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December 19, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: EB-2008-0221 Bluewater Power 2009 Rate Application
Interrogatory Responses from Applicants

Please find attached the Interrogatory Responses of Bluewater Power to the Canadian Manufacturers & Exporters ("CME") interrogatories.

Two hard copies will follow via courier.

Should there be any questions please contact me at the number below.

A handwritten signature in black ink that reads "L. Dugas".

Leslie Dugas
Manager of Regulatory Affairs
Bluewater Power Distribution Corporation
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cc: All Intervenors

Bluewater Power Distribution Corporation
Response to CME Interrogatories
2009 Electricity Distribution Rates
EB-2008-0221

Question #1

Reference: Exhibit 2, Tab 1, Schedule 2, page 1 of 1, Table 2.1.2.1

a) Exhibit 2, Tab 1, Schedule 2, page 1 of 1, Table 2.1.2.1 summarizes the actual rate base for 2007 and Bluewater Power Distribution Corporation's ("Bluewater") projected rate base for 2008 and 2009. Please reproduce Table 2.1.2.1 including Bluewater's 2006 Board approved rate base and 2006 actual rate base.

1 (a) Response:

a) The rate base for 2006 Board approved and 2006 actual has been included in the tables below.

	2009 Projection	2008 Projection	Variance \$		2008 Projection	2007 Actual	Variance \$
Net Capital Assets in Service:							
Opening Balance	37,944,816	37,626,977	317,839		37,626,977	37,364,171	262,806
Ending Balance	41,145,335	37,944,816	3,200,519		37,944,816	37,626,977	317,839
Average Balance	39,545,075	37,785,896	1,759,179		37,785,896	37,495,574	290,323
Working Capital Allowance	13,613,408	13,308,482	304,926		13,308,482	12,180,537	1,127,945
Total Rate Base	53,158,483	51,094,378	2,064,105		51,094,378	49,676,110	1,418,268

	2007 Actual	2006 Actual	Variance \$		2006 Actual	2006 EDR	Variance \$
Net Capital Assets in Service:							
Opening Balance	37,364,171	37,199,221	164,950		37,199,221	34,847,813	2,351,408
Ending Balance	37,626,977	37,364,171	262,806		37,364,171	35,014,869	2,349,301
Average Balance	37,495,574	37,281,696	213,878		37,281,696	34,931,341	2,350,355
Working Capital Allowance	12,180,537	12,143,269	37,268		12,143,269	11,711,601	431,668
Total Rate Base	49,676,110	49,424,965	251,146		49,424,965	46,642,942	2,782,023

Question #2

Reference: Exhibit 2, Tab 3, Schedule 1, Page 2 of 6, Table 2.3.1.1.

- a) *Exhibit 2, Tab 3, Schedule 1, Page 2 of 6, Table 2.3.1.1. summarizes Bluewater's capital expenditures from 2007 to 2009 broken out by Operations, Metering, IT, Other, and Total. Please reproduce Table 2.3.1.1. including Bluewater's 2006 Board approved capital expenditures and 2006 actual capital expenditures.*

2 (a) Response:

The table below details the original Table 2.3.1.1 as filed in evidence with the addition of 2006 actual capital expenditures by category. The 2006 Board approved capital expenditures was based on the average of the opening and closing balances for 2004 asset values, plus some allowed adjustments for 2005. Therefore, Bluewater Power clarified with CME that the addition of the 2006 actual data would suffice in response to this interrogatory.

	2006 Actual	2007 Actual	2008 Budget	2009 Budget
Operations	\$ 2,826,785	\$ 3,387,683	\$ 3,823,000	\$ 4,277,313
Metering	\$ 193,759	\$ 521,844	\$ 185,000	\$ 711,245
Information Technology	\$ 775,928	\$ 776,909	\$ 893,000	\$ 2,431,744
Other	\$ 301,417	\$ 172,393	\$ 238,900	\$ 865,517
Total	\$ 4,097,889	\$ 4,858,829	\$ 5,139,900	\$ 8,285,819
Variance		\$ 760,940	\$281,071	\$3,145,919

Question #3

Reference: 2, Tab 3, Schedule 6, Page 37 of 70

- a) *At Exhibit 2, Tab 3, Schedule 6, Page 37 of 70, Bluewater states it has developed a joint plan with Hydro One Networks Inc. ("Hydro One") to eliminate existing load transfer arrangements. Pursuant to that joint plan, Hydro One will surrender 32 customers and Bluewater will surrender 12 customers and retain 4 customers. In order to permit CME to better understand the impact of this joint plan, please:*
- i. Identify the rate classes impacted by this surrender process;*
 - ii. Confirm whether the surrender process will have an adverse rate impact on either Bluewater's customers surrendered to Hydro One, or on Hydro One's customers surrendered to Bluewater;*
 - iii. If there will be an adverse rate impact, please set out the impact on each individual customer impact ; and*
 - iv. If there will be an adverse rate impact, please set out the steps, if any, that Bluewater has implemented to explain these changes to the affected customers*

3 (a) Response:

- i. The rate classes impacted by this surrender process are residential and general service <50KW
- ii. The surrender process will have an adverse rate impact on the 12 customers surrendered to Hydro One. The customers transferred to Bluewater Power will enjoy a rate decrease with our utility.

- iii. The adverse impact will be on the 12 customers transferred from Bluewater Power to Hydro One. The increase those customers will face as a percentage on a total bill basis, and as a dollar amount per month is shown below:

Customer 1	Total Bill Impact	32%	\$25.02/month	residential
Customer 2	Total Bill Impact	22%	\$40.44/month	residential
Customer 3	Total Bill Impact	21%	\$43.81/month	residential
Customer 4	Total Bill Impact	27%	\$29.13/month	residential
Customer 5	Total Bill Impact	22%	\$38.57/month	residential
Customer 6	Total Bill Impact	26%	\$31.10/month	residential
Customer 7	Total Bill Impact	21%	\$42.65/month	residential
Customer 8	Total Bill Impact	37%	\$22.48/month	residential
Customer 9	Total Bill Impact	27%	\$70.83/month	GS <50KW
Customer 10	Total Bill Impact	28%	\$51.32/month	GS <50KW
Customer 11	Total Bill Impact	35%	\$19.19/month	GS <50KW
Customer 12	Total Bill Impact	62%	\$24.47/month	GS <50KW

- iv. Bluewater Power and Hydro One are following the process prescribed by the Ontario Energy Board. An application was filed with the Ontario Energy Board October 9, 2008. Bluewater Power received a Letter of Direction from the Ontario Energy Board December 3, 2008. Bluewater Power served notice by hand delivered letter to the 12 customers affected on December 16, 2008. The letter delivered to the customers was formulated using the Ontario Energy Board sample letter provided. Bluewater Power posted the Notice of Application on the home page of the Bluewater website on December 11, 2008. Bluewater Power has a copy of the application available for public review at 855 Confederation Street, Sarnia, Ontario. Bluewater Power awaits further direction from the Ontario Energy Board.

Question #4

Reference: Exhibit 2. Tab 3, Schedule 6, Page 51 of 70

- a) *Exhibit 2. Tab 3, Schedule 6, Page 51 of 70 shows that Bluewater's Legislated Business Application Upgrades have increased from \$76,113 in 2007 to a budgeted amount of \$198,625 for 2009. This is an increase of approximately 260%. Please set out all of the changes in regulation and legislation that have caused this level of increase. To the extent possible, for each of the years 2007-2009 please show the costs attributable to each change.*

4 (a) Response:

In support of its business applications, Bluewater Power has budgeted for both legislated changes and business changes (application upgrades and ongoing application support and development). In 2007 and 2008, these expenditures were budgeted in two separate lines – IT4 and IT7 (as described at Exhibit 2, Tab 3, Schedule 6, page 48 and 51). In the 2009 capital budget, these costs have been brought together under one capital project – IT7. The purpose of merging these projects is to allow Bluewater Power to better manage the costs by balancing business changes with legislated changes because changes due to legislation are difficult to predict.

When combined, the 2007 Actuals amounted to \$146,596. This equates to a 35% increase in the 2009 budget over the 2007 actuals, rather than a 260% increase. The primary reason for that increase is that in 2007 the Deloitte AMO project was artificially lower because costs were reallocated to Account 4380 and subsequently recovered from an Ontario Power Authority as part of OPA C&DM Programs. In effect, the overall combined amount for IT7 is lower in the 2009 budget compared to the 2008 budget by almost \$90,000. See the chart below showing the change in the 2009 budget to combine the items.

<u>BLUEWATER POWER CAPITAL PLAN BY PROJECT</u>				
<u>Project ID</u>	<u>Project Name</u>	<u>2009 Budget</u>	<u>2008 Budget</u>	<u>2007 Actuals</u>
	Information Technology			
IT4	Deloitte/SAP AMO	-	144,000	70,483
IT7	Legislated Business Application Upgrades	198,625	140,000	76,113

Provided below is a list of some of the projects and issues that were resolved within these budget centres:

- 2007: Implementation of Wholesale Settlement into SAP. This eliminated a third party software package and significantly streamlined the settlement process by moving from manual and tedious processes into fully automated processes (cost of \$150,000).
- 2007/2008: The function of Complex Billing for large volume customers was brought into SAP. This eliminated manual billing and reporting processes (costs of \$55,000)
- 2007/2008: As part of on-going industry development of the Retail Settlement process, a number of tweaks and changes were made to accommodate the requirements. Some of these include Meter Change Retail Settlement Usage Docs, Retail Customers with Multiple Devices, 'Zero Kilowatt Hour' IBR values, and Credit IBR values (cost of \$26,000)
- 2008: The Billing Statistics Report was further developed for more accurate accounting (cost of \$11,500)
- 2007/2008: A number of revisions and corrections were carried out on various functions and programs to better meet requirements including Meter Changes for General Service and General Service Retail Customers (cost of \$50,000).
- 2008: Assistance was provided for a number of SAP technical issues where in-house expertise was not available (cost of \$10,000)
- 2008: SAP was developed to accommodate regulations for Net Metering and Standard Offer Generation Customers (cost of \$56,000)
- 2008: Development has been undertaken to accommodate compliance with the Affiliate Relationship Code (cost of \$71,500)

Question #5

Reference: Exhibit 2, Tab 3, Schedule 6, pages 59-65

- a) *Exhibit 2, Tab 3, Schedule 6, pages 59-65 shows that Bluewater considered two alternatives to upgrade its existing Enterprise Resource Planning ("ERP") system: SAP ERP 6.0 or a custom developed product. Do any off-the-shelf ERP products exist that compete with SAP 6.0? If so, please identify those alternative off-the-shelf products and explain why they were not considered as a third alternative.*

5 (a) Response:

There is no "off the shelf" software product in the market place; any new software product would require significant costs to configure, to transfer data (customer history and identification, financial data, inventory, etc). If there were a product that was close to an "off the shelf" product, an implementation of that software would also require Bluewater Power to alter its business practices and to retrain its staff.

It is important to point out that this project is not a new installation. There are no changes to business processes required, no data transfer, and minimal requirements for staff training. This project is an upgrade to an existing business application software package. Bluewater Power has invested significant time and resources in the past seven years into the SAP offering and seeks to upgrade that system to mitigate current limitations and to take advantage of numerous enhancements that are available in the most recent version of the product.

We also note that SAP is making significant penetration into the Ontario Utility sector. It is a truly robust system. We are confident that we made the correct choice with SAP and this project will help to ensure we are receiving the full benefit of SAP.

Question #6

Reference: Exhibit 3, Tab 2, Schedule 2 page 2 of 4

- a) *At Exhibit 3, Tab 2, Schedule 2 page 2 of 4, Bluewater states that it is mindful of the general downward trend of manufacturing (in particular chemical manufacturing). Since filing this Application: Have any manufacturing operations in Bluewater's distribution area either closed down or materially reduced their operations? If so, please set out the rate class affected and the impact on Bluewater's forecast distribution revenue*

6 (a) Response:

On December 8, 2008 Georgia Pacific announced the closure of the Royal Plastics plant in Sarnia. The customer had previously reduced its consumption due to weakening demand for its products and was reclassified from Large Industrial rate class to Intermediate rate class in 2008. If this application is not amended to account for the loss of this customer, and Bluewater Power does not propose to amend this application, the impact on Bluewater distribution revenue is forecast to be:

- Loss of approximately \$16,000 on base revenue requirement, due to reduction to working capital and, thereby, a reduction in Rate Base on which the utility earns a return; and
- Loss of approximately \$87,000 in distribution revenue determined by multiplying this customer's previously projected consumption by the proposed rates.

For a further discussion of a related issue, please see response to Board Staff Interrogatory 6.1 on General Economic Assumptions.

Question 6 (b)

Please produce any internal memoranda, reports or assessments prepared for management that address the potential impact of the downward trend in manufacturing and/or the possibility of a recession in the near future on Bluewater's operations.

6 (b) Response:

There is a significant difference between a downward trend and a recession. At the time of preparing the application, the magnitude of the potential downward trend was unknown. In fact, the impact remains unknown and, as of this time, there are no internal memoranda, reports or assessments of the potential impact on Bluewater Power's operations.

Notwithstanding the lack of a formal report, Bluewater Power does continually monitor current economic conditions affecting its customers. Weekly senior management meetings and bi-monthly board of director meetings include discussions of at-risk customers from a credit and a projection perspective.

Question #7

Reference: Exhibit 7, Tab 1, Schedule 1, Page 2 of 2, Table 7.1.1.1.

- a) Exhibit 7, Tab 1, Schedule 1, Page 2 of 2, Table 7.1.1.1. shows that Bluewater is seeking Board approval of a 2009 total service revenue requirement of \$21,436,076, which produces a forecast 2009 revenue deficiency of \$4,843,712. The forecast 2009 revenue deficiency of \$4,843,712 represents a revenue requirement increase of 29.2% over Bluewater's current revenues. In light of the resulting rate impact, has Bluewater considered whether the resulting rate shock associated with a 29.2% increase in its total service revenue requirement should be mitigated by a multi-year phase-in? If not, why not. If Bluewater considered a multi-year phase-in, please produce all internal memoranda, reports or assessments that address the inclusion of a multi-year phase-in.*

7 (a) Response:

The Notice of Application prescribed by the OEB as part of this 2009 Rebasing application is the first time the OEB has ever required customer impacts to be cited in terms of a percentage change in the delivery line charges. Bluewater Power felt from the beginning that this change would create undue customer confusion; we cannot now allow it to create confusion in the context of the regulatory process.

The standard by which rate increases are judged by the OEB is the percentage increase expressed as a Total Bill impact. In deciding not to develop a mitigation plan, Bluewater Power has relied on the most recent direction on bill impact mitigation, namely the 2006 Electricity Distribution Rate Handbook, Report of the Board dated May 11, 2005 where it is stated on page 89:

"...The first area in which the Board will provide direction concerns a

threshold or action level beyond which the distributor will be obliged, as part of its rate filing, to outline its mitigation plan respecting an impacted class or group of customers.

The Board considers that the appropriate action level should be based on the total amount of the electricity bill (comprising commodity, distribution and regulatory charges) and that the threshold should be set at a 10% increase over the previous total bill.”

Based on that standard, no mitigation plan ought to be required by the OEB for the rate application put forward by Bluewater Power. Bluewater Power's proposed Total Bill Impacts for residential customers range from 4.7% to 9.6% (depending upon consumption and season), while the GS<50kW customer consuming 1000 kWhs is 7.4%. All other impacts on all other classes are less than 5% on a Total Bill Impact basis.

The question cites a 29.2% increase in Bluewater Power's service revenue requirement. It is worth pointing out that increase covers the period from 2004 historical costs to 2009 forecasted costs. The level of increase, therefore, is contributed to by the five year gap that has fallen out through the regulatory process as it applies to Bluewater Power. A 29.2% increase over five years equates to approximately 6% per annum, which is 3% per annum more than the bare minimum one would expect knowing that the Collective Agreement with Bluewater Power's employees requires a 3% per annum increase. That remaining increase is primarily reflective of new employees added by the utility to respond to the increasingly complex regulatory environment in which Bluewater Power operates, as well as a recent increase in customer growth (although not significant by Greater Toronto Area standards, the increase is significant for a geographic region that has seen very limited growth over the previous decade). Any new positions added between 2007 and 2009 are addressed in detail at Exhibit 4, Tab 2, Schedule 2.

Question #8

Reference: Exhibit 8, Tab 1, Schedule 2, Page 2 of 2, Table 8.1.2.1.

- a) *As shown in Exhibit 8, Tab 1, Schedule 2, Page 2 of 2, Table 8.1.2.1., Bluewater is proposing to increase the revenue to cost ratio for GS 50 to 999 kW from 0.88 to 0.99, and to decrease the revenue to cost ratios for GS 1000 to 4999 kW and the Large Use rate classes from 1.41 to 1.29, and 1.26 to 1.14, respectively. Exhibit 9, Tab 1, Schedule 9, Page 2 of 3 shows the proposed distribution rate increase for the GS 50 to 999 kW rate class as ranging between 31.1% and 31.2%, for the GS 1000 to 4999 kW rate class as 13.7% and for the Large Use rate class as 42.9%. Within this context, CME wishes to better understand the cost allocation of the proposed revenue deficiency of \$4,843,712. Please provide the portion of the proposed revenue deficiency of \$4,843,712 which will be allocated to each rate class.*

8 (a) Response:

Bluewater Power's cost allocation relies on the methodology established by the Board for the 2006 Cost Allocation Information Filings. This methodology does not deal with the allocation of revenue deficiency. Under this methodology, all distributor costs are allocated to classes based on the OEB's cost allocation methodology.

The rate impacts are therefore not determined by an allocation of the revenue deficiency, but rather by a number of factors that include changes to the revenue to cost ratios, changes in the relative demand of the various customer classes, etc.