November 14, 2011

Ms. Kirsten Walli
Ontario Energy Board
PO Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Re: Chatham-Kent Hydro Inc. Application for Amalgamation
Board File No.: EB-2011-0328/EB-2011-0329

Dear Ms. Walli,

Please find enclosed Chatham-Kent Hydro Inc.'s responses to all parties' interrogatories relating to the above mentioned file.

If you have any further questions, please do not hesitate to contact David Ferguson at (519) 352-6300 x558 or via email at davidferguson@ckenergy.com.

Regards,

[Original Signed By]

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CC: Dan Charron, President of Chatham-Kent Hydro & Middlesex Power Distribution
Chris Cowell, Chief Financial and Regulatory Officer
David Ferguson, Director of Regulatory Affairs and Risk Management
Ian Mondrow, Gowling Lafleur Henderson LLP
Jay Shepherd, SEC

Board Staff
Question 1

With reference to page 6 – 1.6.2 the applicant has stated the application meets the Board's "no harm test" including information on management's focus on reliability, and quality of electric service. Please confirm and provide greater detail as to how the impact of the proposed transaction meets the Board's "no harm test" considering how the transaction will affect the ratepayer, including greater detail on the reduction of administrative requirements and any savings that will be realized.

Response:

The Board's "no harm test", as set out in the Board's decision in the combined MAADs proceeding [RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257] consists of a consideration as to whether the proposed transaction would have an adverse effect relative to the status quo in relation to the Board's statutory objectives. If the proposed transaction would have a positive or neutral effect on the attainment of the statutory objectives, then the application should be granted. The Board has traditionally considered the following objectives:

(i) To protect the interests of consumers with respect to prices and adequacy, reliability and quality of electricity service; and
(ii) To promote economic efficiency and cost effectiveness in distribution of electricity as the primary criteria in applying the "no harm test" to MAADs applications.

In respect of prices, economic efficiency and cost effectiveness, the proposed transaction is expected to generate $78,000 of ongoing cost savings arising from the streamlining of administrative requirements of the combined entity relative to the pre-merger entities separately. In addition, as noted in the Application, the Applicant's shareholder would absorb the costs of the proposed transaction. The Applicant proposes to defer rate rebasing for the combined entity until 2016, during which deferral period the expected annual administrative cost savings, combined with one time cost savings of $30,000, would allow the shareholder the opportunity to recover its costs of the transaction. Following rebasing, annual savings resulting from the anticipated administrative streamlining would accrue to ratepayers. Details of the one time and ongoing savings, and of the costs to be incurred by the shareholder, are provided in Attachment 1.6.6 to the Application.

In respect of adequacy, reliability and quality of service, as stated in the Application (section 1.6.4), there are no planned changes to the delivery of services under the amalgamated entity. It was also noted in the Application (section 1.6.2) that since the acquisition of MPDC in 2005, the management focus has been on improving the reliability and quality of electrical service and operations in the MPDC service territory. Details of reinvestments made in MPDC are provided in the table at page 7 of the Application. Similarly, MPDC management has focused on system enhancements subsequent to the acquisition by MPDC of Dutton Hydro and Newbury Power in 2009. In addition, previously disparate practices and processes in engineering, finance and regulatory areas of the acquired distributors have been brought up to a common standard, improving consistency and quality of service in the service areas of the acquired distributors without the need to increase rates.

In the result, no harm would accrue to ratepayers as a result of the proposed transaction, and the Applicant suggests that ratepayers will, in the longer term, benefit from the proposed transaction through a return to ratepayers at the time of rebasing of savings arising from administrative cost savings, and a continued and consolidated focus of utility management on reliability and quality of electrical distribution service.

Board Staff
Question 2

Please identify the stand alone external costs for each distributor and for the first two years of the merged entity, on the same page, with a breakout of costs listed in the attachment 1.6.6, and please identify any adjustments. If there are adjustments, please provide the rationales for making the adjustments.

Response:

Please refer to Attachment 1.

[See the changes made to Attachment 1]

Board Staff
Question 3

As referenced in SEC's interrogatories and page 8 – 1.6.6, please provide detail as to the excluded internal costs associated with the proposed transaction.

Response:

As noted in section 1.6.6 of the Application, "internal costs" are excluded from the cost/benefit analysis included as Attachment 1.6.6. to the Application. These are "costs" associated with the time spent by employees of the Applicant and its affiliates (excluding the Municipality of Chatham-Kent) on the proposed transaction, including this Application.

In particular, "internal costs" for the proposed amalgamation include costs associated with time spent by utility group employees on management oversight, customer and employee communication and regulatory application coordination and completion work to be conducted in 2011 and 2012 arising from the proposed transaction. High level estimates of the time and costs associated with this work are as follows:

Description	Hours	Fully Allocated Costs
Management Oversight	120	$12,000
Customer & Employee Communication	225	$6,000
Regulatory Application Coordination & Completion	150	$12,000
Total	**495**	**$30,000**

Board Staff
Question 4

Please identify any factors that may affect the amalgamated entity from realizing anticipated efficiencies and recover[ing] costs associated with the proposed transaction in the timeline projected.

Response:

Under the assumption that regulatory approval for the proposed transaction is received by mid-December 2011, the primary risk factor relates to the Harris CIS database merge.

The Harris CIS database merge project work is anticipated to be planned and staged with Harris in the first and second quarters of 2012, with work commencing in the third quarter of 2012. Completion is anticipated for December 31, 2012. Staging of this work is required in order to coordinate with other planned IT projects for the utility group. In the event that unanticipated IT issues were to emerge, the timeline for cost recovery could be impacted.

SEC
Question 1

Reference: [1.3.1, p.1]
Please confirm that the relationship between CKUS and the Applicant, and the pricing and terms for provision of services by CKUS to the Applicant, will not change in any way as a result of the proposed transaction.

Response:

It is confirmed that the pricing methodology and terms for provision of services will not change.

SEC
Question 2

Reference: [1.5.1, p. 5]

Please provide the most recent annual report of Chatham-Kent Energy Inc, if it has one.

Response:

Chatham-Kent Energy does not produce an annual report.

SEC
Question 3

Reference: [1.6.6, p. 8]

Please advise the last year for which rates were set on a cost of service basis for each of the Applicant, Middlesex Power Distribution Corporation, Dutton Hydro Limited, and Newbury Power Corporation.

Response:

Rates for each of these entities were most recently set as follows:

- Chatham-Kent Hydro (EB-2009-0261): Rates rebased in 2010, to be effective May 1, 2010.
- MPDC – Main (RP-2005-0020/ EB-2005-0351): Base rates set in 2006 EDR process, to be effective May 1, 2006.
- MPDC – Dutton (EB-2009-0177): Base rates set by the OEB in 2010, to be effective March 1, 2010, based on 2006 EDR process and escalation in accordance with 2007, 2008 and 2009 IRM adjustments, including a rate correction to recognize a credit to customers starting from May 1, 2005.
- MPDC – Newbury (RP-2005-0020 / EB-2005-0392): Base rates set by the OEB in 2007, to be effective May 1, 2007, based on 2006 EDR process.

SEC
Question 4

Reference: [Attach. 1.4.1-B, p. 4/5]

Please provide an update on the status of each of the commitments in the six bullets listed on these two pages.

Response:

For reference purposes, the six bullet points from the Board's EB-2008-0332 / EB-2008-0350 decision are included below, along with an update on the status of each:

1) *Dutton Hydro has been found deficient in its compliance with some of the standards promulgated by the Electrical Safety Authority. Through the adoption of Middlesex Power's operating practices and engineering expertise, Dutton Hydro will become compliant within a reasonable period of time;*

   Update:

   The ESA compliance issues of the former Dutton Hydro were remedied by MPDC after acquisition in 2009. Both MPDC – Dutton and MPDC – Newbury remain fully compliant as per the last Reg. 22/04 audit.

2) *Following the proposed transaction, Middlesex Power will make investments to reduce system losses, implement Supervising Control and Data Acquisition ("SCADA") systems and provide conservation and demand management programs ("CDM") for the areas currently served by Dutton Hydro and Newbury Power;*

   Update:

   Please refer to Section 1.6.2 (page 6) of the application for details of system enhancements made subsequent to the acquisition of Dutton Hydro and Newbury Power.

SCADA implementation for MPDC – Main is an active project begun in 2009, with new devices and capabilities continuing to be deployed annually. The deployment of SCADA for the Dutton and Newbury service areas is scheduled for 2012. Currently, a combination of real time smart meter data and wholesale settlement meter data are used for troubleshooting purposes.

As of 2011, all OPA CDM programs delivered by MPDC – Main are available to customers in Dutton and Newbury.

3) *Service levels will be maintained for Middlesex Power customers and improved for Dutton Hydro and Newbury Power customers;*

Update:

Please refer the answer for SEC #5, as well as the next update numbered 4 below.

4) *Middlesex Power's service centre is situated in the Township of Strathroy-Caradoc. The distance between the service centre and the newly proposed service areas is 44 km. As such it will not impede Middlesex Power's ability to meet the Board's service quality indicator guidelines for Dutton Hydro's and Newbury Power's service areas;*

Update:

MPDC – Main does not track service quality indicators separately for the MPDC – Dutton and MPDC – Newbury service areas, with the exception of reliability metrics (please refer to SEC #5). However, MPDC – Main as a whole continued to meet all of the Board's service quality indicator guidelines for 2009, 2010 and 2011.

5) *The roll out of Middlesex Power's smart meter solution will also be applied to the Newbury and Dutton service areas and will meet the Ministry of Energy's guidelines for installing smart meters by 2010;*

Update:

Smart Meter and Time-of-Use implementation were completed in 2011.

6) *The proposed transaction will enable fixed costs to be allocated over more customers, thereby resulting in lower rates for Dutton Hydro and Newbury Power's customers in the long term.*

Update:

As stated in Section 1.6.5 (page 8) of the Application, separate sets of rates have been maintained for MPDC – Main and the MPDC – Dutton and MPDC – Newbury service territories. In the long term, the Applicant continues to anticipate that as a result of its historical consolidation efforts, of which this Application is the conclusion, fixed costs can be allocated over more customers, resulting in lower rates for the customers of MPDC – Dutton and MPDC – Newbury. This will be reviewed at the next re-basing of the proposed consolidated entity.

SEC
Question 5

Reference: [Attach. 1.4.1-B, p. 5]

Please provide a comparison of Dutton and Newbury reliability metrics from before and after the acquisitions.

Response:

There are no internal reliability records for the former Dutton Hydro and former Newbury Power for 2009 and prior.

A search of OEB Yearbook records for the period from 2005-2009 shows the following history:

Dutton Hydro Reliability Metrics per OEB Yearbook Records					
Metric	**SAIDI**	**SAIFI**	**CAIDI**	**Emergency Urban Response**	**Emergency Rural Response**
2005	Not filed	Not filed	Not filed	Not filed	Not filed
2006	1.48	1.48	1.00	0%	0%
2007	Not filed	Not filed	Not filed	Not filed	Not filed
2008	Not filed	Not filed	Not filed	Not filed	Not filed
2009	Not filed	Not filed	Not filed	Not filed	Not filed

Newbury Power Reliability Metrics per OEB Yearbook Records					
Metric	**SAIDI**	**SAIFI**	**CAIDI**	**Emergency Urban Response**	**Emergency Rural Response**
2005	Not filed	Not filed	Not filed	Not filed	Not filed
2006	0.09	0.09	1.00	0%	100%
2007	4.57	0.07	68.69	-	100%
2008	Not filed	Not filed	Not filed	Not filed	Not filed
2009	Not filed	Not filed	Not filed	Not filed	Not filed

Subsequent to the acquisition by MPDC – Main and the 2009 transitional year, the following reliability records apply:

MPDC-Dutton Reliability Metrics				
Metric	**SAIDI**	**SAIFI**	**CAIDI**	**Emergency Urban Response**
2010	0.38	3.02	0.12	100%
Oct 2011 YTD	11.20	5.09	2.20	80%
Measures without loss of supply				
2010	0.03	0.02	1.32	100%
Oct 2011 YTD	1.97	1.08	1.83	100%

MPDC-Newbury Reliability Metrics				
Metric	**SAIDI**	**SAIFI**	**CAIDI**	**Emergency Urban Response**
2010	9.28	5.00	1.86	100%
Oct 2011 YTD	4.26	2.18	1.95	100%
Measures without loss of supply				
2010	2.40	1.00	2.40	100%
Oct 2011 YTD	0.02	0.01	2.00	100%

SEC
Question 6

Reference: [Attach. 1.4.1-B, p.7]

Please advise the status of the transaction costs deferral account referred to. Please advise the total of the transaction costs for the acquisition of Middlesex by the Applicant, the acquisition of Dutton by Middlesex, the acquisition of Newbury by Middlesex, the amalgamation of Middlesex, Dutton and Newbury, and the amalgamation of Middlesex and the Applicant.

Response:

After conclusion of the Dutton and Newbury transactions costs, MPDC – Main determined that these costs should be borne by the shareholder. Accordingly, the transaction costs were not segregated into the deferral account referenced and MPDC – Main will not seek disposition of these costs to customers.

The external transaction costs for the acquisitions were as follows:

Transaction	Transaction Costs
Middlesex Power Acquisition (2005)	$446,884
Dutton Hydro Acquisition (2009)	$72,514
Newbury Power Acquisition (2009)	$58,042
Middlesex Power, Dutton Hydro and Newbury Power Amalgamation (2009)	$3,205
Proposed Chatham-Kent Hydro and Middlesex Power Amalgamation and Consolidation of Administrative Requirements (2011-2012) – Note 1	$364,000

Note 1 – Proposed amalgamation costs are estimated as per Attachment 1.6.6 of the Application

SEC
Question 7

Reference: [Attach. 1.4.3-A, 2010 Financials, p. 5, and Attach. 1.4.4]

Please estimate the regulated rate base for 2012, and the actual shareholders' equity as of the end of 2012, taking into account the $7.75 million dividend in 2010 and the proposed $2.6 million dividend in 2012, and provide the calculations supporting the estimate. Please explain the connection, if any, between the two dividends referred to (or either of them) and the proposed amalgamation transaction. If the equity thickness as of the end of 2012, on a regulatory basis, is expected to be less than 40%, please describe the impacts of that low equity level on the Applicant's ability to borrow from arm's length third parties, and the interest rates likely to be payable on long term debt issued by the Applicant to third parties.

Response:

Please refer to Attachment 2 for the calculations supporting the following estimates:

- The combined proforma regulated rate base at December 31, 2012 is $74.3 mil;
- The combined proforma shareholders' equity, inclusive of the dividends referred to above, at December 31, 2012 is $28.3 mil;
- The estimated combined proforma regulated rate base divided by the combined proforma shareholders' equity is 38.1%

The two dividends referenced above are not connected in any way with the proposed amalgamation transaction.

Currently, the Applicant does not borrow externally, and does not foresee the need to commence doing so in the near future. Directionally, it is reasonable to expect that as equity thickness decreases, third party borrowing costs would increase.

SEC
Question 8

Reference: [Attach. 1.6.6]

Please provide details of all internal costs included in the $364,000 of transaction costs, including but not limited to costs for employees of the Applicant or any affiliate.

Response:

As noted in the Application (section 1.6.6) and in response to Board Staff Interrogatory #3, "internal costs" – meaning costs associated with employees of the Chatham-Kent Energy Group – are excluded from the cost/benefit analysis included as Attachment 1.6.6 to the Application. The transaction costs do include $72,000 of project management charges arising from the services of an employee of the Municipality of Chatham-Kent, which owns 90% of the ultimate parent company of the Applicant.

SEC
Question 9

Reference: [Attach. 1.6.6]

Please explain why the estimated cost and savings information does not include any savings relating to Billing and Collections costs, Customer and Community Relations costs, Operations and Maintenance costs, or Administrative and General costs (other than those listed). Please describe what, if any, economies of scale and productivity efficiencies are expected as a result of the amalgamation. If all such economies and efficiencies have already taken place, please advise when they occurred, and confirm that they are reflected in current rates of the Applicant and/or its regulated affiliates.

Response:

The estimated cost and savings information as presented in the application (Attachment 1.6.6) were categorized at an internal departmental level. The following costs and savings are specifically attributable to the categories referenced above:

Area	Applicable Estimated Cost Savings	Applicable Estimated One-Time Costs
Billing and Collections costs	• Harris CIS database merge	• Harris CIS database merge
Customer and Community Relations costs	• n/a – see Note 1 below	• n/a – See Note 1 below
Operations and Maintenance Costs	• Elimination 1 distribution licence • Reduction of ESA audit and licence fees • Pooling of insurance	• Avoided costs re: creation of MPDC standard procedures manual
Administrative and General Costs	• Reduction of Board of Directors fees • Reduction of audit, tax and actuary fees • Eliminate 1 MEARIE report	• MAAD application and OEB hearing process • Project management • Legal, external accounting and consulting • General administration and rebranding costs

Note 1: It is the philosophy of the Applicant that post-acquisition, Customer and Community Relations should continue to be maintained as an important focus within the communities we serve.

The expected efficiencies resulting from the proposed amalgamation transaction relate to the reduction of administrative requirements and the opportunity to sharpen focus by providing the opportunity to serve customers under one common banner. “Economies of scale and productivity efficiencies” in addition to those listed above are not expected as a direct result of the proposed amalgamation. Given the non-contiguous service territories of the two entities to be amalgamated (the Chatham operational centre and the Strathroy operational centre are approximately 100km and 1.5 hours apart), as noted in the Application (section 1.6.4), the Applicant intends to maintain the existing service centres in each service territory, in order to ensure that pre-amalgamation quality and reliability of service and emergency response time standards will be maintained.

The ability to reduce net costs through “economies and efficiencies that have already taken place” has been limited due to reinvestment requirements. Please refer to Board Staff #1.

Attachment 1

Cost Breakdown

Chatham-Kent Hydro & Middlesex Power Distribution Corp
Response to Board Staff Interrogatory #2

	2011 Stand-alone Costs				**2012 Costs After Proposed Amalgamation**					**2013 Costs After Proposed Amalgamation**				
	CKH	**MPDC**	**Adj**	**Total**	**CKH**	**MPDC**	**Adj**	**Total**	**Savings**	**CKH**	**MPDC**	**Adj**	**Total**	**Savings**
Regulatory														
• Distribution licence	1,000	1,000	-	2,000	1,000	-	-	1,000	(1,000)	1,000	-	-	1,000	(1,000)
Finance and administration														
• Board of Director fees	25,500	14,000	-	39,500	25,500	-	-	25,500	(14,000)	25,500	-	-	25,500	(14,000)
• Audit, tax and actuary fees - **Note 1**	33,800	17,800	-	51,600	33,800	-	7,800	41,600	(10,000)	33,800	-	7,800	41,600	(10,000)
• MEARIE report	1,000	1,000	-	2,000	1,000	-	-	1,000	(1,000)	1,000	-	-	1,000	(1,000)
• Insurance - **Note 2**	161,800	47,000	-	208,800	161,800	-	46,000	207,800	(1,000)	161,800	-	46,000	207,800	(1,000)
Operations														
• ESA audit and license fees	16,000	5,600	-	21,600	16,000	-	-	16,000	(5,600)	16,000	-	-	16,000	(5,600)
• 2012 / 2013 increase in MPDC ESA audit related costs - **Note 3**									(2,400)					(2,400)
Information technology (IT)														
• Harris CIS data base - **Note 4**	156,014	56,303	-	212,317	156,014	-	56,303	212,317	-	156,014	-	13,303	169,317	(43,000)
Total estimated merger annual cost savings									(35,000)					(78,000)
Operations														
• Creation of MPDC standard procedures manual - **Note 5**	-	-	-	-	-	-	-	-	(30,000)	-	-	-	-	-
Total estimated one-time savings									(30,000)					-

General Note: Estimated merger one-time costs not shown above, since these costs are driven by the proposed transaction, and would not be otherwise incurred on a stand-alone basis.

Note 1 - While stand-alone MPDC audit, tax and actuary statements/returns/reports will be eliminated, the adjustment reflects estimated increases in professional fees for the post amalgamation increase in activity levels at CKH.

Note 2 - While certain administrative fees associated with the maintenance of separate insurance policies will be eliminated, the adjustment reflects the fact that the former MPDC assets will continue to be insured by CKH post amalgamation.

Note 3 - MPDC has historically utilized the Applicant's standard procedures manual for its certified engineering plans, which are a key component of the annual ESA audits. However, the ESA has notified MPDC that it requires its own standard procedures manual in order to comply with Regulation 22/04. The adjustment reflects the expected incremental audit preparation costs and audit fees that would have been otherwise incurred starting in 2012 as a result of this additional requirement for MPDC. Note that these charges are separate and distinct from the $30,000 of costs associated with the creation of the stand-alone MPDC standard procedures manual.

Note 4 - Harris CIS database cost savings are expected to commence in 2013 (please refer to response to Board Staff #4 for further details). While stand-alone MPDC CIS database requirements will be eliminated, the adjustment reflects the estimated increase in licence and other fees for the Applicant based on it assuming the additional activity levels ~~of~~ Middlesex Power.

Note 5 - MPDC has historically utilized the Applicant's standard procedures manual for its certified engineering plans, which are a key component of the annual ESA audits. However, the ESA has notified MPDC that it requires its own standard procedures manual in order to comply with Regulation 22/04. The savings reflect the avoidance of costs that would have been otherwise incurred in 2012 as a result the creation of the stand-alone MPDC standard procedures manual.

Attachment 2

Estimated Rate Base Calculation

Chatham-Kent Hydro & Middlesex Power Distribution Corp
Response to SEC Interrogatory #7

Based on 2012 Combined Proforma Financials (Attachment 1.4.4)

Capital Assets, net			60,873,985
Controllable Expenses			
Distribution	3,472,889		
Billing and collection	2,644,722		
General administration	2,866,630		
Subtotal		8,984,241	
Cost of Power		80,400,000	
Subtotal		89,384,241	
Working Capital Rate, estimated at 15%			13,407,636
Rate Base			74,281,621
Shareholder's Equity			28,280,999
Shareholder's Equity / Rate Base			38.1%