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**CAMBRIDGE AND NORTH
DUMFRIES HYDRO INC.
(CNDHI)**

**ECONOMIC EVALUATION
MODEL POLICY**

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Cambridge and North Dumfries Hydro Inc.(CNDHI) Economic Evaluation Model Policy– June, 2009

Overview

The CNDHI Economic Evaluation Model is used by CNDHI for cases where CNDHI must construct new facilities to its main distribution system or increase the capacity of existing distribution system facilities in order to be able to connect a specific customer or group of customers. The economic evaluation determines if the future revenue from the customer(s) will pay for the capital cost and on-going maintenance costs of the expansion project.

The methodology and assumptions are consistent with the Distribution System Code as published by the Ontario Energy Board (OEB). These provisions do not apply to projects that are the subject of an agreement entered into prior to November 1, 2000.

Key Assumptions Used in the Model

Please refer to Schedule 1 of this policy for numerical information. This schedule is updated in May of each year.

Customer Connection Horizon: A maximum customer connection horizon of five (5) years will be used. Five (5) years will be typical for most evaluations. Only customers connected in the first five years are considered in the evaluation. It is difficult to forecast beyond five years. The OEB would require an explanation if a longer period was used.

Customer Revenue Horizon: A maximum customer revenue horizon of twenty-five (25) years will be used calculated from the in-service date of the new customer(s).

Revenue: Revenue per year is calculated by considering the number of customer connections for fixed monthly charges, the average energy (monthly kWh) for kWh based charges and the average demand (monthly kW) for kW based charges.

Capital Costs: The capital cost of the new facilities or capacity expansion of existing facilities includes those costs (including metering) which connect a specific customer or group of customers.

Expenses: Attributable incremental operating and maintenance expenditures associated with the addition of new customers are included in the economic evaluation along with income, capital and municipal property (where applicable) taxes.

Result of Economic Evaluation

The economic evaluation will result in a Net Present Value over the Revenue Horizon period. If the Net Present Value over the Revenue Horizon period, including the effect of taxes, is positive, no capital contribution will be required from the customer. If the Net Present Value over the Revenue Horizon period, including the effect of taxes, is negative, a capital contribution will be required from the customer. CNDHI will require, in most cases, that the customer post security until one year after the customer begins to use electricity for new customers or one year after the upgrade is completed for existing customers.

In certain instances, load guarantees and/or other financial arrangements may be required to ensure that facilities are not constructed that are not used to the extent originally contemplated in the economic evaluation.

Examples

Each project will be considered on an individual basis. The requirements for a specific project will be outlined in CNDHI's Offer to Connect. The examples given below outline the treatment for a typical project in each category. In every case, the governing rules are Chapter 3, Connections and Expansions, contained in the Distribution System Code published by the Ontario Energy Board.

Residential Subdivisions

CNDHI's present residential subdivision servicing policies continue. Residential subdivisions will still be developer installed.

This model includes all costs to service a development. External electrical lines must be built to service new residential growth. These costs are best averaged across all residential developments since frequently more than one project connects to the new line. Previously, CNDHI recovered these costs through development charges, which is no longer applicable.

The economic model takes all costs and revenues into account and produces an amount that CNDHI can invest in the project. This investment amount is then reduced by the external line cost charge to arrive at the final rebate amount, which is shown in Schedule 1. CNDHI has evaluated a number of previous residential subdivision projects using the economic model. The model is most sensitive to consumption. The actual servicing cost per lot is not critical to the results. Effectively, the economic model tells CNDHI how much it can contribute for a given revenue stream. The average monthly kWh use per residential customer is shown in Schedule 1. A typical servicing cost for work internal to the project is also shown in Schedule 1.

The Residential Rebate Amount shown in Schedule 1 will be used for all residential services subject to a subdivision servicing agreement dated

November 1, 2000 or later that are energized during the period for which Schedule 1 is applicable. The rebate is payable to the developer identified in the subdivision agreement once an electrical service is energized. Applicable rebates are paid at four month intervals. A rebate amount will be set on a yearly basis in May. The timing and/or the amount of any rebate may also be affected by any load guarantees or other financial arrangements outlined in CNDHI's Offer to Connect.

Industrial Subdivisions

The developer of an industrial subdivision will pay the full initial costs of providing electrical services to the subdivision. In certain instances, external costs may also be applicable. This is in order to ensure that CNDHI does not take the risk of servicing industrial subdivisions for which the timing and type of eventual load customers is unknown. CNDHI will apply the economic evaluation model to each new load customer in the industrial subdivision one year after the customer begins to use electricity to determine if a rebate is applicable. The initial costs of providing electrical services to the subdivision will be included on a per hectare basis along with other costs to service the customer (ie. padmount or pole mount transformer) when the economic evaluation is completed for the customer. For instance, if the customer's lot is 1 hectare in a 25 hectare (serviced lot area) subdivision, a capital amount of $1/25^{\text{th}}$ of the initial costs of providing electrical services to the subdivision will be included along with other items in the economic calculation for the customer. If the net present value is still positive, the developer will be entitled to a rebate on a per hectare basis ($1/25^{\text{th}}$ of cost in this example). This rebate, if applicable, will be rebated one year after the customer begins to use electricity. The timing and/or the amount of any rebate may also be affected by any load guarantees or other financial arrangements outlined in CNDHI's Offer to Connect.

Three Phase Padmount Transformers

The economic evaluation formula will be applied for each three phase padmount transformer installation. In certain instances, external costs may also be applicable. The expected loading information supplied by the customer will be considered. However, CNDHI will also assess the supplied information against the actual loading of similar existing customers. CNDHI must ensure that it uses realistic load figures because it affects the revenue projections. A deposit will be required for three phase padmount transformer installations before CNDHI will order the transformer(s). The typical deposit amounts for three phase padmount transformers are listed in Schedule 1. Specific amounts will be outlined in CNDHI's Offer to Connect. No GST will be collected on the deposit and interest is paid on the amount under the terms and conditions set forth in Schedule 1.

CNDHI will apply the economic evaluation model one year after the customer begins to use electricity for new customers or one year after the upgrade is

completed for existing customers to determine if a rebate is applicable. Any rebates will be issued to the person who made the initial payment. The timing and/or the amount of any rebate may also be affected by any load guarantees or other financial arrangements outlined in CNDHI's Offer to Connect.

Pole Mount Transformer Installations

The economic evaluation formula will be applied for each pole mount transformer installation. In certain instances, external costs may also be applicable. The expected loading information supplied by the customer will be considered. However, CNDHI will also assess the supplied information against the actual loading of similar existing customers. CNDHI must ensure that it uses realistic load figures because it affects the revenue projections. A deposit will be required for pole mount transformer installations before CNDHI will order the transformer(s). The typical deposit amount for three phase pole mount transformer banks is listed in Schedule 1. Specific amounts will be outlined in CNDHI's Offer to Connect. No GST will be collected on the deposit and interest is paid on the amount under the terms and conditions set forth in Schedule 1.

CNDHI will apply the economic evaluation model one year after the customer begins to use electricity for new customers or one year after the upgrade is completed for existing customers to determine if a rebate is applicable. Any rebates will be issued to the person who made the initial payment. The timing and/or the amount of any rebate may also be affected by any load guarantees or other financial arrangements outlined in CNDHI's Offer to Connect.

SCHEDULE 1 - CNDHI Economic Evaluation Model Policy
(Period Covering May 1, 2009 to April 30, 2010)

| | | |
|--|------------------|---|
| | Year 2009 | Estimated Year 2010 thru 2034 |
|--|------------------|---|

Distribution Rates

Monthly Fixed Charge

Customer Class:

| | | |
|------------------------------------|-------------|-------------|
| Residential | \$ 8.73 | \$ 8.73 |
| General Service < 50kW | \$ 12.27 | \$ 12.27 |
| General Service 50kW to 999kW | \$ 99.19 | \$ 99.19 |
| General Service 1,000kW to 4,999kW | \$ 787.13 | \$ 787.13 |
| Large User > 5,000kW | \$ 4,382.74 | \$ 4,382.74 |

Monthly Variable Charge per kWh

Customer Class:

| | | |
|------------------------------------|----------------|----------------|
| Residential | \$ 0.0142 | \$ 0.0142 |
| General Service < 50kW | \$ 0.0131 | \$ 0.0131 |
| General Service 50kW to 999kW | not applicable | not applicable |
| General Service 1,000kW to 4,999kW | not applicable | not applicable |
| Large User > 5,000kW | not applicable | not applicable |

Monthly Variable Charge per kW

Customer Class:

| | | |
|------------------------------------|----------------|----------------|
| Residential | not applicable | not applicable |
| General Service < 50kW | not applicable | not applicable |
| General Service 50kW to 999kW | \$ 3.3446 | \$ 3.3446 |
| General Service 1,000kW to 4,999kW | \$ 2.8398 | \$ 2.8398 |
| Large User > 5,000kW | \$ 1.8171 | \$ 1.8171 |

NOTE: \$0.60 per kW will be deducted in cases where the transformer is owned by the customer.

Consumption Assumptions

| | |
|------------------------|--|
| Residential Customers: | 732 kWh per Month |
| All Other Customers: | Will be evaluated on an individual basis |

Financial Assumptions

| | | |
|--------------------------------------|-----------|--------|
| Borrowing Rate: | 4.99% | (1) |
| Rate of Return on Common Equity: | 9.000% | (1) |
| Debt/Equity Ratio: | 56.7/43.3 | (1)(2) |
| Marginal Income Tax Rate: | 33% | |
| Federal Capital Tax Rate (Part I.3): | 0.000% | (3) |
| Provincial Capital Tax Rate: | 0.225% | (3) |
| Capital Cost Allowance Rate: | 8.000% | |

(1) Ontario Energy Board (O.E.B.) Regulated; Subject to periodic change. Rate of Return of 8.01% will be used for years 2010 and beyond.

(2) Debt/Equity Ratio for 2009 is 56.7/43.3 in 2009 and 60/40 thereafter.

(3) Federal Capital Tax-PART I.3 phased-out in 2006 and Provincial Capital Tax for 2009 is 0.225% declining to 0.150% Year 2010, 0.075% Year 2011 and eliminated in 2012.

Operating and Maintenance Expenditures (Annual Amounts)

| | | | | | |
|-----------------------|----|--------|-------|---|-----------------------------------|
| Residential Customer: | \$ | 100.18 | | | |
| All Other Customers: | [(| \$ | 22.14 | X | Estimated Peak) + \$ 133.95] / 2 |

These figures are based on Actual 2008 Results

Capital Cost

Residential Customers: \$3,000.00 per unit for work internal to the development
\$265.00 per unit for lines external to the development
=====

TOTAL: \$3,265.00 per unit

All Other Customers: Internal and external costs will be evaluated on an individual basis. The capital cost may be based on either an estimate or actual costs depending on the nature of the project. CNDHI's Offer to Connect will indicate applicable costs.

Residential Rebate Amount

Base Amount = \$1,483.00
less \$265.00 to cover external line costs
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Residential Rebate Amount = \$1,218.00 per unit

Note: This rebate applies to all residential services subject to a subdivision servicing agreement dated November 1, 2000 or later that are energized between May 1, 2009 and April 30, 2010. Rebate is payable once electrical

service to the home is energized. Applicable rebates are paid at four month intervals. The rebate amount will be updated in May of each year.

Typical Deposit Amount for Three Phase Pole Mount Transformer Bank

\$23,200

Typical Deposit Amounts for Three Phase Padmount Transformers

| | |
|----------|----------|
| 150kVA: | \$18,735 |
| 300kVA: | \$23,219 |
| 500kVA: | \$27,660 |
| 750kVA: | \$42,139 |
| 1000kVA: | \$44,588 |
| 1500kVA: | \$59,877 |
| 2000kVA: | \$69,403 |
| 3000kVA: | \$85,363 |

Note: GST is not applicable at the time of the initial deposit. If a full rebate is not applicable then all or a portion of the deposit amount will be subject to GST at the time of calculation. A subsequent invoice may be issued at that time to collect any outstanding GST. Interest is paid on the refunded amount under the terms and conditions listed below.

Deposit Policy

- (a) Interest will accrue from the date of receipt of the deposit, and will be calculated for whole months to the date of the final billing or the refund of the deposit.
- (b) The interest will be accrued based on annual simple interest rates equal to the Prime Business Rate set by the Bank of Canada less 2 percent.
- (c) At the time of deposit refund, the applicable interest will be paid.
- (d) If a project does not proceed for which a deposit has been previously taken, a refund will be made less any costs already incurred by CNDHI. This refund will only be paid after CNDHI has another use for any transformers, equipment, material, etc. already ordered or delivered for the planned project.