

**IN THE MATTER OF** the Ontario Energy Board Act, 1998, S.O. 1998, c.15, 3 Schedule B, as amended (the “OEB Act);

**AND IN THE MATTER OF** an Application by Milton Hydro Distribution Inc. under Section 78 of the OEB Act to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2016.

**MILTON HYDRO DISTRIBUTION INC. (“Milton Hydro”)**

**APPLICATION FOR APPROVAL OF 2016 ELECTRICITY  
DISTRIBUTION RATES**

**EB-2015-0089**

**RESPONSES TO UNDERTAKINGS GIVEN DURING ORAL HEARING**

**Filed: April 12, 2016**

Cameron McKenzie  
Director, Regulatory Affairs  
Milton Hydro Distribution Inc.  
8069 Lawson Road  
Milton, Ontario  
L9T 5C4

Tel: (289) 429-5212

[cameronmckenzie@miltonhydro.com](mailto:cameronmckenzie@miltonhydro.com)

UNDERTAKING NO. J1.1: TO PROVIDE AN EXPLANATION FOR THE \$234,375 FIGURE  
 IN APPENDIX 2-JB.

**Response:**

Milton Hydro has provided the following Table J1.1 which provides an explanation for the 2016 amount of \$234,375 in Appendix 2-JB – Overhead Capitalization Policy Change in OM&A. The payroll burden variance is mainly attributed to new staff in 2016: SCADA Tech, HR Specialist, Communication Specialist, CSR, Lineman and a full year of staff hired in 2015: AMI Operator and a Network Administrator plus the burden on annual salary adjustments for all staff in 2016

**Table J1.1**  
**2016 Overhead Capitalization Policy Change in OM&A**

<b>Total Burdens</b>	<b>2015</b>	<b>Allocation</b>	<b>2016</b>	<b>\$\$ Variance from 2015 to 2016</b>	<b>% Variance from 2015 to 2016</b>	<b>Allocation</b>
Vehicle Burden	294,696		313,560	18,864	6%	
Engineering Burden (Operations Supervisors)	234,703		261,459	26,756	11%	
Payroll Burden (all Staff)	1,500,262		1,704,333	204,071	14%	
	<b>2,029,661</b>		<b>2,279,352</b>	<b>249,691</b>		
OM&A	1,221,470	60%	1,455,845	234,375		64%
Capital	808,191	40%	823,507	15,316		36%
	<b>2,029,661</b>		<b>2,279,352</b>	<b>249,691</b>		

UNDERTAKING NO. J1.2: TO DETERMINE WHETHER THE \$105,000 INCREASE WAS A ONE-TIME COST.

**Response:**

The increase of \$105,484 in the 2015 unaudited amount shown on Appendix 2-JB under “Other” was not related to one-time costs in 2015 that are now being offset by the reduction in 2016.

UNDERTAKING NO. J1.3: TO PROVIDE A BREAKDOWN OF THE \$200,000 ESTIMATED COSTS BY HEAT, HYDRO, WATER AND SEWER; TO PROVIDE THE ACTUAL COST BROKEN DOWN INTO THOSE SAME FOUR CATEGORIES.

**Response:**

Milton Hydro has provided the breakdown of the \$200,000 used to budget for heat, hydro, water and sewer in 2016 and also the actual costs to date for 2016 in the following Table J1.3. Milton Hydro has also revised its 2016 projections based on the actual costs to date. Milton Hydro would note that the actual amount charged for gas in January and February was \$79.10 which is the monthly service charge only. It appears that the meter has stopped and therefore not reading actual consumption. Union Gas has been notified. Milton Hydro has estimated the costs for its gas consumption.

**Table J1.3**  
**2016 Actual Costs to Date & 2016 Forecast**

<b>As Filed</b>	<b>2016</b>	<b>Electricity</b>	<b>Water/Sewer</b>	<b>Gas</b>	<b>TOTAL</b>
Budget Amount		\$ 180,000.00	\$ 14,000.00	\$ 6,000.00	\$ 200,000.00
<b>Year-to -Date</b>	<b>2016</b>	<b>Electricity</b>	<b>Water/Sewer</b>	<b>Gas</b>	<b>TOTAL</b>
Actual	January	\$ 10,649.42	\$ 365.73	\$ 700.00	\$ 11,715.15
Actual	February	\$ 9,366.53	\$ 395.52	\$ 700.00	\$ 10,462.05
Estimated	March	\$ 10,000.00	\$ 400.00	\$ 700.00	\$ 11,100.00
Estimated	April	\$ 10,000.00	\$ 400.00	\$ 700.00	\$ 11,100.00
Estimated	May	\$ 14,000.00	\$ 600.00	\$ 300.00	\$ 14,900.00
Estimated	June	\$ 16,000.00	\$ 1,000.00	\$ 300.00	\$ 17,300.00
Estimated	July	\$ 16,000.00	\$ 1,000.00	\$ 300.00	\$ 17,300.00
Estimated	August	\$ 16,000.00	\$ 1,000.00	\$ 300.00	\$ 17,300.00
Estimated	September	\$ 14,000.00	\$ 400.00	\$ 300.00	\$ 14,700.00
Estimated	October	\$ 14,000.00	\$ 400.00	\$ 700.00	\$ 15,100.00
Estimated	November	\$ 12,000.00	\$ 400.00	\$ 700.00	\$ 13,100.00
Estimated	December	\$ 12,000.00	\$ 400.00	\$ 700.00	\$ 13,100.00
		\$ 154,015.95	\$ 6,761.25	\$ 6,400.00	\$ 167,177.20

UNDERTAKING NO. J1.4: TO PROVIDE THE NUMBERS FOR THE HISTORICAL YEARS

**Response:**

Milton Hydro has provided the numbers for the historical years for both the Milton Hydro Board of Directors and Milton Hydro's share of the costs, being 98%, of the Corporate Governance and Audit Committee meetings held by the Milton Hydro Holdings Board of Directors on behalf of all companies in the following Table J1.4

**Table J1.4**  
**Milton Hydro Board Costs**

	11 Actual	2011 Test	12 Actual	13 Actual	2014 Actual	2015 Unaudited	2015 Bridge Year	2016 Test Year (as filed)	2016 Test Year Updated
Milton Hydro Distribution Inc. Board	78,123	30,181	120,884	126,663	143,310	116,306	114,474	157,225	118,791
Management Fee (Milton Hydro Holdings Inc.)	45,389	152,257	21,832	29,631	18,348	23,688	40,000	58,809	40,000
Total	123,512	182,438	142,716	156,294	161,658	139,994	154,474	216,034	158,791

UNDERTAKING NO. J1.5: TO PROVIDE THE ACTUAL COSTS FOR THE 2011 COST-OF-SERVICE APPLICATION

**Response:**

Milton Hydro has provided the actual costs for the 2011 cost of service application in the following Table J1.5.

**Table J1.5**  
**Actual One-time Costs for 2011 Cost of Service Application**

Line	Description	2011 Cost of Service	2015 Bridge Year	2016 Test Year	Amortized Over 5 Years
4	Expert Witness costs				
5	Legal costs	40,998		202,200	40,440
6	Consultants' costs	included above		173,600	34,720
7	Incremental operating expenses associated with staff resources allocated to this application.				
8	Incremental operating expenses associated with other resources allocated to this application. OEB Expert Engineering Consultant -DSP	Not Applicable		100,000	20,000
11	Intervenor costs	42,840		140,000	28,000
	Total	83,838		615,800	123,160
Line	Description	2011 Cost of Service	2015 Bridge Year	2016 Test Year	Amortized Over 2 Years
10	Customer Engagement total and amortized over 2 years	Not Applicable		79,000	39,500

UNDERTAKING NO. J1.6: TO ADVISE HOW MUCH OF THAT \$202,000 FOR REGULATORY COSTS IS RELATED TO THIS CURRENT PROCEEDING

**Response:**

The \$202,000 of Regulatory Costs in the 2015 unaudited amount includes \$45,250 in legal and consulting costs and \$60,231 for customer engagement related to Milton Hydro's 2016 Cost of Service Rate Application. The balance of the 2015 unaudited amount includes OEB fees and costs related to generic OEB proceedings.

UNDERTAKING NO. J1.7: TO PROVIDE A BREAKDOWN OF THE \$402,703 NUMBER

**Response:**

Milton Hydro has provided the following Table J1.7 which provides a breakdown of the 2011 – 2016 cost drivers which account for the 2011 – 2016 variance of \$402,703 under Finance/Board/Audit/Security.

**Table J1.7**  
**Finance/Board/Audit/Security 2011-2016 Cost Drivers**

	<b>2011 OEB Approved</b>	<b>2016 Test Year Filed</b>	<b>Variance from 2011 to 2016</b>
Board of Directors	\$ 30,181	\$ 157,225	\$ 127,044
Audit & Legal	\$ 64,631	\$ 97,500	\$ 32,869
Bank Charges	\$ 13,859	\$ 59,956	\$ 46,097
Security Audit	\$ 13,000	\$ 20,000	\$ 7,000
Billing Computer/Consulting Services	\$ 6,712	\$ 104,685	\$ 97,973
Software Maintenance	\$ 170,592	\$ 263,272	\$ 92,680
Miscellaneous Items		\$ (960)	\$ (960)
<b>TOTAL</b>	<b>\$ 298,975</b>	<b>\$ 701,678</b>	<b>\$ 402,703</b>

UNDERTAKING NO. J1.8: TO RECONCILE APPENDIX 2-JB WITH 4 STAFF 50, SO THAT THE DIFFERENCE BETWEEN MIFRS AND CGAAP IS THE SAME IN BOTH AND EXPLAIN WHAT CHANGES YOU'RE MAKING TO MAKE THEM RECONCILE.

**Response:**

Milton Hydro has updated the following Table J1.8 as filed in response to the OEB staff interrogatory 4.0-Staff-50:

- To include the 2016 Test Updated (MIFRS) for OM&A of \$10,122,447
- To correct the 2016 CGAAP for OM&A of \$8,666,602

The 2016 CGAAP reflects the adjustment of \$1,455,845 related to MIFRS for 2016.

**Table J1.8**  
**2016 Test Year CGAAP Corrected**

				As Updated from IRRs	Revised CGAAP 4.0- Staff-50 Information
OM&A Before Capitalization	2011 Actual CGAAP	2012 Actual CGAAP	2016 Test Year MIFRS	2016 Test Year MIFRS Updated	2016 Test Year CGAAP
Administration/Billing & Collections	\$ 4,341,514	\$ 4,551,872	\$ 6,168,575	\$ 6,310,037	\$ 6,310,036
Operation & Maintenance Costs	\$ 2,055,249	\$ 2,041,575	\$ 3,175,727	\$ 3,191,613	\$ 1,982,264
Operation - Stores, Fleet		\$ 355,354	\$ 313,560	\$ 313,636	\$ 111,924
Engineering Costs		\$ 1,000,680	\$ 1,069,032	\$ 1,130,668	\$ 1,718,223
<b>Total OM&amp;A Before Capitalization (B)</b>	<b>\$ 6,396,763</b>	<b>\$ 7,949,481</b>	<b>\$ 10,726,894</b>	<b>\$ 10,945,954</b>	<b>\$ 10,122,447</b>
Capitalized OM&A		2012 Actual CGAAP	2016 Test Year MIFRS	2016 Test Year Updated	2016 Test Year CGAAP
Administration		\$ -	\$ -		
Operation Costs		\$ 235,834	\$ 453,545	\$ 453,545	\$ 232,904
Operation -Fleet		\$ 58,417	\$ 201,636	\$ 201,636	\$ 111,924
Engineering Costs		\$ 893,238	\$ 168,326	\$ 168,326	\$ 1,111,017
<b>Total Capitalized OM&amp;A (A)</b>		<b>\$ 1,187,489</b>	<b>\$ 823,507</b>	<b>\$ 823,507</b>	<b>\$ 1,455,845</b>
<b>% of Capitalized OM&amp;A (=A/B)</b>		<b>14.9%</b>	<b>8%</b>	<b>8%</b>	<b>14.4%</b>
OM&A After Capitalization -	2011 Actual		2016 Test Year	2016 Test Year Updated	2016 Test Year CGAAP
<b>Total OM&amp;A After Capitalization</b>	<b>\$ 6,396,763</b>	<b>\$ 6,761,992</b>	<b>\$ 9,903,387</b>	<b>\$ 10,122,447</b>	<b>\$ 8,666,602</b>

UNDERTAKING NO. J1.9: TO BREAK OUT THE ELEVEN-FORTY-FIVE-THREE-THIRTY-FIVE BETWEEN THE MIFRS IMPACT AND THE REAL-PEOPLE IMPACT

**Response:**

Milton Hydro has broken out the 2016 Test Year total of \$1,145,335 for Engineering and Operations Administration between the MIFRS impact and the real-people impact as follows:

Real-People Impact

- Engineering direct labour \$749,995
- Stores direct labour \$ 76,743

Engineering and Stores costs were allocated to Capital and O&M under CGAAP. Under MIFRS Engineering and Stores are no longer allocated to Capital unless the costs are directly attributable to a specific Capital project.

MIFRS Impact

- Engineering non-labour costs \$150,711
- Stores non-labour costs \$167,886

Total Engineering & Operations Admin. \$1,145,335

UNDERTAKING NO. J1.10: TO EXPLAIN HOW COST DRIVERS RELATE TO THE \$635,000 INCREASE IN BILLING FINALS AND COLLECTIONS

**Response:**

Milton Hydro has provided the following Table J1.10 which explains how the cost drivers related to the \$635,000 increase in Billing, Finals and Collections.

**Table J1.10**  
**Billing, Finals and Collections Cost Drivers**

	2011 Board Approved	2016 Test Year Filed	\$\$ Variance	Comment
Direct Labour	837,322	1,111,303	273,981	2 Additional Staff and market salary adjustments
Credit Insurance	55,654	67,450	11,796	
Collection Notices	55,367	80,438	25,071	Increase in volume with customer growth
Subcontract Collections	40,273	68,237	27,964	Increased Collection Agency Support from 1 agent to 1.5 agents to deal with increase in number of customers
Computer Mtce Contract	6,712	104,685	97,973	ERTH (Northstar (CIS) Application Support), Util-assist (Sync Operator Services), ODS
Software Mtce Contract	138,831	167,445	28,614	Harris NorthStar (CIS), Kinetic (Settlement One), Loris (File Nexus), Savage (ODS)
Postage	186,901	235,158	48,257	
Additional Software Mtnce - AMI	-	135,000	135,000	Trilliant
Other insignificant variances from 2011 to 2016			- 13,198	
<b>Total</b>	<b>1,321,060</b>	<b>1,969,716</b>	<b>635,458</b>	

UNDERTAKING NO. J1.11: TO PROVIDE AN ESTIMATE FOR 2016 OM&A COST PER KILOMETRE OF LINE

**Response:**

Milton Hydro has provided the 2015 actual and an estimate for the 2016 OM&A cost per kilometre of line in the following Table J1.11

**Table J1.11**  
**OM&A per Kilometre of Line**

	U/G	O/H	Total	OM&A	OM&A Cost/ Km of Line
2015 Unaudited	433	588	1,022	\$ 9,898,207	\$ 9,690
2015 Bridge Year	433	588	1,022	\$ 10,028,886	\$ 9,818
2016 Test Year	442	589	1,031	\$ 10,122,448	\$ 9,820

UNDERTAKING NO. J1.12: TO PROVIDE A RATIONALE FOR THE INCREASE FROM THE PREVIOUS BRIDGE-YEAR FORECAST AND THE ACTUAL NUMBER

**Response:**

The increase in the 2015 unaudited cost relating to the maintenance of underground conductor in the amount of \$102,986 has increased over the 2015 Bridge Year by \$63,976 as a result of a greater than anticipated number of underground cable faults. Maintenance costs are both planned and reactive in nature and therefore variations in actual costs are possible.

UNDERTAKING NO. J1.12 (2): TO PROVIDE THE BREAKDOWN OF THE FORECAST CUSTOMER NUMBERS.

UNDERTAKING NO. J2.1: TO UPDATE TO TABLE 4-12 TO PROVIDE THE BACKUP DATA AND INFLATION NUMBER FOR 10 YEARS FROM 2006 TO 2016

**Response:**

Milton Hydro has combined Undertaking J1.12 (2) and Undertaking J2.1 into this response as both undertakings will address the same tables that are set out below.

Milton Hydro has addressed several requests that are recorded in the transcripts and recognizes that the Undertaking numbering may not be quite correct. The requests identified from the transcripts are:

Mr. Thompson (April 4<sup>th</sup>):

- Pages 141 – 142 – provide the forecast of OM&A and customer count to 2021 [Milton Hydro would note that its forecasted budget is to 2020 and provided below]. The following Table – Forecast to 2020 provides the OM&A, customer count, OM&A per customer, number of FTEs, customers per FTE and OM&A per FTE for the years 2014 Actual to 2020 Forecast.

As indicated in the Table, Milton Hydro's OM&A per Customer decreases each year following the 2015 Unaudited Actuals while the number of customers served by employee increases.

**Table J1.12 (2)**  
**Forecast to 2020**

	2014 Actuals	2015 Unaudited Actuals	2016 Test Year	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Average Number of Customers	34,592	35,498	36,672	38,172	39,672	41,172	42,672
Total OM&A (2014 per OEB Yearbook)	\$ 8,543,897	\$ 9,898,207	\$ 10,122,448	\$ 10,426,121	\$ 10,738,905	\$ 11,017,363	\$ 11,347,884
OM&A cost per customer	\$ 246.99	\$ 278.84	\$ 276.03	\$ 273.14	\$ 270.69	\$ 267.59	\$ 265.93
Number of FTEs 3,4	52	55	61.5	63.5	65.5	67.5	69.5
Customers/FTEs	665	645	596	601	606	610	614
OM&A Cost per FTE	\$ 164,306	\$ 179,967	\$ 164,593	\$ 164,191	\$ 163,953	\$ 163,220	\$ 163,279

Mr. Thompson (April 5<sup>th</sup>):

- Pages 2 – 6 – provide the OM&A and average customer counts for the years 2006 to 2016 and the OM&A per customer. The OM&A for the years 2011 – 2016 should be in CGAAP (bottom of page 5 and top of page 6). The following Table – 2006 to 2016 OM&A & Customer Counts sets out the OM&A, in CGAAP, the average customer count and the OM&A per customer.
- Pages 3 – 4 – provide the inflation numbers for 2006 to 2016. Milton Hydro has included the inflation factors as provided by the OEB for IRM applications for the years 2006 to 2016 in the same Table below.

**Table J1.12 (2)**  
**2006 – 2016 OM&A (CGAAP), Customer Counts & Inflation Factors**

	2006 Actuals	2007 Actuals	2008 Actuals	2009 Actuals	2010 Actuals	Last Rebasing Year - 2011- Actual	2012 Actuals	2013 Actuals	2014 Actuals	2015 Unaudited Actuals	2016 Test Year
Reporting Basis - CGAAP For All Years Except 2017 to 2020	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Average Number of Customers	20,418	21,810	23,911	26,252	28,233	29,814	31,405	33,199	34,592	35,498	36,672
Total OM&A (2006-2014 OEB Yearbook)	\$ 4,117,744	\$ 4,577,106	\$ 5,116,396	\$ 5,365,810	\$ 5,592,517	\$ 6,396,763	\$ 6,761,992	\$ 7,162,841	\$ 7,282,392	\$ 8,583,175	\$ 8,666,602
OM&A cost per customer	\$ 201.67	\$ 209.86	\$ 213.98	\$ 204.40	\$ 198.08	\$ 214.56	\$ 215.32	\$ 215.76	\$ 210.52	\$ 241.80	\$ 236.33
Number of FTEs 3,4	36	37	38	40	43	46	48	52	52	55	61.5
Customers/FTEs	567	589	629	656	657	648	654	638	665	645	596
OM&A Cost per FTE	\$ 114,382	\$ 123,706	\$ 134,642	\$ 134,145	\$ 130,059	\$ 139,060	\$ 140,875	\$ 137,747	\$ 140,046	\$ 156,058	\$ 140,920
		8.2%	8.8%	-0.4%							
Inflation factor (per OEB)	1.67%	1.90%	1.90%	2.30%	1.30%	1.30%	2.00%	1.60%	1.70%	1.60%	2.10%

UNDERTAKING NO. J1.13: TO EXPLAIN HOW MUCH OF YOUR OM&A WORK IS CONTRACTED OUT

**Response:**

Milton Hydro contracts out approximately \$1,637,600 of its OM&A or 16%. The decision to contract out is based on the type of work, the level of expertise required and the duration of the work. For example, Milton Hydro contracts out the following:

- Tree trimming is contracted out as this requires the expertise of an arborist which Milton Hydro does not employ;
- Pole testing is contracted out as this function is not full time and the contractor provides dedicated, trained staff;
- Underground locates are contracted out as this function is based on Town/Region/Customer requests and is not a full time activity;
- Control room functions are contracted out as this requires the expertise of control room operators and equipment which is more economical to Milton Hydro as opposed to establishing and staffing its own control room;
- Several CIS functions such as programming and maintaining the CIS compliant with regulatory changes are contracted out which more economical and efficient based on the level of expertise required.
- Collections is partially contracted to a Collection Agency who deals with both Active Accounts and written off accounts as required which is more economical than increasing staff levels.
- The School Safety Program is contracted out to a group that specializes in offering this type of program to school age students.
- Health & Safety Management program is jointly contracted out with 2 other LDCs rather than hire a Health & Safety specialist at this time.

UNDERTAKING NO. J2.2: TO PROVIDE A CALCULATION OF THE REVENUE REQUIREMENT ASSOCIATED WITH THE 5,000 SQUARE FOOT MEZZANINE.

**Response:**

Milton Hydro has provided the calculation of the revenue requirement associated with the 5,000 square foot mezzanine in the following Table J2.2. Milton Hydro has also provided the “live” Excel spreadsheet which provides the detailed calculations that make up this Table.

**Table J2.2**  
**Revenue Requirement for the 5,000 Sq. Ft. Mezzanine**

<b>REVENUE REQUIREMENT</b>		
OM&A - Hydro, Gas, Property Taxes		\$14,191
Amortization Expenses	\$282,549 / 50 yrs	\$5,651
Regulated Return On Rate Base		\$19,900
PILs (with gross up)		\$334
<b>Service Revenue Requirement for 5,000 Sq. Ft. Mezzanine</b>		<b>\$40,076</b>

UNDERTAKING NO. J1.3 (AMENDED): UNDERTAKING NO. 1.3 AMENDED TO INCLUDE THE COST FOR THE LAND PER SQUARE FOOT AND THE INSIDE STORAGE, LAND PLUS BUILDING, PER SQUARE FOOT.

**Response:**

Milton Hydro has provided the following Table J1.3 (Amended) setting out the cost for the land per square foot and the inside storage including the land and building per square foot.

**Table J1.3 (Amended)**  
**Cost of Outside and Inside Storage Sq. Ft.**

Description	Size (Sq. Ft.)	Costs	Unit Costs \$/Sq.Ft.	Inside Storage	Outside Storage
Land	304,920	\$ 4,625,000	\$ 15.17	\$ 15.17	\$ 15.17
Building Pre reno	91,828	\$ 3,390,000	\$ 36.92	\$ 36.92	
Storage Site works	29,000	\$ 500,000	\$ 17.24		\$ 17.24
Warehouse Floor	47,828	\$ 60,000	\$ 1.25	\$ 1.25	
Total				\$ 53.34	\$ 32.41

UNDERTAKING NO. J2.3: TO CALCULATE THE REVENUE REQUIREMENT RELATED TO THE 5,000 SQUARE FEET OF THIS TOTAL PROJECT

**Response:**

This is a duplicate Undertaking, please see the response to J2.2 above.

UNDERTAKING NO. J2.4: TO PROVIDE COPIES OF FLOOR PLANS FOR EACH OF THE CHISHOLM DRIVE FLOORS SHOWING WHERE THERE ARE ACTUALLY EMPLOYEES

**Response:**

Milton Hydro has provided copies of the floor plans for each of the Chisholm Drive floors showing where there are actually employees located on the FIRST FLOOR and the SECOND FLOOR layouts as follows. Milton Hydro would note that the number of employees is 42 (application states 41.5 FTEs) as Milton Hydro has one work station for an existing contract person, additional workstations would be occupied by summer students.

# FIRST FLOOR



# SECOND FLOOR

