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BY E-MAIL

May 6, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Chatham-Kent Hydro Inc.
2010 Distribution Rate Application
Board Staff Submission on Draft Rate Order
Board File No. EB-2009-0261**

In accordance with the Board's Decision of April 20, 2010, please find attached Board staff's Submission on Chatham-Kent Hydro's draft Rate Order. Please forward the following to Chatham-Kent Hydro Inc. and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Keith C. Ritchie
Project Advisor – Applications & Regulatory Audit

Att.

**Board Staff Comments
Chatham-Kent Hydro Inc.
2010 Cost of Service
(EB-2009-0261)**

Draft Rate Order and Revenue Requirement Work Form

On April 20, 2010, the Board issued its Decision and Order (the “Decision”) on Chatham-Kent Hydro’s (“CK Hydro”) 2010 cost of service application. The Decision required CK Hydro to submit its draft Rate Order, reflecting the Board’s findings in this Decision and the Decision on Partial Settlement and Procedural Order No. 5, issued on March 11, 2010, within ten days of the issuance of the Decision. CK Hydro submitted its draft Rate Order and supporting documentation on April 30, 2010. The following are Board staff’s comments regarding CK Hydro’s draft Rate Order.

One Month of Forgone Revenue Rate Rider

In the Decision and Order, the Board approved a May 1, 2010 effective date and a June 1, 2010 implementation date. The Board directed CK Hydro to calculate class-specific rate riders to recover one month of foregone revenue. Board staff agrees with Energy Probe that the calculation of the rate rider is correct and agrees with the CK Hydro proposal of a one month recovery period. However, the draft Tariff of Rates and Charges does not explicitly show this rate rider. In accordance with Board practice, CK Hydro should show the rate rider separately. The rate rider for the forgone revenue should be shown with a sunset date of June 30, 2010.

Smart Meter Rate Adder and Rate Riders

Board staff has reviewed the calculation for the smart meter disposition rider, smart meter funding adder and the permanent capital rate adjustment and submits that the calculations are reasonable.

Board staff concurs with the calculation of the smart meter funding adder of \$0.51 for smart meters installed after December 31, 2008 as shown on Page 3 of Appendix G. However, this smart meter funding adder should be shown separately on the Tariff of Rates and Charges for all metered customer classes.

Board staff also concurs with the calculation of the smart meter disposition rider of \$0.46, as shown on page 2 of Appendix G. This smart meter disposition rider is to dispose of the net balance between the revenue requirement (i.e. capital-related cost recovery and operating expense recovery related to smart meters installed between January 1 and December 31, 2008, for which the capital and operating costs were reviewed in this application and approved in the Board's Decision on Partial Settlement) and the smart meter funding adder revenues collected to April 30, 2010. However, this smart meter disposition rider has been labelled as a "Smart Meter Funding Adder" on the draft Tariff of Rates and Charges. Board staff submits that CK Hydro should properly display this as a smart meter disposition rider and identify the sunset date of April 30, 2012 applicable to this disposition rate rider.

Appendix G also shows the calculation of a "Permanent Capital Rate Adjustment" Rate Adder of \$0.17. Board staff understands that this represents the rate, based on 2010 parameters, to recovery the ongoing incremental revenue requirement of the approved smart meters installed between January 1 and December 31, 2008. CK Hydro has not included the capital costs, and associated depreciation expenses in its net fixed assets as documented in Exhibit 2 of its application.

In other cost of service decisions on smart meter capital expenditures¹ the Board found that, where such costs for installed smart meters were reviewed and found to be necessary and prudent, the approved capital costs should be included in rate base. In such a case, the net fixed value of these approved smart meters in the test year are included in rate base and recovered in the revenue requirement and treated like other distribution assets. There is no need for a separate permanent rate rider when smart meter costs are reviewed and disposed of in a cost of service application.

In this application, CK Hydro has sought a different treatment, akin to what is appropriate for an IRM application or a stand-alone application, where disposition of audited costs for installed smart meters is being sought but where rates are not being rebased. In such cases, the permanent rate rider acts as a proxy for the incremental revenue requirement, expressed as a rate sliver, as if the base rates were being rebased. This is the approach taken in CK Hydro's 2008 IRM application² and a

¹ e.g. *Decision*, EB-2007-0680, p. 23, (May 15, 2008)

² *Decision*, EB-2007-0881 (March 17, 2008)

subsequent smart meter recovery application³. The parties agreed to this approach in the Settlement Agreement which was subsequently approved by the Board.

Board staff submits that the Permanent Rate Rider of \$0.17 should not be shown separately, but should be added to (i.e., embedded) the Service Charge for metered customer classes. This would be analogous to the treatment of approved smart meters in previous cost of service applications for Toronto-Hydro Electricity Systems Limited and Hydro One Networks Inc. It would also ensure that the approved smart meter assets are treated no differently than other distribution assets for which costs are recovered in rates, including being subject to the price cap adjustment under the 3rd Generation Incentive Regulation Mechanism plan. Rate riders and rate adders are not subject to the IRM adjustment.

For CK Hydro's next re-basing, the incremental rate sliver used to recover the revenue requirement of the approved smart meter costs should be identified and removed from base rates, as the remaining asset value of the smart meter costs approved in this proceeding will be included in rate base going forward.

Board staff submits that CK Hydro should address the above treatment and should adequately document the derivation of the smart meter rate riders and adders and their presentation on the Tariff of Rates and Charges.

Draft Tariff of Rates and Charges

Board staff submits that CK Hydro should confirm that the rates shown on the draft Tariff of Rates and Charges can be adequately referenced to their derivation elsewhere in the draft Rate Order, and should also ensure that the sunset clauses and other conditions applicable to any rate, rate rider or rate adder is correct.

- All of which is respectfully submitted -

³ *Decision and Order*, EB-2008-0155, (November 25, 2008)