



MILTON HYDRO DISTRIBUTION INC.

8069 Lawson Road, Milton, Ontario L9T 5C4
Telephone (905) 876-4611 • Fax (905) 876-2044

January 7, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, ON
M4P 1E4

**Re: Milton Hydro Distribution Inc., Distribution Licence ED-2003-0014
Request for Deferral of May 1, 2015 Cost of Service Rate Application**

Milton Hydro Distribution Inc. ("Milton Hydro") is scheduled to file a Cost of Service Rate Application for rates effective May 1, 2015. Milton Hydro is respectfully requesting a one year deferral and Ontario Energy Board ("OEB") approval for Milton Hydro to file its next rebasing Cost of Service Rate Application for rates effective May 1, 2016.

Milton Hydro is making this request based on the following:

- In June 2009 Milton Hydro received four months notice to vacate the office/service centre building being leased, at that time, from the Town of Milton ("the Town"). Milton Hydro was able to secure a five year lease on a vacant building and commenced the inside renovation of an office/service centre facility with an occupancy date of November 1, 2009. This lease expires November 2014.

In August 2009, Milton Hydro entered into an Agreement of Purchase and Sale with the Town to purchase 6.415 acres of unserviced land at the corner of Main Street and 5th Line for a future office and service centre site. The Town purchased the land from Hydro One on August 13, 2009 and transferred title to Milton Hydro on August 14, 2009. Milton Hydro paid \$2,116,950 to the Town which in turn paid Hydro One Networks Inc. ("Hydro One"). Currently half of the land is being used as additional off-site storage due to

limited outside storage facilities at Milton Hydro's current location. It was Milton Hydro's intention to construct the office and service centre on the land within the next 3 to 5 years aligning with the expiration of the current lease agreement. At the time of the purchase Milton Hydro discussed with Hydro One the opportunity to purchase or lease additional acreage to facilitate the future construction, however Hydro One was uncertain of its long term requirements with respect to the land..

In March of 2011 Milton Hydro contacted Hydro One a second time in regards to leasing an additional 3 acres of land adjacent to the parcel that Milton Hydro purchased in 2009, which would give Milton Hydro a total of 9 acres. The requirement for 9 to 10 acres would be confirmed later in the year, through site visits to other distributors that had recently constructed office/service centre facilities. Again Hydro One cited that they were unclear as to the future use of the lands and would not consider a lease arrangement.

As Milton Hydro was unsuccessful in leasing the additional land from Hydro One, Milton Hydro began working through a real estate agent and the Town, in July of 2011, to review potential properties that would be suitable for an office/service centre building. Over the next eighteen months approximately fifteen properties were identified as being suitable for an office/service centre building site. The short list of available land within the Town boundaries, appropriately zoned, was very limited and very expensive, and land that was available was either a small piece of a larger parcel that the owners or developers were not prepared to sever or the lands were outside of the Town / Region of Halton's approved urban boundary. Milton Hydro approached the Region of Halton ("Region") for approval to build outside of the urban boundary but was declined.

As a result, Milton Hydro re-opened discussions with Hydro One again in June of 2013, with a verbal proposal to enter into a long term lease for the additional land adjacent to the property Milton Hydro currently owns at Main Street and 5th Line. Hydro One, through its realty division, expressed an interest in pursuing a long term lease and an agreement is expected to be reached in January 2014.

In addition to finalizing the land negotiations with Hydro One, the Region had originally scheduled to install water and sewers along 5th Line to Main Street in 2014, which is the

corner that Milton Hydro plans to construct its office/service centre. The Region has now deferred this construction to the year 2015. Milton Hydro requires the water and sewers to be in place in order to service the office/service centre facilities further delaying the construction of the office/service centre into 2015.

Based on discussions during the earlier site visits, an eighteen to twenty month construction period is to be expected and therefore an office/service centre building would not be completed by the end of 2014 in time to be included in Milton Hydro's asset base for a 2015 Cost of Service Rate Application. Milton Hydro has budgeted \$15 million dollars over 2014 and 2015 for the land and office/service centre with a target completion date of November 2015. In order to complete the office/service centre by November 2015, Milton Hydro would exercise an option in the current lease and take a one year extension on the lease.

The exclusion of a capital investment of this magnitude in a Cost of Service Rate Application would result in a significant financial impact over the five year incentive regulation period.

In making this request for a one year deferral of its Cost of Service Rate Application, Milton Hydro has reviewed its current financial position and Service Quality Requirements and provides the following information:

- Milton Hydro's regulated rate of return in 2012 was 8.15%, well within the +/- 300 basis points of its approved regulated rate of return of 8.98%.
- Milton Hydro's forecasted regulated rate of return for 2013 is 7.40% again within the +/- 300 basis points of its approved regulated rate of return of 8.98%.
- Based on Milton Hydro's 2014 budget and 2015 forecast budget, as approved by its Board of Directors, Milton Hydro's 2015 forecasted revenue deficiency would amount to approximately \$126,000 which excludes the office/service centre being included in rate base for 2015.
- Milton Hydro's Service Quality and Reliability Indices consistently meet the OEB standards.

Subject to the OEB's approval of Milton Hydro's request for a one year deferral of its 2015 Cost of Service Application, Milton Hydro would file a 2015 Rate Application for rates effective May 1,

2015 based on the OEB's Chapter 3 Filing Requirements for 4th Generation Incentive Rate-setting ("IRM4") consistent with Milton Hydro's 2014 IRM4 Rate Application.

Milton Hydro submits that its request for a one year deferral of its 2015 Cost of Service Application is reasonable given the circumstances above and respectfully requests the Ontario Energy Board's approval.

Milton Hydro would also respectfully request an early decision on this deferral request given the timing required for preparation of rate applications.

Should you require further information or clarification please contact me at 289-429-5212 or cameronmckenzie@miltonhydro.com .

Yours truly,

Original Signed by

Cameron McKenzie, CGA
Director, Regulatory Affairs