



January 18, 2008

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: EB-2007-0881 Chatham-Kent Hydro Inc. 2008 Incentive Rate Mechanism Application

Dear Ms. Walli:

Please find enclosed the Chatham-Kent Hydro Inc. responses to the Board staff's submission on 2008IRM.

Yours truly,

Cheryl Decaire
Co-ordinator of Regulatory and Rates
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CC: Dave Kenney, President of Chatham Kent Hydro
Jim Hogan, Chief Financial and Regulatory Officer



**Submission regarding the Board Staff Submission on the 2008
IRM Application**

EB- 2007-0881

Contact Information:

Chatham-Kent Hydro Inc.
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Chatham, ON
(519)352-6300 ext 277

Chatham-Kent Hydro Inc. (“CKH”) submitted the 2008 IRM requesting additional approvals on the Z factor for bad debt recovery, Smart Meter Adders for Residential and General Service installations for rate change, to be effective May 1, 2008.

Z-FACTOR ADJUSTMENT

The costs being requested for recovery are one-time costs that in CKH’s opinion meet all the criteria as set out for Z-factor funding (Board Staff IR #7). The most important being that the costs incurred was outside management’s control.

Approximately 95% of the costs are not distribution costs (Board Staff IR #1) but rather costs for transmission, connection and commodity costs. These were costs that CKH paid the Independent Electricity System Operator (IESO) on behalf of the customers.

The on going distribution revenue loss is approximately \$114,000 ($\$9,500 \times 12$ months) and is greater than the materiality threshold of \$16,563 (Board Staff IR #7). However CKH is working towards managing the annual on going revenue deficiency, which can be done on a short term basis.

The overall risk profile of CKH does include normal losses and expenditures however the bad debts of larger customers for services already provided and more importantly for electricity already consumed and paid for by CKH are over and above the risk premium, in our opinion. These were expenditures that were paid to the other parties in the Ontario Electricity Industry which CKH does not earn a return on.

CKH has selected the 2010 rate rebasing year as we work hard to manage the annual changes in revenue and expenses. CKH does have a strong deposit policy however the Board guidelines regarding refunding deposits for larger customers after 7 years has created this risk.

The amounts requested are net of any deposits, which there were not any due to the Board’s guidelines in regards to refunding deposits. CKH has participated in the bankruptcy proceedings and do not expect to receive any funds from that process. There also are no opportunities to get any settlement from third parties.

RATE HARMONIZATION

In the CKH response to the Board Staff IR #18 (EB-2007-0881) it was addressed that the conservation and demand management rate has been adjusted in the revised model that was provided, named as

“ChathamKent_APPL_2008IRMRevised_Harmonised_20080118.xls”.

SMART METER

CKH has previously submitted an application for Smart Meter adders as part of the 2008 IRM. The original submission contained a permanent Smart Meter adder of \$1.33 which relates to the approved installation meter cost up to April 30 2007 and a smart meter adder of \$0.43 for the smart meter installation cost from May to December 31 2007 and smart meter adder of \$0.16 for installation of the General Service less than 50 meters.

CKH agrees that the permanent rate adder of \$1.33 will not require a deferral/variance account since the cost up to April 2007 have been through the prudence review and approved by the Board in EB-2007-0063.

After reviewing the comment from the Board Staff on the \$0.43/MC/Month rate adder, the model does identify these amounts as pertaining to 2007 rather than calculating the revenue requirement on these installations for 2008.

CKH does agree that the \$1.09/MC/Month rate adder is comparable to the proposed permanent rate adder of \$1.33/MC/Month. Therefore, CKH is going to retract the submission for the residential on going operating and capital expense for May to December 2007 of \$0.43 and the additional smart meter adder of \$0.16 for the installation for the General Service rate class. The rate of the \$1.09/MC/Month that the Board Staff has recommended seems to be more appropriate to cover the cost of the on going smart meter capital and operating expenses for the Residential and General Service Rate classes.

CKH is proposing the following Monthly Service Charges

Rate Class	Original Proposed		Proposing	
	Smart Meter	Service Charge	Smart Meter	Service Charge
Residential	1.92	13.79	2.42	14.29
GS less	1.92	32.62	2.42	33.12
GS greater	1.92	161.99	2.42	162.49
GS TOU - Chatham	1.92	4743.59	2.42	4744.09
Large User	1.92	13047.84	2.42	13048.34

Note:

The Smart Meter \$1.92 is sum of \$1.33 permanent rate, \$0.43 Residential Adder and \$0.16 General Service Adder

The Smart Meter \$2.42 is the sum of \$1.33 permanent rate and \$1.09 for Residential and General Service installations

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

CKH propose to reduce its RTR – Network Service Rates by 13% and its RTR – Line and Transformation Connection Service Rates by 27% for all its rate classes. The proposed reduction in the RTR is based on only reviewing the existing retail network and connection rates from the IESO and the Hydro One Networks Inc., the amounts that were adjusted only pertain to the rates concerning the Transformation Connection Service and the Network Service Rates.

The analysis was done using 2006 data; CKH is still recommending the rate change. Any variance will be captured in deferral account and we will bring forward any rate recovery in future rate applications.