

Chatham-Kent Hydro Inc.

EB-2009-0261

Responses to Schools Energy Coalition Interrogatories

Question #1

Please confirm that the Applicant has 50 schools operated by publicly funded school boards in its franchise area. Please advise how many schools are in each of the GS<50 and GS>50 classes.

Answer:

In the Chatham-Kent Hydro ("CK Hydro") service area there are 39 publicly funded schools.

In the General Service > 50 class there are 24 schools

In the General Service < 50 class there are 15 schools

Question #2

Exhibit 2, Table 2-17: please insert columns in Table 2-17 to include the years 2006-2008.

Answer:

Demand	2006	2007	2008	2009	2010	2011	2012
Residential New	186,801	181,462	145,785	200,755	254,128	158,175	163,988
Detached Residential	526,257	442,857	335,706	245,486	191,488	189,675	205,540
Commerical Industrial New	185,694	185,911	174,178	149,521	205,285	171,427	177,439
Account Cancellation	9,052	10,811	16,873	6,090	6,181	6,274	6,368
Sub-total Demand	907,804	821,041	672,542	601,852	657,082	525,551	553,335
Contributed Capital	(452,865)	(213,142)	(334,905)	(275,000)	(275,000)	(275,000)	(275,000)
Total Demand	454,939	607,899	337,637	326,852	382,082	250,551	278,335

Renewals	2009	2010	2011	2012
Residential Rebuilds	37,029	28,749	14,103	30,780
Commerical & Industrial Rebuild	182,203	147,665	264,157	175,580
Pole Replacement	42,910	143,874	182,228	126,347
Transformer Replacement	233,578	201,247	134,402	168,985
Ridgetown PCB Transformer Replace				75,000
Insulator Replacement	36,707	22,665	22,879	35,279
Retail Meter Replacement	30,371	8,520		30,010
Primary Cable Replacement Program				100,000
Low Voltage vault repairs				104,318
Parry St.- backyard removal				43,232
Emergencies	88,412	37,096	72,513	81,769
Dresden F1 (primary) Cable Replacement		12,425		75,000
PCB Transformer Replacements			46,364	75,000
Dresden N DS			7,073	
Dresden Park Single Phase Line			165,545	
Murray St Ext			18,155	
Outage Management System			93,223	130,000
Thamesville DS Rebuild				68,500
Sub-Total Renewals	651,210	602,241	1,020,642	996,982

Security and Sustainment	2006	2007	2008	2009	2010	2011	2012
LIS switches(3 switches)	17,426	58,984	28,956	62,166	71,049	81,000	60,000
Distribution Automation	3,681	40,000	3,200				
QMS and ISO Certification			20,176				
Replace 3 Ways & Elbows in the Maples		36,046					
Asset Management and System Optimization Program				-	311,049	159,500	143,000
Sub-Total Security and Sustainment	21,107	135,030	52,332	62,166	382,098	240,500	203,000

Capacity	2006	2007	2008	2009	2010	2011	2012
Reduction of Step Down Transformer					104,619	138,500	242,518
Submarine Cable Replacement					206,938		
Downtown Chatham		12,176			247,557	259,500	385,035
North Chatham		101,648					
M5 Submarine cable refurbishment			28,282	319,010	100,000		192,518
Sub 7/9 Conversion	584,286	216,863	317,822	574,739	307,930		
Sub 8 Conversion	306	28,998					
Dresden Feeder Tie	114,322	28,457					
M21 Overhead River Crossing	104,827						
St Anthony Primary Cable Replacement			27,100				
Primary Cable Failure Collegiate Dr			19,177				
M6 Cable Repair River Crossing Wallaceburg			10,232				
Capital Expansion Requests	17,372		664,471	50,000	50,750	69,011	52,284
Sub-total Capacity	821,113	388,142	1,067,084	943,749	1,017,794	467,011	872,355
Regulatory Requirement	2006	2007	2008	2009	2010	2011	2012
Load Transfers	95,207	53,019	19,686	412,936			142,518
Smart Meter	357,781	2,869,927	1,747,126				
OPA / CDM Program			25,584				
Wholesale Meter Replacement	484,252	48,996	76,428				
System Loss Project CDM	244,076		139,009				
Asset Management				50,000			
	1,181,316	2,971,942	2,007,833	462,936	-	-	142,518
Substations	2006	2007	2008	2009	2010	2011	2012
Substation 6 Conversion					347,930	338,500	364,018
Substation 8 Conversion				50,000			
Dresden Conversion	61,872			384,653	486,635	438,500	
Voltage sustainment						113,500	
Wheatley Conversion/Step Down Removal						338,500	
Blenheim Conversion							485,035
Tilbury Conversion	365,835	672,173	311,445				
Sub-Total Substations	427,707	672,173	311,445	434,653	834,565	1,229,000	849,053
General Equipment	2006	2007	2008	2009	2010	2011	2012
Rolling Stock	312,975	333,864	213,221	362,593	780,000	276,000	423,500
Computers	28,000	4,270	35,169	63,000	56,000	50,000	50,000
Website Software	-	-	18,300				
Office Furniture	14,638	-	19,243	7,500	12,000	12,000	5,000
Control Room Support	81,088	55,893	53,195	60,000	118,449	109,011	132,146
SCADA Capital	95,572	109,059	26,758	40,000	51,049	40,000	40,000
AM/FM	174,338	61,705	72,489	76,460	91,790	123,500	153,535
Small tools	16,861	43,141	52,331	47,000	99,000	49,500	53,500
Customer disconnect Switches					200,000	50,000	50,000
Building Upgrades	240,303	48,365	80,153	73,500	28,000	57,000	21,000
Fuel Tanks				40,000			
Land	358,875	3,870		200,000	25,000	75,000	
Repave Lot				25,000	350,000		
Storage Facility					50,000		
Secured Storage Building					100,000		
Substations Repairs					15,000		
Roofing							100,000
Transformer Inventory		331,667 (30,582)				
Replace AMI computer/controller							80,000
Sub-total General Equipment	1,322,650	991,834	540,277	995,053	1,976,288	842,011	1,108,681
Total Capital	4,880,042	6,369,261	5,308,684	4,222,391	5,517,530	3,855,408	4,230,681

Question #3

Exhibit 4, Tab 2, Schedule 4: please re-do Table 4-8 showing increases by cost driver (e.g. general wage increase, new staff, general inflation other than wage increase, additional work requirements, etc.) rather than OM&A category.

Answer:

	2006	2007	2008	2009	2010
Opening Expense	5,906,099	5,137,513	5,279,175	5,679,177	5,826,150
Compensation in O&M	1,331,649	1,252,596	1,361,213	1,308,755	1,531,321
Net Opening Expenses	4,574,450	3,884,917	3,917,962	4,370,422	4,294,829
Inflation	4.0%	1.8%	2.3%	0.5%	1.4%
Opening Expenses	5,906,099	5,137,513	5,279,175	5,679,177	5,826,150
Salary Change in Year	75,000	-79,100	108,600	-52,500	72,600
New Staff	0	0	0	0	150,000
General Inflation	183,000	69,900	90,100	21,900	60,100
O&M Activities	37,000	76,000	77,000	-172,000	470,000
Billing and Collecting Activities	-60,000	-105,000	125,000	120,000	172,000
Community Relations Activities	0	70,000	0	0	15,000
Administrative Activities	-786,600	103,000	0	80,000	245,700
Miscellaneous Activities	-216,986	6,862	-698	149,573	-208,438
Ending Expenses	5,137,513	5,279,175	5,679,177	5,826,150	6,803,112

For details regarding the cost drivers for the “Activities” noted above, please see Exhibit 4, Tab 2, Schedule 4, pages 1-5.

Question #4

Exhibit 4/2/4: inflation increases

- (a) Please explain why the StatsCan inflation rate is used as the inflation figure for all OM&A costs. (For example, for 2006 actual, the inflation rate, 4%, is applied to the total OM&A opening balance of \$5.9 million to arrive at the inflation impact, \$236,219, for the year.) Wouldn't general inflation apply to non-wage items only, with wage items inflated by the actual applicable increase for the year?
- (b) For each of 2006 to 2009, please provide the annual increase caused by:
- (i) Actual wage escalation for the year;
 - (ii) Increase in staff for the year;
 - (iii) General inflation on non-wage items.

Answer:

- (a) The StatsCan inflation rate is used as a third party proxy for inflation of costs. Many costs have increased above the StatsCan rate, such as insurance and benefit costs. The wage increases were also higher than the StatsCan rate as follows:

	Wage increases	StatsCan
2005	3%	2.20%
2006	3%	1.80%
2006 Total:	6%	4.00%
2007	3%	1.80%
2008	3%	2.30%

- (b) For each year, from 2006 to 2009,
- (i) The annual wage escalation was 3% per year.
 - (ii) There were no staff increases. See Exhibit 4, Tab 2, Schedule 6, page 8 Table 4-20.
 - (iii) Please see CK Hydro's response to SEC Question #3.

Question #5

Exhibit 4/2/4: variance analysis: Overview: many of the increases appear to be one-time events (for example, \$117,000 meter expense in 2008) yet there do not appear to be corresponding reductions in subsequent years.

- (a) Please confirm that for each of the items mentioned in pages 1-5) are either ongoing increases or, if they are one-time events, have been removed from subsequent budgets.

Answer:

2006 Cost Drivers

O&M

Additional station maintenance cost to prepare for decommissioning - two year project, not in 2008 and subsequent budgets

B&C

Outsourcing bill printing and mailing – ongoing decrease

Significant bad debts were recorded on balance sheet for future recovery as Z factor which was denied in EB-2007- 0517 – one-time adjustment, added back to budget

Administrative

Low voltage charges recorded in cost of power however were included in administration costs for Board Approved costs – ongoing reduction

Regulatory costs for OEB fees and ongoing costs were lower than expected – ongoing reduction

Pension costs lower due to updated actuarial estimate which was offset by an increase in actual expenses – ongoing reduction

2007 Cost Drivers

O&M

Additional station maintenance cost to prepare for decommissioning – second year of project, removed from next year's budget

Meter costs increase due to approval of smart meter costs in combined hearing, EB-2007-0063 which is offset by a reimbursement from Hydro One for wholesale meter maintenance – ongoing costs

Fewer transformer and underground activities – one-time reduction, added back to budget

B&C

Meter reading reduction due to improved contract pricing and more costs allocated to water meter reading – permanent ongoing reduction

Improved pricing from service providers for Electronic Billing Transactions, wholesale settlement and full year of contracting out bill printing and mailing – permanent ongoing reduction

Bad debts not being allocated to the balance sheet - permanent ongoing increase

Community relations

Conservation programs as part of the 3rd tranche funding and support for the Children's Safety Village – one-time, removed from future budget

Administration

Outside services - permanent ongoing increase

Pension cost increases - permanent ongoing increase

2008 Cost Drivers

O&M

Meter expense due to wholesale meter costs and no rebate from Hydro One - permanent ongoing increase

Station maintenance is lower as the decommissioning was completed – item removed from previous year budget

Additional overhead maintenance resulting in increased costs for the poles, towers, conductors and transformers permanent ongoing increase

B&C

Bad debt increase due to not obtaining approval for Z factor in EB -2007-0517 permanent ongoing increase

2009 Cost Drivers

O&M

Meter expense does not include any costs for a smart meter application similar to costs included in 2007 and 2008 – one-time reduction not included in subsequent budgets

B&C

Additional data management staff for smart meter, MDMR and TOU billing activities - permanent ongoing increase

Additional collection activates by staff, upgrade of phone system (Integrated Voice Recognition) and collection letter activities - permanent ongoing increase

Administration

Permanent ongoing increase

2010 Cost Drivers

O&M

Additional staff – 6 additional staff members – permanent ongoing

Full year costs for 2 apprentice lineman hired in 2009 – permanent ongoing

Meter maintenance costs for maintain smart meters – permanent ongoing

B&C

Move to monthly billing from bi-monthly billing – permanent ongoing

Upgrade of CIS – permanent ongoing

Community Relations

Increased support of Children's Safety Village – permanent ongoing

Administration

Additional services in accounting and regulatory – permanent ongoing

New financial system – permanent ongoing

Enhanced network security to ensure security for CIS upgrade, smart meter data – permanent ongoing

New document management and record keeping system – permanent ongoing

Question #6

Exhibit 4/2/4, p. 3:

- (a) Please explain the \$125,000 increase in bad debt “due to not obtaining approval for Z factor in EB-2007-” (sic). How would obtaining approval for Z-factor determine whether or not there was an increase in bad debt?
- (b) Has this \$125,000 cost been forwarded to 2010?

Answer:

- (a) The bad debts occurred in 2006 and 2007; they were recorded on the balance sheet at that time with the expectation that CK Hydro would seek recovery of these costs using the Z-factor rules in the IRM regime. In 2008 CK Hydro was denied the recovery of these costs and therefore these items were then recorded as an expense.
- (b) No. The 2010 bad debt expense being proposed for recovery is based upon a forecast of what is expected during these very challenging economic times. The 2010 bad debt expense has taken into account the experience from the past few years, what has occurred to date in 2009, and what is expected in 2010.

Question #7

Exhibit 4/2/3

- (a) Are Community Relations activities commenced in 2007 (conservation programs and support for Children's Safety Village) part of the 2010 budget? If not, why has there been no corresponding reduction of the \$70,000 entry for 2007 in either of 2008, 2009 or 2010?

Answer:

- (a) Yes. Children's safety training activities have continued and are included in the 2010 budget.

The Conservation and Demand Management activities (\$45,277 in 2007) have not continued, and as such, are not included in the 2010 budget.

Question #8

Exhibit 4/2/3, pg. 3

- (a) Please provide a more detailed explanation for the increase in Outside Services (+\$70,000) in 2007. Has the increase been passed through to 2010?

Answer:

- (a) The vast majority of the increase was due to a law suit. The law suit related to eligibility for post-retirement benefits. No, the increase has not been passed through to 2010.

Question #9

Ex. 4/2/3, p. 4: Regarding the move to monthly billing and associated \$142,000 increase in OM&A (Billing and Collection) costs:

- (a) Is this a permanent or one-time increase?
- (b) Has the company made any changes to its bad debt expense or its working capital calculation in view of the fact that billing will now be made twice as often?
- (c) If not, why not?
- (d) Does the company have a projection of what impact the move to a monthly billing cycle will have on bad debt expenses?
- (e) If there are no identifiable savings arising out of the move to monthly billing, then why was the decision made to move to monthly billing?
- (f) Has the company considered an e-billing system to reduce monthly billing costs?

Answer:

- (a) The additional cost associated with moving to monthly billing is permanent.
- (b) Actual working capital calculations have been changed, but bad debt expense and the working capital calculations for rate setting purposes have not changed.
- (c) Bad debt expense was reviewed, however the move to monthly billing will have a minimal effect on total bad debt, as the majority of the bad debt expense is from industrial customers who were already on monthly billing.

Also, the risk profile of the residential customers will not change very much because CK Hydro will be required to refund a significant amount of deposits: approximately \$500,000. Deposits are a means to reduce bad debt risk. CK Hydro will be required to refund the deposits because deposits are based upon the value of the bill. Due to the move to monthly billing, the value of the bill will be about half, thereby reducing the deposit.

Working capital for rate setting purposes does not change, as it is based upon 15% of cost expenses, including cost of power.

Actual working capital has been adjusted to reflect the potential cost flow impact from residential customers.

- (d) The impact to bad debt expense for the residential class will be minimal since CK Hydro will be required to refund approximately \$500,000 worth of deposits.

The decision to move to monthly billing is primarily to assist customers in managing their bills better, and to reduce the deposits that are required from customers. Monthly billing will also provide more timely information on usage, which should encourage more conservation.

Monthly billing is also being requested from local social agencies in the CK Hydro service area (Exhibit 4, Tab 2, Schedule 2, Appendix E and F).

- (e) There are minimal benefits to bad debts by moving to monthly billing. The benefits in assisting the customers in managing their bills by receiving them monthly; and there may be conservation related benefits, as customers will receive their bills more frequently, thereby enabling them to become more energy conscious. While CK Hydro offers many payment options such as monthly payments, pre-authorized payments, etc., the social agencies are strongly supporting the move to monthly billing.
- (f) Yes, the company has considered an e-billing system.

Question #10

Ex. 4/2/5: Affiliate Charges

- (a) Pg. 1: Please specify what changes to the Affiliate Relationships Code are being referred to and how they will or may impact the provision of street lighting services to the Municipality of Chatham-Kent.
- (b) Is the streetlight service subject to a service agreement with the Municipality of Chatham-Kent? If so, please provide a copy.
- (c) Please explain how the “Actual Cost” of streetlight service is determined.
- (d) Please explain why the charges for streetlight maintenance decrease to \$172,507 in 2010, down from \$198,791 in 2008 and \$187,893 in 2009.

Answer:

- (a) Please see CK Hydro’s response to Board Staff Question #30.
- (b) Yes; see Appendix A.
- (c) All costs incurred by CK Hydro in the provision of street light services are charged to the Municipality.
- (d) The actual costs for streetlight maintenance have been declining annually due to a significant replacement of lights by the Municipality in 2005 and 2006 to a more reliable and energy efficient streetlight, and due to increased efficiency by CK Hydro in performing the services. The costs quoted to the Municipality in the SLA are based on high activity, but actual costs are usually lower than the initial annual quote.

Question #11

Ex. 4/2/5: Affiliate Charges- Customer Service Charges

- (a) Please provide a more detailed explanation for the 20% increase (\$288,221) in Customer Service charges from CK Utility Service between 2006 and 2010. Please provide a detailed breakdown of the reason for the increases.
- (b) Please explain the reason for the increase in personnel.
- (c) Please explain also where the partially offsetting decrease in third party meter reading costs is reflected in the application.

Answer:

- (a) The increase in Customer Service changes from CK Utility Services between 2006 and 2010 is due to the following:

Change from bi-monthly to monthly Billing	142,000
Increase in Bad Debt	75,000
CIS Upgrade	40,000
Inflation (1,478,645 x 6%)	88,000
Meter reading savings	-54,000
Miscellaneous items	-2,779
	288,221

- (b) CK Hydro's decision to move to monthly billing has required CK Utility Services to hire additional staff to provide the services.
- (c) The partially offsetting decrease in third party meter reading is included in Exhibit 4, Tab 2, Schedule 5 - Affiliate Charges- Customer Service Charges. Also, see Exhibit 4, Tab 2, Schedule 3, page 3: Account 5310 Meter Reading Expense.

Question #12

Ex. 4/2/5: Affiliate Charges; General Financial Service

- (a) "General Financial Service" charge from CK Utility service increases 38% (\$497,465) from 2006 actual to 2010. Please provide a more detailed explanation for the increase.
- (b) Please explain the reason for the increased personnel.
- (c) Please explain the change in management salary allocation in 2010. Is this a change in overhead allocation or in the method of allocating management costs from CK Utility to Chatham-Kent Hydro? Please explain fully.

Answer:

- (a) The services from Chatham-Kent Utility Services (CK Utility Services) are corporate services. The significant changes relate to financial reporting and the related staffing, allocation of Chief Financial and Regulatory Officer from regulatory costs, network security, pension benefit costs and inflation.

2006 Charges	1,322,305
Inflation	6%
2006 Charges	1,322,305
Inflation	79,300
New financial system	7,500
New document management system	20,000
Enhanced network security	40,000
Additional accounting staff	160,700
Allocation of CFRO	40,000
Retiree benefit costs	48,000
Miscellaneous items	34,876
2010 Charges	1,820,181

The financial system that was used has been in place prior to 1989 and was required to be updated.

An adjustment to the allocation of the CFRO to more administrative activities from regulatory activities since a new regulatory analyst is being proposed in regulatory costs.

The enhanced network security is required due to the increase in data management which will support the smart meter interface with the MDMR

- (b) Staff changes are mainly required to meet IFRS and increased financial reporting.

- (c) The change in management salary allocation represents a more accurate indication of where the management staff spend their time.

Question #13

Ex. 4/2/5: Purchase of Services from Non-Affiliates

- (a) Please provide a breakdown of the \$160,000 in consulting services for 2010. Please explain all assumptions used in arriving at the forecast.
- (b) Please explain also whether the forecast includes work performed in 2009 (such as preparing the application) that will be billed in 2010.

Answer:

- (a) The \$160,000 expenditure to Borden Ladner Gervais is for the service provided in the 2010 cost of service application. The amount is an estimate of the work that will be provided to assist in completing the 2010 cost of service application. The estimate is based on the assumption that an oral hearing will not be required. If such a hearing were to take place, the actual costs will be higher than the amount shown in the application. The costs are being recovered in regulatory costs, which are summarized in Exhibit 4, Tab 2, Schedule 3, Page 5. Also, please see CK Hydro's response to Board Staff Question #23.
- (b) Approximately \$50,000 worth of work will be performed and billed in 2009 which is included in the \$160,000 in consulting services for 2010.

Question #14

Ex. 4/2/6, pg. 8: Compensation and Staffing

- (a) Please explain why there has been no decrease in projected overtime expenditure in 2010 despite the fact that there will be an increase of 5 FTE's in 2010, all in operations positions. Wouldn't the extra staff obviate the need for at least some overtime?

Answer:

- (a) The majority of CK Hydro's overtime is due to emergency response caused by power interruptions. As apprentices are not qualified to perform live line work or hold work protection, they will not be utilized as on-call personnel. Therefore additional staff will not obviate the need for overtime.

Question #15

Ex. 5:

- (a) Please provide a copy of the Promissory Note (\$23,523,326) issued to the Municipality of Chatham-Kent.
- (b) In all years except 2010, CKH has used the nominal rate from the Promissory Note, 7.04% in its deemed capital structure. Please explain why the deemed rate, 7.62%, is being requested in 2010.
- (c) Please provide the deemed rate, under the Board's Cost of Capital Report, for 2007, 2008 and 2009.

Answer:

- (a) Please see CK Hydro's response to Board Staff question #33 a)
- (b) The rate of 7.62% is a place holder until the Board approves the deemed rate for the 2010 cost of service applications. The proposed rate will be adjusted to meet the Board's approved deemed rate. The Promissory Note interest rate is adjusted from time to time to equal the interest rate approved by the Board in the rate setting process. Therefore, the interest rate to be paid on the promissory note will change based upon the Board's approved deemed rate. The rate approved by the Board is deemed to be fair to both the customers and the Utility, and reflective of an arms length transaction.
- (c) The deemed rate approved by the Board's cost of capital report has been:

Year	Short Term	Long Term	Equity
	Debt	Debt	
2007		6.25%	9.00%
2008	4.47%	6.10%	8.57%
2009	1.33%	7.62%	8.01%

Question #16

Ex. 7: Cost Allocation

- (a) The revenue to cost ratio for the GS>50kW rate class is being increased from 62.5% to 102%. As a result, the distribution rate impact for GS>50kW customers stemming from this application ranges from 36% to 105%, depending on volume. In other cases, normally involving streetlights, the Board has found a staggered approach to be more reasonable in order to avoid such large increases in a single year. Please advise why a Chatham-Kent Hydro has not adopted a similar approach.

Answer:

- (a) Please see CK Hydro's response to Board Staff Questions 39 to 43.

Appendix A

SERVICES AGREEMENT

THIS AGREEMENT entered into as of this 1st day of January, 2009, defines the standard terms and conditions under which Chatham-Kent Hydro will provide specific services to Infrastructure and Engineering Services.

B E T W E E N:

CHATHAM-KENT HYDRO INC.

hereinafter referred to as "C-K Hydro"

- and -

**INFRASTRUCTURE AND ENGINEERING SERVICES,
MUNICIPALITY OF CHATHAM-KENT**

hereinafter referred to as "I & ES"

WHEREAS I & ES has retained C-K Hydro to provide certain services to assist in the operation Chatham-Kent Hydro.

NOW THEREFORE, IN CONSIDERATION of the mutual covenants herein contained and the exchange of One Dollar (\$1.00), the exchange and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1.0 Definitions

"Actual Charge" means the actual charges incurred by C-K Hydro in providing Services hereunder determined in accordance with the Service Schedules, plus costs approved in accordance with Section 3.04

"Agreement" means this Agreement, Service Schedules and any amendments.

"Data" means all information in hard copy or in electronic form provided by C-K Hydro to I & ES, which is used in the performance of Services under this Agreement.

"Payment Schedule" means the schedule of payments for each Service as set out in Schedule "A".

"Service" or "Services" means a service, which C-K Hydro shall provide to I & ES under this Agreement as specified in a Service Schedule.

"Service Schedule" means a document as amended from time to time signed by the parties to this Agreement, attached to and forming part of this Agreement, and describes the form and manner in which a particular service is to be provided by C-K Hydro to I & ES and any fees and expenses with respect to the provision of the Service.

"Term" means the period from January 1, 2009 to December 31, 2011

2.0 Services and Term

- 2.01 Services to be provided by C-K Hydro under this Agreement will be specified in the attached Service Schedule(s) for the Term.
- 2.02 Any Services provided beyond the Term shall be at the rates and upon the terms as specified in the Service Schedules.

3.0 Compensation

- 3.01 I & ES shall pay C-K Hydro for the provision of Services for the Term in accordance with the provisions detailed in the attached Service Schedules. Schedule A provides a summary of the expected fees for services rendered during the Term.
- 3.02 C-K Hydro shall invoice I & ES on a monthly basis. The invoice shall set out the actual hours, or transaction volumes, as applicable, utilized for each individual Service by C-K Hydro for the previous month and the Actual Charge of each individual Service.
- 3.03 Payments of invoiced amounts must be made within thirty (30) days of the invoice date. Amounts unpaid after thirty (30) days will bear interest at the rate of two per cent (2%) per annum on the outstanding amount.
- 3.04 In the performance of the Services, C-K Hydro agrees to notify I & ES in writing within thirty (30) business days prior to C-K Hydro incurring any expenses beyond the defined charges within the Service Schedule which may be incurred save and except for any reasonable out-of-pocket expenses.

4.0 Representations and Warranty

- 4.01 C-K Hydro represents and warrants that it is qualified to perform the Services in accordance with the terms and conditions of this Agreement. The Services described hereunder shall be performed in a proficient manner and shall conform to the highest professional standards and shall comply with all applicable laws, orders, regulations, ordinances and other rules of all lawful authorities acting within their power, including the obtaining of all permits which may be required for the performance of services under this Agreement.

5.0 C-K Hydro's Responsibilities

- 5.01 In the performance of Services, C-K Hydro agrees to:
 - a) liase with I & ES through I & ES's co-ordinator or the co-ordinator's designate as indicated in the related Service Schedules;
 - b) carry out the Services in a manner which will minimize, to the extent possible, disruption to the day-to-day operations of I & ES ;

- c) notify I & ES as soon as possible of any changes to C-K Hydro's procedures or of any other change which will affect the provision of Services;
- d) comply with I & ES's standard security procedures when on I & ES's premises or when interfacing with I & ES ' installed systems; and
- e) ensure accuracy, legibility, completeness and timeliness of all information provided by C-K Hydro to I & ES in fulfilling responsibilities as set out in the Service Schedules.
- f) Comply with C-K Hydro's Conditions of Service Policy
- g) Comply with the OEB approved codes and guidelines for service, and accounting practices
- h) Comply with Electrical Safety Authority's codes and guidelines for maintenance, connections and installations

6.0 I & ES's Responsibilities

6.01 I & ES agrees, as appropriate to the Service, to:

- a) provide all necessary Data and any special forms or other required materials to C-K Hydro on schedule or in a timely fashion to enable C-K Hydro to provide the Service;
- b) liase with C-K Hydro through C-K Hydro's co-ordinator or the co-ordinator's designate as indicated in the related Service Schedules;
- c) provide consent or direction for the release of reports or other information by C-K Hydro to any third party as required in the performance of the Service;
- d) comply with C-K Hydro's standard security procedures when on C-K Hydro's premises or when interfacing with C-K Hydro's installed systems;
- e) ensure the accuracy, legibility and completeness of all Data and be responsible for the results obtained from C-K Hydro ' use of the Service, provided that C-K Hydro performs the Service as instructed;
- f) provide information in addition to that specified in a Service Schedule as C-K Hydro may reasonably require to perform the Service;
- g) pay all invoices issued by C-K Hydro when due.

7.0 **Confidential Information**

7.01 **Definition**

As used herein, the term "Confidential Information" shall mean all information which a party, directly or indirectly, acquires (the "Acquiring Party") from the other party (the "Divulging Party") concerning the technical and business activities of the Divulging Party, except information falling into one of the following categories:

- a) Information which, prior to the time of disclosure or acquisition hereunder, is lawfully in the public domain;
- b) Information which, after disclosure or acquisition hereunder, lawfully enters the public domain, except where such entry is the result of Acquiring Party's breach of the Agreement;
- c) Information, other than information obtained from third parties, which, prior to disclosure or acquisition hereunder, was already lawfully in Acquiring Party's possession either without limitation on disclosure to others or which subsequently becomes free of such limitations; or
- d) Information obtained by Acquiring Party from a third party who is lawfully in possession of such information and not subject to contractual or fiduciary relationship with Divulging Party with respect to said information. Acquiring Party may use and disclose such information in accordance with the terms under which it was provided by such third party.
- e) Information disclosed by requirement of any law, rule, regulation or requirement of any governmental authority with jurisdiction over either of the parties or required to be disclosed, as determined by either party, to comply with any law, rule, regulation or requirement of any government authority.

Confidential Information shall not be deemed to be within the foregoing categories merely because such information is embraced by more general information lawfully in the public domain or in Acquiring Party's possession.

7.02 **Non-Disclosure**

Acquiring Party will keep all Confidential Information received from Divulging Party in strictest confidence and will only disclose such Confidential Information to those people, employees or agents, of the Acquiring Party, who have a need to know.

7.03 **Third Parties**

Acquiring Party agrees that it will not disclose any Confidential Information to any third party nor use Confidential Information other than on Divulging Party's behalf except as Divulging Party may authorize in writing.

If disclosure to a third party is so authorized, Acquiring Party shall enter into a confidentiality agreement, which shall be subject to review and approval by Divulging Party, with said party containing the same terms and conditions with respect to use or disclosure of Confidential Information as this article contains and naming Divulging Party as third party beneficiary.

Acquiring Party also agrees to enter into confidentiality agreements with third parties at Divulging Party's request and to keep in force confidentiality agreements concerning third party's Confidential Information, which agreements will permit Acquiring Party's use of such party's Confidential Information in the completion of the Services.

7.04 Safeguard of Confidential Information

Acquiring Party also agrees to use best efforts to safeguard all documents containing Confidential Information which Divulging Party may supply to Acquiring Party hereunder and all other documents containing Confidential Information whether prepared by Acquiring Party or another. Acquiring Party may make copies of such documents only to the extent necessary for the performance of Services. Acquiring Party shall prevent access to all such documents by third parties. On completion of Services, Acquiring Party agrees to return to Divulging Party all such documents containing Confidential Information and to destroy copies thereof. However, should Acquiring Party desire to retain certain documents and receive Divulging Party's written approval therefore, Acquiring Party shall continue to treat said documents within the terms of this Article.

7.05 Survival

The provisions of this Article 7 shall survive termination or expiration of this Agreement for any cause whatsoever for a period of five (5) years thereafter unless otherwise authorized in writing by Divulging Party.

8.0 Termination

8.01 It is agreed that in the event that either party violates any material term of this Agreement, the other party may, in the manner set out below, terminate this Agreement at any time while an event or condition giving rise to the right of termination exists. To terminate this Agreement, the party seeking termination must give the other party notice that describes the event or condition of termination in reasonable detail. From the date of its receipt of that notice, the other party will have sixty (60) days to cure the breach to the reasonable satisfaction of the party desiring termination. If the event or condition giving rise to the right of termination is not cured within that period, this Agreement will automatically be deemed to be terminated at the end of the period. Such termination shall not relieve I & ES of its obligation for payment of any amount due under this Agreement.

It is understood and agreed that default by C-K Hydro for an individual service as noted in the attached service schedules shall not be cause for termination of the entire agreement but only that particular service.

It is agreed that in the event that the Ontario Energy Board issues a compliance order to C-K Hydro to cease performance of the services described in this agreement. C-K Hydro will provide I & ES ninety (90) days notice of the termination of this agreement.

- 8.02 In the event of the termination or expiration of this Agreement for any reason whatsoever, C-K Hydro agrees to provide reasonable transitional services to I & ES, upon such terms, conditions as and rates as are agreed to by the parties.

9.0 **C-K Hydro Contributions**

Unless previously agreed to by the parties or provided for in the Service Schedules, C-K Hydro shall pay all royalties and license fees on any equipment and materials to be furnished by it in performing the Services and C-K Hydro shall remit all workers' compensation contributions, unemployment insurance contributions, Canada/Quebec Pension Plan and employees' income tax deductions together with all other taxes and payroll contributions now or hereafter imposed by any lawful authority in respect of employees or agents of C-K Hydro engaged in performing the Services, and shall indemnify and save harmless I & ES from any and all claims, penalties, interest and cost and any of the same which may be made or assessed against I & ES in respect thereof.

10.0 **Property of Data**

Notwithstanding anything else in the Agreement, I & ES shall be the owner of I & ES's Data, including individual streetlight data and all particulars thereof.

11.0 **Publicity**

Neither party may use the other's name, or reference in any way whatsoever to the Services in advertising or promotional material, or publicity release, or any like purpose relating to the Services to be performed by C-K Hydro, without the prior written approval of both parties.

12.0 **Independent Contractor**

The parties agree that no oral agreement or provisions in this Agreement shall be construed so as to constitute C-K Hydro as being the agent, servant or employee of I & ES and the instruction, management and control of C-K Hydro's employees shall always remain with C-K Hydro, and C-K Hydro shall be deemed to be an independent contractor. C-K Hydro shall have no authority to make statements, representations or commitments of any kind, or to take any actions which shall be binding upon I & ES, except as provided for herein or authorized in writing by I & ES. C-K Hydro further agrees and acknowledges that it shall not be considered an employee of I & ES and, as such, it will not be entitled to any benefits or compensation to which employees of I & ES are entitled.

13.0 **Limitation of Liability and Indemnification**

- 13.01 C-K Hydro shall indemnify and save harmless I & ES from claims, penalties, interest and cost incurred as a result of any negligent act, omission, default or misrepresentation made by C-K Hydro relating to provision of Services of this Agreement. C-K Hydro and I &

ES acknowledge and agree that in no event will C-K Hydro's liability to I & ES, if any, for any reason whatsoever relating to the subject matter of this Agreement exceed the service fees that I & ES actually paid to C-K Hydro for the Services in the calendar year that such liability arose.

13.02 I & ES shall indemnify and save harmless C-K Hydro from claims, penalties, interest and cost incurred as a result of any negligent act, omission, default or misrepresentation made by I & ES in regard to provision of Services of this Agreement. C-K Hydro and I & ES acknowledge and agree that in no event will I & ES's liability to C-K Hydro, if any, for any reason whatsoever relating to the subject matter of this Agreement exceed the fees that C-K Hydro received from I & ES for the Services in the calendar year that such liability arose.

13.03 In no event shall either party be liable to the other for any special, incidental or consequential damages, including without limitation, loss of profits and loss of revenues, even if informed of the possibility thereof in advance.

14.0 **Insurance**

Upon the request of I & ES, C-K Hydro shall provide evidence of insurance to I & ES as may be required in order to perform the Services.

15.0 **Currency**

The parties hereto agree and acknowledge that all reference to dollars in this Agreement shall be construed to mean the currency of Canada.

16.0 **Applicable Law**

This Agreement shall be interpreted and construed in accordance with the laws of the Province of Ontario and the courts of the Province of Ontario shall have exclusive jurisdiction in all matters contained herein, unless specified otherwise. Furthermore, this Agreement and the rights and obligations of the parties hereto, are subject to all present and future laws, rules, regulations, and orders of any legislative body or duly constituted authority having jurisdiction, now or hereafter.

17.0 **Entire Agreement**

This Agreement and the attached Service Schedules constitute the entire Agreement of the parties hereto relating to the subject matter hereof, and there are no written or oral terms or representations made by either party other than those contained herein. No provision of this Agreement may be modified or waived unless such modification or waiver is authorized in writing by the parties to the Agreement. No waiver by either party hereto of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed to be a waiver of similar or dissimilar conditions or provisions at the same or any prior or subsequent time. The headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

Force Majeure

Notwithstanding anything herein contained, it is agreed that no party hereto shall be liable in damages under this Agreement to the others or deemed to be in default in respect of any of the terms and provisions of this Agreement if and so long as such damages and/or default are occasioned by or in consequence of any acts of God, strikes, lockouts, labour troubles, act of the Queen's enemies, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of governments and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, the order or directions of any court or other authority having jurisdiction and any other cause or circumstance whether of the kind herein enumerated or otherwise, not within the control of the party relying on such cause or circumstance ("Force Majeure") and which by the exercise of due diligence such party is unable to prevent or overcome, provided that in no event shall lack of finances of the part of a party or Consultant be deemed to be a cause or circumstance not within its control, nor shall the occurrence of any event that constitutes an instance of Force Majeure as between a third party and one of the parties hereto be deemed an instance of Force Majeure hereunder. Such cause or circumstance affecting the performance of this Agreement by any Party however will not relieve it of liability in the event of its concurring negligence or in the event of its failure to use due diligence to remedy the situation and remove the cause or circumstance in an adequate manner and with all reasonable dispatch, nor shall such cause or circumstance affecting the performance of this Agreement relieve any Party from its obligation to make payments of amounts due hereunder. A Party when relying on Force Majeure shall give notice by facsimile, telecopier or in writing as soon as possible after the occurrence of the cause relied on and after the termination of the condition.

18.0 Assignment

Neither party may assign this Agreement in whole or in part without the express written consent of the other party, which may not be unreasonably withheld.

19.0 Notices

Any notice, demand, request or other instrument, which may be or are required to be given under this Agreement shall be delivered in person or sent by facsimile or telecopy, or mailed by prepaid registered post and shall be addressed as follows:

20.0 Dispute Resolution

Any dispute between I & ES and C-K Hydro which cannot be resolved between the parties will be referred to the CEO of Chatham-Kent Energy and the CAO of the Municipality of Chatham-Kent for resolution.

If to C-K Hydro:

C-K Hydro Inc.
320 Queen Street
Chatham, Ontario
N7M 5K2

Attention: Mr. Dave Kenney
Telephone: (519) 352-6300 #261
Fax: (519) 352-9860

or at such other address as C-K Hydro may designate by written notice.

If to I & ES:

Infrastructure and Engineering Services
Municipality of Chatham-Kent
315 King St. W.
P.O. Box 640
Chatham, ON N7M 5K8
Attention: Mr. Leo Denys
Telephone: (519) 352-8401 ext. 3900
Fax: (519) 436-3240

or at such other address as I & ES may designate by written notice.

Any such notice, demand, request or other instrument shall conclusively be deemed to have been received on the day of such personal service or on the day of the receipt of the facsimiled or telecopied notice, or on the third day following the date of posting in the case of mailing as aforesaid, provided the postal service is not disrupted.

21.0 Severability

The invalidity or unenforceability of any portion or provision of this Agreement shall in no way affect the validity or enforceability of any other portion or provision hereof. Any invalid or unenforceable portion or provision shall be severed from this Agreement and the balance of this

Agreement shall be construed and enforced as if this Agreement did not contain such invalid or unenforceable portion or provision.

22.0 **Time of Essence**

Time is of the essence in all matters referred to in this Agreement.

23.0 **Successors and Assigns**

This Agreement shall be binding on all parties hereto and their respective successors and assigns.

24.0 **Schedules**

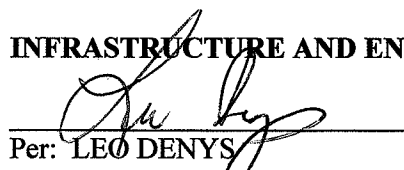
Service Schedules are attached.

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the day and year first above written.

CHATHAM-KENT HYDRO INC.


Per: DAVE KENNEY
PRESIDENT

INFRASTRUCTURE AND ENGINEERING SERVICES


Per: LEO DENYS
GENERAL MANAGER

SCHEDULE A
BETWEEN
CHATHAM-KENT HYDRO INC.
AND
INFRASTRUCTURE AND ENGINEERING SERVICES OF THE MUNICIPALITY OF
CHATHAM-KENT
STREETLIGHT MAINTENANCE AGREEMENT

The purpose of this agreement is to provide an understanding of the commitment by Chatham-Kent Hydro to Infrastructure and Engineering Services to provide streetlight maintenance within the boundaries of the Municipality of Chatham-Kent.

CONTACTS:

Consultant Co-Ordinator:
Infrastructure & Engineering
Services Co-Ordinator:

Dave Kenney, President, C-K Hydro Inc.

Leo Denys, General Manager

SERVICES:

This agreement will provide the following maintenance services:

- Records management (includes additions & deletions)
- Response and arrangement for repairs
- Repairs or replacement of lamps, photocells, ballast's, heads, lenses, wiring, deteriorated poles or standards and supply wires
- Inventory management will be provided at a cost of 23% mark-up per item (Administration cost of stocking and ordering material)
- Monthly after hours patrols
- Analysis of existing conditions to verify appropriate lighting levels as to IES (Illuminating Engineering Society) specifications and Municipality of Chatham-Kent policy.
- Respond to customer inquires about lighting levels and the placement of streetlights.
- Provide inspection for street light installations done by others before connection.
- Coordinate with Hydro One in those areas under their jurisdiction in order to energize new streetlight installations.
- Coordinate with ESA when required to acquire the appropriate approvals for a Connection Authorization.

COST FOR SERVICE FOR A THREE YEAR TERM

Average cost per repair 2 hours labour (2009), X \$72.48 = \$144.96
1 large truck X \$35.00 = \$ 35.00
Total labour & truck per repair for 2009 = \$179.96

Average cost per repair 2 hours labour (2010), X \$73.92 = \$147.86
1 large truck X \$35.00 = \$ 35.00
Total labour & truck per repair for 2010 = \$182.86

Average cost per repair 2 hours labour (2011), X \$75.39 = \$150.80
1 large truck X \$35.00 = \$ 35.00
Total labour & truck per repair for 2011 = \$185.80

Estimated number of lights to repair/year 2009 = 1,300 X \$179.96 = \$233,948

Estimated number of lights to repair/year 2010 = 1,300 X \$182.86 = \$237,718

Estimated number of lights to repair/year 2011 = 1,300 X \$185.80 = \$241,540

Cost for after-hours streetlight patrol = \$15.00 per hour X 12 hours X 10 times per year
= \$150.00 per month = \$1,500

Annual ESA inspection permit cost = \$259.00

Approximate total annual costs for streetlight maintenance 2009 = \$235,707

Approximate total annual costs for streetlight maintenance 2010 = \$239,477

Approximate total annual costs for streetlight maintenance 2011 = \$243,299

Any third party costs by ESA (Electrical Safety Authority) or Hydro One etc. will be charged to the appropriate streetlight maintenance account and will not be born by Chatham-Kent Hydro