

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Sched. B);

AND IN THE MATTER OF applications by Centre Wellington Hydro, Veridian Connections Inc., EnWin Powerlines Ltd., Erie Thames Powerlines Corp., Chatham-Kent Hydro Inc., Essex Powerlines Corp., Cooperative Hydro Embrun Inc. and Hydro One Networks Inc. pursuant to subsection 74(1) of the Ontario Energy Board Act, 1998 to amend Schedule 1 of their Transitional Distribution Licences.

Application to Amend the Distribution Licence of Chatham-Kent Hydro Inc.
Critical Customer In-service Requirements Hearing

REPLY ARGUMENT OF CHATHAM-KENT HYDRO INC.

May 29, 2003

1.0 INTRODUCTION

Chatham-Kent Hydro Inc. (the “Applicant”) filed an application to amend its service territory with the Board on October 18, 2002 (Ex. A3.1). This Application was in response to a direction from the Chief Administrative Officer of The Municipality of Chatham-Kent (the “Municipality”). The Municipality’s recommendation was based, in part, on a consultant’s report that indicated that the Applicant be selected over Hydro One Networks Inc. (“Hydro One”) to service the Highway 401/Bloomfield Road Commercial/Industrial Park (the “Bloomfield Business Park”).

The purpose of this submission is to respond to the written submissions of Hydro One and the Power Workers Union (“PWU”).

2.0 APPLICANT'S RESPONSE TO SUBMISSIONS BY HYDRO ONE NETWORKS INC. AND THE POWER WORKERS' UNION

2.1 Critical Connection Requirement

The Municipality has an urgent requirement for distribution services at its Bloomfield Business Park because it has determined that it must be able to advise prospective businesses that it has the requisite services in place in order to sell lots. Those services include water, sewage, natural gas, telecommunication and electricity. Based on a variety of studies, the Municipality determined that it required an initial 10MW dual feeder supply at 27.6 kV per feeder.

Hydro One and the PWU submit that the Applicant and the Municipality have not demonstrated the urgent need for the connection and that the interim solution proposed by Hydro One will meet the Municipality's requirements until the generic proceeding concludes and the Board releases its decision.

The Applicant rejects these positions and believes that the facts are clear. The Municipality requires the Bloomfield Business Park to be fully serviced in order to sell lots to prospective businesses. The Municipality must be able to advise these businesses of the distribution charges they will be required to pay. If the Municipality does not have the certainty now regarding the nature of the supply and the distribution charges, it will be disadvantaged in selling the lots. Consequently, the Applicant believes that this is a request for an urgent permanent decision because if the decision is incorporated into the combined proceeding, then the Municipality will lose an entire construction season, resulting in the lost opportunity to sell lots and bear the costs of servicing the debt for a longer period than determined.

The PWU asserts that "it is an urgency largely of the Applicant's own making." (PWU, page 1, paragraph 2). The Applicant believes that the PWU has not reviewed the evidence carefully. The evidence indicates that the Applicant had contacted the Board and was advised that the approval process may take two to three months (Ex. A3.1, Tab 2, page 1). Given that the application was filed on October 18, 2002, the Applicant and the Municipality anticipated that the Board would render a decision before February, 2003 and as a result, construction would have been complete and met the Municipality's time frame.

The Applicant wishes to reiterate that it is able to meet the requirements of the Municipality and supply the Bloomfield Business Park with two 27.6 kV feeders at 10MW each and high reliability at lower distribution rates for the end-use customer than Hydro One. The Applicant has all necessary approvals, inventory and personnel to complete this project in six to eight weeks.

2.2 Interim Solution

2.2.1 Preference for an Interim Solution

Hydro One and the PWU prefer an interim supply solution. For example, Hydro One states in its Reply Argument (“HONRA”), dated May 27, 2003 that an interim solution is preferable in order to “enable the Board to minimize the impact of its interim decision and leave the determination of the relevant principles which apply to this type of Application to the main Hearing”. (HONRA, page 1, lines 28 to 30). However, Procedural Order No. 3, dated April 17 2003, clearly states that “Decisions regarding these specific applications will not set precedents for future decisions...” (page 2). Consequently, the Applicant submits that granting a final order to the Applicant will have no impact on the main hearing and therefore, an interim order does not have any impact on the combined proceedings.

Hydro One also states that “the proposal for an amendment to the licence territory should be denied because it is not in the public interest to grant the amendment” (HONRA, page 2, lines 3 to 4). However, Hydro One does not explain the reasons that such an order is not in the public interests whereas the Applicant has provided several reasons as to why it is in the public interest for the Board to amend its service territory, such as; lower distribution rates, higher reliability, existing capacity for the connection, capital contribution does not become part of the rate base, proposed routes are not crossing private farmland, higher power quality and automated switching (Transcript, paragraphs 180 to 183, 190 to 209; Applicant’s May 23 Final Argument, pages 4, 9, 12, 13 to 14).

Hydro One states that the Bloomfield Business Park is not contiguous to the Applicant's service territory and is several kilometres outside its service territory (HONRA, page 2, lines 4 to 6). The Applicant's service territory throughout the entire Municipality is not contiguous and as a result, it would not be unusual for it to service the Bloomfield Business Park with a four kilometre extension from its M3 and M8 feeders (Transcript, paragraph 858).

Hydro One states that if the expected load does not materialise, then the assets constructed by the Applicant would be underutilized or stranded and that if the Board grants the amendment to the Applicant, then Hydro One's assets would be underutilized (HONRA, lines 9 to 12). As far as the Applicant is concerned, its customers will not bear the burden of underutilized or stranded assets because the Municipality would provide the capital contribution to develop the Bloomfield Business Park. The Applicant does not understand Hydro One's assertion that its assets would be underutilized given the fact that it is unlikely that the long rural feeders that were built more than twenty years contemplated service to rural industrial customers.

2.2.2 Hydro One's Interim Solutions

Hydro One's interim solution as outlined in the testimony of Mr. Gee was to build immediately a single line of 1MW at 8kV (Transcript, paragraph 1834). Mr. Gee also indicated that Hydro One would not be able to provide the same sort of interim solution as the Applicant because they would not be able to build up Bloomfield Road with a double circuit supply (Transcript, paragraphs 1835 to 1840). However, in Hydro One's recent submission, it states that it would be able to build the line up Bloomfield Road with a single supply that would simply be connected from the Applicant's 27.6 kV line (HONRA, page 4, lines 17 to 31; page 5, lines 1 to 2).

The Applicant submits that this recent proposal provides another example of Hydro One's lack of familiarity with its own assets in the Municipality and an assumption that the Applicant is ready to provide this connection. As a result, Hydro One has provided a cost for the interim 10MW supply that does not include a request for a connection to the Applicant's assets or the reimbursement of the costs that the Applicant would bear in order to "make ready" the connection to the Applicant's feeder (HONRA, page 5, lines 28 to 29). These requirements are described in section 6.3.1 of the Distribution System Code. In addition, Hydro One did not identify which of the Applicant's 27.6 kV feeder it is seeking for a connection.

Hydro One's states that this interim proposal will not burden either distributor (HONRA, page 5, line 23). The Applicant submits that this is not accurate because Hydro One has not only failed to determine the Applicant's connection costs, but also failed to consider the safety risks if the Applicant is granted an amendment to its service area after the conclusion of the combined proceeding. The resulting risk would be that the Applicant would have to construct a second 27.6 kV feeder adjacent to Hydro One's energized and in-service 27.6 kV feeder. The Applicant believes that this construction would create unnecessary safety risks for its field staff and higher construction costs.

The Applicant also submits that the subsequent construction of the 27.6 kV feeder could cause undue hardship to end-use customers who may be connected to the interim system. These customers would likely experience periodic power interruptions, which would be required during the construction of the second 27.6 KV feeder, regardless of which distributor provides the permanent supply.

Hydro One has also indicated that their proposal will not burden the customer (HONRA, page 5, line 23). The Applicant disagrees with this assertion because the Municipality would not be able to market the Bloomfield Business Park as dual 27.6 kV 10MW supply with high power quality at the lowest possible distribution rates. As previously indicated, businesses are attracted to business parks with high power quality and lower distribution rates and as a result, Hydro One's long rural feeders with lower reliability along with higher distribution rates would have a negative impact on the Municipality's ability to attract customers to the Business Park (Transcript, paragraphs 180 to 183 and 190 to 209).

The Applicant also submits that the end-use customer and the Applicant would also be disadvantaged because Hydro Ones does not plan to install any metering facilities on the Applicant's feeder. (HONRA, page 5, lines 20 to 21). Instead, Hydro One proposes to settle the individual end-use customers energy costs with the retail interval meter at the end-use customer's facility. This proposal results in end-use customers paying higher distribution rates and creates a complicated settlement process with the Applicant in determining commodity and other charges.

The Applicant believes that Hydro One is proposing a load transfer of the end-use customers in the Bloomfield Business Park. However, the Applicant believes that load transfers are contrary to the Board's mandate to eliminate load transfers pursuant to section 6.5.4 of the Distribution System Code. Section 6.5.4 states that load transfers should be eliminated by service territory amendments and that this process should be completed within the first five years after the issuance of the Distribution System Code. The Applicant believes that the Hydro One proposal is contrary to the Board's mandate to eliminate load transfers.

As previously stated, Hydro One's interim solution would result in higher interim distribution rates. The Applicant believes that this will create uncertainty for both new customers and existing customers of the Applicant because approximately ten kilometres of the 27.6 kV feeder would be owned and operated by two different distributors. Power interruptions, emergencies and other related issues would create confusion and hardship for customers because there would not be a single operator of the feeder. Hydro One has not identified any additional protection for their planned extension. In addition, Hydro One has indicated they will not permit the Applicant's personnel to assist them during emergencies (Ex. A3.2, Tab 6). Consequently, the Applicant believes that its customers would be adversely affected with the arrangement Hydro One is proposing.

Hydro One proposes to extend the interim feeder to their M1 supply connection point if Hydro One becomes the eventual supplier to the Bloomfield Business Park (HONRA, page 5, lines 12 to 15). Hydro One has not considered the costs to disconnect from the Applicant's plant or the stranded assets that the Applicant may be required to install to meet the Hydro One interim solution. Furthermore, Hydro One has not provided a route for their final construction from the M1 feeder to their proposed connection point that does not cross private farm property where such easement would be required (Applicant's Final Argument, dated May 23, 2003, pages 11 to 12).

The Applicant submits that the most favourable interim solution with the least impact on the Municipality, end-use customers and the distributors is the Applicant's interim proposal requiring a temporary amendment to its service territory (Transcript, paragraphs 1369 to 1382). This proposal would provide the dual 10 MW 27.6 kV supply requested by the Municipality within eight weeks from the Board's order without any operational, metering or safety issues.

2.3 Hydro One's Undertaking D.3.2 Proposal

The Applicant provided several comments on the proposal to construct the M1 and M18 feeders as described in Undertaking D.3.2. However, Hydro One did not respond to these comments in its evidence filed May 27, 2003. As a result, the Applicant respectfully requests the Board to refer to its comments in section 4.2 of its May 23, 2003 submission.

2.4 Reliability of Service

Hydro One stated that it is able to provide a more reliable system than the Applicant's (HONRA, page 3, line 3; page 4, lines 7 to 9; page 13, line 27). However, Hydro One has not provided any evidence to support their claim or any evidence to contradict the large amount of evidence before that Board indicating the poor performance of Hydro One's long rural feeders (Applicant's Final Argument, dated May 23, 2003, section 3.2).

2.5 Chatham-Kent Hydro and Hydro One Rate Comparisons

2.5.1 Chatham-Kent Hydro - General Service TOU Rate Class

The Applicant provided Scenarios for customer savings at the hearing in Exhibit C.3.2 and in Undertaking D.3.1. The four scenarios provided identified significant savings to the end-use customers that locate in the Bloomfield Business Park.

Scenario 3 provides a comparison of Applicant's General Service TOU Class and the Hydro One's T Class. This Scenario provided \$6 million in savings to the end-use customers of the Bloomfield Business Park. As indicated in Note 3 of Scenario 3 concerning the Applicant's use of this General Service TOU class:

“this rate is from the old commodity period and is no longer used for new connections”.

In addition, Mr. Hogan clearly stated during the hearing that this rate class is grand fathered for a few existing customers that are in this class and that no new customers would be placed in that rate class (Transcript, paragraphs 1208 to 1210; 1496; 1504). Consequently, the Applicant submits that the Board should disregard the analysis provided by Hydro One (HONRA, page 7 Table; Appendix A, Table 2). The evidence clearly indicates that regardless of which scenario is examined is selected, the end-use customers in the Bloomfield Business Park will enjoy greater savings from the Applicant (Ex. C3.2; Undertaking D3.1).

2.5.2 Chatham-Kent Hydro – General Service (Monthly demand > 50 kW with interval meters)

The Applicant received approved rates for the distribution revenue and the bundled commodity costs and for unbundled commodity costs (RP-2002-0081; RP-2000-0033/EB-2001-0101/EB-2001-0564). In the rate order for unbundled commodity costs, the Board approved rates for the retail transmission rates, including the Network Service Rate (NSR) and the Line and transformation connection service rate (LTC SR). The rate order also approved the Standard Supply Service (SSS) rates for the General Service greater than 50 kW non-interval and interval customers.

Upon market opening the Applicant applied the unbundled commodity rates to the General Service demand greater than 50 kW customers based upon whether the customer had an interval meter. The following summary shows the rates charged to these customers:

General Service (Demand > 50kW)

	<u>Non-interval</u>	<u>Interval</u>
<u>Distribution</u>		
Service charge	152.96	152.96
Demand (per kW)	0.96	0.96
<u>Transmission Rates (per kW)</u>		
NSR	2.12	1.78
LTC SR	1.78	1.96
<u>SSS Rate (commodity)</u>	Weighted Average Price (WAP)	Hourly Spot Price

These approved rates would provide the new end-use customers in the Bloomfield Business Park with the opportunity to take advantage of spot market prices to save on the commodity costs by shifting the load to cheaper commodity periods. Therefore, the Applicant submits that Hydro One is incorrect in their assessment that interval metered customers would be charged the General Service TOU rate (HONRA, page 9, lines 4 to 5).

The Applicant has always advised its customers of these rates and has recently updated its website and posted these rates.

The Applicant has not added any new customers to the General Service TOU class as indicated in the following table summarizing the number of customers in the class.

	<u>April 30, 2002</u>	<u>May 1, 2002</u>	<u>May 1, 2003</u>
GS > 50 kW non interval	453	433	413
GS > 50 kW interval	0	20	36
GS TOU	4	4	4

The last time a customer was added to this class was in 1998. This customer was unique in that it has a generator on its property with a capacity of approximately 3.2MW. Due to the special nature of the customer and the options for them to receive benefits from purchasing power during off-peak periods, they were put into this class.

The appropriate rate classes for the customers that are likely to locate in the Bloomfield Business Park are those in Exhibit C.3.1 and Undertaking D.3.2. The analysis provided by Hydro One is incorrect.

2.5.3 Customer Impact Analysis

Hydro One claims that the 10 year horizon for the customer impact analysis is flawed because of the uncertainty of some of the variables (HONRA, page 8, lines 5 to13). The Applicant submits that in analysing any business case, a reasonable length of time, 10 to 20 years, may be used in determining whether an investment is worthwhile. Consequently, the Applicant submits a 10 year projection in the scenarios is an accurate time frame (Ex. C.3.1; Undertaking D.3.2).

In addition, the Applicant submits that reasonable assumptions should be made in analysing a business case. In the case of the Applicant's assumptions concerning the types of customers and their loads, the Applicant believes that these assumptions are reasonable and defensible because the Applicant initiated discussions with the Economic Development Department of the Municipality to understand the types of customers that the Municipality wished to attract to the Bloomfield Business Park. Based on these discussions, the Applicant believes that Scenario 2 is an accurate portrayal of the number of customers and the customer profile that may locate in the Bloomfield Business Park (Ex. C.3.1).

Hydro One continues to assert that the Board will require cost of service studies for the next rate orders in 2006 (HONRA, page 8, line 13). The Applicant submits that this is incorrect in that it believes that a cost allocation study will be required rather than a cost of service study. The Applicant is a member of working group that is working with the Board in reviewing the cost allocation process.

Based on this rate analysis, the Applicant submits that the competitive advantage of its rates meets on the Board's objectives set out in the Act in respect of protecting the interests of consumers with respect to prices.

3.0 SUMMARY

The Applicant submits that it is able to provide both the best interim and permanent solutions to supply the Bloomfield Business Park. Its proposal is the best for both the developer and the end-use customer because it provides competitive distribution rates, high reliability and state of the art automated equipment combined with a high level of service quality and local knowledge for the prospective customer in the Bloomfield Business Park. In addition, the Applicant will be able to complete construction within the eight-week timeline and provide the service that will be in the best interest of the public.

On the other hand, Hydro One's interim solution results in many complications for the Municipality, end-use customers as well as the Applicant and its customers. In addition, the Applicant believes that Hydro One's permanent solution will not be in the best interests of the Municipality or the end-use customers because of the questionable reliability of long rural feeders and higher distribution rates. The Applicant also believes that Hydro One would not be

able to meet the Municipality's timeline because it would need consent from local farmers to access their property as well as time to negotiate agreements with the Municipality and the Applicant.

4.0 REQUEST FOR AN ORDER TO AMEND SERVICE TERRITORY

Based on the evidence before the Board and in this reply argument, the Applicant respectfully requests the Board to issue an order to amend the service area description in Schedule 1 – Distribution Service Area of its Electricity Distribution Licence to include the Bloomfield Business Park.

All of which is respectfully submitted this 29th day of May, 2003.

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