A Chatham-Kent Energy Company

September 21, 2007

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

Dear Ms. Walli:

RE:3rd Generation Incentive Regulation for Electricity Distributors EB-2007-0673

Chatham-Kent Hydro (CKH) and Middlesex Power Distribution Corporation (MPDC) welcome the opportunity to comment on the proposed 3rd Generation Incentive Regulation for Electricity Distributors.

If you have any questions or concerns, please do not hesitate to contact me.

Yours truly,

Cheryl Decaire
Coordinator Regulatory and Rates
(519)352-6300 ext 405
cheryldecaire@ckenergy.com

3rd Generation Incentive Regulation for Electricity Distributors
EB-2007-0673

Submission from

Jim Hogan
Chief Financial and Regulatory Officer
Chatham-Kent Hydro
Middlesex Power Distribution Corporation

320 Queen St
Chatham, On
N7M 5K2
519-352-6300 (277)

Chatham-Kent Hydro (CK H) and Middlesex Power Distribution Corporation (MPDC) are pleased to provide the Ontario Energy Board (OEB) with some comments on the Staff Scoping Paper on 3rd Generation Incentive Regulation for Electricity Distributors. CK H and MPDC will only be providing comments on the issues that we believe are the more significant issues that will most likely have the greatest impact on us in providing a service to our customers in a safe and reliable manner.

Financial viability of electricity distributor sector

CK H and MPDC (Utilities) believe that there is need to have off-ramps or Z factors in the Incentive Regulation Mechanism (IRM). There will always be costs incurred that are outside of the control of the Utilities which should be eligible for rate recovery.

The Utilities do not believe that the list of off-ramps or Z-factors should be long however they believe that some incidences that are out of their control can have a significant impact on the financial viability of the Utilities. If the Utilities financial viability is compromised this will have an impact on the level of service provided to the customers as well as reduce the safety and reliability of the distribution system.

The Utilities would recommend that the threshold for the off-ramp or Z-factor should be 10% of the operating and maintenance (O&M) expenses.

Incentive regulation framework must be sustainable

There are two issues that the Utilities believe should be included in the IRM;

1. There should be multiple X-factors.

   The Utilities believe that each local distribution company (LDC) continue to be at different levels of efficiency in their operations, therefore the Utilities would recommend three different levels of X-factors or productivity factors.

   The Utilities would recommend that the OEB use the distributor cost analysis and the PEG report (EB-2006-0268) as the basis for stratifying LDCs into three separate X-factor categories. The three categories should be high costs, average cost and low cost LDCs and the X-factor could be 1.5%, 1.0% and 0.5% respectively.

   By having different X-factors this will recognize where each LDC is at the beginning of the 3rd Generation IRM and those at the higher cost level will be required to reduce more costs and to pass these savings onto the customers.

2. Revenue adjustments as a result of conservation

   The Utilities believe that there needs to be mechanisms to adjust rates for conservation programs. Current Lost Revenue Adjustment Mechanism (LRAM) and Shared Saving Mechanism (SSM) must be continued which will ensure that the Utilities will have enough revenue to provide a safe and reliable service. It will also provide incentives for the Utilities to continue to support conservation programs.

The Utilities would recommend that the LRAM and SSM include the programs that are offered by the Utilities but also include the programs offered provincially by the Ontario Power Authority (OPA). This is because the total revenue loss to the Utilities is a combination of both programs; therefore the Utilities should be compensated for these programs.

Service Quality Regulation

The Utilities would recommend that the Service Quality Regulations (SQR) review not be in a separate process. The concern is that if the service level increases there will need to have a corresponding increase in the rates to meet the new level of service.

It is important for the Utilities to fully understand the service quality level requirements prior to agreeing to an IRM.

Capital Investment Spending in IRM

The Utilities believe that there needs to be a mechanism in the 3rd Generation IRM for significant capital investments. Many LDCs are growing significantly fast or have some large system upgrade requirements. To ensure that these investments are made on a timely basis to support economic growth and to provide a level of service that is safe and reliable there needs to be an incentive to recover these investments.

The Utilities recommend that the IRM should have a mechanism for capital programs over the term of the IRM and should adjust rates for capital programs that increase the net fixed assets by 5%.