

April 27, 2023

The Ontario Energy Board issues decision on Bluewater Power Distribution Corporation's 2023 major rates application

DECISION

Today, the Ontario Energy Board (OEB) issued its Decision and Rate Order on an application filed by Bluewater Power Distribution Corporation (Bluewater Power) for approval to change its electricity distribution rates effective May 1, 2023.

The application was the subject of settlement negotiations between Bluewater Power and intervenors representing a variety of customer classes. Those negotiations resulted in a comprehensive settlement and reductions in capital expenditures and operating, maintenance and administration (OM&A) costs relative to what Bluewater Power requested in its application.

The OEB approved the settlement proposal, concluding that the proposal should result in reasonable outcomes for both Bluewater Power and its customers.

The estimated total bill impact for a typical residential customer with a monthly consumption of 750 kWh will be an increase of \$3.11 per month before taxes and the Ontario Electricity Rebate, or 2.6% effective May 1, 2023.

KEY FEATURES

Key features of the settlement proposal, compared to what Bluewater Power had requested in its application, included:

- A \$2.2M reduction (8%) in the 2023 base revenue requirement, resulting in a revised budget of \$25.2M
- A \$2.8M reduction (23%) in the 2023 net capital expenditures budget, resulting in a revised budget of \$9.5M
- A \$3.0M reduction (3%) in the 2023 rate base, resulting in a rate base of \$94.4M
- A \$1.5M reduction (10%) in the 2023 OM&A budget, resulting in a revised budget of \$14.3M

In its Decision, the OEB noted that the settlement proposal set out several commitments made by Bluewater Power, including the following:

- to continue to improve the quality of its data with respect to the condition of its distribution system assets, and to report in its next cost-based application on its progress towards doing so, as well as its plan to continue that progress.
- to complete a new business case analysis for the use of underground cable injection and to report on its findings in its next cost of service application.
- to file with the OEB an updated distribution system plan in 2028, whether or not Bluewater Power files a cost-based application for that year.
- to report on the results of its cost efficiency program in its next cost-based application.

- to retain an independent third party to review and report on the appropriateness of its shared services cost allocation methodology, and how it should be modified, if at all, and to file that report in its next cost-based application.
- to consider issues with respect to the conversion of natural gas uses to electricity, the increase of electrical vehicle use and related charging loads, and the increase in distributed energy resources in the load forecast it provides in its next cost-based application.

BACKGROUND

Bluewater Power provides electricity distribution services to approximately 37,000 residential and commercial customers in the City of Sarnia, Town of Petrolia, Villages of Point Edward and Oil Springs, and the Townships of Warwick and Brook-Alviston.

On October 24, 2022, Bluewater Power filed a cost-based application with the OEB requesting approval of its proposed electricity distribution rates for five years, using the Price Cap Incentive Rate-setting (Price Cap IR). Under the Price Cap IR option, with an approved 2023 Test Year, Bluewater Power would be eligible to apply to have its 2024-2027 rates adjusted using an OEB-approved formula that accounts for inflation and the OEB's assessment of Bluewater Power's efficiency.

Following an interrogatory process, a settlement conference was held February 22, 23, 24 and 27, 2023 and a settlement proposal covering all issues was filed on March 31, 2023.

Intervenors in the proceeding were:

- Association of Major Power Consumers in Ontario
- Coalition of Concerned Manufacturers and Businesses of Canada
- Consumers Council of Canada
- School Energy Coalition
- Vulnerable Energy Consumers Coalition

REGULATORY TERMS

The following is a list of some of the commonly used regulatory terms that appear in this background, along with a plain language description for each one.

Cost-based application – A utility typically files a cost-based application with the OEB to reset its rates every five years based on an in-depth review of the utility's costs to serve its customers, and to invest in and maintain its distribution system. This is also referred to as "rebasin".

A "cost-based" application could be filed under either the Price Cap Incentive Rates or Custom Incentive Rates rate-setting options (see rate-setting options).

The OEB examines the utility's forecast of costs, expected number of customers to be served and the total amount of electricity to be delivered to them. *

The OEB determines the utility's revenue requirement and sets the distribution rates that the utility charges its customers to recover the cost of serving them plus the opportunity to earn a fair return.

*Distribution rates do not cover the cost of the electricity supplied to customers.

Rates that utilities charge their customers for the electricity that they use are set by the OEB separately.

Rate base is the total dollar value of all of the assets used by a utility to provide energy service: wires, poles, meters, IT equipment, etc. An allowance for working capital is included and the utility is allowed to earn the OEB-approved rate of return on this total rate base value.

Revenue requirement is the total annual cost for a utility to provide service to its customers. It includes the cost of salaries, equipment, capital projects depreciation, taxes, interest and a return on equity.

The OEB approves a utility's revenue requirement when it decides a cost-based application and uses it to set rates that the utility can charge its customers.

Settlement conference – The purpose of a settlement conference is for the applicant and intervenors to try and settle (reach agreement on) as many issues as possible, other than any issues that the OEB has indicated should not be settled and should proceed to hearing.

Settlement negotiations are confidential.

Commissioners do not participate in a settlement conference and are not advised of the discussions that take place in the settlement conference.

Where the parties reach agreement, a settlement proposal is filed by the applicant for approval by the OEB.

Test year – In a cost-based proceeding, the OEB sets rates based on the utility's forecast of what it will cost to serve its customers.

Those forecasts are typically done for the year the proposed new rates will take effect. This will usually be the year after the application is filed and is referred to as the "test year".

Working capital is the cash a utility needs to operate its business during the time between when the utility spends money to provide service and when it receives payment from its customers.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

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Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued today, which is the official OEB document.