Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

April 6, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Ontario Energy Board (OEB) Staff Submission
Bluewater Power Distribution Corporation
2023 Cost of Service Application
OEB File Number: EB-2022-0016

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to the OEB's March 27, 2023 letter.

Yours truly

Andrew Bishop
Digitally signed by Andrew Bishop
Date: 2023.04.06 14:41:37 -04'00'

Andrew Bishop
Senior Advisor – Generation & Transmission

Encl.

cc: All parties in EB-2022-0016

ONTARIO ENERGY BOARD

OEB Staff Submission

Bluewater Power Distribution Corporation

Cost of Service Application

EB-2022-0016

April 6, 2023

1. Introduction

This is OEB staff's submission on a settlement proposal filed by Bluewater Power Distribution Corporation (Bluewater Power) related to its application for May 1, 2023 electricity distribution rates (Application). The settlement proposal represents a complete settlement on all issues on the OEB approved issues list.

The settlement proposal was arrived at during a settlement conference held from February 22, 2023 to February 24, 2023. The parties to the settlement proposal include Bluewater Power and all approved intervenors, namely: Association of Major Power Consumers in Ontario (AMPCO), Consumers Council of Canada (CCC), Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), School Energy Coalition (SEC) and Vulnerable Energy Consumers Coalition (VECC) (collectively, the Parties). OEB staff attended the settlement conference; however, it is not a party to the settlement proposal.

If the settlement proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see a monthly distribution charge increase of $3.11 (2.6%).

2. Overview

OEB staff submits that the settlement proposal is in the public interest and the accompanying explanation and rationale is adequate to support the settlement proposal. OEB staff further submits that the settlement proposal would result in just and reasonable rates for the customers of Bluewater Power.

OEB staff's position was developed in consideration of the objectives of the *Renewed Regulatory Framework*[1] (RRF), the *Handbook for Utility Rate Applications*[2], applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations.

This submission provides reasons for OEB staff's position by commenting on each issue as they appear on the OEB-approved issues list, as shown below.[3]

- Issue 1: Capital Spending and Rate Base
- Issue 2: Operating, Maintenance and Administration (OM&A)
- Issue 3: Cost of Capital, PILs, and Revenue Requirement
- Issue 4: Load Forecast
- Issue 5: Cost Allocation, Rate Design, and Other Charges
- Issue 6: Deferral and Variance Accounts
- Issue 7: Other

[1] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012.
[2] *Handbook for Utility Rate Applications*, October 13, 2016.
[3] EB-2022-0016: OEB approved Issues List.

3. OEB Staff Submissions on the Issues

The OEB-approved issues list included seven issues, each of which contains one or more sub-issues. OEB staff's submission is categorized in accordance with the approved issues list.

Issue 1: Capital Spending and Rate Base

1.1 Are the proposed capital expenditures and in-service additions appropriate?

OEB staff supports the proposed capital expenditures and in-service additions, as well as Bluewater Power's commitment to future reporting, as further described below.

Bluewater Power's most recent application requested a net capital expenditures and in-service additions budget for the 2023 Test Year of $12.3M.[4] Through settlement, Parties agreed to an envelope reduction of $2.8M (23%), resulting in a proposed net capital expenditures and in-service additions budget for the 2023 Test Year of $9.5M.

As described in the settlement proposal, the reduced capital budget is intended to revise the pacing of Bluewater Power's capital expenditures over the forecast period. The settlement proposal states that:

> "The Parties accept the evidence of Bluewater [Power] that the level of planned capital expenditures and the rationale for planning and pacing choices, as adjusted for the test year in this Settlement Proposal, are appropriate to maintain system reliability, service quality objectives and the reliable and safe operation of the distribution system."[5]

OEB staff agrees with the pacing strategy proposed by the Parties and further submits that the proposed capital expenditures and in-service additions budget is sufficient for Bluewater Power to continue to operate its system reliably. While the agreed to 23% reduction is sizable, most of the reductions result from the deferral or removal of projects identified in Bluewater Power's distribution system plan that have a lesser priority, including the 4kV System Upgrades project ($817.5k) and the purchase of vacant land[6] ($900k).

[4] Bluewater Power updated its application through its responses to interrogatories. The original application proposed a net capital expenditure budget for the 2023 Test Year of $11.4M.

[5] Settlement Proposal, March 31, 2023, p. 13

[6] If Bluewater Power ultimately decides to purchase the land, the Parties agreed that the land would not be added to rate base unless approved by the OEB as part of Bluewater Power's next rebasing application.

OEB staff also supports the following commitments made by Bluewater Power with respect to on-going reporting requirements which, among other things, will allow parties to better assess the reasonableness of approval requests included in future applications:

- Bluewater Power has agreed to improve the quality of its asset condition data and report on related progress as part of its next cost of service application.
- Bluewater Power has agreed to investigate the benefits associated with underground cable injection compared to its status quo approach for cable replacement and report on its findings as part of its next rebasing application.
- Bluewater Power has committed to filing with the OEB a new distribution system plan in 2028, regardless of whether a rebasing application is filed.[7]

1.2 Are the proposed rate base and depreciation amounts appropriate?

OEB staff supports the proposed rate base and depreciation amounts which have been calculated in accordance with the agreements reached through the settlement process, as further described below.

The proposed 2023 rate base is $94.4M, a $2.1M (2%) reduction from the amount included in the Application.[8,9] The following adjustments agreed to by the Parties contribute to the adjusted rate base:

- The forecast of Bluewater Power's in-service additions for 2022 from the Application were updated to reflect 2022 actuals.
- The working capital allowance was adjusted as follows:
    - The controllable expenses line item was updated to reflect the settlement proposal's proposed OM&A expenditures, as further described in issue 2.1.
    - The cost of power line item was updated to reflect the OEB's latest forecast commodity cost of $93.40/MWh.[10]
- A correction was made to Bluewater Power's treatment of amortization of capital contributions between 2013 and 2023.[11]
- The depreciation expense was updated based on the proposed changes to capital expenditures described in issue 1.1., and changes to the 2023 opening fixed assets based on Bluewater Power's actual in-service additions for 2022.[12]

[7] Settlement Proposal, March 31, 2023, p. 12.
[8] The Application requested a rate base of $96.6M.
[9] The proposed rate base is $29.0M higher than the $65.5M approved in Bluewater Power's last cost of service proceeding for rates effective May 1, 2013.
[10] The Application based on the cost of power calculation on the OEB's previous forecast of $103.54/MWh.
[11] 1-Staff-73.
[12] Settlement Proposal, March 31, 2023, p. 14.

Issue 2: OM&A

2.1 Are the proposed OM&A expenditures appropriate?

OEB staff supports the proposed OM&A expenses which represent a 1.51% annual compound increase in OM&A over the 10-year period since Bluewater Power's last rebasing application.

The proposed 2023 Test Year OM&A expenditures budget is $14.3M, a $1.5M (10%) reduction from the amount included in the Application.[13] As stated in the settlement proposal, the OM&A reduction is the primary contributor to reducing the distribution rate impact of the Application from the applied for 11.43% to 5.87%. Parties also acknowledged that the $1.5M is not attributable to any specific cost driver or program; rather, the reduction has been allocated on a pro-rated basis across OM&A categories.

OEB staff considers the proposed adjustment to Bluewater Power's OM&A to be reasonable. OEB staff notes that while a 1.51% annual compound increase in OM&A is relatively low, Bluewater Power has not filed a cost-of-service application since 2013, presumably in-part since it determined it could continue to effectively operate with existing cashflows. Bluewater Power has also experienced little customer growth in its service territory during the 10-year period since its last re-basing, suggesting it has likely not required additional budget beyond annual inflationary increases to service its customer base. Further, review of Bluewater Power's reliability performance and other metrics suggests that it generates sufficient revenue to maintain safe and reliable distribution services.

OEB staff also notes that Bluewater Power's average OM&A per customer is higher than its cohort 3 peers, as shown Table 1. This suggests that Bluewater Power is likely able to sustain status-quo operations with a lower-than-average OM&A increase comparatively to other distributors.[14]

[13] The Application requested a 2023 Test Year OM&A budget of $15.8M.
[14] 4-Staff-52.

Table 1: Group 3 Average OM&A / Customer vs Bluewater

Year	Group 3 Average ($)*	Bluewater Power ($)	Variance from Average ($)	Variance from Average (%)
2021	332.81	363.34	30.54	9.2%
2020	330.62	356.51	25.89	7.8%
2019	326.43	371.34	44.91	13.8%
2018	330.00	384.58	54.58	16.5%
2017	327.98	378.07	50.09	15.3%
2016	326.76	378.55	51.79	15.8%
2015	314.39	339.80	25.41	8.1%
2014	304.05	336.47	32.42	10.7%
2013	306.99	348.52	41.53	13.5%

*Excludes Bluewater Power

2.2 Is the proposed shared services cost allocation methodology and the quantum appropriate?

OEB staff supports the proposed shared services cost allocation methodology and quantum. OEB staff also supports Bluewater Power's commitment to reassess its current cost allocation methodology as part of its next cost of service application.

The Application indicated that Bluewater Power follows the findings of a consultant's Transfer Pricing Study undertaken in 2012 to determine the appropriate allocation of costs for the sharing of services from Bluewater Power to affiliates[15]. In response to an OEB staff interrogatory, Bluewater Power stated that the study established the methodology for determining the appropriate quantum of costs to allocate to affiliates and not the costs at a point in time. Bluewater Power further stated that on the basis that the methodology is not static, reliance on it remains appropriate.[16]

As part of the settlement proposal Bluewater Power agreed to retain an independent 3rd party to review and report on the appropriateness of its current shared services cost allocation methodology and develop recommendations on how any aspects of it should be modified. Bluewater Power has agreed to file the updated study as part of its next cost of service application.[17]

[15] EB-2022-0016: Exhibit 4, p. 116
[16] 4-Staff-53
[17] Settlement Proposal, March 31, 2023, p. 17

Issue 3: Cost of Capital, PILs, and Revenue Requirement

3.1 Is the proposed cost of capital (interest on debt, return on equity) and capital structure appropriate?

OEB staff supports the proposed cost of capital and capital structure on the basis that the cost of capital calculation has been appropriately determined in accordance with OEB policies and practices, including being based on the OEB's cost of capital parameters for 2023 rate applications.

The settlement proposal notes that Bluewater Power updated the rates applicable to its two 3rd party variable rate debt instruments to reflect the OEB's 2023 deemed long-term debt rate of 4.88%.[18] This update was made such that the calculation accords with the OEB's 2009 report on the cost of capital with respect to the use of the deemed rate as a ceiling for variable rate debt.[19]

3.2 Is the proposed PILs (or Tax) amount appropriate?

OEB staff has no concerns with the forecast PILs expense of $438K, as agreed to by the Parties. Further, OEB staff supports the Parties' agreement related to the calculation of the PILs amount, including the recognition of accelerated capital cost allowance (CCA) in the 2023 Test Year as appropriate.

Bill C-97 introduced the Accelerated Investment Incentive Program (AIIP), which provides for a first-year increase in CCA deductions on eligible capital assets acquired after November 20, 2018. The AIIP is expected to be phased out starting in 2024 and fully phased out in 2028.

In its July 25, 2019 letter entitled *Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance* (CCA Letter), the OEB provided accounting direction on the treatment of the impacts from accelerated CCA resulting from the AIIP. The OEB established a separate sub-account, Account 1592 - PILs and Tax Variances, Sub-account CCA Changes to track the impact of any differences that result from the CCA change to the tax rate or rules that were used to determine the tax amount that underpins rates.

The credit balance of $1.46M in sub-account CCA Changes of Account 1592 represents the full revenue requirement impact of the application of accelerated CCA as of December 31, 2022, including interest to April 30, 2023.

[18] Settlement Proposal, March 31, 2023, p. 18.
[19] EB-2009-0084.

OEB staff is supportive of Bluewater Power's calculation of the CCA differences that are accumulated in Account 1592, Sub-account CCA Changes, from January 1, 2019, to December 31, 2022, as agreed to by the Parties. OEB staff notes that Bluewater Power calculates the CCA differences by comparing the CCA on the actual (or forecast, as applicable) capital additions in the respective periods under the legacy rule to the accelerated CCA on the same capital additions in the respective periods under the AIIP. OEB staff notes that this calculation method has been used by distributors, accepted by parties, and approved by the OEB in several previous cost-of-service proceedings.[20]

Bluewater Power has not proposed a smoothing mechanism to address future CCA changes in its incentive rate period and the parties agreed on this approach. As a result, no smoothing proposal related to those future changes has been incorporated in the 2023 Test Year PILs expense.

OEB staff does not take issue with this agreed-upon approach, given the CCA Letter states that "determinations as to the appropriate disposition methodology will be made at the time of each Utility's Cost-based application".

3.3 Is the proposed Other Revenue forecast appropriate?

OEB staff supports the proposed forecast of 2023 Test Year other revenue of $1.5M, an increase of $279K compared to the amount included in the Application.

The settlement proposal indicates that the adjustment was made to better align the other revenue forecast with actual results over the most recent 5 years and included adding the previously excluded other revenue generated by Bluewater Power through its involvement with the Oversized Load Corridor Project (OLC), as more fully described under issue 3.4.[21]

OEB staff supports the concept of generating forecasts based on best available information, which typically constitutes leveraging historical actuals from a reasonable historical time frame. Accordingly, OEB staff agrees with the Parties decision to adjust the forecast of other revenue to reflect actual results, including those revenues generated through the OLC project.

[20] Milton Hydro Distribution Inc. 2023 Cost of Service Decision and Order, EB-2022-0049, October 13, 2022 and Kinston Hydro Corporation 2023 Cost of Service Decision and Order, EB-2022-0044, November 22, 2022.
[21] Settlement Proposal, March 31, 2023, p. 21.

3.4 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified and recorded, and is the rate-making treatment of each of these impacts appropriate?

OEB staff does not take issue with the settlement proposal agreed to by the Parties for this element of the settlement.

The Parties accepted that all impacts of any changes to accounting standards, policies, estimates, and adjustments have been properly identified, recorded, and treated appropriately in the rate-making process except for the accounting treatment of the OLC project. OEB staff's submission on the OLC project is described below.

Oversized Load Corridor Project

OEB staff does not object to the agreed-upon impact of the OLC project and the associated accounting treatment of the OLC project in the context of settlement.

In its pre-filed evidence, Bluewater Power stated that:

> "During the period from 2019 to 2022, the resources at Bluewater were challenged by a significant project funded by the Federal, Provincial and Municipal governments that involved the relocation of our electrical infrastructure to facilitate oversized vehicles passage from Sarnia Harbour to Chemical Valley (the "Oversized Load Corridor" or "OLC"). Over the period from April of 2019 to May of 2022, the total value of this project was just over $4.1 million."[22]

Bluewater Power has recorded a total revenue of $4.1M in Account 4325 – Revenue from Merchandising, and the related labour and material costs in Account 4330 – Costs from Merchandising. Bluewater Power noted that these costs were not capitalized as they were billed directly to the Municipality. Bluewater Power further noted that there are no amounts to remove from the rate base for the replaced assets because all assets removed from service were fully amortized.[23] In response to an interrogatory, Bluewater Power stated that the revenue of $4.1M compensated Bluewater Power for (i) materials and equipment of $2.7M, and (ii) internal labour for design and installation of $1.4M.[24] Bluewater Power further stated that it has incurred the material, subcontractor, and other costs of $1.9M and the labour cost of $1.4M. As a result, an accumulated net revenue of $768K ($4.1M in total revenues less $3.3M in total costs) has been reflected in Other Revenues from 2019 to 2022.

[22] Application, Exhibit 6, p. 43.
[23] EB-2022-0016, Bluewater Power Distribution Corporation, Responses to ADR questions, ADR #2.
[24] Bluewater Power's Response to CCMBC-14.

Bluewater Power took the position that the relocated and/or rebuilt existing infrastructure to accommodate oversized trucks and equipment not ordinarily accommodated on public roads have no direct benefits to the ratepayers.[25]

The *Accounting Procedure Handbook for Electricity Distributors* provides accounting guidance on capital assets and contributions in aid of the construction. OEB staff notes that utilities should capitalize the costs based on the capitalization policy and the accounting standard. In addition, the contributions received in-aid of the construction of the assets should be recorded as deferred revenues and the deferred revenue should be included as an offset to rate base and amortized to income over the useful life of the related property, plant, and equipment (PP&E).[26]

Assuming that all $3.3M of material and labour costs spent are eligible for capitalization based on Bluewater Power's capitalization policy, OEB staff is of the view that Bluewater Power would need to capitalize these capital assets in different asset classes (for example, poles, wires, sub-stations), and amortize the assets over the respective useful lives. In addition, Bluewater Power should also record the $3.3M out of $4.1M revenue received as deferred revenues and amortize these funds over the associated useful lives of the corresponding assets. Bluewater Power should also record a net gain of $768k ($4.1M in total revenues less $3.3M in total costs) from this billable project.

OEB staff notes that this treatment may have an impact on the presentation of Bluewater Power's financial statement, i.e., both the assets and liabilities would have been increased. However, there would not be any impact for the rate making purpose because Bluewater Power needs to reclassify the deferred revenues to net against the capital assets in Appendix 2-BA Fixed Assets Continuity Schedule. In addition, the amortization of the capital and the amortization of the deferral revenues offset completely over time and thereby eliminate any impact on the revenue requirements in the current and any future cost-of-service applications.

OEB staff notes that the net gain of $768k was recognized and passed to the ratepayers in the Application by the increase of the other revenues in the settlement agreement. Therefore, in the context of this settlement and with the caveat that OEB staff might not support this approach otherwise, OEB staff does not take issue with the revenue requirement impact of the OLC project and the agreed-upon accounting treatment of the OLC project.

[25] Bluewater Power's Response to CCMBC-14.
[26] Accounting Procedure Handbook for Electricity distributors, January 1, 2012, Article 430.

3.5 Is the proposed calculation of the Revenue Requirement appropriate?

OEB staff supports the proposed revenue requirement which has been calculated in accordance with the agreements reached through the settlement process.

The Parties agreed to a service revenue requirement of $26.7M and a base revenue requirement of $25.2M. These values reflect a reduction in 2023 Test Year capital and OM&A expenditures of $2.8 and $1.5M, respectively, comparatively to the Application as amended through interrogatories.[27,28] The values also reflect changes to revenue offsets, depreciation, cost of capital, working capital allowance and PILS. Table 1 – Summary of 2023 Revenue Requirement shows the change in revenue requirement between the Application and the settlement proposal.

OEB staff considers the resultant bill impacts of the proposed revenue requirement to be reasonable. As shown at Table 2 – Bill Impact Summary of the settlement proposal, the proposal results in bill impacts for all customer classes that range between -10.8% and 5.5%. As bill impacts for any one rate class do need exceed 10%, Bluewater Power was not required to propose rate mitigation plans. OEB staff notes that the rate impacts to the residential and general service <50kW rate classes are both 2.6% on a total bill basis.

Issue 4: Load Forecast

1.1 Is the proposed load forecast methodologies and the resulting load forecasts appropriate?

OEB staff supports the proposed load forecast of 954,706MWh, 1,226MW, and 48,135 customers & devices as shown at Tables 11 and 12 of the settlement proposal. Relative to the Application, this reflects a decrease of 1,093MWh and 0.694MW. The proposed customer & devices forecast increases by 6 comparatively to the Application.

The proposed load forecast varies from that included in the Application because of the following:

- The COVID Adjustment variable will be removed for the Residential and GS <50 customer classes in the 2023 Test Year. OEB staff agrees that it is no longer appropriate to consider COVID impacts in load forecasts given Ontario is increasingly returning to pre-COVID conditions.
- For all customer classes, the load forecast was updated to reflect actual 2022 customer counts and consumption. OEB staff supports the Parties decision to

[27] Settlement Proposal, March 31, 2023, p. 13.
[28] Settlement Proposal, March 31, 2023, p. 25.

underpin the load forecast with most recent data.

The Parties also agreed that in its next cost of service application, Bluewater Power's load forecast will consider the impact of emerging technologies including electric vehicles, distributed energy resources and natural gas to electricity conversions. Given the growing market presence of, and customer interest in the aforementioned, OEB staff agrees that their consideration in future load forecasts is prudent.

Issue 5: Cost Allocation, Rate Design, and Other Charges

5.1 Are the proposed cost allocation methodology, allocations, and revenue-to-cost ratios, appropriate?

OEB staff supports the cost allocation methodology as agreed to by the Parties on the basis that all proposed revenue-to-cost ratios fall within OEB-acceptable bands.

The Parties agreed to decrease the revenue-to-cost ratios of the GS <50 kW, USL and Large Use rate classes to 120%, 120% and 115%, respectively which represents the maximum allowable for these rate classes. An offsetting increase was made to the revenue-to-cost ratios of the Residential, GS >50-999 kW and Sentinel Lighting rate classes to 95.27%.

As described in the settlement proposal, Parties have proposed rate mitigation for the GS>50 to 999kW rate class to lessen the distribution rate impact resulting from the revenue-to-cost ratio shift. OEB staff's submission on the rate mitigation proposal is provided under issue 5.6.

5.2 Is the proposed rate design, including fixed/variable splits, appropriate?

OEB staff supports the proposed rate design, including the fixed/variable splits and the introduction of Gross Load Billing (applicable to Low Voltage Rates and Retail Transmission Service rates).

The current fixed charge for the GS<50 kW, GS >50-999 kW and GS1000-4999 kW rate class is above the ceiling[29]. The Chapter 2 filing requirements state that if a distributor's current fixed charge for any non-residential class is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling or raise the fixed charge further above this ceiling[30].

[29] The minimum system with peak load carrying capability from the cost allocation model, which is commonly referred to as the ceiling for fixed charges.
[30] OEB *Filing Requirements for Electricity Distribution Rate Applications* – 2022 Edition for 2023 Rate Applications- Chapter 2, section 2.8.1.

Bluewater Power proposed, and Parties agreed that the fixed charges for these rate classes would remain at their current levels. For all rate classes, the fixed-variable split as shown in Table 14 of the settlement proposal are proposed.

5.3 Are the proposed Retail Transmission Service Rates (RTSR) and Low Voltage (LV) rates appropriate?

OEB staff supports the RTSR's and LV rates as agreed to by the Parties.

Bluewater Power initially proposed to recover a forecasted total LV expense of $319K which was calculated based on actual 2021 LV costs. In response to an OEB staff interrogatory[31], Bluewater Power proposed, and Parties accepted, using the five-year average usage from 2018-2022 multiplied by 2023 rates which resulted in costs of $346K to be used in developing LV rates. OEB staff believes the multi-year approach to the calculation of LV rates produces a more realistic forecast and therefore supports its use.

5.4 Are the proposed loss factors appropriate?

OEB staff supports the proposed loss factors as shown in Table 17 of the settlement proposal.

The total loss factor is calculated by multiplying the Distribution System Loss Factor (DLF) by the Supply Facilities Loss Factor (SFLF). OEB staff notes that the DLF remains under 5% and the SFLF has been derived in accordance with Appendix 2-R.

5.5 Are the Specific Service Charges and Retail Service Charges appropriate?

OEB staff supports Bluewater Power's proposed Specific Service Charges and Retail Service charges.

Bluewater Power proposed, and Parties accepted, the continuation of all the existing specific service charges at the current levels as approved in Bluewater Power's current Tariff of Rates and Charges.

Bluewater Power proposed, and Parties accepted to maintain the existing retailer charge items, and in accordance with the OEB's November 29, 2018 Report[32], generic retailer service charges for LDCs are to be adjusted by an annual inflation factor.

[31] 8-Staff-65.
[32] Report of the Ontario Energy Board - Energy Retailer Service Charges (Nov 29, 2018) (oeb.ca).

5.6 Are rate mitigation proposals required and appropriate?

OEB staff takes no issue with the Parties proposed rate mitigation proposal for the GS>50 to 999kW rate class without prejudice to any future OEB staff position.

As described in issue 5.1, the proposed shifts in the revenue-to-cost ratios of the Large User and USL classes resulted in increases to the revenue-to-cost ratios of the residential and GS>50 to 999kW rate classes. The distribution rate impact of these increases to the rate classes were 7.67% and 9.69%, respectively. As stated in the settlement proposal, the Parties agreed that, as a rate mitigation measure, it would be preferred if the rate increase for the GS>50 to 999kW class was approximately the same as that experienced by the residential class. To achieve the desired outcome, the Parties agreed that Bluewater Power would forego the recovery of $50,000 of revenue from the GS>50 to 999kW rate class. To implement the rate mitigation measure, the Parties proposed to increase the kW demand forecast for the GS>50 to 999kW rate class by 9.5MW.
The result of this rate mitigation measure is to reduce the rate impact to the GS>50 to 999kW rate class from 9.69% to 8.10%.

OEB staff are of the view that while the form of rate mitigation is not customary, it does not violate OEB policy and its purpose – to create a greater level of rate impact parity across customer classes – is reasonable and appropriate. Further, as Bluewater Power has agreed to forego revenue recovery, the mitigation measure does not negatively affect any other rate class. Accordingly, for purposes of settlement and without prejudice to any future OEB staff position, OEB staff do not take issue with the rate mitigation proposal.

Issue 6: Deferral and Variance Accounts

6.1 Are the proposals for deferral and variance accounts, including the balances in the existing accounts and their disposition, requests for new accounts, Ontario Energy Board Decision on Issues List – Schedule A 2 January 19, 2023 requests for discontinuation of accounts, and the continuation of existing accounts, appropriate?

OEB staff supports the settlement proposal reached by the Parties relating to deferral and variance accounts (DVAs).

<u>DVAs Balances and Disposition</u>
OEB staff supports the disposition of Group 1 and Group 2 balances, as proposed by Bluewater Power and agreed to by the Parties. Disposition of these balances over a one-year period is consistent with OEB policy.[33]

[33] EB-2008-0046, *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR), July 31, 2009, p. 24.

In the settlement proposal, the Parties agreed to Bluewater Power's proposed disposition of the following DVA balances as of December 31, 2022 and forecasted interest through to April 30, 2023:

- Group 1 DVAs of a total debit balance of $721,066
- Group 2 DVAs of a total credit balance of $1,617,849

Some of the Group 2 DVA balances also include forecasted principal amounts up to April 30, 2023.[34]

<u>New Account</u>

OEB staff has supports Bluewater Power's request for establishing a new 1508 sub-account to track the PILs-related impact related to the tax appeals of the reassessments by the Ministry of Finance. OEB staff reviewed the methodology and the accounting order for this sub-account and has no concerns.

The Ministry of Finance has reassessed Bluewater Power's CCA claim for smart meters and rotten pole replacement for the years 2014 to 2017. Bluewater Power also expects a tax reassessment for the year 2018 based on the proposed adjustments by the site auditors for the same items.[35] The details of the CCA items are provided below.

- Smart meters: Ministry of Finance removed the classification of smart meters from Class 8 and reclassified them into Class 47
- Rotten pole replacement: Ministry of Finance disallowed expensing the rotten pole replacement costs for the tax purpose and reclassified them into Class 47

Bluewater Power has filed a Notice of Objection to appeal the results of the reassessment for the years 2014 to 2017. Bluewater Power has also confirmed that it will file an appeal for the year 2018 once the pending tax reassessment is received.[36]

Bluewater Power has incorporated the current reassessed treatment (i.e., includes smart meters and rotten pole replacement in class 47 when calculating the Capital Cost Allowance) in the forecasted PILs expense of the test year. To track the impact of the decision on its outstanding appeals of tax reassessments, Bluewater Power proposed establishing a new sub-account under Account 1508.

If Bluewater Power is successful in its appeal, the Parties agree that any PILs-related impacts of the changes for the year 2019 and/or subsequent years will be recorded in the new 1508 sub account.

If Bluewater Power is unsuccessful in its appeals, the Parties agree that there will be no

[34] Bluewater_2023_DVA_Continuity_Schedule_Settlement_20230331, tab 2b.
[35] EB-2022-0016, Bluewater Power Distribution Corporation, Interrogatory Responses, Staff 61.
[36] EB-2022-0016, Bluewater Power Distribution Corporation, Interrogatory Responses, Staff 61.

impact to record in the new 1508 sub-account. This account will subsequently be closed. In addition, the Parties agree that Bluewater Power will provide notice to the OEB before making any changes to its accounting practice or filing strategy with respect to PILs in any material way. Bluewater Power will file such notice under EB-2022-0016 docket and notify all parties in this proceeding as well as OEB staff. OEB staff supports this agreement.

Lost Revenue Adjustment Mechanism Variance Account

OEB staff supports the disposition of the Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) balance over a one-year period.

Bluewater Power has requested that the LRAMVA be maintained, in the event it chooses to participate in programs that would be eligible for lost revenues in the future.[37] OEB staff understands that the OEB will consider any future LRAMVA requests on a case-by-case basis.

The LRAMVA balance proposed for disposition is $790k, including carrying charges, which is a $6K decrease from the balance included in the Application.[38] The balance is comprised of persisting amounts from past Conservation & Demand Management (CDM) program activity between 2011 to 2020 in 2021, and persistence of CDM activities from 2011 to 2021 in 2022. In the settlement proposal, the Parties agreed to dispose of the updated LRAMVA balance proposed by Bluewater Power and to a disposition period of one-year. If disposition is approved, Bluewater Power would have a zero balance in the LRAMVA.

Issue 7: Other

7.1 Is the proposed effective date appropriate?

OEB staff supports the settlement proposal with respect to Bluewater Power’s requested effective date of May 1, 2023, as well as its request to establish a forgone revenue deferral account in the event OEB approval of the settlement proposal is delayed.

As stated in the settlement proposal, Parties anticipate that Bluewater Power will have sufficient time to implement rates effective May 1, 2023 if the OEB approves the settlement proposal on or before May 1, 2023. Further, Parties agreed that in the event Bluewater Power is unable to implement rates for May 1, 2023 due to a delay in Settlement Proposal approval timing, Bluewater Power should be entitled to establish a forgone revenue deferral account. The purpose of the account will be to track the impact of

[37] 9-Staff-68.
[38] Settlement Proposal, March 31, 2023, p. 41, Table 18.

the implementation of rates later than the effective date of May 1, 2023.

7.2 Has the applicant responded appropriately to all relevant OEB directions from previous proceedings?

OEB staff supports that Parties view that Bluewater Power has responded appropriately to all previous OEB direction.

As part of the OEB-approved settlement proposal in Bluewater Power's 2013 cost-of-service application, Bluewater Power agreed to undertake a study to determine the costs of serving each of the three customers remaining in its Large User rate class. The study was to be filed no later than with Bluewater Power's application for 2015 rates. Bluewater completed the study and submitted it with its application for 2015 rates, in accordance with OEB direction.

The settlement proposal indicates that the Parties accepted Bluewater's evidence that it has not received any other utility-specific directions from the OEB since its last cost-of-service application.

~ All of which is respectfully submitted ~