forecast Information – historical information from 2013 (last rebase year) through 2021 (last full historical year), a bridge-year (forecast 2022), and a forward test year (2023). This displays the continuity of the utility's plans and provides a thorough review of expenses to ensure the validity of the forward test year.

Rate Models – a series of OEB and company models are used to review and test the data provided in an efficient, consistent and accurate review process.

Application

Submission & Notice

Discovery

Settlement

Hearing

Decision

Residential

- Over 87% of respondents indicated they were very satisfied or somewhat satisfied with the service received from Bluewater Power.
- Affordable cost of electricity was the customer's top priority, with 80% of respondents identifying it as their number one concern.
- When presented with details of Bluewater's DSP and resultant rate increases, 54% supported proceeding with the planned level of spending, with 11% indicating more should be spent to increase reliability and 13.5% indicating less should be spent. (Remaining 21% did not take a position).

Commercial / Industrial

- Over 82% of respondents indicated they were very satisfied or somewhat satisfied with the service received from Bluewater Power
- Cost was number one priority. Although some customers are more concerned with improving reliability than other customers and stressed the negative financial impact of outages
- When presented with details of Bluewater's DSP and resultant rate increases, approximately 75% supported proceeding with the planned level of spending.

Application

Submission & Notice

Discovery

Settlement

Hearing

Decision

Distribution System Plan

- Five year plan which outlines the asset management process used to assess its assets, plan future investment, and meet customer needs, as well as the final results of the process
- Must demonstrate that the necessary prioritization and pacing of investments has occurred to control the related rate impacts to customers

Key Points

- The biggest contributors to power failures within our control are tree contacts, equipment failures, and foreign interference (ie animal contacts)
- These are addressed through increased vegetation management, the replacement of deteriorating assets that are in poor condition, and targeted installation of devices, such as animal guards, to improve reliability.
- We pace our investments by targeting the assets that have failed or are in poor condition and approaching failure in the near future.
- The goal is to ensure the overall condition of the system is improved while at the same time minimizing rate increases for customers. Customer engagement indicates support for this approach.

Application

Submission & Notice

Discovery

Settlement

Hearing

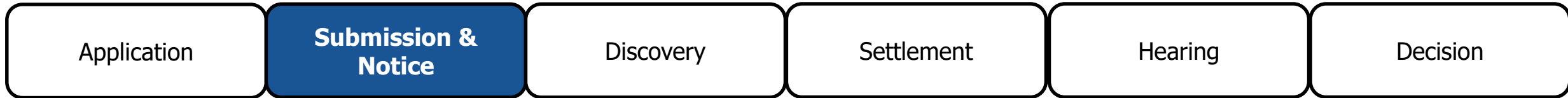
Decision

Benchmarking

- The OEB has determined to use benchmarking in reviewing the proposals in a utility's application
- Utilities are expected to provide analysis of benchmarking results which supports proposed plans and demonstrates continuous improvement
- Two types of benchmarking are required in rate applications:
 - External benchmarking using unit cost or other key metrics to compare specific programs against comparators
 - Internal benchmarking to assess continuous improvement by the utility over time

Key Points

- The latest Total Cost Benchmarking (TCB) results indicated Bluewater's 2020 costs were 4.5% lower than the TCB predicted, leaving Bluewater in 'Group 3' of the OEB's assessment categories, which is the mid point of stretch factors.
- In 2021, the OEB issued the first results of the new Activity and Program Benchmarking, in which Bluewater performed well compared to peers in areas of Billing O&M, Lines O&M, Metering Capital and Vegetation management. In other areas including Poles, Towers and Fixtures Capex, and Line Transformers Capex Bluewater's costs were higher than other distributors.
- Prior to filing the application Bluewater expects new reports for both benchmarking studies to be released for 2021 results and will address both in the application process.

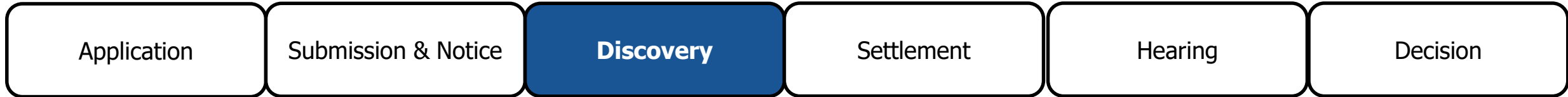


Application Submitted

- Letter of Acknowledgement from OEB provided
- Application reviewed for completeness (2 weeks)
- Letter of Direction from the OEB with instructions regarding public Notice of Application

Notice of Application

- Advises that Bluewater has applied to increase electricity distribution rates and provides the monthly bill impact for a typical residential customer and small commercial customer
- The OEB will also likely publish the notice in the Sarnia Observer and require it to be posted on the company website and twitter account; as well as emailed to all customers with an email address on file
- Invitation to Interveners to register for participation in the rate application process
- When the notice period is complete, a Procedural Order will be issued outlining next steps

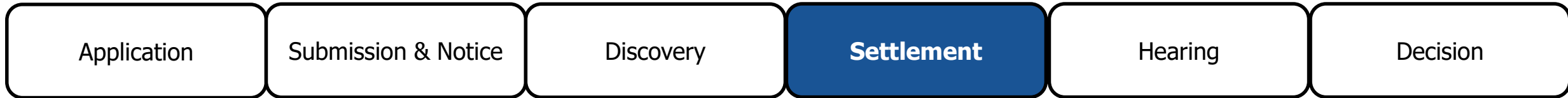


Discovery consists of:

Issues List - OEB staff and interveners compile a list of key issues that will be the focus of the discovery, settlement conference and hearing.

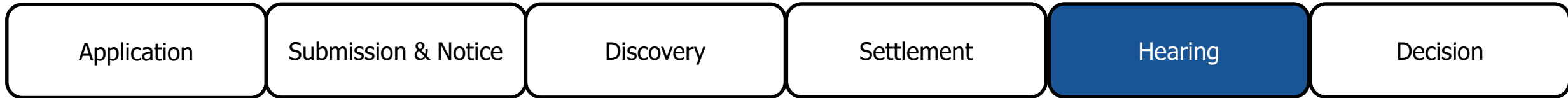
Interrogatories – Intervenors and OEB staff test the evidence of the application with written questions seeking clarification or additional information (“Interrogatories”). Responses provided in writing.

Technical Conference - address outstanding issues not resolved by interrogatories. Conference is in person/electronic meeting. Responses provided verbally, although undertakings can be issued and responded to at a later date in writing.



Settlement Conference

- Offers exchanged on each issue
- Full settlement of all issues may be reached, or partial settlement with only some issues resolved
- All agreements require the approval from a adjudicative panel of the OEB
- Settlement conference, offers and discussion are strictly confidential, although the settlement agreement itself will be placed on the record and be available to the public
- All issues that are not settled will proceed to a hearing
- Due to confidentiality, a settlement conference will not prejudice a hearing



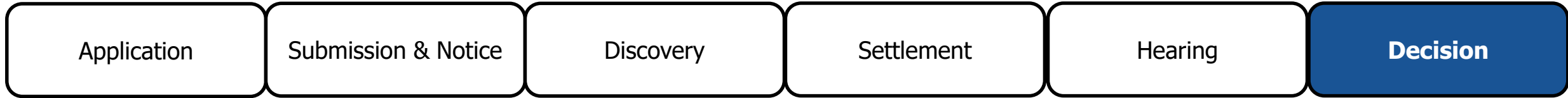
A hearing will be necessary for any issues not settled

Written Hearing

- Generally used when the evidence on record is sufficient for the Board to make a determination on the outstanding issues
- The applicant files an argument-in-chief
- OEB Staff and Intervenors file reply arguments
- Applicant files final argument




Oral Hearing

- Panels of witnesses assembled to further explain and defend issues and evidence
- Parties cross-examine witnesses
- Hearings are public
- After completion of the hearing, applicant prepares and files of argument-in-chief
- OEB Staff and Intervenors file arguments
- Preparation and filing of reply argument



- Decision will be issued with the Board's determination for each issue, with a general explanation of the rationale for the decision. The volume of evidence and complexity of issues generally determine the length of time to receive the decision
- Applicant is required to recalculate revenue requirement based on the decision, as well as the new distribution rates and re-submit to the OEB for approval
- The Decision and new rate order will be publicly available on the OEB website

Application Timeline

2022					2023				
Jan – Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May
Rate Application Preparation	 File application August 31	 Public Notice Late Sept	Interrogatories (3 to 4 weeks)	Technical Conference (if required) Settlement Conference (1-3 days)		Hearing	Written Arguments	Decision	 Rates Effective May 1 st 2023

Applications are due August 31st. Filing later than this date puts the effective date for new rates at risk.

The application is generally publicly available on the OEB website shortly after filing. However the OEB will review the application to ensure it is complete before issuing public notice, which is expected to occur 3-4 weeks after submission.

Forecast vs Actual Inflation

- Bluewater's forecasted OM&A is based on a combination of known and unknown costs. Where cost increases are unknown an estimated 3% increase has been used. Actual cost increases between 2022 and 2023 may be higher.

ROE and Long term debt rate are fixed through IRM period

- ROE will be set based on the OEB's 2023 Cost of Capital Parameters. These rates will be locked-in until Bluewater's next rebasing application (2028).

Regulatory Lag

- Increases in net fixed assets in years 2024 – 2027 will not be recovered in rates until 2028.

Forecast vs Actual Revenue

Actual revenue may be different than the forecasted revenue used to create rates for a number of reasons, however three significant risks include:

- CDM - potential consumption changes due to unanticipated changes in CDM causing reduced consumption. Typically these changes can not be addressed until the next rebasing application.
- Enbridge Line 5 – the potential closure of Line 5 and its economic impact to the Sarnia area continues to be a risk.
- Demand Energy Resources (DER) - Customer generation / storage behind-the-meter

2013 OEB Approved

Rate Base \$65.5M

Debt ... \$39.3M

Equity... \$26.2M

Return on Equity

@ 9.0% \$2.4M

Cost of Debt

@ 3.8% 1.5M

OM&A 12.5M

Depreciation 4.9M

Income Tax 0.5M

Revenue Requirement \$21.8M

Less: Other Revenue \$1.1M

Rates Revenue Requirement: \$20.7M

2023 Proposed (Draft)

Rate Base \$94.6M

Debt ... \$56.8M

Equity... \$37.8M

Return on Equity

@ 8.7% \$3.3M

Cost of Debt

@ 3.3% 1.9M

OM&A 15.3M

Depreciation 5.2M

Income Tax 0.7M

Revenue Requirement \$26.4M

Less: Other Revenue \$1.2M

Rates Revenue Requirement: \$25.2M

Rate base has grown by 44% over the past 10 years, primarily due to the replacement of deteriorating assets.

The application will be filed with the Return on Equity and Cost of debt based on the OEB's 2022 Cost of Capital parameters. The application will be updated for the 2023 Cost of Capital parameters when released in Nov-Dec. OM&A has increased over the past 10 years by 22% or just over 2% per year on average.

Without this application, 2023 Rates Revenue would be approximately \$23.8M.

Why have we deferred previously?

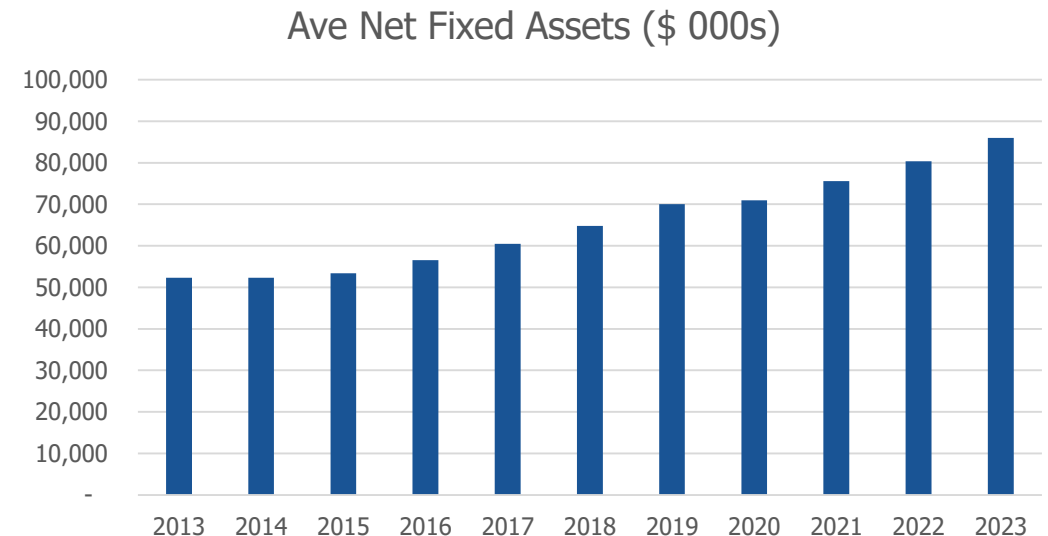
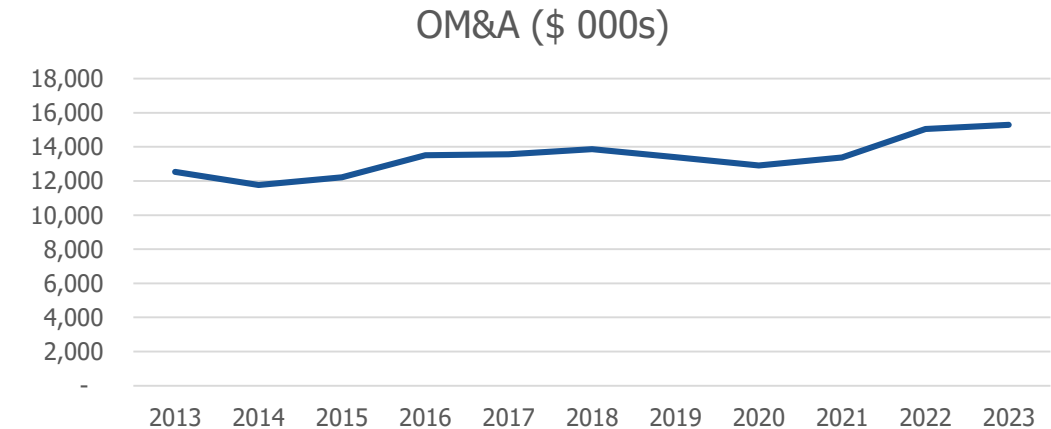
A rebasing application represents an opportunity to both recalibrate costs and to earn a return on Capital investments since the last rebasing.

1. Recalibration of Costs: Bluewater has managed to keep O&M relatively flat (10 year CAGR = 2.01%) and, when combined with the improvements to the IRM Process introduced through Regulatory Reform, there has been no strong driver for Bluewater Power to recalibrate costs.

Of note are the years of 2020 and 2021, which were extraordinary due to the COVID19 pandemic and also the demands brought about by the Oversized Load Corridor.

2. Return on Capital: Previously Bluewater struggled with resources to complete capital projects from 2013-2015, but have since invested heavily in the distribution system (10-year CAGR = 5.10%).

However, these increases to rate base have partially been offset by reductions in the Working Capital allowance and market conditions which led to the reduced Cost of Capital parameters.



SPECIAL MEETING - OEB RATE APPLICATION

BLUEWATER POWER DISTRIBUTION BOARD OF DIRECTORS MEETING Tuesday, July 26th, 2022 at 09:00am

**Bluewater Power Boardroom
855 Confederation Street
Sarnia ON N7T 7L6**

AGENDA

2023 Rebasing Application

- (1) Executive Summary
- (2) Business Plan
- (3) Distribution System Plan
- (4) Forecast update to 2022 Capital Budget
- (5) Approval of 2023 O&M Budget
- (6) Approval of 2023 Capital Budget
- (7) Revenue Requirement and Forecast Bill Impacts
- (8) Projected Income Statement for 2023
- (9) Board Resolutions

1. Executive Summary

Over the last eight months, the Board has received updates and provided direction as we developed the key elements of the 2023 Rate Application. The purpose of this special meeting is to seek approval from the Board as we work toward finalizing the Rate Application. The highlights of this meeting are as follows:

- A critical part of the rate application includes a detailed business plan. The updated plan included as an attachment provides important context for our service territory and serves to document the business philosophy of Bluewater Power.
- The Distribution System Plan is another critical element of the rate application that outlines our proposed total capital spending for the next five years. An overview of this DSP Plan is as follows:

CATEGORY	Forecast Period (planned)					
	2022	2023	2024	2025	2026	2027
	\$ '000					
System Access	2,200	2,322	2,446	2,520	2,595	2,642
System Renewal	5,292	6,659	5,900	5,244	5,401	5,520
System Service	360	514	194	200	206	211
General Plant	4,300	2,877	3,170	3,630	3,903	4,257
TOTAL EXPENDITURE	12,152	12,372	11,710	11,593	12,105	12,631

- For this application, Bluewater Power's 2022 O&M and Capital have been updated for any significant known changes (having regard to, but not including all, YTD actuals). An overview of this update is as follows:

2022 O&M as approved (Gross)	\$20,248,769
2022 Changes	\$126,077
2022 O&M Revised (Gross)	\$20,374,846
2022 Capital as approved	\$11,595,000
2022 Changes	\$557,000
2022 Capital Revised	\$12,152,000
Reduction to Amortization	\$42,580

- The primary purpose of the 2023 Rebasing Application is to collect in rates the forecast of both O&M and Capital for the year 2023.
- The 2023 O&M is as set out below. Explanations are provided in this report, and those relate primarily to inflation and cost of living adjustments.

Gross O&M (allocation to affiliates in the amount of \$1,201,161 already excluded)	\$21,497,000
Less: Capitalization	(\$4,921,000)
Less: Billable Costs	(\$778,000)
Add: Employee Future Benefits (non-cash)	\$275,000
Net O&M for Ratemaking	\$16,073,000

- The 2023 Capital Budget is included for approval and generally represents a continuation of the trend toward increased capital spending, as spelled out in the Distribution System Plan. The forecast Capital Budget for 2023 is \$12.372M, which is a slight increase over the updated forecast Capital Budget for 2022 of \$12.152M.
- The 2023 draft income statement based upon the as-filed information is also included for the Board's information in order to provide further context to this application.
- The net annual benefit of the rate application based upon the rate application as-filed is estimated at \$2.6Million. This forecast would be adjusted for any change to Cost of Capital parameters and any changes imposed by the OEB through the application process.
- The resulting customer rate impacts from the application are estimated as follows:
 - Residential - 2.8% increase
 - Commercial –between .8to 2.7% increase
 - Industrial - 0.6% increase
- The projected O&M and Capital budgets for 2023 will see Bluewater Power remain in the middle cohort of LDCs, but ongoing monitoring of Capital and O&M will need to continue.
- Bluewater Power believes the budgets proposed are fair and reasonable representations of the costs required to be collected through distribution rates. In support of this application, we will be seeking Board approval of each of the following resolutions:

"That the Board of Directors approves of the adjustments to the approved 2022 Capital Budget and OM&A Budget as set out in the Report dated July 20, 2022 are appropriate, and further approves of the submission of this updated 2022 Capital Budget and 2022

OM&A Budget for the Bridge Year (2022) in the 2023 Rebasing Application.”

“That the Board of Directors approves of the 2023 OM&A and Capital Budgets set out in the report dated July 20, 2022 to be included as the Test Year budgets in the 2023 Rebasing Application.”

- Once the Cost Allocation Study and rate design is complete such that the rate impacts are known, we will be seeking a final approval of the Rate Application prior to filing. Assuming the impacts are not materially different than those set out in this report, that approval will be facilitated through email communication and a written resolution.

2. Business Plan

Included as an attachment to the Report is the updated and final Business Plan for Bluewater Power. This document represents a compilation of the guiding principles by which Bluewater Power has operated, and this document will now become a reference document as we continue to move forward.

The document represents one of the cornerstones of a rate application. The Board has seen the guiding principles previously, but the background and rationale have been significantly expanded. The document speaks for itself, and we will be pleased to provide a high level overview at the upcoming meeting and entertain any feedback from the Board.

3. Distribution System Plan

We are seeking to finalize the Distribution System Plan (DSP) which will accompany the rebasing application. The DSP outlines Bluewater Power's strategy to ensure our customers continue to receive their desired level of customer service, safety, and reliability at a competitive price.

It accomplishes those objective in three key ways:

- Taking a long range view of asset age and condition
- Considering expected changes to the distribution system
- Incorporating feedback from customers

The DSP focuses on sustaining our assets, modernizing the grid, maintaining the fleet and facilities and upgrading Information Technologies.

As an OEB requirement for the DSP, we will be presenting the 5-year capital budget forecast for Board approval during the July meeting as well as the full 2023 capital budget as would normally be presented in November. The capital budget forecast will be split into four categories as specified by the OEB and presented as in the chart below.

CATEGORY	Forecast Period (planned)					
	2022	2023	2024	2025	2026	2027
	\$ '000					
System Access	2,200	2,322	2,446	2,520	2,595	2,642
System Renewal	5,292	6,659	5,900	5,244	5,401	5,520
System Service	360	514	194	200	206	211
General Plant	4,300	2,877	3,170	3,630	3,903	4,257
TOTAL EXPENDITURE	12,152	12,372	11,710	11,593	12,105	12,631
<p>The four categories are defined as follows:</p> <ul style="list-style-type: none"> • System Access: modifications (including asset relocation) to a distributor's distribution system a distributor is obligated to perform to provide a customer (including a generator customer) or group of customers with access to electricity services via the distribution system. • System Renewal: replacing and/or refurbishing system assets to extend the original service life of the assets and thereby maintain the ability of the distributor's distribution system to provide customers with electricity services. • System Service: modifications to a distributor's distribution system to ensure the distribution system continues to meet distributor operational objectives while addressing anticipated future customer electricity service requirements. • General Plant: modifications, replacements or additions to a distributor's assets that are not part of its distribution system including land and buildings, tools and equipment, rolling stock and electronic devices and software used to support day to day business and operations activities. 						

4. Forecast Update to 2022 Capital Budget and OM&A (Bridge Year)

The 2023 year of rebasing is known as the “Test Year” and the year prior to the Test Year is known as the “Bridge Year”. The Bridge Year is an important year for the OEB’s consideration of our Rebasing Application as it is seen as an indication of trends in both Capital and O&M spending. The Test Year is obviously a forecast year of spending, much like ordinary budget approvals considered by the Board of Directors. The Bridge Year is unique in that the year is half complete at this point in time, so it’s appropriate to update the Bridge Year forecast spending having regard to year-to-date figures.

The adjustments to the 2022 O&M Budget are minor in nature. We will touch on the updates to O&M at the conclusion of this section, but the focus of this update to the year 2022 is on Capital.

2022 Capital Changes

Capital planning for the year 2022 has been turbulent due to unanticipated demands for New Connections driven by third-parties, supply chain issues together with price increases on materials, as well as continuing challenges to recruit qualified Powerline Technicians. The cumulative result of these pressures has led to the need to update the forecast for Capital spending.

Bluewater manages the Capital Budget within the overall approved budget and provides the Board with updates throughout the year. We will not be seeking Board of Director approval of the updated 2022 Capital Budget, however, we will be seeking the Board’s approval that the updated Capital Budget is appropriate and that the Board approves of the submission of the updated Capital Budget for 2022 in the Rebasing Application as the Bridge Year Capital Budget.

Having regard to current circumstances, management has updated the forecast total Capital Spend to represent an increase of approximately \$557,000. The primary driver of the increase is the proposed purchase of land adjacent to 855 Confederation Street which is a long sought after opportunity that appears to be possible for the first time with the owner of the land having opened the negotiations. The remainder of the changes represent a \$343,000 decrease to capital spending forecast for the year 2022.

The approved 2022 Capital Budget shown below was \$11.595M. The updated forecast Capital Budget for the Board’s consideration is \$12.152M. The individual items making up the amendments to the forecast capital spending are itemized in the table under the heading “Amendments to 2022 Capital Budget”, with each item having a number under the heading “Notes” which corresponds with the explanatory notes numbered 1 through 11 that follow the table.

Description	2021 Actual	2022 Budget Approved	2022 Forecast	2023 Forecast
Lines & Design - High Priority Level	\$ 5,088,964	\$ 6,105,000	\$ 6,282,000	\$ 6,076,600
Lines & Design - Mid to Low Priority Level	277,322	920,000	1,010,000	2,333,100
Municipality Centered Projects	326,223	500,000	400,000	540,900
Non-Reliability Projects	1,613,630	1,540,000	1,430,000	816,000
Total Lines & Design	7,306,139	9,065,000	9,122,000	9,766,600
Metering	116,758	155,000	155,000	164,500
Total Information Technology	1,550,163	1,945,000	1,945,000	2,033,000
Total Other Projects	36,656	430,000	930,000	408,000
	\$ 9,009,716	\$ 11,595,000	\$ 12,152,000	\$ 12,372,100
Amendments to 2022 Capital Budget	Notes			
HIGH				
Increase New Connections	(2)	800,000		
Increase Storm Restoration	(3)	115,000		
Increase Padmount Transformers cost	(8)	112,000		
Decrease Wood Pole	(10)	(300,000)		
Reschedule Centre Street Petrolia to 2024	(6)	(500,000)		
Decrease Emergency Improvement Fund	(9)	(50,000)		
		177,000		
MID				
Increase Animal Protection	(4)	90,000		
Municipality				
Decrease Street widening	(7)	(100,000)		
Non-Reliability				
Decrease Service Centre	(5)	(110,000)		
Other Projects				
Remove Tree Trimming Equipment	(1)	(400,000)		
Add Vacant Land Purchase	(11)	900,000		
		500,000		
2022 Revised Capital for Rate Application		12,152,000		

Notes:

(1) Tree Trimming Equipment (reduced by \$400,000):

Bluewater was successful in obtaining a favourable proposal during the 2023 Tree Trimming RFP. We had anticipated receiving either no responses or unreasonably costly responses, so we budgeted for 2022 assuming Tree Trimming was brought in-house. The capital budget included a tree trimming bucket truck and associated equipment with a total value of \$400,000. We are pleased to have a new Tree-trimming service provider and therefore we can eliminate this capital budget item.

(2) New Connections (increased by \$800,000)

We had anticipated COVID impacts on demand for new connections, but we have seen stronger demand than any year previously. As of this point in the year, we have already exceeded the

approved budget of \$1.2M. Accordingly, it is prudent to forecast that we will end the year closer to \$2.0M for new connection capital investments.

(3) Storm (increased by \$115,000):

Bluewater Power was spared significant impacts from the “derecho” storm that struck Ontario on May 21st, but it did serve as a reminder of increased risks caused by environmental change. In hindsight, the Storm budget originally approved by the Board for 2022 was optimistic, so we believe it is appropriate to increase the Storm budget to match the five year average level of spending on storms.

(4) Animal Protection (increased by \$90,000):

COVID restrictions led to delays in replacing overdue equipment at Modeland Station, but the lifting of restrictions made this unbudgeted project possible. The project has been undertaken in 2022 on an urgent basis.

(5) Service Centre (reduced by \$110,000)

In an effort to find savings in the face of forecast increased demand from Storm and New Connections, we recommend a reduction to the Service Centre budget.

(6) Centre Street Substation (reduced by \$500,000)

This project is contingent upon completion of the Progress Drive substation upgrade. Given supply chain issues on that project, we are not confident this next phase will be completed this year. Accordingly, we recommend this project be deferred to 2024 given that the upgrades at Progress Drive substation will allow that station along with the Albany station to carry the entire load of the Town of Petrolia in the event of a catastrophic failure at Centre Street Substation.

(7) Street Widening (reduced by \$100,000)

As of this date, we have not been contacted by the affected municipality. It does not appear likely to proceed, so we are removing this project from this updated budget forecast.

(8) Padmount Transformers (increased by \$112,000)

This capital budget item serves as a holding place for Transformers prior to being applied to a capital job. Given supply chain issues, we have increased our inventory of transformers and, accordingly, we recommend the increase of this capital budget.

(9) Emergency Improvement Fund (reduced by \$50,000)

In an effort to find savings in the face of forecast increased demand from Storm and New Connections, we recommend a reduction to the Emergency Improvement Fund budget as we have managed to keep this item below budget in recent years.

(10) Wood Pole Replacement (reduced by \$300,000):

We are confident with the forecast in the Wood Pole replacement program, but we recommend a minor adjustment in the face of increased capital demands in other areas. Accordingly, we are suggesting that this budget be reduced for 2022 by approximately 10%, which we believe to be

a sustainable adjustment which will carry forward for the next five years, but the impacts of this decision will be closely monitored.

(11) Land Acquisition for Rear Yard space (increase of \$900,000)

Bluewater's Capital budget has doubled in the last decade, which has led to increased inventory levels placing tremendous strains on rear yard space. We have managed with the addition of racking space, but our ability to "go up" is limited. That challenge has been compounded to the point of being a critical issue in 2022 as we have further increased our inventory levels by one-third in the face of supply chain issues. A unique opportunity has presented itself to acquire approximately 2 acres of land from an adjacent property. We are in the early stages of negotiations, but we have an exclusive negotiating opportunity for a limited time and seek preliminary approval, with full diligence to be presented to the Board at the September meeting.

2022 O&M Updates

The adjustments to the Gross OM&A Budget are minor in nature. The increases to Gross O&M totals \$126,000 less the reduction in amortization of \$42,000, for a net increase of \$84,000. The summary of the changes to the OM&A approved by the Board compared to what will be filed for 2022 with the rate application are as follows:

Note		Gross O&M	Amortization
	Board of Directors approved 2022	\$ 20,248,769	\$4,850,988
(1)	Payroll Related	\$(4,255)	
(2)	Tree Trimming	\$20,000	\$(20,000)
(3)	Fuel	\$110,332	
(4)	Amortization		\$(22,580)
	Revised Forecast 2022 Bridge Year	\$20,374,846	\$4,808,402

- (1) A number of payroll related changes result in a net reduction to the 2022 Budget of \$4,255.

Those changes can be summarized as follows:

- a. Bluewater Power faced increase demand for locates as Bell ramped-up, once again, its roll-out of Fibre-to-the-home. We were successful in negotiating with the union the creation of a new position known as a Damage Prevention Technician at a significantly lower rate compared to the current Locator position, which will lead to savings in future years (although there was overlap in 2022).
- b. The proposed restructuring involving the Stockroom and general maintenance was accomplished with a net savings of approximately ½ FTE compared to the approved budget.
- c. We are pleased to report that Human Resources was successful in avoiding the majority of rate increases in benefits forecast for 2022 by switching benefit consultants. Total Benefit costs are still expected to increase in 2022 by \$40,000 over 2021, but this represents an avoided cost of \$70,000 compared to the forecast increase originally included in the 2022 Budget.

- (2) The decision not to bring Tree Trimming in-house resulted in an increase to the 2022 Forecast Budget of \$20,000 as we transition from one service provider to a new service provider.
- (3) Fuel prices have increased dramatically through the course of 2022 and prices are expected to continue at that level for the next two years. The impact in 2023 is forecast to be an increase of approximately \$176,000 over 2021 actuals, but the impact in 2022 is somewhat softened by lower prices in the first quarter and temporary tax relief over this summer. The proposed increase to the Fuel budget for 2022 is \$110,332 (revised amount of \$353,000).
- (4) The changes to the Capital Budget set out above result in a reduction to projected Amortization in 2022 by \$42,580.

If the Board is supportive of these adjustments, then we will be seeking approval of the resolution set out in Section 9 of this report.

5. Approval of 2023 O&M Budget (Test Year)

Bluewater Power Distribution Corporation 2022 & 2023 Operating and Maintenance Budget in \$ 000's				
BUDGET IDS		2023 Forecast	2022 Bridge Year budget	2023 vs 2022
Compensation	A	12,299	11,877	422
Benefits	B	2,834	2,648	186
Software Maintenance	C	660	580	80
Contracted Services	D	485	418	67
Tree Trimming	E	400	342	58
Fuel	F	385	353	32
Benefits - Retirees	G	390	327	63
Postage	H	292	265	27
Billable	I	261	361	(100)
Property Tax		245	236	9
Insurance		229	220	9
Community Relations		201	193	8
Vehicle Maintenance		182	166	16
OEB Assessment		168	162	6
Bad Debts		166	160	6
Utilities		143	130	13
Connected Devices		138	126	12
Internet		118	114	4
Employee Costs		112	107	5
Memberships		108	104	4
Meals		107	97	10
Rate Application Costs	J	95	-	95
Training		92	88	4
Stores - Maintenance		84	76	8
Miscellaneous Supplies		84	76	8
Telephony		81	78	3
Audit Fees		75	72	3
Travel		57	52	5
Car Allowance		53	51	2
Cell Phone/Blackberry		51	49	2
Collection Charges		47	45	2
Environmental Issues		42	40	2
subtotal		20,684	19,613	1,071
Other Costs		813	762	51
Total Spending		21,497	20,375	1,122
Capitalized Portion		(4,921)	(4,910)	(11)
Net O&M per Financials		16,576	15,465	1,111
Less: billable costs		(778)		
Add: employee future benefit		275		
Net O&M for ratemaking		16,073		
We have included all individual budget items over \$40,000. The \$40,000 level represents 0.2% of total O&M spending. This percentage of total O&M spending was deemed to be an appropriate level of materiality. In total, the "Other Costs" represents only 3.8% of O&M spending.				
* Variance explanations outlined below are for the items lettered "A" through "J" and are provided for variances between 2023 forecast and 2022 budget items of plus or minus \$20K.				

The high level variance analysis of the previous chart follows below.

A. Compensation

- No new positions in 2023 vs. 2022 forecast Bridge Year
- Cost of living increase at effective rate of 2.7% - \$318,000
- Impact of Retirements –\$267,000
- Progression increases - \$35,000
- Increase in Affiliate reallocations – (\$198,000)
- **Total increase \$422,000**

B. Benefits – Current Employees

- Increase from Compensation changes - \$94,000
- Rate increases of 10% on Benefit rates for half of year plus 2.5% for Burden - \$92,000
- **Total increase \$186,000**

C. Software Maintenance

- Currently Experiencing 28% price increases in products for 2022, and those are expected to carry over to 2023
- **Total increase \$80,000**

D. Contracted Services

- Increase anticipated due to suppliers passing along cost increases for inflation (i.e. Fuel)
- **Total increase \$67,000**

E. Tree Trimming

- New Third Party Provider for service –dealing with back log of work to catch up
- **Total increase \$58,000**

F. Fuel

- Currently seeing inflation costs on fuel for 2022 over 2021 levels which started at 32% in Q1 and reached 88% increases by June. Reports indicate that current fuel prices to remain at higher level for all of 2023
- **Total increase \$32,000**

G. Benefits – Retirees

- Expected rate increase of 10% for retirement benefits for part of year as well as increase in number of retirees
- **Total increase \$63,000**

H. Postage

- 2022 postage rate increase was only 2% but expect current fuel costs to result in increases in 2023 postage levels
- **Total increase \$27,000**

I. Billable Costs

- Expect Billable revenue to return to levels pre-dating the Oversized Load Corridor
- **Total decrease – (\$100,000)**

J. Rate Application Costs

- Expected annual amortization cost for 2023 Rate application
- **Total increase \$95,000**

6. Approval of 2023 Capital Budget (Test Year)

BLUEWATER POWER DISTRIBUTION 5 Year Capital Forecast Plan						
Project Name	2022 Bridge Year	2023 Test Year	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Lines & Design - High Priority Level						
Guy Guard/Down Guy Replacement	25,000	25,300	20,800	21,400	22,000	22,700
Pad Mount Transformer Replacements	192,000	82,500	85,000	87,600	90,200	91,300
Wood Pole Replacement Program	1,900,000	1,957,000	2,016,000	2,076,000	2,138,000	2,202,000
New Connections (OEB Requirements)	2,000,000	2,110,000	2,176,600	2,241,900	2,309,200	2,351,500
Storm Restoration	350,000	385,000	396,600	408,500	420,800	421,900
Cross Arm/Cap & Pin Insulator Replacement Program	150,000	153,000	157,600	162,300	167,200	168,600
Primary Underground Cable Replacements	300,000	322,000	331,700	341,700	352,000	360,200
Emergency Improvement Fund	200,000	175,000	180,000	185,000	191,000	197,000
Emergency Transformer Replacement	250,000	262,500	270,400	278,500	286,900	291,800
Emergency Primary Line Replacement	80,000	83,500	86,000	88,600	91,300	92,700
Emergency Secondary Line Replacement	35,000	37,300	27,100	27,900	28,700	29,200
Cable Theft Replacement	-	11,000	11,300	11,600	11,900	12,300
1F8 Lead Cable Elimination	-	-				
Downtown Secondary Network Cable Replacement	350,000					
Decommission Municipal Substation #20	150,000	-				
Center St Pet	-		515,000			
St. Clair Parkway. in Sarnia (North of LaSalle Line) - Substation Transformer Replacements		262,500				
Progress Drive Substation Upgrade	300,000					
Albany Substation breaker upgrade		210,000				
Sub-Total	6,282,000	6,076,600	6,274,100	5,931,000	6,109,200	6,241,200
Lines & Design - Mid to Low Priority Level						
27.6 Kv Feeder Extensions	250,000	372,500	379,900	391,300	403,000	411,300
8 kv Load Conversion	-	372,500	379,900	391,300	403,000	411,300
4KV Lines Rebuild/ Load Conversion	200,000	210,000	213,300	219,700	226,300	230,100
Animal Protection	100,000	21,100	21,500	22,100	22,800	23,200
Remote Load Break Switches	90,000	96,500	98,600	101,600	104,600	107,000
Fault Indicators - Overhead	10,000	10,800	11,100	11,400	11,700	12,000
27.6kV Lines Upgrades	-	-	101,700	104,800	107,900	109,800
Downtown Vault Upgrades	10,000	10,400	10,500	10,800	11,100	11,300
4kV System Upgrades		817,500				
Subdivision Transformers	75,000	79,000	80,300	82,700	85,200	86,700
PMH (Pad-Mount) Switchgear Replacement	50,000	54,000	55,300	57,000	58,700	60,200
Downtown Switch Replacement	75,000	131,300	133,400			
PCB Tx Replacement	150,000	157,500	160,000			
Sub-Total	1,010,000	2,333,100	1,645,500	1,392,700	1,434,300	1,462,900
Municipality Centered Projects						
Pt Edward upgrades	50,000	51,300	52,800	54,400	56,000	56,600
Petrolia	100,000	208,000	107,100	110,300	113,600	115,200
Alvinston/Oil Springs Capital Items	100,000	20,600	21,200	21,800	22,500	22,800
Watford	100,000	208,000	107,100	110,300	113,600	115,200
Street Widening	50,000	53,000	54,600	56,200	57,900	59,000
Sub-Total	400,000	540,900	342,800	353,000	363,600	368,800
Non--Reliability Projects						
Substation Building	75,000	82,500	85,000	87,600	90,200	92,900
Tools (Vehicle and others)	100,000	88,000	90,600	93,300	96,100	99,000
Pole Testing Tools	-	33,000				
Vehicle Replacement - Lines	730,000	270,000	425,000	105,000	385,000	590,000
Transformers	150,000	165,000	170,000	175,100	180,400	185,800
Safety Related Projects	25,000	27,500	28,300	29,100	30,000	30,900
Service Centre	200,000	150,000	158,600	163,400	168,300	173,300
Asset Condition Assessment (feeder & substn)	150,000	-				
Sub-Total	1,430,000	816,000	957,500	653,500	950,000	1,171,900
Total Lines & Design	9,122,000	9,766,600	9,219,900	8,330,200	8,857,100	9,244,800

Project Name	2022 Bridge Year	2023 Test Year	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Metering						
Single Phase Meters and Poly Phase Meters	100,000	104,500	107,600	110,800	114,100	115,900
New Meters	50,000	54,500	107,600	110,800	114,100	115,900
Metering Equipment/Tools	5,000	5,500	5,700	5,900	6,100	6,300
Total Metering	155,000	164,500	220,900	227,500	234,300	238,100
Information Technology						
Corporate IT Security	240,000	220,000	190,600	164,500	234,900	270,200
Data Centre Lifecycle	290,000	185,000	190,600	376,700	213,100	208,300
Computer Infrastructure Lifecycle	200,000	200,000	206,000	212,200	229,500	253,300
Internal Technology Development	390,000	425,000	463,500	477,400	491,700	506,500
Legislated Business Application Upgrades	250,000	300,000	293,600	302,400	218,600	225,100
Software-Upgrades and Additions	110,000	110,000	206,000	238,800	245,900	253,300
Disaster Recovery Plan Upgrade Phase I,II,III	150,000	158,000	118,500	114,500	196,700	168,800
Mailroom Equipment Replacement	35,000	-			-	43,400
Utilismart RSVA	-	-				
Utilismart RSVA Utility Data Hub (ODS)	-	-				
Business Technology Improvements	280,000	435,000	515,000	530,500	546,400	562,800
SAP Upgrade	-	-		530,500	546,400	562,800
Total Information Technology	1,945,000	2,033,000	2,183,800	2,947,500	2,923,200	3,054,500
Other Projects						
Vacant Land	900,000					
Furniture (Company wide)	20,000	22,000	22,700	23,400	24,000	24,700
Distribution Transformer Monitoring Grid 20/20	10,000	11,000	11,300	11,600	12,100	12,500
Telecommunications - Operations		375,000				
Innovation Research			51,500	53,000	54,600	56,200
Total Other Projects	930,000	408,000	85,500	88,000	90,700	93,400
Grand Total	12,152,000	12,372,100	11,710,100	11,593,200	12,105,300	12,630,800

7. Revenue Requirement and Forecast Bill Impacts

If the Board is supportive of the updates to the 2022 budgets, as well as the 2023 OM&A set out above, together with the proposed 2023 Capital, then the resulting Revenue Requirement is \$26.3M shown in the table below. The table also shows the 2013 Approved Revenue requirement of \$20.7M, which helps to demonstrate that the proposed 2023 Revenue Requirement generates a \$5.6M increase in revenue over ten years. That increase represents a Compound Annual Growth Rate of 2.4%.

Revenue Requirement		
	2013 OEB Approved	2023 Forecast
Average Net Fixed Assets (NFA)	52,290,943	88,884,985
Working Capital Amount (WCA)	13,177,839	7,971,235
Total Rate Base = NFA + WCA	65,468,782	96,856,220
<u>Revenue Requirement</u>		
OM&A	12,540,974	16,073,000
Amortization	4,948,030	5,516,322
Return on Capital	3,850,350	5,884,597
PILS	476,251	-
Service Revenue Requirement	21,815,605	27,473,919
Less: Revenue offsets	1,108,249	1,158,114
Base Revenue Requirement	20,707,356	26,315,805
Expected 2023 Margin without rebasing		23,752,635
Applied for Increase		2,563,170

The Table above also compares the proposed Base Revenue Requirement of \$26.3M to the forecast distribution margin Bluewater Power would expect if we did not rebase in 2023 (\$23.8M). This equates to an increase of approximately 11% on the distribution portion of the bill. When we report rate increases, the OEB standard is to report increases on a total Bill basis which is what is shown in the table below. The estimated bill impacts assume no change to the current Cost Allocation Methodology; in fact, there will likely be small changes as we work through the analysis so the impacts shown below are subject to change in the coming months but they are likely very representative of what will be filed with the application.

Estimated bill impacts		
	Current Bill including tax	Proposed % increase
Residential	\$126	2.8%
Small Commercial	\$328	2.7%
Medium Commercial	\$6,991	1.3%
Intermediate Commercial/Industrial	\$120,681	0.8%
Large	\$580,880	0.6%
Unmetered Scattered Load	\$128	3.5%
Sentinel Lighting	\$24	7.2%
Streetlighting	\$2,318	11.1%

This rebasing application represents an important opportunity to realign the operating costs built into our distribution rates, as well as to earn a return on the substantial investments we have made in capital over the past 10 years. This “catch-up” of our costs will impact our relative efficiency as an electricity distributor in Ontario. Bluewater has relied on Total Cost Benchmarking (“TCB”) to assess its efficiency as this big-picture model allows the most comprehensive comparison. This analysis stands as a proxy for the reasonableness of our operating and capital budgets.

The OEB will require Bluewater to update our TCB score based on the rate application. We have completed that analysis on a preliminary basis and, based on the application being presented to the Board for approval, Bluewater will continue remain in the Group 3 cohort (total of 5 cohorts). The Group 3 Cohort includes those distributors that have actual cost of +/-10% of predicted cost, not necessarily those ranking in the middle for performance. Our previous rank has been 40 out of 59, with 1 being the lowest cost utility. Our forecasted costs using the 2023 forecast spending are projected to be 2.0% less than the predicted costs indicated by the TCB forecast.

The OEB focus in examining the TCB score for Bluewater will be to look for continuous improvement. In that regard, the table below demonstrates clear improvement over the period from 2013 to 2021, but some of the improvements gained are lost with the update to our costs. That is not unexpected given this application represents a 10-year “catch-up” in spending, but it is something we need to be conscious of as we file this application and plan our spending for both capital and O&M in future years.

	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021F	2022F	2023F
Actual Total Cost	23,242,931	23,030,352	24,045,346	24,898,850	25,350,481	26,767,729	26,955,317	26,228,725	26,856,857	29,992,678	32,027,841
Predicted Total Cost	21,906,896	22,946,924	23,855,857	24,391,619	24,356,346	25,799,696	26,862,215	27,448,096	28,330,862	30,928,712	32,676,722
Variance	1,336,035	83,428	189,489	507,231	994,135	968,033	93,102	(1,219,371)	(1,474,005)	(936,034)	(648,881)
Percent Variance	5.9 %	0.3 %	0.8 %	2.1 %	4.0 %	3.7 %	0.3 %	(4.5%)	(5.3%)	(3.1%)	(2.0%)

8. Projected Income Statement for 2023

The projected income statement for the year 2023 is presented below as context for the Board of Directors as it considers this 2023 Rebasing Application. The 2023 fiscal year will have four months of old rates and eight months at new rates. The analysis below shows the Income Statement of status quo (meaning if Bluewater does not rebase in 2023) compared to the Income Statement including eight months at new distribution rates assuming the Rebasing Application is approved as filed.

The highlights we will bring to the Board attention are as follows:

- Distribution Margin increases by \$1.56M with rebasing (eight month impact)
- The LRAM claim in 2023 represents recovery of lost revenue for the years 2021 and 2022. Without rebasing we would only claim 2021 lost revenue, and then claim 2022 at a later date through the normal IRM rate application process.
- PILs is zero in both scenarios as legislative tax changes intended to stimulate the economy result in significant tax deductions for capital investments. We are required to calculate the tax savings/costs attributed to these tax changes and return the savings/costs to rate payers through a deferral account in the amounts of \$30,452 and (\$216,301) as indicated in the income statement. When we rebase, these tax changes are built into rates, so there are no savings/costs to be returned to ratepayers in 2023 under that scenario.
- We have forecast borrowing in 2023 from a third party in the amount of \$15M. This borrowing will repay the holding company the \$3.5M advanced to-date, as well as finance future capital spending.
- Based on the formula of our Promissory Notes, unless we rebase, the amount available to satisfy debt held by shareholders will be reduced significantly (\$402k forecast without rebasing versus \$1.4M forecast assuming rebasing).
- The net result is an improvement in net income for 2023 of approximately \$1.0M (in addition to paying the full promissory note interest, for a total benefit of approximately \$2.1M).

Bluewater Power Distribution Corporation
Income Statement Comparisons

2023 Forecast

	<u>2023 w/o</u> <u>Rate App</u>	<u>2023 with</u> <u>Rate App</u>	<u>Variance</u>
REVENUES:			
DISTRIBUTION REVENUE:			
Distribution	23,752,635	25,312,795	1,560,160
Distribution - Shared Tax Savings	30,452	-	(30,452)
Distribution - CCA Change	(216,301)	-	216,301
	23,566,786	25,312,795	1,746,009
LOST REVENUE RECOVERY	356,630	741,856	385,226
OTHER OPERATING REVENUES:	1,935,864	1,935,864	-
TOTAL REVENUES	25,859,280	27,990,515	2,131,235
OPERATING EXPENDITURES:			
ADMINISTRATION:			
O&M - Gross	21,497,045	21,497,045	-
Capitalization	(4,921,000)	(4,921,000)	-
Employee Future Benefits	274,390	274,390	-
	16,850,435	16,850,435	-
AMORTIZATION:			
Intangible Assets	1,072,328	1,072,328	-
Capital Assets	4,530,157	4,530,157	-
Contributed Capital - pre 2014	(82,713)	(82,713)	-
	5,519,772	5,519,772	-
INTEREST:			
Other Interest	10,000	10,000	-
Carrying Charges	18,000	18,000	-
CIBC Term Loan #1 Interest	128,917	128,917	-
CIBC Term Loan #2 Interest	912,136	912,136	-
Promissory Note Interest	403,118	1,442,476	1,039,358
	1,472,171	2,511,529	1,039,358
TOTAL OPERATING EXPENDITURES	23,842,378	24,881,736	1,039,358
INCOME BEFORE PILS	2,016,902	3,108,779	1,091,877
PILS: Current	-	-	-
NET INCOME	2,016,902	3,108,779	1,091,877

9. Board Resolutions

- Bluewater Power believes this is a fair and reasonable representation of the costs required to be collected through distribution rates. In support of this application, we will be seeking Board approval of each of the following resolutions:

“That the Board of Directors approves of the adjustments to the approved 2022 Capital Budget and OM&A Budget as set out in the Report dated July 20, 2022 are appropriate, and further approves of the submission of this updated 2022 Capital Budget and 2022 OM&A Budget for the Bridge Year (2022) in the 2023 Rebasing Application.”

“That the Board of Directors approves of the 2023 OM&A and Capital Budgets set out in the report dated July 20, 2022 to be included as the Test Year budgets in the 2023 Rebasing Application.”

Once the Cost Allocation Study is complete and rate impacts are known, we will be seeking a final approval of the Rate Application prior to filing. Assuming the impacts are not materially different than set out in this report, that approval will be facilitated through email communication and a written resolution.



BUSINESS PLAN

***“To be a trusted and respected leader in
everything we do!”***

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- 3.0 Objectives
 - 3.1 Customer Focus
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 - 3.3 Public Policy Responsiveness
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- 4.0 Financials – Submitted separately

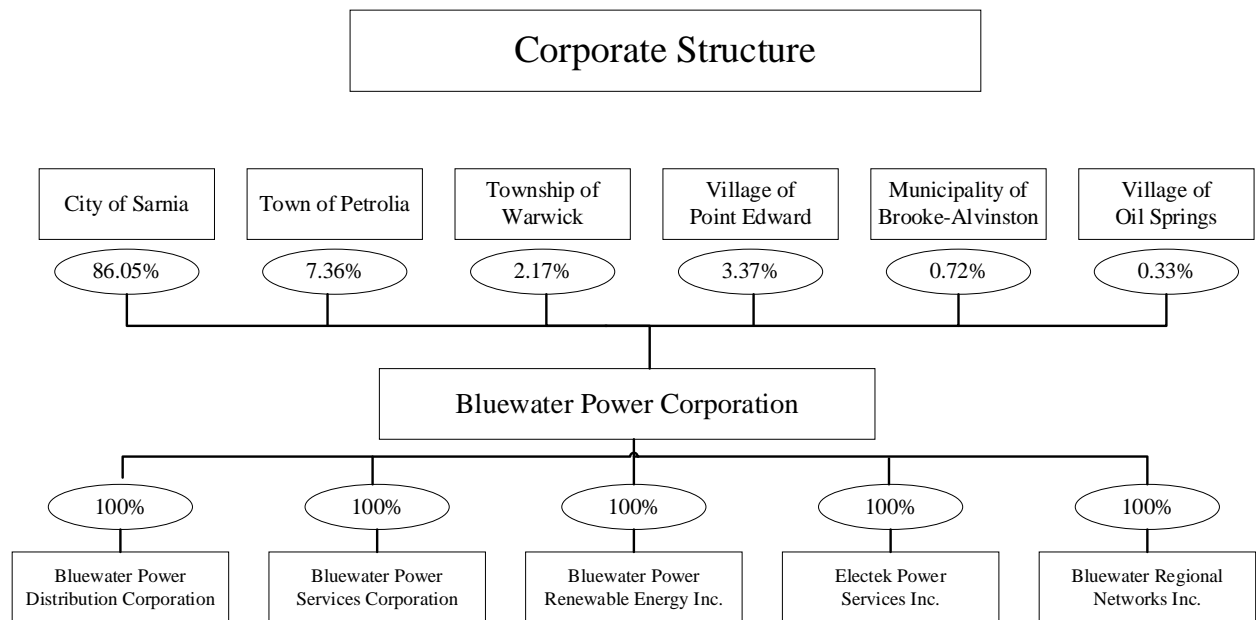
1.0 Overview of Bluewater Power Distribution Corporation

1.1 Utility Description

Bluewater Power Distribution Corporation (“BW” or “Bluewater”) is a Local Distribution Company (LDC) which has delivered electricity to the people of the Sarnia-Lambton area for over 100 years. It serves approximately 37,000 customers in the communities of Sarnia, Petrolia, Point Edward, Warwick Township (Watford), Brooke-Alvinston and Oil Springs. To provide these services Bluewater operates and maintains over 1,200 km of electricity line, covering over 200 sq. km of service territory.

1.2 Corporate Structure

Bluewater Power Distribution Corporation is a Local Distribution Company (LDC) regulated by the Ontario Energy Board (“OEB”). BPDC was incorporated under the *Business Corporations Act, Ontario* on October 30, 2000 upon the amalgamation of the utility companies of the municipalities of Sarnia, Petrolia, Point Edward, Warwick Township (Watford), Brooke-Alvinston and Oil Springs. BPDC is owned by Bluewater Power Corporation, which in turn is owned the six municipal shareholders through their own holding companies. Bluewater Power Corporation also owns Bluewater Power Services Corporation, Bluewater Power Renewable Energy Inc., Electek Power Services Inc., and Bluewater Regional Networks Inc. The corporate structure for the Bluewater Power Group of Companies is depicted below.



1.3 Governance

When the corporation was first formed November 1, 2000, the Shareholders agreed that an important part of the transition from electric commission to business corporation was to create a professional Board of Directors (the “Board”), with diverse business related experience, who were also free from local politics. All Shareholders agreed that no elected official or municipal employee would serve as a Director of the company. As a result the current board of directors is 100% independent of its shareholders.

The Board is responsible for the overall governance of the corporation, while management are responsible for the day-to-day operations. In addition to reviewing management’s performance of its operations of the business, the Board is also responsible for ensuring the Company conducts its affairs in accordance with its distribution licence, as well as codes, guidelines, and orders from the Ontario Energy Board. Specifically, the responsibilities that fall under the mandate of the Board are as follows:

1. Reviewing and approving the Corporation’s Annual Budget and business plans, to ensure it is consistent with the maintenance of a viable, competitive business and the

- preservation of its underlying value. Monitor the Corporation's performance and progress towards its strategic and operational goals.
2. Managing all risks related to the business conducted by the Corporation, by overseeing the adoption of appropriate risk management strategies and internal controls, including Cyber Security.
 3. Ensure a prudent financial and capitalization structure for the Corporation consistent with sound financial principles and ratemaking guidelines.
 4. Providing the Shareholders with a reasonable return through the payment of dividends. Dividends shall generally be paid as one-third of Net Income after Tax, but the Board reserves the right to adjust such payment having regard to a change in circumstances.
 5. Establish governance structures and committees as deemed appropriate by the Board from time to time.
 6. Approving the appointment of the President and Chief Executive Officer and reviewing his or her performance, compensation and succession plan. Monitor the appointment, performance and succession plans for senior management of the Corporation.
 7. Ensure senior management provides communication to Shareholder Representatives, as well as reporting at a public annual meeting of Shareholders within six (6) months after the end of each fiscal year.
 8. Ensure the development and implementation of an Incentive Pay program that encourages management, union, and non-union employees to deliver cost effective and extraordinary service while meeting the financial expectations of the Board and Shareholders.

The founding principles of the Company are to operate and maintain a safe, reliable and efficient electricity distribution system while maintaining reasonable rates. In order to help balance the expectations of customers, shareholders and regulators, the Board issued the guiding principles found in Section 2.1 to management.

2.0 Bluewater Business Overview

2.1 Vision, Mission, and Guiding Principles

Vision: Bluewater’s vision is “*To be a trusted and respected leader in everything we do!*”.

Mission: Bluewater’s mission is “*to be a best in class local energy and services Company embracing growth and innovation, driven by the pride of our employees and communities*”.

Guiding Principles:

Bluewater will accomplish our Mission while maintaining the following guiding principles established by its Board of Directors:

1. **Safety First:** The Board expects a culture where employees know that safety is always the number one priority.
2. **Community Always:** Everything that the Corporation does should reflect our desire to be a valued local community partner. We provide reasonable returns to our municipal shareholders, but we also ensure that customers, shareholders and other community partners know that we are their “hometown utility”.
3. **Exceptional Customer Service:** The Board believes that exceptional service does not need to be expensive. The Board works to encourage a culture where customers leave every encounter with the utility impressed that they are dealing with an employee that cares.
4. **Control Costs Through Economies of Scope:** The distribution territory served by the Corporation is low growth compared to other regions within Ontario. Therefore, the Board supports an approach to cost control through the use of Economies of Scope utilizing affiliates to share in the cost of management and employees.
5. **Employee Satisfaction:** Employees are encouraged to go “above-and-beyond” their job duties through a financial incentive plan to be applied to all employees, as well as

a culture of mutual respect between management, non-management and union employees.

6. **Innovation:** A modern organization moves forward or risks being left behind. The drive for innovation is not only based on modernization of technology, but innovation in business processes at all levels of the organization.

Bluewater believes that a strategy which makes customers our top priority while building on our vision for the future presents a balanced framework for solid performance, adaptation to a changing business environment and sustainable and profitable business growth.

2.2 Customer Engagement

In preparation of the 2023 Rate Application, Bluewater completed a customer engagement exercise to obtain feedback on its distribution system plan and provide an opportunity for customers to provide input and feedback on the service Bluewater provides. This combined with information from customers obtained from regular communication has provided the following key insights that Bluewater has factored into its business plan (as well as distribution system plan and rate application):

Affordable cost of electricity and reliability were the top priorities for most customers. Bluewater has taken this feedback seriously and has incorporated it in the business plan in several ways. Bluewater has developed its 2023 budget and five year forecast with careful consideration of rate increases to its customers. This has been especially challenging with the inflationary pressures Bluewater, and its customers face throughout 2022. While trying to minimize rate increases to customers, Bluewater has sought to balance the needs of its distribution system, ensuring that assets are appropriately maintained and replaced as required to maintain the overall health of the system, and provide improvement in reliability. In many cases necessary capital projects have been spread over the five year period to provide a smooth capital plan and evenly distribute rate increases for customers.

In addition the business plan provides clear objectives to improve reliability and cost control, including the delivery of an additional incremental cost savings of \$100,000 per year,

accumulating to \$500,000 over the five year business plan period.

Further, customers also indicated they value communication regarding power outages. Bluewater already has a social media presence, but is seeking to increase the number of customers it reaches as part of this business plan. Through this medium Bluewater will continue to inform and interact with customers to increase awareness of both planned and unplanned outages, storm management, regulatory changes, general safety, and customer planning information.

2.3 Benchmarking

In developing its business plan, Bluewater has utilized its results in the OEB's Total Cost Benchmarking and certain performance metrics from the OEB's scorecard for benchmarking purposes. Performance metrics from the OEB scorecard have been considered in determining the business plans objectives and targets, namely in areas of customer service and reliability. The metrics are described in the Objectives section below.

The OEB engages Pacific Economics Group Research, LLC (PEG) on an annual basis to benchmark electricity distributors' total cost performance. The benchmarking analysis is performed according to the OEB-approved methodology and is used in incentive rate setting by rewarding distributors based on their total cost performance. Each distributor is assigned to one of five cohorts, with the best cost performers placed in Cohort 1 and the worst cost performers placed in Cohort 5. Since its last rebasing in 2013, Bluewater has been consistently assigned to the middle cohort, Cohort 3.

Bluewater has used, and will continue to use, the Total Cost Benchmarking forecast model to assess the reasonableness of its operating and capital budgets before they are finalized and presented to its Board for approval. Based on the 2023 operating and capital budgets, Bluewater will remain in Group 3. Its forecasted costs are projected to be 2.0% less than the predicted costs indicated by the TCB forecast model. Table 1, provides the historical and forecasted TCB results.

Table 1: Historical and Forecast Total Cost Benchmarking Results (2013-2023)

	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021F	2022F	2023F
Actual Total Cost	23,242,931	23,030,352	24,045,346	24,898,850	25,350,481	26,767,729	26,955,317	26,228,725	26,856,857	29,992,678	32,027,841
Predicted Total Cost	21,906,896	22,946,924	23,855,857	24,391,619	24,356,346	25,799,696	26,862,215	27,448,096	28,330,862	30,928,712	32,676,722
Variance	1,336,035	83,428	189,489	507,231	994,135	968,033	93,102	(1,219,371)	(1,474,005)	(936,034)	(648,881)
Percent Variance	5.9 %	0.3 %	0.8 %	2.1 %	4.0 %	3.7 %	0.3 %	(4.5%)	(5.3%)	(3.1%)	(2.0%)

2.4 Business Environment

Service Territory

Bluewater's service territory includes the City of Sarnia and five other municipal communities within Lambton County (Petrolia, Warwick, Point Edward, Brooke-Alvinston and Oil Springs). Lambton County is bordered to the north by Lake Huron and to the west by the St. Clair River as well as the Canadian-United States border. The St. Clair River is spanned by the Blue Water Bridge, linking Sarnia (and the Village of Point Edward) to Port Huron, Michigan. Primary areas of employment in Lambton County include manufacturing, retail trade, tourism and food services and agriculture.¹

Since Bluewater's last cost of service application in 2013 its customer base has grown by less than 3%, primarily from increasing residential customers. From 2013 to 2021 residential customers have grown 3.47%, resulting in a Compound Annual Growth Rate (CAGR) of 0.43%. This growth was offset by a decline in the number of commercial customers during the same period. During the same period of time, kWh sold declined by 4.8% in aggregate or -0.61% CAGR. The changes to customer numbers by customer class and kWh during the 2013 to 2021 period are summarized in the Table 2 below.

Table 2: Historical Changes to Customer Numbers and kWh Sold

	2013 Actual	2021 Actual	Total Increase (#)	Total Increase (%)	2013-21 CAGR
Residential	32,002	33,113	1,111	3.47%	0.43%
GS<50 kW	3,472	3,459	(13.00)	(0.37%)	(0.05%)
GS 50-4999kW	428	372	(56.00)	(13.08%)	(1.74%)
Intermediate	13	9	(4.00)	(30.77%)	(4.49%)
Large User	3	4	1.00	33.33%	3.66%
Total Customers	35,918	36,957	1,039	2.89%	0.36%
kWh	1,006,121,332	957,813,268	(48,308,064)	(4.80%)	(0.61%)

The general trend in the number of customers is expected to continue through 2023 with continued growth in residential and decline in small commercial. One exception on the

¹ [Lambton County - Wikipedia](#)

commercial side, however, is that the number of customers in the GS 50-4999kW class are expected to grow from 372 to 380, a gain of just over 1% per year. In addition, Bluewater is also anticipating growth in its kWh sales of 1.2% per year during the same time period. Table 3, below summarizes the expected growth in customers and kwh over the next two years.

Table 3: Forecasted Changes to Customer Numbers and kWh Sold

	2021 Actual	2023 Forecast	2021-23 Increase (#)	2021-23 Increase (\$)	2021-23 CAGR
Residential	33,113	33,360	247	0.75%	0.37%
GS<50 kW	3,459	3,398	(61.00)	(1.76%)	(0.89%)
GS 50-4999kW	372	380	8	2.15%	1.07%
Intermediate	9	9	-	0.00%	0.00%
Large User	4	4	-	0.00%	0.00%
Total Customers	36,957	37,151	194	0.52%	0.26%
kWh	957,813,268	980,975,740	23,162,472	2.42%	1.20%

Enbridge Line 5:

Located in the south of Sarnia is a complex of petrochemical and refining facilities referred to collectively as ‘Chemical Valley’. ‘These industrial complexes are the heart of Sarnia’s infrastructure and economy. They directly employ nearly 8,000 and contribute to almost 45,000 additional jobs in the area.’²

A significant portion of the oil refined in Chemical Valley is delivered through Enbridge’s pipeline Line 5. ‘Line 5 was completed in 1953 and runs from Superior, Wisconsin through Michigan to Sarnia, Ontario, [delivering] up to 540,000 barrels of oil per day.’³

‘In November 2020, Michigan Governor Gretchen Whitmer revoked an easement granted in 1953 to extend a roughly 4-mile section of the pipeline through the Straits of Mackinac, and directed Enbridge to cease operations by May 2021.’⁴

Enbridge has defied the order and continues to operate the pipeline while pursuing the matter through the courts. In addition, ‘in May 2021, the Canadian government filed a request to a U.S.

² [Sarnia - Wikipedia](#)

³ [Enbridge Line 5 Oil Pipeline - Global Energy Monitor \(gem.wiki\)](#)

⁴ [Enbridge Line 5 Oil Pipeline - Global Energy Monitor \(gem.wiki\)](#)

court to stop the state of Michigan from shutting down the pipeline ...”⁵

“Canada has invoked the 1977 pipeline treaty between Canada and the U.S. in a bid to prevent Michigan from turning off the taps to Enbridge’s Line 5.”⁶

“Sarnia Mayor Mike Bradley said at least 3,000 jobs at three refineries in his city, as well as numerous positions in related industries, would be affected if the pipeline shut down. “If you’re talking about that number of jobs, it is like dropping a neutron bomb on the community,” he said. “It would be truly devastating.”⁷

“The two sides are currently in mediation and there is the potential that this fight turns into a national dispute between Canada and the U.S., leaving communities like Sarnia largely powerless in an entrenched environmental fight that could imperil thousands of existing jobs. The Ontario government believes 4,900 jobs in Sarnia, a city of 71,500, are in jeopardy if the line is shut down next week, but Bradley said there’s a broader economic impact in his city.”⁸

It is difficult to estimate what the impact of shutting down Line 5 may be on Bluewater Power, or when/if such an event will occur. The estimates presented in the media are broad; a significant negative impact on the number of industrial, commercial and residential customers, commodity sales, and bad debt expense may occur. The timing of a potential shut down is also unknown. During the upcoming Rebasing Application, Bluewater will advise the OEB of the potential risks involved and request a variance account to recover the impacts in the event a shut down does occur.

2.5 Inflation

Throughout 2021 and 2022 Bluewater has faced inflationary pressure on its expenses. In 2021 Bluewater saw an increase to the moving average cost of its materials of approximately 8.6%.

⁵ [Enbridge Line 5 Oil Pipeline - Global Energy Monitor \(gem.wiki\)](https://gem.wiki/enbridge-line-5-oil-pipeline)

⁶ [Sarnia, Ont. mayor on latest bid to save Line 5 pipeline | CTV News](https://www.ctvnews.ca/sarnia-ont-mayor-on-latest-bid-to-save-line-5-pipeline-1.5644444)

⁷ [Sarnia, Ont. workers worry about job loss after planned Enbridge Line 5 shut down | Globalnews.ca](https://globalnews.ca/news/7844444/sarnia-ont-workers-worry-about-job-loss-after-planned-enbridge-line-5-shut-down/)

⁸ [As clock ticks down on Enbridge's Line 5, anxiety grows in Sarnia and Michigan | Financial Post](https://www.financialpost.com/news/canada-environment/as-clock-ticks-down-on-enbridge-s-line-5-anxiety-grows-in-sarnia-and-michigan)

As of July 2022, Bluewater has seen a further average increase in the moving average cost of its materials of approximately 9.8% over 2021 costs.

In developing its business plan, including its 5 year financial forecast (2023 budget and 2024-27 forecast) Bluewater first updated its 2022 forecast. The 2022 forecast is based on a combination of actual results as of May 31, 2022 and estimated expenses for the remainder of the year.

The 2023 Budget contains the following estimated inflationary increases over 2022:

- Union represented labour – 2%, as determined by the collective agreement.
- Non-Union represented labour – 4%
- Known inflationary increases were incorporated, otherwise inflation on Materials – 10%

For the 2024-27 forecast an annual 3% inflationary increase was used.

2.6 Workforce and Succession Planning

Workforce and Succession Planning are a substantial part of Bluewater Power's corporate planning and budgeting processes. Bluewater Power strives to attract and retain employees that are among the best in the industry, and provide them with challenging and meaningful work, while offering them mutually beneficial opportunities for knowledge, growth and career development. To accomplish this Bluewater Power has developed a strong recruitment and selection process while offering competitive salaries and benefit packages that are competitive in the local market and LDC industry while also being cognizant of the budgetary and business constraints of operating in a regulated environment. Bluewater Power truly values their employees and their contributions to the overall success of the business.

Bluewater Power has had 56 individuals retire or resign, to date, from the last rate application in 2013. Workforce and succession planning remain high priorities over the next five years as Bluewater Power expects to experience turnover of 25 percent of its workforce. This is expected due to the eligibility of retirements and the continued increase in higher than normal turnover rates experienced by all industries in recent years.

Current factors impacting Bluewater Power's workforce planning and the electrical distribution

sector are:

- Aging workforce including significant turnover;
- Overall shortage of skilled labour within the electrical industry and competition from local industry;
- Increased customer demand for technological enhancements and 24/7 coverage and access to information;
- Continuously evolving regulatory changes and demand for information technology such as cyber security which requires different skills, expertise and competencies to meet the needs of all stakeholders;
- Reduced geographical recruitment area due to international crossing and waterways; and
- Demands for continuous infrastructure enhancements alongside an aging infrastructure and demands to replace distribution infrastructure beyond its useful life.

Bluewater Power's business decisions are based on the premise that the company's objectives will be met through the contributions of a diverse team of engaged, trained and educated, creative, committed and productive workforce. Taking into consideration the needs of all stakeholders and offering exceptional service at a reasonable cost Bluewater Power strives to manage the workforce planning factors impacting operations by:

- Being proactive instead of reactive when staffing departments that require a significant amount of training;
- Offering a competitive compensation package to attract and retain skilled trades personnel, continuously recruiting apprentices to have a pipeline of appropriately trained and competent staff;
- Providing continuous training, development and mentorship to personnel, promoting internally, and hiring staff that have relevant experience such as apprentices and graduates with the required credentials;
- Enhancing staffing levels in departments that require the additional resources and continuously reviewing staffing levels to meet the demands of the business; and
- Participating in asset management, continuously reviewing infrastructure requirements and forecasting future demands when possible.

3.0 Corporate Objectives

Bluewater has determined the following objectives and related outcomes which it intends to achieve throughout the 2023-27 business plan. A detailed explanation of the objectives and outcomes follows.

Table 4: Bluewater Corporate Objectives

OEB Category	Performance Categories	Objectives and Outcomes
Customer Focus	Service Quality	<ul style="list-style-type: none"> * Continue to exceed industry targets for service quality indicators * Increase social media presence to better inform customers
Operational Effectiveness	Safety	<ul style="list-style-type: none"> * Maintain a strong safety culture with zero lost hours * Maintain number of general public incidents at zero through increased public awareness
	Reliability	<ul style="list-style-type: none"> * Maintain and invest in the distribution system to ensure the safe and reliable delivery of electricity * Improve SAIDI and SAIFI results over the 5 year DSP timeframe * Complete all high priority reliability related projects and programs identified in the DSP * Seek out innovative solutions to provide better service and/or reduce costs to serve customers
	Employee Engagement	<ul style="list-style-type: none"> * Implement a regular employee engagement survey, targeting improved results over time
	Cost Control & Continuous Improvement	<ul style="list-style-type: none"> * Maintain Total Cost Benchmarking Cohort 3 Status, while improving results within Cohort 3 * Improve cost efficiency, targeting an incremental \$100k reduction in spending each year through identifiable and sustainable savings
Public Policy Responsiveness	Public Policy Responsiveness	<ul style="list-style-type: none"> * Fulfill obligations mandated by the government through legislative and regulatory requirements * Completion of the Green Button project in 2023 * Development of Environmental & Social Responsibility Policy in support of municipal, provincial and federal initiatives
Financial Performance	Financial	<ul style="list-style-type: none"> * Deliver electricity at reasonable distribution rates * Earn the approved ROE to provide a stable dividend to shareholders and sufficient reinvestment of capital for distribution system needs

3.1 Customer Focus

Bluewater has an excellent customer service track record and will continue to provide high quality customer service and communication to our customers at all times. To stay on track, Bluewater will continue to focus on the following key areas:

1. Bluewater's customer service has continued to perform strongly over the past several years with service levels exceeding the industry target for each of the five key performance metrics listed in the Table 5. Bluewater's goal is to continue to exceed the industry target over the 5 year business plan timeline. Table 5 also provides the results from the industry standard bi-annual customer satisfaction survey. Bluewater has successfully increased its results each survey since 2017. Bluewater's goal is to build on this success and maintaining its average or improving its average results.

Table 5: Customer Focus Metrics

Metric	2017	2018	2019	2020	2021	Target
Services Connected on Time	99.3%	96.9%	99.7%	100%	93.9%	Maintain
Appointments met on time	99.8%	99.7%	100%	100%	99.4%	Maintain
Tel. Calls Answered on time	78.0%	82.3%	87.4%	82.7%	86.3%	Maintain
First Contact Resolution	99.9%	99.9%	99.99%	99.9%	99.9%	Maintain
Billing Accuracy	99.9%	99.9%	99.9%	99.9%	99.9%	Maintain
Customer Satisfaction Survey	73.5%	74.4%	74.4%	77.8%	77.8%	Maintain

2. Customer expectations regarding communication and the availability of information have increased considerably over the years. To meet these needs Bluewater is working to increase its social media presence in order to provide helpful information regarding planned and unplanned outages, changes to bills, rates and other events that impact customers, in order to better inform customers and meet their needs. This will also help reduce the number of times customers need to initiate contact with the company, saving customers' time and inconvenience. To measure its success in this area, Bluewater will track and report the number of followers subscribed to its social media platforms.

3.2 Operational Effectiveness

Safety

Bluewater's number one priority is the safety of its employees, its customers and the community. This commitment is reflected in the results achieved in the following safety metrics, provided in Table 6.

Table 6: Safety Metrics

Metric	2017	2018	2019	2020	2021	Target
Lost Time Hours	0	0	0	0	0	Maintain
Level of Public Awareness	86%	86%	87%	87%	88%	Improve
General Public Incidents	0	0	0	0	0	Maintain

These metrics will continue to be used to measure Bluewater's safety performance. As of January 31, 2022 Bluewater's employees have worked 1,617,954 without a lost time incident. Bluewater has contributed to the community's safety with its safety education program and as a result the level of public awareness has increased over the past five years.

Bluewater is committed to continuous improvement in its health and safety programs, with a strong focus on health and safety training as well as skill upgrades for all of its employees. We will also continue with our public education programs to inform and encourage awareness of the dangers involved when working with or near electricity.

Safety of the distribution system is also an important aspect of the DSP, annual budget and day-to-day work activities. The system assets are monitored for any safety related risks that may pose danger to the general public and our employees. Once identified, appropriate remedial action plans are put in place to mitigate the risk, often including repair or replacement.

All of these efforts are manifest in successful avoidance of Lost Time injuries and general public incidents, which are tracked and reported to the Board.

Reliability

With this application Bluewater has completed its first DSP, which is designed to allow the company to continue the safe and cost effective delivery of electricity, while improving

reliability. Bluewater improved reliability as measured by both the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI), in 2021. Figure 1 provides the SAIFI results for the past six years, which measures the average number of outages experienced by customers per year. And figure 2 provides the SAIDI results for the past six years, which measures the average duration of the outages experienced by customers.

Figure 1: Reliability - SAIFI

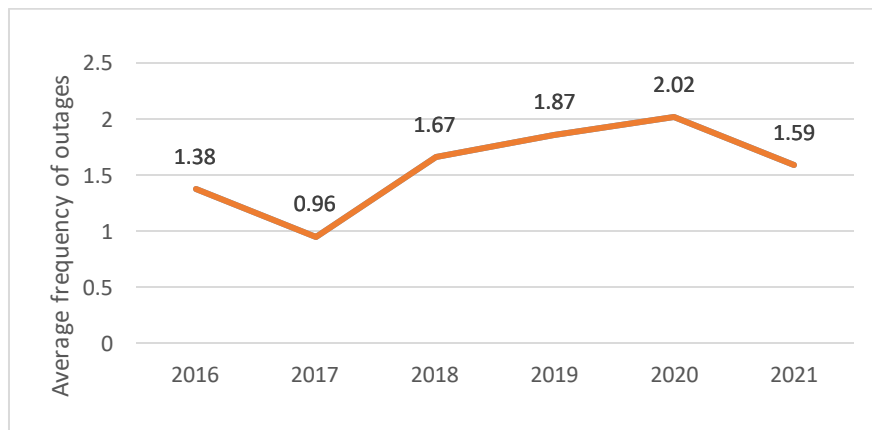
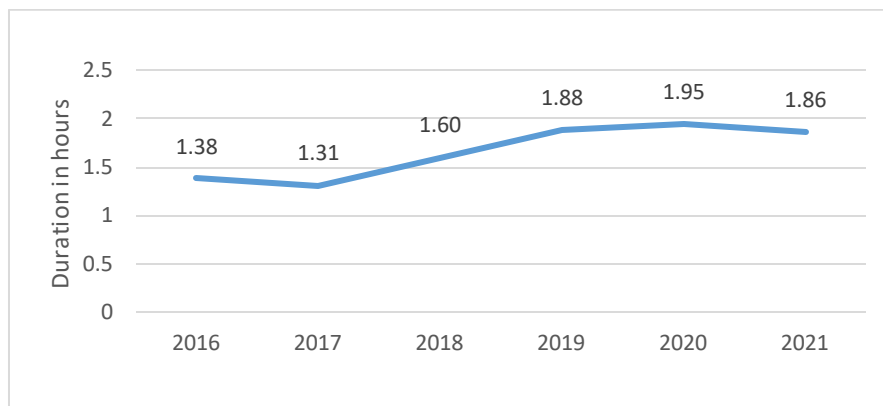


Figure 2: Reliability – SAIDI



Bluewater is seeking to maximize the useful lives of its assets, while at the same time taking a targeted proactive approach to avoid costly equipment failures which decrease reliability and have a negative impact on customers. As such the 2023-2027 DSP outlines its planned replacement of deteriorating assets, with a balanced approach which considers the impact on customer rates.

Bluewater will ensure its reliability related objectives are met by ensuring that the distribution

system plan is appropriately implemented each year, as well as measuring its impact on SAIDI and SAIFI, with the intention of improving its annual score over the next 5 years, in comparison to its 5 year historical average. Bluewater will continue using SAIDI and SAIFI metrics to measure and report its reliability results.

Successful completion of the projects in the DSP directly impact reliability. Because of its importance, Bluewater will continue to report on the successful completion of these projects, with particular emphasis on those projects identified as high priority reliability projects.

Bluewater seeks solutions that provide the lowest long-term cost, while meeting safety and performance requirements. Where appropriate, innovative solutions will be sought out to help provide the maximum long term effectiveness of investments while providing the necessary performance. Examples include Bluewater's use of SCADA and its management outages system, which together provide the necessary information for Bluewater to respond rapidly to outages and restore power to customers safely and efficiently. Where more traditional programs make sense, Bluewater will increase the investment level as appropriate. For example, Bluewater will be increasing its vegetation management program over the 2022-2027 period, to help reduce the frequency of tree related outages.

Employee Engagement

Bluewater believes that it will be most successful when its employees are actively engaged in accomplishing its goals and objectives. Beginning in 2022, Bluewater will complete an annual employee engagement survey. Based on feedback received in this survey, Bluewater expects to understand the level of employee engagement and insight in how to address issues and better engage its employees in the future.

Cost Control & Continuous Improvement

Operational effectiveness in the context of operational efficiency is top of mind for Bluewater.

In service to its customers, Bluewater believes it is imperative to maintain its costs within Cohort 3 of the Pacific Economics Group's (PEG) annual Total Cost Benchmarking study. To help achieve this and improve cost efficiency, Bluewater will formalize and challenge itself through a cost efficiency program targeting an incremental \$100k reduction in spending each year, through identifiable and sustainable savings. Savings may be obtained through productivity and efficiency improvements as well as the permanent elimination or avoidance of costs. Bluewater will report on the success of this program, identifying the amount of actual savings achieved

each year.

3.3 Public Policy Responsiveness

Bluewater takes its legislative and regulatory requirements seriously and is committed to meeting all existing and new requirements. In particular Bluewater focuses on ensuring all customers, including those interested in new technology and green generation, have access to the system as they would to any other system in Ontario.

Specifically identified projects by the government, or the OEB will be completed on time. This includes the Green Button project in 2023.

Bluewater is also a strong supporter of environmental responsibility and will develop a policy to ensure it is fulfilling its responsibilities in minimizing the impact of its business operations on the environment and supporting its customers, the local community and government in support of green initiatives.

3.4 Financial Performance

Bluewater strives to earn its full return on equity, as approved by the OEB, while delivering electricity at reasonable rates. Through earning its full return, Bluewater is able to provide a reasonable return to its shareholders, while also having the necessary capital available to re-invest in its distribution system, and maintain a financially stable organization.

4.0 FINANCIALs

(Submitted under separate cover to Board)

2023 Rate Application Review

July 26, 2022

AGENDA

1. Overview
2. Business Plan
3. Distribution System Plan
4. Updates to 2022 Budgets
5. Approval of 2023 O&M Budget
6. Approval of 2023 Capital Budget
7. Revenue Requirement and Bill Impacts
8. Projected Income Statement
9. Board Resolutions

Business Plan

- ❑ Business Plan discusses key issues in our territory:
 - ❑ Region remains slow growth despite signs market is “heating up”
 - ❑ Enbridge Line 5 risk
- ❑ Business Plan documents our business philosophy
- ❑ Objectives have been updated since last meeting
- ❑ Financial forecast discussed next and updated each year at budget
- ❑ Open to questions

Distribution System Plan

- ▶ We are in the final stages of preparing the DSP for the application
- ▶ The DSP outlines our strategy to ensure the system operates safely and reliably for now and in the future
- ▶ The chart below details 2022 -2027 proposed capital spending

Distribution System Plan Forecast (\$000's)						
Category	2022	2023	2024	2025	2026	2027
System Access	2,200	2,322	2,446	2,520	2,595	2,642
System Renewal	5,292	6,659	5,900	5,243	5,401	5,520
System Service	360	514	194	200	206	211
General Plant	4,300	2,877	3,170	3,630	3,903	4,258
GRAND TOTAL	12,152	12,372	11,710	11,593	12,105	12,631

Update to 2022 Capital Budget

- 2022 has brought uncertainties with regard to supplier shortages, price increases, increased demand for services and continued challenges recruiting qualified power-line technicians
- Propose to increase the 2022 capital budget by \$557,000 for rate application filing (not seeking to amend approved budget)
- Main driver for the increase is land purchase, in conjunction with a decrease to reflect expected capital spending

Update to 2022 Capital Budget

Description	2021 Actual	2022 Budget Approved	2022 Forecast	2023 Forecast
Lines & Design - High Priority Level	\$ 5,088,964	\$ 6,105,000	\$ 6,282,000	\$ 6,076,600
Lines & Design - Mid to Low Priority Level	277,322	920,000	1,010,000	2,333,100
Municipality Centered Projects	326,223	500,000	400,000	540,900
Non-Reliability Projects	1,613,630	1,540,000	1,430,000	816,000
Total Lines & Design	7,306,139	9,065,000	9,122,000	9,766,600
Metering	116,758	155,000	155,000	164,500
Total Information Technology	1,550,163	1,945,000	1,945,000	2,033,000
Total Other Projects	36,656	430,000	930,000	408,000
	<u>\$ 9,009,716</u>	<u>\$ 11,595,000</u>	<u>\$ 12,152,000</u>	<u>\$ 12,372,100</u>

Update to 2022 Capital Budget

Amendments to 2022 Capital Budget

2022 Approved Budget	\$	11,595,000
HIGH PRIORITY		
Increase New Connections	\$	800,000
Increase Storm Restoration	\$	115,000
Increase Padmount Transformers cost	\$	112,000
Decrease Wood Pole	-\$	300,000
Reschedule Centre Street Petrolia to 2024	-\$	500,000
Decrease Emergency Improvement Fund	-\$	50,000
Subtotal	\$	177,000
MID PRIORITY		
Increase Animal Protection	\$	90,000
MUNICIPALITY & NON-RELIABILITY		
Decrease Street widening	-\$	100,000
Decrease Service Centre	-\$	110,000
Subtotal	-\$	120,000
OTHER PROJECTS		
Remove Tree Trimming Equipment	-\$	400,000
Add Vacant Land Purchase	\$	900,000
Subtotal	\$	500,000
2022 Revised Capital Budget for Rate Application	\$	12,152,000

2022 O&M Budget Updates

- Net increase in 2022 O&M of \$126,000 related mainly to inflationary increases

2022 Gross O&M Updates		
Board of Directors Approved	\$	20,248,769
Payroll Related	-\$	4,255
Tree Trimming	\$	20,000
Fuel	\$	110,332
Revised O&M Forecast 2022	\$	20,374,846

- Note: Amortization was also reduced by \$42,580 due to changes to capital budget.

2023 Capital and O&M Budgets

2023 O&M

- Net O&M increase from 2022 to 2023 (as per financials) proposed at \$1.1M
- Details provided for significant variances
- Generally speaking there are no new positions, cost drivers are primarily Cost of Living and inflation

Bluewater Power Distribution Corporation 2022 & 2023 Operating and Maintenance Budget in \$ 000's

BUDGET IDS		2023	2022	2023 vs 2022
		Forecast	Bridge Year budget	
Compensation	A	12,299	11,877	422
Benefits	B	2,834	2,648	186
Software Maintenance	C	660	580	80
Contracted Services	D	485	418	67
Tree Trimming	E	400	342	58
Fuel	F	385	353	32
Benefits - Retirees	G	390	327	63
Postage	H	292	265	27
Billable	I	261	361	(100)
Property Tax		245	236	9
Insurance		229	220	9
Community Relations		201	193	8
Vehicle Maintenance		182	166	16
OEB Assessment		168	162	6
Bad Debts		166	160	6
Utilities		143	130	13
Connected Devices		138	126	12
Internet		118	114	4
Employee Costs		112	107	5
Memberships		108	104	4
Meals		107	97	10
Rate Application Costs	J	95	-	95
Training		92	88	4
Stores - Maintenance		84	76	8
Miscellaneous Supplies		84	76	8
Telephony		81	78	3
Audit Fees		75	72	3
Travel		57	52	5
Car Allowance		53	51	2
Cell Phone/Blackberry		51	49	2
Collection Charges		47	45	2
Environmental Issues		42	40	2
subtotal		20,684	19,613	1,071
Other Costs		813	762	51
Total Spending		21,497	20,375	1,122
Capitalized Portion		(4,921)	(4,910)	(11)
Net O&M per Financials		16,576	15,465	1,111
Less: billable costs		(778)		
Add: employee future benefit		275		
Net O&M for ratemaking		16,073		

2023 O&M Variances vs 2022

- ▶ A. Compensation +\$422K
 - ▶ No new positions, Cost of living, succession planning and progressions
- ▶ B. Benefits +\$186k
 - ▶ Increase assumes a 10% benefit rate increase, with remaining variance due to compensation changes
- ▶ C. Software Maintenance +\$80k
 - ▶ Inflationary increases
- ▶ D. Contracted Services +\$67k
 - ▶ Assume supplier increases
- ▶ E. Tree Trimming +\$58k
 - ▶ Projected work with new service provider

2023 O&M Variances vs 2022

- F. Fuel +\$32k
 - Increases due to dramatic fuel price increases
- G. Benefits – Retirees +\$63k
 - Forecast benefit rate increases
- H. Postage +\$27k
 - Increased postage costs assumed
- I. Billable -\$100k
 - Decrease to normalized levels following completion of OLC
- J. Rate Application Costs +\$95k
 - Total project costs of \$475,000 amortized over next 5 years

2023 Capital Budget Overview

- Total 2023 Capital Budget - \$12,372,100
- Total 2022 Capital Budget - \$12,152,000
- Rate application includes \$15 million of financing
- **Non-recurring projects - \$1,665,000 total**
 - St Clair Parkway Upgrade - \$262,500
 - Albany substation breaker upgrade - \$210,000
 - 4 kV system upgrades - \$817,500
 - Telecommunications - \$375,000
- **Recurring projects total \$10,707,100, details to follow**

2023 Capital Budget

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BLUEWATER POWER DISTRIBUTION 5 Year Capital Forecast Plan

Project Name	2022 Bridge Year	2023 Test Year	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Lines & Design - High Priority Level						
Guy Guard/Down Guy Replacement	25,000	25,300	20,800	21,400	22,000	22,700
Pad Mount Transformer Replacements	192,000	82,500	85,000	87,600	90,200	91,300
Wood Pole Replacement Program	1,900,000	1,957,000	2,016,000	2,076,000	2,138,000	2,202,000
New Connections (OEB Requirements)	2,000,000	2,110,000	2,176,600	2,241,900	2,309,200	2,351,500
Storm Restoration	350,000	385,000	396,600	408,500	420,800	421,900
Cross Arm/Cap & Pin Insulator Replacement Program	150,000	153,000	157,600	162,300	167,200	
						168,600
Primary Underground Cable Replacements	300,000	322,000	331,700	341,700	352,000	360,200
Emergency Improvement Fund	200,000	175,000	180,000	185,000	191,000	197,000
Emergency Transformer Replacement	250,000	262,500	270,400	278,500	286,900	291,800
Emergency Primary Line Replacement	80,000	83,500	86,000	88,600	91,300	92,700
Emergency Secondary Line Replacement	35,000	37,300	27,100	27,900	28,700	29,200
Cable Theft Replacement	-	11,000	11,300	11,600	11,900	12,300
1F8 Lead Cable Elimination	-	-				
Downtown Secondary Network Cable Replacement	350,000					
Decommission Municipal Substation #20	150,000	-				
Center St Pet	-		515,000			
St. Clair Parkway. in Sarnia (North of LaSalle Line) - Conversion to 27.6Kv		262,500				
Substation Transformer Replacements						
Progress Drive Substation Upgrade	300,000					
Albany Substation breaker upgrade		210,000				
Sub-Total	6,282,000	6,076,600	6,274,100	5,931,000	6,109,200	6,241,200
Lines & Design - Mid to Low Priority Level						
27.6 Kv Feeder Extensions	250,000	372,500	379,900	391,300	403,000	411,300
8 kv Load Conversion	-	372,500	379,900	391,300	403,000	411,300
4KV Lines Rebuild/ Load Conversion	200,000	210,000	213,300	219,700	226,300	230,100
Animal Protection	100,000	21,100	21,500	22,100	22,800	23,200
Remote Load Break Switches	90,000	96,500	98,600	101,600	104,600	107,000
Fault Indicators - Overhead	10,000	10,800	11,100	11,400	11,700	12,000
27.6kV Lines Upgrades	-	-	101,700	104,800	107,900	109,800
Downtown Vault Upgrades	10,000	10,400	10,500	10,800	11,100	11,300
4kV System Upgrades		817,500				
Subdivision Transformers	75,000	79,000	80,300	82,700	85,200	86,700
PMH (Pad-Mount) Switchgear Replacement	50,000	54,000	55,300	57,000	58,700	60,200
Downtown Switch Replacement	75,000	131,300	133,400			
PCB Tx Replacement	150,000	157,500	160,000			
Sub-Total	1,010,000	2,333,100	1,645,500	1,392,700	1,434,300	1,462,900

2023 Capital Budget

Project Name	2022 Bridge Year	2023 Test Year	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Municipality Centered Projects						
Pt Edward upgrades	50,000	51,300	52,800	54,400	56,000	56,600
Petrolia	100,000	208,000	107,100	110,300	113,600	115,200
Alvinston/Oil Springs Capital Items	100,000	20,600	21,200	21,800	22,500	22,800
Watford	100,000	208,000	107,100	110,300	113,600	115,200
Street Widening	50,000	53,000	54,600	56,200	57,900	59,000
Sub-Total	400,000	540,900	342,800	353,000	363,600	368,800
Non--Reliability Projects						
Substation Building	75,000	82,500	85,000	87,600	90,200	92,900
Tools (Vehicle and others)	100,000	88,000	90,600	93,300	96,100	99,000
Pole Testing Tools	-	33,000				
Vehicle Replacement - Lines	730,000	270,000	425,000	105,000	385,000	590,000
Transformers	150,000	165,000	170,000	175,100	180,400	185,800
Safety Related Projects	25,000	27,500	28,300	29,100	30,000	30,900
Service Centre	200,000	150,000	158,600	163,400	168,300	173,300
Asset Condition Assessment (feeder & substn)	150,000	-				
Sub-Total	1,430,000	816,000	957,500	653,500	950,000	1,171,900
Total Lines & Design	9,122,000	9,766,600	9,219,900	8,330,200	8,857,100	9,244,800

2023 Capital Budget

Project Name	2022 Bridge Year	2023 Test Year	2024 Budget	2025 Budget	2026 Budget	2027 Budget
Metering						
Single Phase Meters and Poly Phase Meters	100,000	104,500	107,600	110,800	114,100	115,900
New Meters	50,000	54,500	107,600	110,800	114,100	115,900
Metering Equipment/Tools	5,000	5,500	5,700	5,900	6,100	6,300
Total Metering	155,000	164,500	220,900	227,500	234,300	238,100
Information Technology						
Corporate IT Security	240,000	220,000	190,600	164,500	234,900	270,200
Data Centre Lifecycle	290,000	185,000	190,600	376,700	213,100	208,300
Computer Infrastructure Lifecycle	200,000	200,000	206,000	212,200	229,500	253,300
Internal Technology Development	390,000	425,000	463,500	477,400	491,700	506,500
Legislated Business Application Upgrades	250,000	300,000	293,600	302,400	218,600	225,100
Software-Upgrades and Additions	110,000	110,000	206,000	238,800	245,900	253,300
Disaster Recovery Plan Upgrade Phase I,II,III	150,000	158,000	118,500	114,500	196,700	168,800
Mailroom Equipment Replacement	35,000	-	-	-	-	43,400
Utilismart RSVA	-	-	-	-	-	-
Utilismart RSVA Utility Data Hub (ODS)	-	-	-	-	-	-
Business Technology Improvements	280,000	435,000	515,000	530,500	546,400	562,800
SAP Upgrade	-	-	-	530,500	546,400	562,800
Total Information Technology	1,945,000	2,033,000	2,183,800	2,947,500	2,923,200	3,054,500
Other Projects						
Vacant Land	900,000	-	-	-	-	-
Furniture (Company wide)	20,000	22,000	22,700	23,400	24,000	24,700
Distribution Transformer Monitoring Grid 20/20	10,000	11,000	11,300	11,600	12,100	12,500
Telecommunications - Operations	-	375,000	-	-	-	-
Innovation Research	-	-	51,500	53,000	54,600	56,200
Total Other Projects	930,000	408,000	85,500	88,000	90,700	93,400
Grand Total	12,152,000	12,372,100	11,710,100	11,593,200	12,105,300	12,630,800

Revenue Requirement

Revenue Requirement		
	2013 OEB Approved	2023 Forecast
Average Net Fixed Assets (NFA)	52,290,943	88,884,985
Working Capital Amount (WCA)	13,177,839	7,971,235
Total Rate Base = NFA + WCA	65,468,782	96,856,220
Revenue Requirement		
OM&A	12,540,974	16,073,000
Amortization	4,948,030	5,516,322
Return on Capital	3,850,350	5,884,597
PILS	476,251	-
Service Revenue Requirement	21,815,605	27,473,919
Less: Revenue offsets	1,108,249	1,158,114
Base Revenue Requirement	20,707,356	26,315,805
Expected 2023 Margin without rebasing		
		23,752,635
Applied for Increase		2,563,170

- The base revenue requirement is the total amount to be recovered in rates from all customers.
- \$26.3 million in revenue is a \$5.6 million increase over the ten year period since the 2013 rate application
- This represents a 2.4% compound average growth rate
- Subject to change based on updated Cost of Capital and any changes imposed by OEB.

Estimated Bill Impacts

Estimated Bill Impacts	
	Proposed increase
Residential	2.8%
Small Commercial	2.7%
Medium Commercial	1.3%
Intermediate Commercial/Industrial	0.8%
Large	0.6%
Unmetered Scattered Load	3.5%
Sentinel Lighting	7.2%
Streetlighting	11.1%

- The next step in determining final rates is Cost Allocation and rate design.

2023 Income Statement

- Comparison of 2023 with and without rebasing
- Represents 8 months of applied for new rates
- Distribution Margin increases by \$1.56M
- PILs are \$0 in both scenario's
- Forecast borrowing of \$15M
- Without rebasing, interest on Promissory Note reduced by \$1M
- With rebasing, Net Income increases by \$1.1M
- Total forecast gain in 2023 from Shareholder perspective is \$2.1M
- All Based on Application levels

Bluewater Power Distribution Corporation Income Statement Comparisons			
	2023 Forecast		
	2023 w/o Rate App	2023 with Rate App	Variance
REVENUES:			
DISTRIBUTION REVENUE:			
Distribution	23,752,635	25,312,795	1,560,160
Distribution - Shared Tax Savings	30,452	-	(30,452)
Distribution - CCA Change	(216,301)	-	216,301
	23,566,786	25,312,795	1,746,009
LOST REVENUE RECOVERY	356,630	741,856	385,226
OTHER OPERATING REVENUES:	1,935,864	1,935,864	-
TOTAL REVENUES	25,859,280	27,990,515	2,131,235
OPERATING EXPENDITURES:			
ADMINISTRATION:			
O&M - Gross	21,497,045	21,497,045	-
Capitalization	(4,921,000)	(4,921,000)	-
Employee Future Benefits	274,390	274,390	-
	16,850,435	16,850,435	-
AMORTIZATION:			
Intangible Assets	1,072,328	1,072,328	-
Capital Assets	4,530,157	4,530,157	-
Contributed Capital - pre 2014	(82,713)	(82,713)	-
	5,519,772	5,519,772	-
INTEREST:			
Other Interest	10,000	10,000	-
Carrying Charges	18,000	18,000	-
CIBC Term Loan #1 Interest	128,917	128,917	-
CIBC Term Loan #2 Interest	912,136	912,136	-
Promissory Note Interest	403,118	1,442,476	1,039,358
	1,472,171	2,511,529	1,039,358
TOTAL OPERATING EXPENDITURES	23,842,378	24,881,736	1,039,358
INCOME BEFORE PILS	2,016,902	3,108,779	1,091,877
PILS: Current	-	-	-
NET INCOME	2,016,902	3,108,779	1,091,877

Benchmarking

- Total Cost Benchmarking is most comprehensive view of performance
- Recent years, we have trended below our predicted cost
- 2023 Rebasing represents 10 year “catch-up” of cost so efficiency slides to 2.0% below predicted cost
- We remain in middle cohort defined at +/- 10% of predicted cost
- Ranking not yet known, but last ranking was 40 out of 59 LDC
- Goal is always to continue to improve our cost efficiency

Board Resolutions

“That the Board of Directors of Bluewater Power Distribution Corporation approve the Business Plan as set out in the report dated July 20, 2022.”

“That the Board of Directors of Bluewater Power Distribution Corporation approve the five year Capital Plan set out in the Distribution System Plan as summarized in the report dated July 20, 2022.”

Board Resolutions

“That the Board of Directors of Bluewater Power Distribution Corporation approves that the adjustments to the approved 2022 Capital Budget and OM&A Budget as set out in the Report dated July 20, 2022 are appropriate, and further approves of the submission of this updated 2022 Capital Budget and 2022 OM&A Budget for the Bridge Year (2022) in the 2023 Rebasing Application.”

“That the Board of Directors of Bluewater Power Distribution Corporation approves of the 2023 OM&A Budget and 2023 Capital Budget as set out in the report dated July 20, 2022 to be included in the 2023 Rebasing Application.”



BLUEWATER POWER

September 29, 2022

BOARD OF DIRECTORS MEETING



September 2022
Alex Palimaka

REGULATORY REPORT

Part A - Essential or Action Section

Regulatory Report

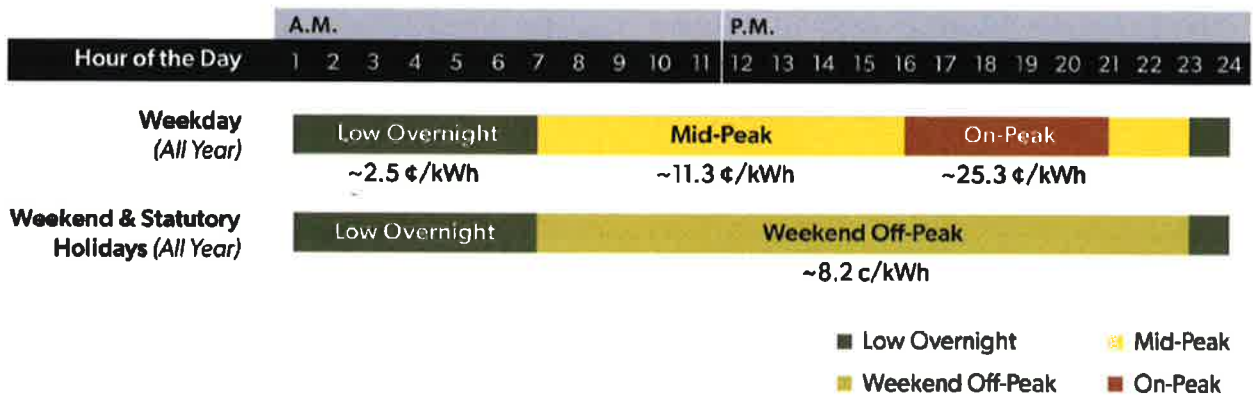
The focus of this regulatory report will be to provide the most up-to-date analysis in regard to the rebasing application, however there are a couple of other items on the regulatory radar.

1. OEB – Ultra-Low Overnight Price Plan (“ULO”)

In November 2021 the Minister of Energy sent a letter requiring the OEB to report back on the design of an optional enhanced TOU rate to further incent demand-shifting away from peak periods to lower demand periods. In March 2022, the OEB delivered a report presenting a recommended design for the ULO Price plan and solicited stakeholder feedback. The plan included the following components:

- Ultra-low overnight price period that applies from 11 p.m. to 7 a.m. on weekdays, weekends and holidays throughout the year
- On-peak, and mid-peak price period
- Weekend off peak price period

Although the regulations are not yet finalized, and the pricing is not yet developed, the OEB provided the chart below as an illustration of the potential differential between the pricing periods. The time periods are different than the Time of Use (TOU) pricing, but for comparison purposes the current TOU pricing is as follows: 8.2 cents/kWh off-peak, 11.3 cents/kWh mid-peak, and 17.0 cents/kWh on-peak.



**Actual prices would be determined through the OEB's RPP price-setting process.*

The launch date for the ULO plan is May 1, 2023, however, LDCs will be given until October 31, 2023 to implement if timing doesn't allow for May 1st implementation.

The creation of the ULO Price Plan will provide low volume consumers with the ability to choose from three electricity price plans:

- Time of use (default plan)
- Tiered
- ULO

The benefit to the ULO plan will be for those consumers with electric vehicles that they can charge overnight. Bluewater does not anticipate a large take-up of the ULO plan, and the biggest challenge we face is the communication to customers of all the options, and pros/cons of each one. Currently only 8% of eligible customers have elected the tiered pricing plan, so we expect fewer customers on the ULO plan. An example of a customer who currently has an EV was modeled using the illustrative ULO rates for a winter month and a summer month to provide the monthly billing results provided in the chart below. In the winter the customer had a lower bill on ULO, however in the summer the bill was higher on ULO likely given the addition of air conditioning load during the high peak hours of 4 pm to 8 pm. For this customer to benefit during the summer months, additional behavioral changes would be required to lower the on-peak usage.

Overview

	January 2022 (winter)	August 2022 (summer)
TOU Pricing	\$ 123	\$ 120
ULO TOU	\$ 115	\$ 137
kWh/month	1,333	1,268
Variance	\$8 savings	\$17 cost

2. Non-RPP Class B Pilot Program

There is a specific group of customers that are not eligible for the RPP programs, given that their usage exceeds the low volume Regulated Price Plan requirements, but they are also too small to elect to become Class A customers. Some of these mid-size commercial customers might benefit from electing to be part of Class A, whereby they would potentially receive a lower global adjustment (“GA”) charge if they were able to curtail their demand during the five peak demand days of the province.

The intention of the Class B pilot program is to determine the feasibility of a GA price that is directly correlated with the hourly Ontario electricity demand. The pilot would be intended to provide a benefit for those customers to curtail their consumption, which would assist in reducing peak demand for the province.

Bluewater will continue to monitor this pilot program.

3. Rebasing Application

On August 12, 2022, we filed a letter with the OEB advising that we were unable to meet the original August 31, 2022 filing deadline, but we do expect to file the application by the end of October. We are in good shape to achieve that target and are ‘full speed ahead’ with the significant efforts required to pull the application together.

We would like to provide an update with the most up-to-date values that the application will include. The capital budget remains at \$12.3M as outlined in the meeting with the Board in July. The OM&A values have decreased very slightly, as have some of the other items. Below is a chart with the updated values.

Revenue Requirement		
	2013 OEB Approved	2023 Forecast
Average Net Fixed Assets (NFA)	52,290,943	88,600,719
Working Capital Amount (WCA)	13,177,839	7,953,337
Total Rate Base = NFA + WCA	65,468,782	96,554,056
Revenue Requirement		
OM&A	12,540,974	15,992,773
Amortization	4,948,030	5,516,322
Return on Capital	3,850,350	5,866,238
PILS	476,251	-
Service Revenue Requirement	21,815,605	27,375,333
Less: Revenue offsets	(1,108,249)	(1,233,238)
Base Revenue Requirement	20,707,356	26,142,095
Expected 2023 Margin without rebasing		23,752,635
Applied for Increase		2,389,460

We noted at the July meeting, that the bill impacts we presented were not final as we had not commenced the process of cost allocation. Cost allocation is the final step of the rate application process, as it takes the costs built-up into the revenue requirement and, then, allocates those costs in a calculated and justifiable manner to each rate class. Furthermore, we now have all the applicable rate riders for the disposition of the variance accounts, including a recovery for lost revenues related to conservation efforts, and updates to the flow through charges such as the retail transmission rates.

The chart below outlines the bill impacts by type of charge for a typical residential customer. We note that commodity rate changes are not incorporated as the change in commodity rates is not known at this time.

Change from current bill	
Monthly Fixed Charge	4.49
All rate riders	(0.29)
Commodity Line losses	0.12
Retail Transmission Rates	0.33
Subtotal	4.65
HST	0.61
OER	(0.79)
Total Bill Change	4.47

As a result of the comprehensive rate review of all items, below are the draft rate impacts for each customer class. We note the rate impacts for the residential class is 3.6% overall which we believe is reasonable. The large decrease for the Unmetered scattered load rate class is related to an increase of the number of connections identified through this rate application process; by increasing the number of connections, the same costs are recovered from the customer class but allocated more widely, which results in an overall rate decrease per connection.

Bill Impacts (Draft)	
	Proposed % increase
Residential	3.6%
Small Commercial	2.4%
Medium Commercial	5.7%
Intermediate Commercial/Industrial	1.4%
Large Industrial	1.2%
Unmetered Scattered Load	-9.2%
Sentinel Lighting	8.9%
Streetlighting	4.4%



BOARD OF DIRECTORS MEETING
September 29th, 2022



Regulatory Report

Alex Palimaka

Regulatory Report – September 2022

- Rebasing Application Updates

Revenue Requirement			
	2013 OEB Approved	2023 Forecast as of Sept 19	2023 Forecast as of Sept 27
Average Net Fixed Assets (NFA)	52,290,943	88,600,719	88,600,719
Working Capital Amount (WCA)	13,177,839	7,953,337	7,952,325
Total Rate Base = NFA + WCA	65,468,782	96,554,056	96,553,044
<u>Revenue Requirement</u>			
OM&A	12,540,974	15,992,773	15,992,773
Amortization	4,948,030	5,516,322	5,516,322
Return on Capital	3,850,350	5,866,238	5,866,177
PILS	476,251	-	197,898
Service Revenue Requirement	21,815,605	27,375,333	27,573,170
Less: Revenue offsets	(1,108,249)	(1,233,238)	(1,233,238)
Base Revenue Requirement	20,707,356	26,142,095	26,339,932
Expected 2023 Margin without rebasing		23,752,635	23,752,635
Applied for Increase		2,389,460	2,587,297



Regulatory Report

DRAFT

Bill Impacts

	Proposed % increase
Residential	3.8%
Small Commercial	3.0%
Medium Commercial	5.4%
Intermediate Commercial/Industrial	1.4%
Large Industrial	0.3%
Unmetered Scattered Load	-9.4%
Sentinel Lighting	8.2%
Streetlighting	9.1%