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December 1, 2011

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

**Re: Application by Chatham-Kent Hydro Inc. for leave to amalgamate with Middlesex Power Distribution Corporation**  
**Board File Numbers: EB-2011-0328/EB-2011-0329**

Dear Ms. Walli,

Please accept this letter as the response of Chatham-Kent Hydro ("CKH") in the above-noted applications, as permitted by Procedural Order No. 1.

### **Background**

By companion applications (which have been processed together by the Board and which are herein referred to collectively as the "Application") dated August 31, 2011, CKH and Middlesex Power Distribution Corporation ("MPDC") have sought the following relief:

1. Leave of the Board under section 86 of the Ontario Energy Board Act, 1998 ("OEB Act") to amalgamate CKH and MPDC, with the amalgamated entity (CKH) to continue the distribution operations of both of the constituent companies under CKH's existing electricity distribution licence;
2. Orders of the Board; i) amending CKH's electricity distribution licence by adding the current MPDC service territory to that licence; and then ii) cancelling MPDC's existing electricity distribution licence; and
3. Deferral of the next scheduled cost of service distribution rate application for the amalgamated entity by two years, to the 2016 test year.



Mr. Gary Zavitz requested and was granted observer status in the proceeding. Mr. Zavitz's e-mail to the Board indicated that he had no immediate concerns with the application, but wished to be kept informed "on regional power utility issues". No further comment has been received from Mr. Zavitz.

School Energy Coalition ("SEC") requested, and was granted, intervenor status.

SEC and Board Staff submitted interrogatories on the Application, and full responses to the interrogatories were filed by CKH on Friday, November 14, 2011.

SEC has filed brief submissions on the application by letter from legal counsel dated November 25, 2011. SEC submits that the Application should be approved as filed. Board Staff have indicated to CKH that they do not oppose the Application and do not intend to file submissions.

## **Response**

The rationale for the Application is fully set out in the Application form filed by CKH, and the accompanying transmittal letter dated August 31, 2011, under which that Application was filed.

In summary, the proposed amalgamation is the organizational culmination of a measured consolidation of electricity distribution operations for CKH and MPDC.<sup>1</sup> The previous acquisition of MPDC by CKH's parent company, Chatham-Kent Energy Inc. ("CKE")<sup>2</sup>, and MPDC's subsequent acquisition of Dutton Hydro and Newbury Power by MPDC<sup>3</sup> have resulted in improved reliability and quality of electrical service and operations in the acquired service territories.<sup>4</sup> CKH and MPDC are currently reliable and efficient distributors<sup>5</sup>, earning returns within the Board's mandated ranges<sup>6</sup>. The final organizational step in this consolidation program – the amalgamation proposed in this Application – would allow for further consolidation of administrative requirements, resulting in savings and operational efficiencies to the ultimate benefit of the amalgamated entity's ratepayers.<sup>7</sup>

CKH respectfully submits that the Application meets 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]. Under that test the Board considers whether the proposed

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<sup>1</sup> Application Section 1.4.1

<sup>2</sup> EB-2005-0255

<sup>3</sup> EB-2008-0332 and EB-2008-0350

<sup>4</sup> Application Section 1.6.2

<sup>5</sup> Interrogatory response to SEC 5; see application Section 1.6.6. at page 9

<sup>6</sup> Application Section 1.6.6

<sup>7</sup> Application Section 1.6.2 at page 7



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 statutory objectives as the primary criteria in applying the "no harm test":

1. protection of the interests of consumers with respect to prices and adequacy, reliability and quality of electricity service; and
2. promotion of economic efficiency and cost effectiveness in distribution of electricity.

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 shareholder, CKE, would absorb the costs of the proposed transaction. CKH proposes to defer rate rebasing for the combined entity until 2016, during which deferral period the expected annual administrative cost savings, combined with the one-time cost savings of \$30,000 resulting from elimination of a separate Standards and Procedures Manual for MPDC<sup>8</sup>, would allow the CKE the opportunity to recover its costs of the transaction. Following rebasing, annual savings resulting from the anticipated administrative streamlining would accrue to ratepayers.

In respect of adequacy, reliability and quality of service, there are no planned changes to the delivery of services under the amalgamated entity.<sup>9</sup> Given the non-contiguous service territories of CKH and MPDC (the Chatham operational centre and the Strathroy operational centre are approximately 100 km, or 1.5 hours, apart<sup>10</sup>), CKH 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 reliability and quality of electrical service in the historical MPDC, Dutton Hydro and Newbury Power service territories have already been, and continue to be, improved under CKH's management.<sup>11</sup>

On the basis of this evidence, it is respectfully submitted that the proposed amalgamation meets the Board's "no harm test", and should be approved.

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<sup>8</sup> Application, Attachment 1.6.6.

<sup>9</sup> Application, Section 1.6.4

<sup>10</sup> Interrogatory response to SEC 9

<sup>11</sup> Interrogatory response to SEC 4



In respect of the request for deferral of the cost of service application for the amalgamated entity, each of CKH and MPDC are currently scheduled for cost of service rate rebasing for the 2014 rate year.<sup>12</sup> Details of the historical rate setting processes for CKH, MPDC and the former Dutton Hydro and the former Newbury Power are provided in response to SEC interrogatory 3. As noted above, the requested deferral of the cost of service rebasing requirement for the amalgamated entity would allow CKE (the shareholder), which intends to absorb the costs of the amalgamation, the opportunity to recover these costs.<sup>13</sup> CKH respectfully submits that in considering the Applicant's request for deferral of the requirement for cost of service rebasing the Board should take comfort from the facts that; i) CKH and MPDC are already among the more efficient electricity distributors in the province<sup>14</sup>; ii) the returns that have been earned by CKH and MPDC are well within the Board's mandated range<sup>15</sup>; iii) rates were fully rebased for CKH in 2010; and iv) CKH has demonstrated its ability to achieve and maintain a high level of service quality and reliability, both in its historical service territory and in those service territories which it has previously consolidated.<sup>16</sup>

In respect of rate harmonization, CKH currently maintains separate distribution rates for each of its historical service territories (CKH, MPDC-Main, MPDC-Dutton and MPDC-Newbury), and proposes to retain this rate structure for the present. As noted in the Application, CKH intends to consider whether rate harmonization among its geographic service territories would provide overall customer benefits and be in accordance with good rate-making practices in preparation for its next cost of service application.<sup>17</sup>

## Conclusion

CKH respectfully submits that:

1. The proposed transaction meets the Board's "no harm test";
2. The amalgamated entity's ratepayers will benefit from the transaction, both immediately in respect of the achievement and maintenance by CKH of a high standard of electrical service quality and reliability, and at the time of rebasing by the pass

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<sup>12</sup> Application, Section 1.6.6

<sup>13</sup> Application, Attachment 1.6.6 (bottom rows)

<sup>14</sup> Application, Section 1.6.6 at page 9; SEC November 25, 2011 submission, paragraph 4.

<sup>15</sup> Application, Section 1.6.6 (page 9)

<sup>16</sup> Application, Section 1.6.2; Interrogatory responses to SEC IR 4 and SEC IR 5

<sup>17</sup> Application, Section 1.6.5



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through to rates of \$78,000 in annual administrative cost savings resulting from the amalgamation;

3. Deferral of the cost of service rebasing requirement for the amalgamated entity from the 2014 test year to the 2016 test year will allow CKH's shareholder to recover the costs of the proposed transaction, while, as noted by SEC in its November 25, 2011 submissions, giving CKH's ratepayers the expectation that their rates will continue to be at reasonable levels in the interim; and
4. Accomplishment of this amalgamation will also allow a sharpened focus on customers through providing distribution services under a common structure and banner.<sup>18</sup>

On this basis, and given that no party has raised any concerns with the relief sought in this Application, CKH respectfully requests that the Board grant the relief sought.

CKH further respectfully requests that the Board endeavour to provide its decision as soon as reasonably possible, so that the contemplated transaction can be completed subsequent to the close of business on December 31, 2011.

Yours truly,

*[Original Signed By]*

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Chris Cowell, Chief Financial and Regulatory Officer  
David Ferguson, Director of Regulatory Affairs and Risk Management  
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Jay Shepherd, School Energy Coalition

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<sup>18</sup> Application transmittal letter dated August 31, 2011, see concluding paragraph