

GRIMSBY POWER INCORPORATED

MANAGER'S SUMMARY

2007 Electricity Distribution Rate Application Addendum for Smart Metering Rates

February, 2007

Overview

On January 29, 2007, the Ontario Energy Board (the "Board") issued an Addendum to its Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors. The Addendum provided direction for distributors' recovery of costs associated with smart metering investments in electricity distribution rates.

Categories of Distributors

In determining the appropriate smart meter rate adder for 2007, the Board has defined three categories of distributors: named distributors; active distributors, and; inactive distributors.

Named distributors – distributors who have been specifically authorized by the Province to actively pursue discretionary metering activities.

Active distributors – distributors who appear to be pursuing smart metering activities in 2007, based on December 2006 plans filed with the Board.

Inactive distributors – distributors who have indicated to the Board that they will not be undertaking any smart metering activities until at least 2008.

The Board has classified Grimsby Power Incorporated ("Grimsby Power") to be an inactive distributor. Grimsby Power disagrees with this classification. As noted in Grimsby Power's December 2006 Smart Metering Investment Plan (filed along with the Niagara Erie Public Power Alliance), Grimsby Power will begin incurring smart metering

related expenses in 2007 related to the preparation of our current system for smart meters and implementation in early 2008.

In addition, as the Board determined the categorization of active versus inactive distributors based on the calendar year of planned implementation of smart metering programs, there is an inherent flaw in the intended recovery of smart metering costs. The 2007 rate year goes from May 1, 2007 to April 30, 2008. This means that LDCs who wish to implement smart metering plans in January 2008 are classified as inactive and unable to collect costs until at least May 2008, at the earliest. This is an inherent flaw by the OEB and acts as a deterrent to LDCs to meet the government mandate to implement smart metering. The use of variance accounts is inappropriate. There is no guarantee monies will be collected, which is an inherent risk to an LDC and makes it difficult to finance loans for implementation without a guarantee.

Further, LDCs who prudently wish to use the CLD RFP/Q/I as the basis for their implementation strategy, to avoid costs of a separate process and to take advantage of their pricing, must sign contracts by end of 2007 for an early 2008 implementation. Therefore, utilities that are planning an early 2008 implementation need to be reclassified and recovery of costs be part of the 2007 rate application.

As a result, although the Board has identified Grimsby as an inactive distributor for purposes of the 2007 smart meter rate adder, Grimsby has completed the full 2007 EDR Smart Meter Rate Adders Application Filing based on rate year expenditures rather than calendar year expenditures. **It is expected that the Board will reclassify other LDCs and Grimsby Power to be an active distributor for the 2007 rate application.**

Sheet 2 – Smart Meter Capital Cost and Operational Expense Data

Grimsby Power intends to install a total of 9,300 smart meters. Base on our plan 1,033 meters would be installed in rate year 2007, 3,100 smart meters installed in each of 2008 and 2009 rate years, and the remaining 2,067 smart meters being installed in 2010 rate year. We expect to install more smart meters than this in total because we are growing by about 150 to 250 customers annually. However, we have not incorporated this in to the current estimate as they would be picked-up in future years when actual numbers are known. Based on current estimates, Grimsby Power expects to pay approximately \$95.00 per smart meter with a per unit installation cost of \$15.00. The \$95.00 is the base cost for an Elster Meter. Collector meters are more and they are required for the completion of their mesh technology.

Grimsby Power will expend a total of \$225,000 in capital costs, \$75,000 for computer hardware and \$150,000 for computer software. We have split these costs over the 2007 and 2008 rate years. Incremental AMI operations and maintenance expenditures are projected to be \$250,000 over rate years 2007 and 2008 to convert existing inside and outside A Base meters that we are unable to install a socket adaptor on to make them ‘smart meter ready’.

Currently, we have not entered any other additional costs for capital, O & M or administration as they are unknown.

Sheet 3 – LDC Assumptions and Data

Data has been provided based on the approved 2006 EDR Model.

Sheet 4 – Smart Meter Rate Calculation

The model has calculated a smart meter adder for Grimsby Power to be \$1.00 per month. We understand that this amount will be added to Sheet 4 – Smart Meter Information of the 2007 IRM which was filed by Grimsby Power on January 24, 2007.