CHATHAM-KENT HYDRO

A Chatham-Kent Energy Company

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ONTARIO ENERGY BOARD

January 29, 2008

30/1/08

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. Board Staff Interrogatories for 2008 Incentive Rate Mechanism

Dear Ms. Walli:

Please find enclosed the submission of Chatham-Kent Hydro Inc. response to the Board Staff Interrogatories question 7 on the 2008 Incentive Rate Mechanism, which was excluded from the pervious submission.

Should there be any questions, please contact me at the number below.

Yours truly,

Cheryl Decaire

Cheryl Decaire
Co-ordinator of Regulatory and Rates
(519) 352-6300 ext 405
Email: cheryldecaire@ckenergy.com

EB-2007-0881

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Question # 7

Ref. Manager's Summary, Z Factor Rate Rider Adjustment

Chatham-Kent is "requesting for a Z factor caused by a few significant bad debt accounts for a total of $200,000." The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distribution dated December 20, 2006, states on page 34 that:

"For 2nd Generation IRM, the Board will limit reliance on Z-factors to well-defined and well-justified cases only __specifically, Z-factors will be limited to changes in tax rules and to natural disasters."

Please clearly explain why the Board should consider establishing a Z-factor for bad debt at this time.

Z-factor criteria

The Board should establish a Z-factor for the revenues lost due to client bankruptcy and restructurings because, as noted in our submission, the losses met the criteria of causation materiality, and prudence that the Board established for Z-factors, which is expended as follows;

- Causation – this is an extraordinary event that management controlled as best as possible. These costs were clearly outside of the base upon which rates were derived.

  In Chatham-Kent Hydro's (Chatham-Kent) 2006 EDR (EB-2005-0020, EB-2005-0350) page ADJ 5 (Specific Distribution Expenses) debt expense ranged from $137,396 to $146,314 between 2002 and 2004. The amount that was included in the rates effective May 1, 2006 was $137,396. There was nothing included in these costs for bad debts from the customer classes that have the larger commercial and industrial customers (GS > 50 kW, Intermediate, Large user) which is where these losses were incurred. Also, Chatham-Kent did actually incur bad debt expense in 2006 and 2007 greater than the amount recovered in rates from the smaller customer classes (Residential, GS < 50 kW).

  These costs were clearly over and where rates were derived and are a result of the economy which is outside the control of Chatham-Kent.

- Materiality – the operation and maintenance (O&M) materiality threshold is $16,563 (EB-2005-0020, EB-2205-0350, page ADJ 5 (Specific Distribution Expenses). The expenses incurred are significantly above the materiality threshold set by the Board.

- Prudence – Chatham-Kent has an approved collection and deposit policy that meets the Board guidelines. These losses were quite sudden as the customers in question did have good payment histories. Chatham-Kent also participated in the bankruptcy proceedings to try and receive funds from any possible settlement.

These loses are clearly defined. There is no doubt as to the amounts, significance, timelines of the request, or Chatham-Kent's efforts to mitigate.

Previous Board Decision

The Board allowed Oakville Hydro to recover some losses due to client restructuring in EB-2004-0527 and should do so in Chatham-Kent's application.

Commodity and Other Charges Risk

Chatham-Kent and other local distribution companies (LDCs) in Ontario are to made whole for commodity, transmission and IESO charges. This is a fundamental principle in the design of the Ontario market. The majority of the charges that are bad debt in this case are the commodity and other charges which are not Chatham-Kent's revenue for distribution. By having Chatham-Kent incur this expense will violate a key principle in the design of the Ontario electricity market.

Finally, the Board in its Staff Discussion Paper dated June 4, 2007, acknowledged outstanding issues surrounding the distributors' ability to manage customer default risk and the tools available to them to do so. At least until these issues have been resolved, the Board should allow Z factors for such losses.