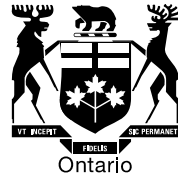


**Ontario Energy  
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**BY E-MAIL**

February 5, 2007

David Kenney  
Chatham-Kent Hydro Inc.  
320 Queen Street  
P. O. Box 70  
Chatham, ON N7M 5K2

Dear Mr. Kenney:

**Re: Chatham-Kent Hydro Inc.  
2007 Incentive Rate Mechanism  
Application Board File Number EB-2007-0517**

This will acknowledge receipt of your electricity distribution rate application on January 26, 2007 (the "application"). An initial review of your application reveals that it has not been filed in conformity with the Board's December 20, 2006 "Report of the Board on the Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors" (the "December 2006 IRM guidelines").

Specifically, your application does not conform in the following respect:

- The application contains a request for rate harmonization of residential and general service intermediate classes.

As you may be aware, distributors filing forward test year cost of service applications based on alternative principles or mechanisms for setting rates must do so in conformity with the Board's November 14, 2006 "Filing Requirements for Transmission and Distribution Applications" (the "November 2006 cost of service guidelines") which is Appendix D to the December 2006 IRM guidelines.

You have the following options for the processing of your application:

1. amend your application to conform to the December 2006 IRM guidelines and re-file by February 9<sup>th</sup>. This would require you to remove the cost of service and customer classification issues which are currently in your application. Those issues can be addressed through separate applications to the Board made in conformance with the November 2006 cost of service guidelines; or
2. amend your application and file the materials necessary to meet the November 2006 cost of service guidelines. You must provide the additional information described in Chapter 2 of that guideline document, which includes but is not limited to:
  1. A volume and revenue forecast, including any normalization methodology and other sales activities;
  2. An operating cost exhibit with information summarizing the total cost of service; and
  3. Information on rate base, capital budgets and system expansion.

The Board will resume processing your application once you have fulfilled the requirements of the option you have selected. If the application and the required additional information are not filed within 30 days of the date of this letter, the Board may close the file for this application.

Furthermore, your application for an additional \$200,000 for CDM programs is incomplete. In order for the Board to process this application please include program details and TRC calculations for each of the programs stated in the application. The Board requires this information in order to make a decision on CDM spending.

The Board has assigned File Number EB-2007-0517 to this matter. Please refer to this number in all future correspondence to the Board regarding this matter.

Please direct any questions relating to this application to Khalil Viraney, Project Advisor at (416) 440-7615 or [Khalil.Viraney@oeb.gov.on.ca](mailto:Khalil.Viraney@oeb.gov.on.ca).

Yours truly,

*Original signed by*

Peter H. O'Dell  
Assistant Board Secretary