BLUEWATER POWER DISTRIBUTION CORPORATION

P.O. Box 2140
855 Confederation Street
Sarnia, Ontario N7T 7L6
Tel: (519) 337-8201
Fax: (519) 344-6094

December 16, 2020

Ms. Christine Long
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: Bluewater Power Election of Annual IR for 2022

On November 6, 2020, Bluewater Power Distribution Corporation ("Bluewater") filed an application for rates effective May 1, 2021 under an Annual IR plan. That application was filed as an Annual IR as per the direction to Bluewater from the OEB in its letter dated June 19, 2020.

We anticipate that the OEB will shortly be issuing its list of scheduled rebasing applications for 2022 ("OEB Docket"), which will likely indicate that Bluewater is scheduled to file a rebasing application for rates effective January 1, 2022. That application would be due April 30, 2021.

Given the demands and the uncertainty related to the COVID-19 Pandemic (the "Pandemic"), Bluewater takes this opportunity to notify the OEB that, rather than file a cost of service based application, it intends to continue under Annual IR for 2022 Rates.

The Pandemic has had profound impacts on Canadians. For Bluewater the Pandemic has presented challenges as we manage our workforce, work with those customers struggling to pay their bills and seek ways to control costs in these unprecedented times. Adding to the challenges for our workforce has been a significant community infrastructure project that started in 2020 and has placed tremendous demand on our resources in the midst of the Pandemic. The infrastructure project is known as the Oversized Load Corridor ("OLC"), whereby the City of Sarnia, St. Clair Township and the County of Lambton are collectively investing nearly $17M to create a safe transportation path through the community to allow large vessels (up to 30' wide, 30' tall and 150' long that serve as the building blocks for the Petrochemical industry) to be moved in and out of our community on existing roads by making infrastructure improvements, including the necessary relocation of significant parts of Bluewater's overhead infrastructure. The OLC is supported by the provincial and federal governments, and will require between $2.8M and $3.7M of relocation work that will be performed by Bluewater and paid for by the road authorities ("Billable Revenue" for Bluewater). That work must be completed by December of 2022 and, in order to give the OEB a sense of the scope of this undertaking, the effort is worth an average of $1.3M per year in Billable Revenue, which is the equivalent of an increase in our annual capital budget of nearly 15%.

By continuing on Annual IR for a second year, Bluewater is following a course of action previously endorsed by the OEB. On October 18, 2012, the OEB released the Renewed Regulatory Framework for Electricity Distributors ("RRFE") which states that there shall be no fixed term for Annual IR. Rather, the RRFE states that *"a regulatory review may be initiated if the distributor performs outside of the 300 basis points earnings dead band or if its performance erodes to unacceptable levels."*

Bluewater has invested heavily in its infrastructure since 2013, which does indeed incent a regulated utility to rebase through a cost of service based process. Bluewater's Net Fixed Assets have increased from $52.3M in 2013 to an estimated $77.5M by the end of 2020. That level of investment in capital has also led to a significant increase in amortization costs that, together with growing pressure on all O&M costs, has a perceptible impact on Bluewater's forecast Return on Equity in 2021. That pressure, however, will be temporarily offset to some extent by the level of one-time Billable Revenue being driven by the OLC infrastructure project. The impact of our delay to rebasing by a further one year is, therefore, "bridged" so to speak, by the temporary increase in Billable Revenue from the OLC. Bluewater will be able to, as a result, sustain itself financially under Annual IR in 2022, with the plan to file a cost of service based application for rates effective January 1, 2023.

Bluewater's financial sustainability is complemented by our confidence in our infrastructure program. Bluewater's commitment to prudent infrastructure planning has resulted in significant investment in the fixed assets underpinning our distribution system. Moreover, Bluewater's reliability has remained at very impressive levels as set out in our OEB Scorecards. To further satisfy the OEB regarding our current capital plans, Bluewater is prepared to file its Distribution System Plan during the summer of 2021 independent of a rebasing application.

Finally, a delay in rebasing would also delay an update to Bluewater's revenue requirement, which is financially beneficial to Bluewater's customers as it allows them to avoid a material rate increase during the economic recovery from the Pandemic. With the significant growth in Bluewater's Net Fixed Assets, Bluewater's Rate Base in a 2022 cost of service based application would be expected to increase by approximately 40% relative to the rate base that underpinned Bluewater's 2013 cost of service based rates, which would contribute to a potential 6% increase in Revenue Requirement. Through the continued use of the OEB's Annual IR framework in 2022 Bluewater is able to delay this rate increase, which is a good outcome for customers, the community and for Bluewater.

We anticipate that to be satisfied with Bluewater's election to continue on Annual IR, the OEB will need to be satisfied that Bluewater has not met either of the criterion for regulatory review. In that regard, we offer the following commentary that speaks to Bluewater's Return on Equity ("ROE") and general performance through the annual IR period.

Return on Equity: Bluewater notes that it is neither over nor under earning relative to its embedded ROE having consideration for the OEB's ROE dead band. Bluewater can assure the OEB that we are financially able to sustain an additional year under the current rate regime due, in part, to the OLC infrastructure project discussed above. Bluewater's ROE for 2019 as submitted in the RRR's is 10.93%, and we forecast that will drop to 9.5% in 2020, levels of ROE that are both well within the acceptable range of +/- 300 basis points of Bluewater's deemed ROE (the "dead band"). The budget that Bluewater recently finalized with its Board of Directors forecasts an ROE of approximately 7.0% for the year 2021. Although not yet subject to Board of Director scrutiny, if we assume normal trends for 2022 we would forecast an ROE in 2022 of just over 6.0%. While these forecasts represent under earning relative to Bluewater's embedded ROE, it still falls within the OEB's dead band.

Regulatory Return on Equity

	2018	2019	2020 Forecast	2021 Forecast	2022 Forecast
Deemed (included in rates)	8.98%	8.98%	8.98%	8.98%	8.98%
Achieved	11.86%	10.93%	9.5%	7.0%	6.0%

The year's 2020 to 2022 do, indeed, show a declining trend in ROE for Bluewater even when including the significant increase in billable revenue associated with the OLC infrastructure project. We anticipate that a delay of rebasing to 2023 will result in a short term foregone financial opportunity for the utility, as it defers Bluewater's ability to update its revenue requirement to better reflect its increased expenses and significant growth in Rate Base. However, the demands on Bluewater's management and staff time from the Pandemic leave us little choice; moreover, the OLC infrastructure project creates a unique opportunity that will help bridge the gap from the delay. While our operations and engineering staff are working under significant time pressures as a result of the OLC infrastructure project requirements, we are confident that routine maintenance continues to be accomplished as evidenced by the Utility performance discussed below.

In terms of cash flow, Bluewater's level of capital spending caused us to arrange a $10M loan and the Pandemic forced Bluewater to withdraw the maximum on that loan in April of 2020. We are pleased to report that we expect to repay $3M of that loan by year-end 2020. Although the Pandemic did have an impact on cash flow as anticipated, we are comfortable in concluding that the negative impacts on cash flow will fall short of our original forecast allowing us the opportunity for partial early repayment. Bluewater forecasts being able to carry the balance of the loan in the normal course.

Utility Performance: Bluewater has favorable performance results as presented in our annual Scorecard with the most recent results for 2019 published in October 2020. The scorecard included the following:

- New Residential/Small Business services connected on time – 99.8%
- Scheduled Appointments met on time – 100%
- Telephone calls answered on time – 87.4%
- First Contact Resolution – 99.9%
- Billing Accuracy – 99.9%
- Customer Satisfaction Survey Results – 74.4%
- Level of Public Awareness – 87%
- SAID & SAIFI results – The 5-year rolling average is below the OEB target for both reliability factors. The Scorecard indicates a downward trend simply because the year 2019 Bluewater included 2 significant storm-related outages that fell just below the threshold for categorization as Major Events, such that the impact of those extraordinary events beyond our control to remain included in the statistics lowering the SAIDI result for 2019 alone.

Bluewater expects to continue meeting all the OEB's performance metrics during and following the Pandemic; we remain confident that reliability will continue to be strong for the utility while still maintaining our Capital Budget commitments.

We acknowledge that the OEB's approval of our 2021 rebasing deferral request by letter dated June 19, 2020 stated that the OEB "expects Bluewater Power to file a cost of service application for 2022 rates, including a distribution system plan." Bluewater believes that delaying rebasing by one year by continuing on Annual IR is in the best interest of the utility and our customers given the expected impacts of the Pandemic on our local economy.

In further support of our delay to rebasing, we submit that rebasing in these uncertain times makes rate setting a "risky" undertaking for both Bluewater and its customers. We are pleased that the OEB has introduced the COVID19 Deferral Account, which helps to manage the short-term implications of the Pandemic; that development has been critically important to utilities in Ontario. However, the long-term implications of the Pandemic introduce uncertainty that may be impossible to manage during the rate setting process, given some of the unique characteristics of Bluewater's franchise area.

Bluewater submits that the full COVID-19 impact on our local economy is not yet known. Bluewater is in a unique geographic location wherein we are a mid-size utility with greater than average load due to our large industrial customer base. We are very nearly a "one industry town", and the long-term impacts of the Pandemic on the oil sector could be slow to roll out to local refineries, which in turn impact local construction and maintenance companies, which in turn impact local industrial suppliers, which in turn impacts the people who work for those companies.

It is too early to assess the potential for a lingering impact on the petrochemical sector, but there are reasonable grounds to be cautious that the potential for reduced travel post-Pandemic will impact demand for the gas, diesel and jet fuel produced in Sarnia. According to Statistics Canada, gasoline production has declined nearly 15% and Jet Fuel has declined by 60% this year; both are primary products for local refineries who satisfy nearly 75% of Ontario's need for fuel. A continued impact on fuel needs as the world adjusts to a new way of doing business could lead to restructuring in our local economy.

The potential long term impact of a restructured local economy could introduce significant uncertainty to the load forecast on which rates are derived. Without a proper assessment of the unique impact of the Pandemic on our local economy, the load forecast is unlikely to reflect Bluewater's customer base and consumption for the full duration of the IRM period that follows the rebasing year if that rebasing is performed prematurely.

For all these reasons, Bluewater believes it is prudent for it to select Annual IR for 2022 rates. We respectfully request that Bluewater be removed from the OEB Docket as a candidate for rebasing for January 1, 2022 rates. We are prepared to submit a Distribution System Plan ("DSP") in the summer of 2021 if required; we would only note that since the DSP is normally part and parcel of a rebasing application, we would propose to delay public consultation on the DSP until late 2021 in order that it can more properly form part of the 2023 Rebasing Application.

Finally, we note that Bluewater's 2021 Annual IR application filed on November 6, 2020 anticipated that Bluewater would rebase for January 1, 2022. Accordingly, Bluewater sought to dispose of deferral accounts over the eight-month period from May 1st to December 31st, instead of the typical twelve-month period. To be consistent with Bluewater's decision to elect Annual IR for 2022, Bluewater will revise its 2021 Annual IR application to extend the disposition of its deferral accounts over a full twelve-month period from May 1, 2021 to April 30, 2022.

If you have any questions with respect to the foregoing, please do not hesitate to contact us.

Sincerely,

Alex Palimaka
Senior VP and General Counsel
Bluewater Power Distribution Corporation
519-337-8201 Ext 2292
apalimaka@bluewaterpower.com