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

Submission from

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

320 Queen St
Chatham, On
N7M 5K2
519-352-6300 (277)
jimhogan@ckenergy.com

Chatham-Kent Hydro ("CKH") and Middlesex Power Distribution Corporation ("MPDC"), will be referred to as the "Utilities" in this submission, are pleased to once again provide the Ontario Energy Board ("Board") with our comments on the proposed 3rd Generation Incentive Regulation Mechanism ("IRM") plan. The Utilities will only provide comments on the sections of the proposed IRM plan that are in our opinion the significant issues.

Regulatory Efficiency

The Utilities are pleased that the Board is continuing to propose a more comprehensive IRM plan compared to the previous two plans. A strong IRM plan should provide much more regulatory efficiency compared to a cost of service ("COS") regime. Approximately one third of Ontario's Local Distribution Companies ("LDCs") have recently filed their first full COS application, and have experienced the challenges of such an application. The challenges experienced were the high cost of such an application, the significant use of employee resources as well as significant resources of the Board staff.

A strong IRM plan that has plenty of flexibility in it, which the proposed plan has, should provide LDCs with options in filing rate applications that should provide them with the necessary revenue requirement to operate their business and provide the customers with a safe and reliable service.

Inflation Factor

The Utilities are comfortable with the proposed use of the GDP-IPI FDD as the inflator during the term of this plan. The Utilities however has a concern that changes in the corporate tax rates are double counted; once in the inflator and a second time through the Z-factor.

It is the Utilities understanding that the GDP-IPI FDD also takes into account changes in the corporate tax rates therefore if changes in the tax rate are also included in the Z-factor then the changes, increases and decreases, are double counted. The gas utilities, Union Gas Ltd ("Union") and Enbridge Gas Distribution Inc ("Enbridge"), have dealt with this issue in their IRM plans, EB-2007-0615 and EB-2007-0606 respectively, with a sharing of the changes in the Z factor component of the plan.

X-Factor

The Utilities do not believe that all Ontario LDCs should have the same X-factor for some of the following reasons; they are starting at different operating costs and they have different opportunities for productivity savings. The Utilities had proposed three X-factors in their submission on September 21, 2007 based upon the Pacific Economic Group LLC (PEG) report at that time.

The LDC sector had been pushing for different X-factors in both of the earlier generations of IRM. In the IRM plans for Union and Enbridge they have different X-factors which reflect their differences in starting points and productivity opportunities going forward. Therefore the Utilities support the proposal that the IRM plan has different X-factors.

The Utilities are comfortable with the proposal that the X-factor has two components being a productivity factor plus a stretch factor. The Utilities would however recommend that the productivity factor should be the one proposed by the Electrical Distribution Association ("EDA") which is between 0.5% to 0.6%, average of 0.55%. The reason for supporting this proposal is that it is based on Ontario statistics and is the same calculation as in the 1st generation IRM plan.

The Utilities support the stretch factors being proposed by the Board's consultant and is pleased that it is different for LDCs based upon their rankings in the productivity index rankings tables 4 and 7 of the March 20, 2008 PEG report.

The X-factor that the Utilities are currently recommending is based upon the information provided in this proceeding is compared to the Utilities original recommendation in the September submission.

	May 2008 Recommendation			September 2007 Recomm.
	Productivity Factor	Stretch Factor	X-Factor	X-Factor
Group I	0.55%	0.0%	**0.55%**	**0.5%**
Group II	0.55%	0.25%	**0.8%**	**1.0%**
Group III	0.55%	0.5%	**1.05%**	**1.5%**

Earnings Sharing

The Utilities would recommend that the earnings sharing mechanism ("ESM") should be symmetrical as is the case for Union and Enbridge. The Utilities would also recommend that the range be 3% of the regulated return on equity. The Utilities are making these two recommendations because the Ontario electricity industry is still volatile and significant changes are ahead such as the Integrate Power System Plan ("IPSP"), impacts of renewable energy along with distributed generation. A wider band should allow for more efficiencies and greater support to creating benefits to the customers of the electricity industry.

Incremental Capital Module

The Utilities support this module as an important component of the flexibility in this IRM plan. Due to the continued changes in the Ontario electricity industry, increased standards expected from the customer, the age of some of the plant and the critical nature of the electricity industry to the Ontario economy, this module will provide LDCs with the flexibility required to meet the challenges.

Z Factor

The Utilities recommend that the IRM plan treat the changes in corporate taxes similar to the Union and Enbridge IRM plans, where only 50% of the changes are passed through to customers. The reason for this recommendation is that the inflation factor being used includes changes in corporate tax rates and to include it in the Z factor would be double counting.