

**Milton Hydro Distribution Inc.**

**2016 Distribution Rate Application**

**EB-2015-0089**

**OEB Staff Submission**

**April 19, 2016**

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**Introduction**

Milton Hydro Distribution Inc. (Milton Hydro) filed a cost of service application with the Ontario Energy Board (OEB) on August 28, 2015, seeking approval for changes to the rates that Milton Hydro charges for electricity distribution, to be effective May 1, 2016.

On February 9, 2016, Milton Hydro filed a settlement proposal encompassing all issues except (1) Operations, Maintenance and Administration (OM&A) costs, (2) the value of the capital addition of the new Milton Hydro building at 200 Chisholm Drive in Milton; and (3) the recovery of Milton Hydro's Lost Revenue Adjustment Mechanism Variance Account (LRAMVA).

In Procedural Order No. 5, issued on March 17, 2016, the OEB advised that, in light of the stakeholder meeting on LRAMVA calculations that had recently been announced and the policy guidance that was expected to emerge from that process, the OEB would not consider the LRAMVA issue as part of this proceeding.

An oral hearing on the remaining two issues was held on April 4 and 5, 2016.

These are the submissions of OEB staff with respect to the two issues addressed at the oral hearing. Staff notes that with the release of the Renewed Regulatory Framework for Electricity (RRFE)<sup>1</sup> report, the OEB has adopted an outcomes-based approach to regulation. The RRFE policy confirms a performance-based approach to regulation that supports the cost-effective planning and efficient operation of a distribution network. As stated in the OEB's 2015 Hydro One decision, "The OEB intends the policy to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price."<sup>2</sup> Cost of service rate-setting affords the OEB an opportunity to examine, within the context of performance-based approach to rate-setting, details regarding the costs and activities underpinning distribution rates. On this basis, the review of OM&A expenses has transitioned towards an output and program-focused review with a focus on value for customers.

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<sup>1</sup> Ontario Energy Board, Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012

<sup>2</sup> EB-2013-0416/EB-2014-0247 Decision, March 12, 2015, p. 8

## **Operations Maintenance and Administration Expenses**

Milton Hydro is requesting an OM&A amount of \$10,122,448 for the 2016 test year, up from an unaudited 2015 actual of \$9,898,208, an increase of 2.3%. Over the three year period from 2013 to 2016, OM&A has increased 20%, or approximately 6.7% per year.

Table 1 shows OM&A costs from 2011 approved to the 2016 test year. OEB staff is focusing on the major increases in 2014, 2015 and 2016, as the most recent years of cost increase, and to avoid challenges in comparability with the change to MIFRS from CGAAP in 2013.

Table 1 shows significant increases over the three year period in the Operations, Customer Service and Administration & General categories.

**Table 1**  
**Operations, Maintenance & Administration Expenses**  
**By Major Category, 2011 Approved to 2016 Test Year**

	Board Approved <b>2011</b>	Actual <b>2012</b>	Actual <b>2013</b>	Actual <b>2014</b>	Unaudited <b>2015</b>	Forecast <b>2016</b>
	CGAAP	CGAAP	MIFRS	MIFRS	MIFRS	MIFRS
<b><u>Operations</u></b>	\$ 919,982	\$ 1,056,192	\$1,949,625	\$ 2,032,644	\$2,264,236	\$ 2,456,704
year to year percentage change	-	14.8%	84.6%	4.3%	11.4%	8.5%
3 years from 2013 to 2016						26.0%
<b><u>Maintenance</u></b>	\$ 976,778	\$ 1,153,927	\$1,601,343	\$ 968,984	\$1,445,939	\$ 1,355,707
year to year percentage change	-	18.1%	38.8%	-39.5%	49.2%	-6.2%
3 years from 2013 to 2016						-15.3%
<b><u>Customer Service (Billing &amp; Collecting)</u></b>	\$1,818,688	\$ 1,805,605	\$1,912,502	\$ 2,071,192	\$2,147,383	\$ 2,329,699
year to year percentage change	-	-0.7%	5.9%	8.3%	3.7%	8.5%
3 years from 2013 to 2016						21.8%
<b><u>Miscellaneous (Community Relations)</u></b>	\$ 10,679	\$ 3,250	\$ 11,752	\$ 19,679	\$ 22,422	\$ 20,071
year to year percentage change	-	-69.6%	261.6%	67.5%	13.9%	-10.5%
3 years from 2013 to 2016						70.8%
<b><u>Administration &amp; General</u></b>	\$2,573,873	\$ 2,743,018	\$2,960,751	\$ 3,451,399	\$4,018,228	\$ 3,960,267
year to year percentage change	-	6.6%	7.9%	16.6%	16.4%	-1.4%
3 years from 2013 to 2016						33.8%
<b><u>Total OM&amp;A</u></b>	\$6,300,000	\$ 6,761,992	\$8,435,973	\$8,543,898	\$9,898,208	\$10,122,448
year to year percentage change	-	7.3%	24.8%	1.3%	15.9%	2.3%
3 years from 2013 to 2016						20.0%

Source: March 24, 2016 Update, Table 4-13 (Appendix 2-JC)

Table 2 uses the OM&A totals from Table 1, along with customer numbers and full-time equivalent staff numbers (FTEs), in the calculation of some key metrics in this application. An inflation measure is also included.

**Table 2**  
**Operations, Maintenance & Administration Expenses**  
**Customer Numbers & FTEs**  
**2011 Approved to 2016 Test Year**

Board				Approved	Actual	Actual	Actual	Unaudited	Forecast
				<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
				CGAAP	CGAAP	MIFRS	MIFRS	MIFRS	MIFRS
<b>Total OM&amp;A</b>				\$6,300,000	\$ 6,761,992	\$8,435,973	\$8,543,898	\$9,898,208	\$ 10,122,448
year to year percentage change				-	7.3%	24.8%	1.3%	15.9%	2.3%
3 years from 2013 to 2016									20.0%
<b>Customer Numbers</b> (average annual)				30,461	31,405	33,199	34,592	35,498	36,672
year to year percentage change				-	3.1%	5.7%	4.2%	2.6%	3.3%
3 years from 2013 to 2016									10.5%
<b>FTEs</b> (year end)				49	48	52	52	55	62
year to year percentage change				-	-2.0%	8.3%	0.0%	5.8%	11.8%
3 years from 2013 to 2016									18.3%
<b>OM&amp;A per Customer</b>				\$ 207	\$ 215	\$ 254	\$ 247	\$ 279	\$ 276
year to year percentage change				-	4.1%	18.0%	-2.8%	12.9%	-1.0%
3 years from 2013 to 2016									8.6%
<b>Customers per FTE</b>				622	654	638	665	645	596
year to year percentage change				-	5.2%	-2.4%	4.2%	-3.0%	-7.6%
3 years from 2013 to 2016									-6.6%
<b>Ontario Inflation (%)</b>				n/a	1.4	1.0	2.4	1.2	2.0
average of 5 years									1.6%
Source:				March 24, 2016 Update, Table 4-13 (Appendix 2-JC) and Table 4-12 (Appendix 2-L)					
				Inflation from Response to Staff IR 47, page 2: Ontario Economic Outlook - 2015 Ontario Budget					

In OEB staff's view, the RRFE calls for a distributor to demonstrate that it operates efficiently, that it will make continuous improvements over time, and that it is continually seeking out and investing in measures to improve its productivity. In OEB staff's analysis of the evidence, no performance-based evaluative metric of Milton Hydro's costs and operational statistics justifies the level of OM&A spending that Milton Hydro has requested.

Milton Hydro has demonstrated that some of its cost increases are driven by customer preferences, which were determined through consultation or feedback from customers, such as service enhancements to reduce outages and outage time. In this sense Milton Hydro has taken steps to achieve outcomes such as better communication with

customers and increased reliability. But these changes constitute only the minority of increases; many more cost increases are not directly traceable to customer preferences or enhanced service to them. Furthermore, OEB staff would also point out that the magnitude of increases in OM&A for 2014 - 2016, even while accounting for customer growth, appears to show that Milton Hydro has in fact sacrificed another important outcome --- achieving of operational effectiveness through controlling costs, even in a growth environment, to reduce the bill impact for customers and deliver services that present value to them.

In the sections that follow, OEB staff will demonstrate that Milton Hydro's proposed costs are rising faster than its growth rates warrant, that its proposed spending on staffing additions and corporate functions shows little to no evidence of a commitment to productivity and cost control, and that insufficient evidence of basic business planning supports the level of expenses planned for certain OM&A cost categories.

In some cases, as noted above, increasing costs are acceptable if there is evidence that customers value those services and if the services to customers are improved. However, OEB staff submits that many of the increases planned do not meet this criterion, and, in fact, demonstrate a decline in the value of services delivered by proposing to charge more while not delivering a demonstrable increase in value or leveraging the economies of scale afforded by robust growth.

OEB staff argues overall that an empirically observed trend reported in the OEB's cost efficiency benchmarking evaluation suggests a reduction of 9.6% to \$9.2 M. This amount would reflect a more reasonable balance of cost and value for Milton Hydro's customers and provide an appropriate set of incentives for Milton Hydro to manage its cost growth more efficiently in future years.

## **1. Performance Assessment**

In this section, OEB staff initially outlines Milton Hydro's position and provides commentary on each cost driver. OEB staff will argue that Milton Hydro has provided insufficient justification for its OM&A levels for the 2016 test year:

Rural Service Territory Adds to Costs Milton Hydro pointed out that 85% of its large service territory is rural, and explained that serving rural customers is more expensive than serving urban ones.<sup>3</sup>

OEB staff notes, however, that rural customers represent only 5% of the total number of customers.<sup>4</sup> In addition, the growth in customer numbers is found in the urban territory.<sup>5</sup>

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<sup>3</sup> Exhibit K1.2 p. 3; TR Vol. 2, p. 98.

<sup>4</sup> TR Vol. 1, pp. 55-57

Therefore the influence on the overall cost of servicing the rural territory is diminished as the utility grows.

High Growth Utility Another reason Milton Hydro has used to justify OM&A growth is that it has been a high growth utility, which Milton Hydro characterizes as “super growth”. Exhibit K1.2 pages 5 and 6 shows that customer numbers have grown from 20,418 in 2006 to 36,676 in the test year, an increase of 80%, or about 8% per year over that 10 year period.

OEB staff agrees that growth in the Milton Hydro service territory has been high, but also notes that growth does appear decline in the last few years where data is available. As shown in Table 2, customer numbers from 2012 to 2016 grow at much lower rates: 3.1%, 5.7%, 4.2%, 2.6% and 3.3%, respectively. These growth rates are significantly lower than the 8% historical average in the decade from 2006 to 2016. Furthermore, Milton Hydro’s response to Undertaking J1.12 shows projected customer growth from 2016 to 2020 at about 3.8% per year – essentially identical to the growth rate in the most recent five years. OEB staff submits that Milton Hydro’s customer growth, while robust, has clearly ceased to be as severe as it has been and shows no sign of returning to such levels; consequently, it does not justify the rate of OM&A growth. This observation applies even before applying reasonable expectations for economies of scale, which staff discusses later in this section.

OM&A Cost per Customer Comparisons Milton Hydro presented evidence that its OM&A cost per customer compares well with 11 other distributors in its previously defined cohort (Mid-sized GTA Medium High and High Undergrounding) as shown in the original evidence and also in Exhibit K1.2, page 11.

- According to its evidence, Milton Hydro’s 2014 OM&A per customer is the 9<sup>th</sup> lowest at \$243.34, slightly lower than the peer group average. Over the six year period presented Milton Hydro’s cost per customer has fluctuated above and below the peer group average.
- Milton Hydro also claimed its OM&A per customer costs were below average compared to other distributors with 25,000 to 100,000 customers.

OEB staff generally accepts that Milton Hydro has operated its utility on a reasonably efficient basis over the past several years when compared to its peer groups as presented. However, OEB staff has a concern with the 20% increase in growth of OM&A over the past three years because it shows little gain in operational efficiency

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<sup>5</sup> TR Vol. 1, p.57

and does not demonstrate the economies of scale one would expect as a distributor grows.

As shown in Table 2, OM&A over the three-year period from 2014 to 2016 grows by 20%. In the same period, customer numbers (on a yearly average basis) grow by only 10.5%. OM&A costs are growing at double the pace of customer additions.<sup>6</sup>

Also as shown in Table 2, OM&A cost per customer grows from \$254 in 2013 to \$276 in 2016, an increase of 8.7%, or about 2.9% per year.

The cost per customer increases are well above inflation, which Milton Hydro has calculated to be 1.6% annually over the five year period from 2012 to 2016. This is near the OEB's measure of inflation for Ontario distributors, which averages 1.8% annually over the same time frame.

Growth Factors and Benchmarking At Exhibit K1.7,<sup>7</sup> Milton Hydro states that it did not use any kind of growth factor to determine its test year OM&A costs. In cross-examination, Mr. Janigan referenced the Pacific Economics Group (PEG) report of July 2014.<sup>8</sup> This report, which contains empirical research that supports the OEB's incentive rate-setting plans, is the OEB's basis for evaluating cost performance of distributors. It uses analysis of costs to compare a distributor's actual costs relative to costs predicted by an Ontario-specific econometric model, enabling inferences to be drawn about a distributor's cost efficiency. It is a form of evidence-based total cost benchmarking.

In PEG's analysis, customer numbers is the dominant output-related cost driver – more significant than distribution capacity or energy served.<sup>9</sup> PEG's model determined that for the average company, for each 1% in customer growth costs increase by .44%.

As shown in Table 2, Milton Hydro's requested OM&A, when measured by the amount of customer growth it expects relative to 2014, is nearly two times customer growth: that is, in the 2014 – 2016 time period, OM&A growth is twice the growth in customer additions and four times the PEG derived factor. When asked about its performance relative to the statistical average, Milton Hydro witness Mr. McKenzie responded that the .44 factor is not relevant to Milton Hydro, as "We're completely different in customer growth."<sup>10</sup>

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<sup>6</sup> TR Vol. 1, p. 127

<sup>7</sup> Response to the School Energy Coalition Information Request 1, March 24, 2016

<sup>8</sup> Exhibit K1.6 VECC Compendium, p. 5: excerpt from the Report: Empirical Research in Support of Incentive Rate Setting: 2013 Benchmarking Update, Pacific Economics Group, July 2014

<sup>9</sup> *Ibid.* p. 9

<sup>10</sup> TR Vol. 1, p. 73

It is true that that the .44% PEG defined customer growth factor is an average and does not directly or specifically apply to Milton Hydro. It is also true that the growth factor represents the average cost change rather than the marginal cost increase predicted by a given rate of incremental customer additions. Nevertheless, OEB staff submits that the primacy the OEB places upon benchmarking to establish the reasonableness of costs<sup>11</sup> makes it incumbent on the OEB to consider the 0.44 factor when assessing whether Milton's sought-after OM&A is reasonable. OEB staff therefore submits that Milton Hydro's OM&A request of \$10.1M is unreasonable, because, if approved, its OM&A level would grow faster than its rate of customer additions. Such a cost outcome, in OEB staff's view, fails to demonstrate any of the efficiencies of scale, gains in cost efficiency, increasing productivity or continuous improvement in cost control expected under the OEB's RRFE.<sup>12</sup>

Another indication of reduced efficiency is revealed in the response to OEB Staff IR # 7, where Milton Hydro indicated that when the PEG model (which can enable distributors to project future cost performance) was used to calculate Milton Hydro's specific cost performance, it moved from a Group 2 efficiency factor to a Group 3 factor, indicating a deterioration in efficiency and cost performance.

Other Metrics One other metric that can be used to gauge a utility's progress in efficiency is the customer per FTE metric. Employee additions and related salary and benefit costs contribute the bulk of OM&A increases and are a significant cost driver for any utility. As can be seen in Table 2, Milton Hydro's Customer per FTE metric falls from 638 in 2013 to 596 in the 2016 test year, a drop of 6.6% over the period or about 2.2% per year.

In OEB staff's view this is another indication that Milton Hydro is moving in the wrong direction with regard to efficiency. A distributor with a growing customer base should be able to increase its customer per FTE levels.

A final measure that can also be used as a gauge of cost effectiveness is OM&A cost per kilometre of line, which, in Milton Hydro's case, increased by 18.7% from 2013 to 2016.<sup>13</sup> This is again far in excess of inflation over this time period.

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<sup>11</sup> Ontario Energy Board, Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012, p. 13 Table 1

<sup>12</sup> *Ibid.* p. 57

<sup>13</sup> 2013 Km of line of (994) from the OEB Yearbook, and 2016 Km of line (1,031) from response to Undertaking J1.11



For the reasons above, OEB staff submits that Milton Hydro should not be granted the applied-for OM&A amount in its 2016 rates and that a reduction is warranted. In summary:

- An overall increase in OM&A costs from 2014-2016 that is twice the increase in customer numbers, and four times the average identified in the analysis that informs the OEB's cost efficiency assessment.
- OM&A costs per customer have increased well in excess of inflation over the last four years, as have OM&A costs per kilometre of line.
- Milton Hydro's deterioration in cost performance, as measured by the PEG model's assessment of its 2016 costs. The results show a decline in performance from a Group 2 rating to a less efficient Group 3 rating.
- Milton Hydro's hiring of additional staff has contributed to a significant deterioration in its customer per FTE measure over the last three years.
- Milton Hydro's contention that costs should increase because they have a largely rural service territory does not recognize that rural customers are only 5% of their customer base and most importantly, that almost all of its future growth will take place in its urban service territory.
- Milton Hydro's comparisons to other distributors over the 2009 to 2014 period do show a better than average OM&A cost per customer, but with the increases proposed in this application, there will very likely be a deterioration in this score as Milton Hydro's OM&A cost per customer reaches \$276 in 2016, placing it among the highest cost distributors based on their 2014 reported costs.
- Milton Hydro has also relied on high customer growth over the past 10 years to justify high OM&A increases. As noted by OEB staff above, these customer increases have moderated significantly in the past several years from 8% per year to 3.5% per year and averaging about 3.8% per year from 2016 to 2020.

## **2. Assessment of Corporate Transformation Costs**

In OEB staff's view, one particular element of Milton Hydro's OM&A growth warrants more in-depth evaluation. As noted in the hearing transcript<sup>14</sup>, many of the planned

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<sup>14</sup> TR Vol. 1, p. 75 and 102

spending and investments relate to operational changes designed to support Milton Hydro's maturation from a small-to mid-size utility into a larger business. Such investments include the formalization of the internal human resource function, an increase of five management positions, an increase in billing and collections costs and bringing the metering function back in-house. These are costs, which as Milton Hydro concedes, do not necessarily serve the customer, but serve Milton Hydro "as a corporation"<sup>15</sup>. As Mr. McKenzie stated, "They don't always necessarily serve the customer, except that we have the staff to maintain our levels."<sup>16</sup>

Further evidence of increases in costs unrelated to service improvement is seen in increases of 135% over five years within finance, audit and security, including an increase in bank charges of 333%, billing computer/consulting services of 1,550% and Board of Directors cost increases of 421%.

Staffing levels have also grown and continue to do so. Including the 2016 total of 61.5 FTEs, Milton Hydro added 12.5 staff – or 25% -- in the five years from 2011 approved to 2016. In 2015 Milton Hydro intended to hire six employees but only hired three, to end up at 55 FTEs by year end. Milton Hydro proposes to continue with its plan to reach 61.5 employees in 2016. OEB staff questions why, as customer growth slows, there is still a need to hire 6.5 additional staff in 2016, after functioning in 2015 with three fewer staff than planned. In OEB staff's view, this approach may be an indication that little assessment of internal productivity and efficiency precedes any expansion plan: as Mr. McKenzie testified, regarding maintaining customer service metrics, "If we need an additional CSR to maintain that, we will do so. If we need an additional engineer person for the systems that we have, we will do that."<sup>17</sup> In OEB staff's view, the broader business strategy – and the role that staff expansion can play in it – has not been sufficiently articulated.

As another indication of large cost increases related to corporate objectives, the overall increase in administration wages totals 43% from 2013 to 2016 – an average of 14% annually and a jump of \$0.4M, or 21%, from bridge to test year.<sup>18</sup>

While these investments may help the corporation itself address the internal challenges that can come with growth and help to position it for future growth, none of these costs fundamentally alters the manner in which service is delivered to customers.

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<sup>15</sup> TR Vol. 1, p. 104

<sup>16</sup> *Ibid.*

<sup>17</sup> TR Vol. 1, p. 103

<sup>18</sup> Table 4-13, Response to the Energy Probe Information Request, March 24, 2016

OEB staff questions whether these business transformation costs ought to be recoverable through rates under the OEB's performance-based regulation (PBR) approach to rate setting.

As the RRFE report describes, performance-based rate-setting "provides the utilities with incentive for behaviour which more closely resembles that of competitive, cost - minimizing, profit-maximizing companies....Under PBR the regulated utility will be responsible for making its investments based on business conditions and the objectives of its shareholder within the constraints of the price cap".<sup>19</sup>

OEB staff notes that firms in highly competitive markets for commodity products generally do not recover their business transformation costs through the prices they receive. Any attempt to do so would diminish their market share because their prices would rise beyond the price at which other firms can meet demand. Consequently, firms may need to manage their internal transformation costs by means other than price increases in order to develop into larger, more complex firms. One of the means by which they can do so is by growth; another is by reducing dividends or other profits; another is through cross-subsidy from another business or product, an option not available to a regulated entity.

By extension, OEB staff submits that Milton Hydro's business transformation costs represent an opportunity for the utility to invest in its own productivity in the same manner that would be required of a firm in a competitive market. An appropriate, incentive-based approach to the timing and magnitude of these costs, in OEB staff's view, would be to recognize that Milton Hydro's revenues due to future customer growth could provide a revenue stream to cover these costs – especially if Milton Hydro also makes investments to realize the economies of scale that should accrue under strong customer growth conditions.

Constraining cost growth by setting a test year OM&A envelope that excludes these internal transformation costs would provide the appropriate incentive for Milton Hydro to manage its internal transformation with a focus on costs or else bear the consequences in its net income. Such an approach produces an efficient incentive while protecting customers' interests, in the same manner that competitive market pressures produce benefits for customers. OEB staff submits that the persistence of this incentive may be the very reason that Milton Hydro, despite strong growth, managed consistently to earn above its target return on equity in 2013 and 2014, the last two years for which financial data is available. Customer growth in these two years, the second and third of its IR

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<sup>19</sup> Ontario Energy Board, Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, October 18, 2012, pp. 10-11

term, is reported at 5.7% and 4.2%. According to Milton Hydro's scorecard<sup>20</sup>, its achieved ROE was 102 basis points above deemed in 2013 and 71 points the following year. Had additional corporate investments been required or committed then the funds from operations would have been available to do so.

OEB staff grants that an OM&A envelope that excludes business transformation costs may invite the counter-argument from Milton Hydro that such a decision would not allow it to recover its costs. In response, OEB staff submits that such a decoupling of costs and revenues is at the heart of any PBR regime such as the OEB's RRFE.

As the OEB stated in its decision on Hydro One's custom IR application under the RRFE, the OEB's policy for incentive rate-setting, "...with its emphasis on results, is the most effective way to incent behaviour similar to that seen in commercially-oriented, consumer market-driven companies. Incentive rate-setting differs from cost of service rate-setting in that it relies less on a utility's internal cost, output, and service quality to establish rates, and more on benchmarks of cost, output, and service quality that are external to the utility revealing superior performance and encouraging best practice."<sup>21</sup>

In OEB staff's view, the establishment of an OM&A envelope that excluded Milton Hydro's internal transformation costs would appropriately replicate commercial business conditions and encourage the superior performance envisioned as a key outcome of the RRFE. It would avoid adding costs that do little to alter service quality and would diminish operational efficiency. This is another fundamental reason, argued using the policy principles entrenched in the RRFE, why Milton Hydro's \$10.1M requested OM&A is unreasonable.

### **3. Determining an Appropriate OM&A Envelope**

In OEB staff's view, Milton Hydro's requested OM&A of \$10.1M is unreasonable when measured by the deteriorating outcomes it would entail. As staff has argued, it is also questionable whether approval of this OM&A would provide the appropriate incentives to become more efficient and productive over time, or provide the right signals to management about how to operate and staff the utility to manage the growth it has faced over the last decade and to prepare for continuing growth into the future.

In order to provide an alternative OM&A for the OEB panel's consideration, OEB staff has calculated two possible OM&A envelopes, each based on inflation and the average growth factor derived from the PEG cost efficiency benchmark.

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<sup>20</sup> 2014 Scorecard, Milton Hydro,  
<http://www.ontarioenergyboard.ca/documents/scorecard/2014/Scorecard%20-%20Milton%20Hydro%20Distribution%20Inc..pdf>

<sup>21</sup> EB-2013-0416 Decision, March 12, 2015, p. 14

The first estimate, shown in table 3 below, takes 2011 costs as its starting point, stated in CGAAP. This starting point is multiplied by customer growth and the growth factor (23% x 0.44) and escalated by inflation<sup>22</sup>. The figure is converted into an estimate of MIFRS value using the ratio of CGAAP to MIFRS in based on Milton Hydro's evidence<sup>23</sup>.

OEB staff recognizes that the advantage of the method used in Estimate 1 is a relatively long evaluation period that more fully captures changes in business conditions over time. A drawback of this approach is the requirement to convert costs to compensate for the change in accounting method.

For that reason, OEB staff has also compiled Estimate 2. It provides an illustration of the predicted envelope under stable accounting standards, but at the expense of a shorter evaluation period. It takes 2013 as its starting point; the remainder of the method is the same and requires no conversion to MIFRS.

**Table 3**  
**Estimates of Test Year OM&A**

	Starting Point	Customer Growth %	Growth Factor	Conversion	Inflation	Result	MIFRS Conversion ✓ (1.168)	% Change from Test Year	
		2011-2016							
<b>Estimate 1</b>	\$6,396,763	23.0%	0.44	10.12%	9.30%	\$7,699,218	\$8,992,506	-11.2%	
<b>2011 CGAAP</b>									
		2013-2016							
<b>Estimate 2</b>	\$8,436,973	10.5%	0.44	4.62%	5.49%	\$9,311,350	n/a	-8.0%	
<b>2013 MIFRS</b>									

OEB staff submits that these two estimates are broadly in line with each other. The average of these two approaches, which may provide a reasonable compromise between the two estimates, yields a test year OM&A amount of \$9,151,928 or a reduction of \$970,520 from the applied-for 2016 level, or a reduction of 9.6%.

This reduction would lower the OM&A per customer to \$250, below 2014 levels.

<sup>22</sup> Undertaking J1.12

<sup>23</sup> *Ibid*, OM&A provided for the 2016 Test Year in CGAAP and compared to 2016 MFRIS levels.

OEB staff is of the view that this recommended decrease in OM&A costs will work to increase the efficiency of Milton Hydro's operations, thereby increasing customer value. OEB staff notes that this method has not imposed any stretch or productivity expectations into the calculation of the OM&A envelope – costs are fully escalated in line with inflation and rise in real terms. OEB staff further notes that this base OM&A envelope will grow over the incentive rate-setting period proportional to the growth of its customer base, providing an additional stream to fund future costs. OEB staff notes as well that the continued shift toward fully fixed residential rates will reduce revenue risk associated with growth since progressively less revenue will depend on the consumption habits of its new residential customers, who, in Milton Hydro's service territory, may tend to live in newer and more efficient dwellings with newer appliances and air conditioning equipment.

While OEB staff has submitted that Milton Hydro reduce applied-for OM&A expenses on an envelope basis, staff has not recommended category-specific reductions. In addition to the corporate transformation costs discussed above, OEB staff has noted a number of other areas of spending that could be the focus of these cost reductions, including:

- In Operations, over the three year period from 2013 to 2016, OM&A increases by 26%, which is an average of 8.7% per year, while customer numbers only grow 3.5% per year over that period.
- In billing and collections, over the three year period from 2013 to 2016, OM&A increases by 31% (an average of over 10% per year), while customer numbers only grow 3.5% per year over that period. In an age of billing automation and savings to be had from e-billing, this level of increase in the past three years could be seen as excessive.

Indeed, in Undertaking J1.10 shows billing and collections costs from 2011 approved to the 2016 test year, with an increase of almost 50% over that period or an average yearly increase of 9.8%, again well in excess of inflation.

- Under the specific category of tree trimming, the 2016 budget is \$548,722, 74% higher than it was in 2013, a per year increase in the range of 25%. While Milton Hydro suffered from the ice storm in 2013, and has responded to customer concerns, this increase is significant and, in OEB staff's view, the benefits of the increased expenditures have not been well demonstrated. It does not appear that Milton Hydro is working on improving reliability as an outcome in a

systematic fashion; by contrast, Milton Hydro's goals appear vague on this front.<sup>24</sup>

It appears that Milton Hydro has not determined the appropriate tree trimming cycle for its territory nor conducted a cost benefit analysis to determine the optimal cost for reducing outages. It is also apparent that no hard reliability targets were provided to show results of this increased expenditure. OEB staff submits that its filing requirements generally call for distributors proposing to change OM&A program spending to "describe the business decision that was made to manage the cost increase/decrease and the alternatives, including associated costs, assessed by the applicant and rejected in favour of the course of action taken or proposed to be taken."<sup>25</sup> In staff's view, Milton Hydro's rationale for its changes in vegetation management does not meet this expectation.

### **Regulatory Costs**

Finally, OEB staff submits the following regarding Milton Hydro's expected regulatory costs. These one-time costs are associated with the preparation of the regulatory application and the ensuing OEB proceeding. These costs are commonly recovered from customers over the five year IRM period.

OEB staff notes that these costs have increased significantly in this application over the 2011 actual amounts. A number of cost categories and the overall total show extreme increases:<sup>26</sup>

- Legal and consulting costs increase from \$40,998 in 2011 to \$375,800 for this application, an increase of 816%.
- Intervenor costs increase from \$42,840 in 2011 to \$140,000 for this application, an increase of 227%.
- In addition, a new cost category is introduced, that of the incremental costs associated with the "OEB Expert Engineering Consultant", of \$100,000.

These all contribute to a total increase of 635%.

OEB staff submits that this application has proceeded in a smooth fashion and achieved settlement on most issues.

While there has been some expansion in the work load for filing a cost of service application given RRFE related requirements, the increases in the categories of legal

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<sup>24</sup> TR Vol. 1, p. 102

<sup>25</sup> OEB Filing Requirements for Distribution Rate Applications, Chapter 2, July 18, 2014, p. 34

<sup>26</sup> OEB Staff IR#69 and Undertaking J1.5

and consulting costs seem to be excessive. In addition, intervenor costs appear to be high, considering the above and considering that there were only three intervenors in this proceeding.

Finally, OEB staff submits that the amount of \$100,000 for an expert engineering consultant to review the Milton Hydro distribution system plan is not justified. OEB staff notes that in recent cases the OEB has not required these costs to be paid by the distributor on a stand-alone basis as part of the cost of the proceeding; rather, the costs were treated as being included in the costs to be shared by all distributors and recovered by the OEB through the assessment process under section 26 of the *Ontario Energy Board Act, 1998*. Accordingly, Milton Hydro will only bear a small fraction of the total costs of the OEB's third party review of the applicant's distribution system plan (DSP). OEB staff reports, for the purpose of clarification, that the expected total DSP review costs are expected to be in the range of \$20,000 – much less than Milton Hydro anticipated.

### **New Administration/Operations Building at 200 Chisholm Drive**

At \$14.5 M, the cost to purchase and renovate the property at 200 Chisholm Drive was one of the largest capital investments in Milton Hydro's history, if not the largest.<sup>27</sup> It therefore deserves careful scrutiny.

OEB staff submits that the building is about twice as big as what Milton Hydro needs, and that a portion of the cost should therefore not be recovered through rates.

### **Background**

OEB staff accepts that Milton Hydro needed a new facility: its lease for its former headquarters at 8069 Lawson Road was expiring and the landlord planned to take back the space.<sup>28</sup> Milton Hydro had previously acquired property at Main Street East and Fifth Line which it planned to develop into its new headquarters but as land servicing was not forthcoming in a reasonable time frame, it chose to look for other sites.<sup>29</sup>

Milton Hydro determined that it needed a 63,000 square foot building plus 65,000 square feet of outdoor storage space:

“When we were looking at what we needed from a space requirement, the initial requirements based on visitations to other utilities that had recently completed a building

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<sup>27</sup>TR Vol. 2, p. 60

<sup>28</sup>EB-2015-0089 Application, Exhibit 1, p. 31

<sup>29</sup>TR Vol.1, p. 150



was approximately a nine to 10-acre site, 26,000 square feet of administration space, 37,000 square feet of operations space, and 65,000 of outdoor storage, resulting sort of in a total of 128,000 square feet."<sup>30</sup>

After considering a number of other properties,<sup>31</sup> Milton Hydro decided to purchase and renovate an existing 91,828 square foot building at 200 Chisholm Drive on a 7 acre site. As purchased, 200 Chisholm Drive comprised 20,000 square feet of office space, a 12,800 square foot mezzanine area, and a 59,000 square foot warehouse area.<sup>32</sup>

After the renovation, Milton Hydro had 32,800 square of office space and 59,000 square feet of warehouse space. The office space area includes 5,000 square feet of open mezzanine space which has been earmarked for future office space.<sup>33</sup> Therefore, Milton Hydro is currently using 27,800 square feet for office space. In total, the renovated building is nearly 29,000 square feet larger than what Milton Hydro initially wanted (91,828 - 63,000).

However, the outside storage area measures only 29,000 square feet, 36,000 fewer than what Milton Hydro was looking for. As a result, Milton Hydro is using inside warehouse space to house equipment and material that are conventionally stored outside.<sup>34</sup>

Milton Hydro moved into the Chisholm Drive location in December 2015.<sup>35</sup>

### **200 Chisholm Drive Compared to Other Distributor Facilities**

In OEB staff's view, the building at 200 Chisholm Drive is much too large for Milton Hydro's current requirements. Compared to other electricity distributors that have recently obtained OEB approval for the costs associated with new administrative and operations centres, Milton Hydro's facility is nearly twice as large when measured by the square footage per employee. As the tables in Milton Hydro's presentation to the OEB on April 4, 2016<sup>36</sup> illustrate, 200 Chisholm Drive has 1,493 square feet per FTE.<sup>37</sup> The

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<sup>30</sup>TR Vol. 1, p. 151

<sup>31</sup>Exhibit K1.3

<sup>32</sup>*Ibid.*

<sup>33</sup>*Ibid.*

<sup>34</sup>TR Vol. 1, p. 153

<sup>35</sup>TR Vol. 1, p. 35

<sup>36</sup>Exhibit K1.3, slides 16 and 17

<sup>37</sup> This is calculated based on the forecast employee count at the end of the 2016 test year, 61.5 FTEs. There were actually only 55 FTEs when Milton Hydro moved into the building in December 2015, meaning that at the time, the square footage per FTE was 1,670. See TR Vol. 2, p. 19.

average square footage per employee of the three other distributors with combined administrative and operations facilities cited in the exhibit is only 778.<sup>38</sup>

Using the calculations from the tables referenced above, OEB staff submits that a better approximation of Milton Hydro's indoor space needs is about 48,000 square feet (778 square feet per FTE multiplied by 61.5 FTEs is 47,847 square feet).

The problem with the excess square footage at Milton Hydro's new building is encapsulated in the fact that 5,000 square feet in the mezzanine area is completely unused. It is a large empty room that was left over from the renovation of the office area due to building and fire code issues.<sup>39</sup> Milton Hydro does not expect to use the space for another five to ten years.<sup>40</sup> OEB staff submits that at a minimum, ratepayers should not be required to pay for this space, from which they derive no benefit. As OEB staff argues further below, Milton Hydro's current and future needs do not seem to support recovery of all building costs from its customers through rates.

### **Milton Hydro's Rationale for the Size of 200 Chisholm Drive**

Milton Hydro has suggested that the size (and correspondingly, the cost) of its new building is justified by its rising workforce. As Milton Hydro noted in its response to an interrogatory from OEB staff, "the property at 200 Chisholm, while larger than initially required, was the best option available as this site would accommodate future growth without requiring additional capital expenditures to construct an expansion to the building."<sup>41</sup>

OEB staff accepts that it is reasonable for utilities contemplating new headquarters to allow themselves some room to grow when they service an area where the customer population is growing. It would make little sense for such utilities to have to move or renovate every few years. Nevertheless, OEB staff submits that 200 Chisholm Drive, at nearly twice the size of Milton Hydro's current needs, provides far more than a reasonable buffer.

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<sup>38</sup> Average calculated using Waterloo North, Innisfil Hydro and Hydro Ottawa. If we compare the office portion of the Milton Hydro building with other distributors with administrative-only buildings (PowerStream and Enersource), we can see that Milton Hydro's average square footage per employee (790) is about three quarters higher than average (448).

<sup>39</sup> Exhibit K1.3 at slides 14-15.

<sup>40</sup> TR Vol. 2, p. 17

<sup>41</sup> IR 4.0-Staff-62, p. 214. OEB staff also notes that even if Milton Hydro had acquired a building with the optimal space that it was seeking (a total of 63,000 square feet), using the target 61.5 employees for the test year, this would have resulted in 1,024 square feet per employee, well in excess of the 778 average of the other distributors as calculated above.

OEB staff calculates that the size of the building could easily accommodate 118 employees (that is, 91,828 square feet divided by the 778 average square footage per FTE). By Milton Hydro's own projections, it will not approach those staffing levels for at least 15 years.<sup>42</sup> As suggested above in the section on OM&A, OEB staff questions whether those projections are overstated (or justified), as they do not appear to account for any efficiencies or economies of scale.

Another way Milton Hydro attempts to rationalize the size of the building is by insisting that because 200 Chisholm Drive does not have enough outside storage space, it must store some equipment and material indoors. Fully 36,000 square feet (about 40%) of the building is currently used for storing equipment and material that could be – and indeed used to be – stored outside.<sup>43</sup>

OEB staff submits that this is not an optimal or efficient use of space. Milton Hydro could not point to any other utility that uses as much indoor space for this type of storage.<sup>44</sup> Milton Hydro has not explained persuasively why much of the equipment and material now stored inside could not be stored outside, at another, less expensive, outdoor yard. Milton Hydro indicated that it is convenient to have all supplies and stores at one site.<sup>45</sup> That may be true, but OEB staff submits that the OEB should evaluate whether that convenience is justified by the high premium Milton Hydro is paying – and which it asks to pass on to ratepayers as the inside storage is 65% more expensive than outside storage.<sup>46</sup> Other utilities manage with separate administrative and operational facilities, as the tables in Milton Hydro's presentation suggest, and Milton Hydro itself made do with separate sites before the administrative and operational facilities were consolidated at 200 Chisholm Drive.<sup>47</sup>

While Milton Hydro may eventually grow into the space, OEB staff submits that the excess space could have been rented out for the interim. The evidence shows that Milton Hydro has made no effort to rent out any part of the property. Nor did it even consider, when undertaking the renovation, how to configure the building in a way that would make it most marketable to potential tenants.<sup>48</sup> Milton Hydro's approach can be contrasted with Innisfil Hydro's. In designing its new building, Innisfil Hydro left itself

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<sup>42</sup>Exhibit K1.2, OM&A presentation, indicates that at the current growth rate, Milton Hydro will have 113 employees in 2031 (at slide 22). Exhibit K1.3, 200 Chisholm Building presentation, projects 69.5 FTEs in 2021, which suggests a slower rate of employee growth.

<sup>43</sup>TR Vol. 2, pp. 28 and 39.

<sup>44</sup>TR Vol. 2, p. 41

<sup>45</sup>TR Vol. 2, pp. 28-30

<sup>46</sup>Undertaking J1.3, shows that at 200 Chisholm Drive, the cost of inside storage is \$53.34 per square foot, compared to \$32.41 for outside storage.

<sup>47</sup>TR Vol. 2, p. 30-31

<sup>48</sup>TR Vol. 2, pp. 31 and 71

some room to grow, but also ensured that the excess space could be rented out in the meantime.<sup>49</sup>

### **How Much of the Cost of the Facility Should be Recovered from Ratepayers?**

Evidence that Milton Hydro's administration and operations centre may be nearly twice as large as necessary raises the issue of whether it ought to recover the full cost of its new facilities through the rates it charges.

OEB staff submits that Milton Hydro should only recover an amount equivalent to what it would have paid for an appropriately sized building, that is, a 47,800 square foot building. In other words, the difference between what Milton Hydro actually paid for 200 Chisholm Drive and the amount it would have paid for a 47,800 square foot building should not be passed on to ratepayers.

In order to estimate how much an appropriately sized building would have cost, OEB staff suggests multiplying 47,800 square feet by the average price per square foot paid by other distributors for their buildings, with an allowance made for inflation.

OEB staff submits that this approach is preferable to simply multiplying 47,800 square feet by the price per square foot actually paid by Milton Hydro to purchase and renovate 200 Chisholm Drive, namely \$158 per square foot, as it would avoid penalizing Milton Hydro for having paid a relatively low price on a per square foot basis for 200 Chisholm Drive. The \$158 paid by Milton Hydro was the lowest of any of the comparator facilities.<sup>50</sup>

OEB staff's suggested approach raises two methodological issues: which distributors to use as comparators, and how to account for inflation. On the first issue, OEB staff submits that of the five distributor facilities for which data are available, only those that either (a) represent a combined administrative/operations facility, like Milton Hydro's (as opposed to a purely administrative office building), or (b) represent a retrofit, like Milton Hydro's (as opposed to a new build), should be included. Waterloo North, Innisfil and Hydro Ottawa meet the first criterion; Enersource meets the second.<sup>51</sup> The only distributor in the data set that meets neither of the criteria is PowerStream.

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<sup>49</sup> EB-2014-0086, Innisfil Hydro Business Plan 2012 at p. 28 (Appendix H to Innisfil Hydro Response to Interrogatories, October 16, 2014): "The building design incorporated some extra space for anticipated future growth needs. This space is designed in a way that it could be leased out to a commercial party until required."

<sup>50</sup> Multiplying 47,800 square feet by \$158 per square foot yields a value of \$7,552,000, or nearly \$7M less than what Milton Hydro actually paid.

<sup>51</sup> Exhibit K2.1

In cross-examination, Milton Hydro suggested that Hydro Ottawa be omitted from the cost per square foot comparison, because the costs approved by the OEB in that case did not represent the final costs of the building, which was still under construction.<sup>52</sup> OEB staff disagrees, and argues that the OEB's recent decision on Hydro Ottawa's building cost envelope represents the most recent and a relevant example of a finding of a prudent amount of cost for a given set of analogous parameters. OEB staff concedes that while Hydro Ottawa will have recourse in the future to argue that additional spending may be recovered from customers if it can be shown to have been prudent, this does not diminish the relevance of a finding of prudence based on the evidence before the OEB at the time it made its decision.<sup>53</sup>

On the inflation issue, there is no evidence on the record as to whether and how much construction costs and property values in the relevant Ontario communities have risen since the facilities were developed. In the absence of such evidence, OEB staff has applied Statistics Canada's non-residential building construction price index (CPI), recognizing on the one hand that the CPI is not a perfect proxy for actual inflation but on the other hand that it may not be fair to Milton Hydro to compare it to a distributor that incurred costs a few years ago without making some allowance for inflation.

The results of the OEB staff analysis is shown in Table 4 below:

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<sup>52</sup> TR Vol. 2, p. 24

<sup>53</sup> EB-2015-0004, Decision on Settlement Proposal and Procedural Order No. 1, November 23, 2015

**Table 4**  
**Selected Distributors and Building Costs**

			Waterloo North EB-2010-0144	Enersource EB-2012-0033 Granted	Innisfil EB-2014-0086 Settlement	Hydro Ottawa EB-2015-0004 Granted	
			New Admin/Ops	Retrofit Admin	New Admin/Ops	New Admin/Ops	
	Function						
	\$/Square Foot		\$ 255	\$ 228	\$ 301	\$ 206	
	Inflation Adjustment		5.06%	2.91%	0.71%	0%	
	Adjusted Sq. Ft. Cost		\$ 268	\$ 235	\$ 303	\$ 206	
	Average of Adjusted Sq. Ft. Cost (1)		Average of Adjusted Sq. Ft. Cost (2)				
	Waterloo Nrth	268	Waterloo North		268		
	Innisfil	303	Innisfil		303		
	Enersource	235	Enersource		235		
			Hydro Ottawa		206		
	Average	269			Average	253	
	Apply to 47,800 sq. ft. =	\$12,858,200	Apply to 47,800 sq. ft. =		\$12,093,400		
	Note: Inflation adjustment based on Statistics Canada price index of Non-residential Building Construction.						
Source: Exhibit K2.1							

In the table, OEB staff has provided two scenarios of average costs, after inflating costs to address the timing differences in the building projects.

Using costs in Waterloo North, Innisfil and Enersource in the sample, the average cost per square foot is \$269. This yields a cost of \$12.9M when applied to the 47,800 square feet that OEB staff determined is the appropriately-sized building for Milton Hydro. Similarly, if the sample is expanded to include Hydro Ottawa, the average cost per square foot is reduced to \$253, and the resulting building cost is reduced to \$12.1M.

The first result implies a reduction of the applied for building cost amount of \$1.6M (the difference between the building cost of \$14.5M and the \$12.9M predicted), or 11%. The second results in a reduction of \$2.4M, or 17%.

## Disallowance vs. Imputing Rent

In the event that the OEB reduces the building cost to be recovered in rates, the panel has the ability to determine whether the reduction ought to be made to the amount closed to rate base or to the revenue requirement.

In its December 13, 2012 decision in the Enersource Hydro Mississauga Inc. (Enersource) case, the OEB disallowed \$2M, or 10% of the overall \$20M cost of Enersource's new office building. That \$2M was held to represent "the excess space which has not been justified and which the Board consequently finds to be imprudent."<sup>54</sup>

The OEB chose to disallow a portion of the capital cost rather than to impute rent. The OEB explained:

"SEC has proposed that the Board should impute rent for the excess space. The Board will not adopt this approach. The Board regulates the distribution activities of Enersource and it would not be appropriate to render a decision that implies that the company should expand its scope to leasing facilities. This is not to say that the company could not have adopted the approach of renting out excess space until it is required for distribution activities. However, such an approach is potentially complex and in the absence of a proposal from the company to do so, the Board finds that it would be inappropriate to essentially mandate such an approach."<sup>55</sup>

A different approach to dealing with surplus space was taken in the Innisfil Hydro Distribution Systems Limited (Innisfil Hydro, now InnPower Inc.) case.<sup>56</sup> There the OEB accepted a settlement proposal whereby the parties agreed that Innisfil Hydro would rent out any excess space at its new administration and operations centre.<sup>57</sup> It was estimated that there was 5,630 square feet of excess space, which would earn just over \$100,000 in annual rental income.<sup>58</sup> That rental income would be included as a revenue offset in Innisfil Hydro's next cost of service or Custom Incentive Rate application on a prospective basis.<sup>59</sup>

OEB staff takes no position on which of these two approaches is preferable in the case at hand. What matters, in OEB staff's view, is the outcome for ratepayers: they should not be required to pay through rates for building space that Milton Hydro does not need.

OEB staff notes that Milton Hydro's evidence is that it is not able to rent out any part of 200 Chisholm Drive, even the empty 5,000 square foot mezzanine area, without

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<sup>54</sup>EB-2012-0033 Decision and Order, December 13, 2012, p. 18.

<sup>55</sup>*Ibid.*

<sup>56</sup>EB-2014-0086 Decision and Rate Order, December 4, 2014.

<sup>57</sup>*Ibid.* p. 8.

<sup>58</sup>EB-2014-0086, Interrogatory SEC-10-3.3.1, October 16, 2014, p. 23.

<sup>59</sup>Decision and Rate Order dated December 4, 2014 (EB-2014-0086), pp. 9 and 12.

undertaking further renovations.<sup>60</sup> However, OEB staff submits that Milton Hydro's failure to consider, at the initial stages of planning for the new facility, renting out any part of it, calls into question the prudence of its acquisition and renovation of 200 Chisholm Drive.

### **The Sentinel Light Issue**

In its February 16, 2016 submission on the settlement proposal, OEB staff expressed a concern regarding the bill impact for the Sentinel Light class of customers. Under the proposal, the total bill for that class would have risen by 144.2%, which in OEB staff's view was unreasonable.

In response to this concern, Milton Hydro and the intervenors filed an addendum to the settlement proposal on April 7, 2016. Under the revised settlement proposal, Milton Hydro recalculated the bill impact using more realistic assumptions, which reduced the bill increase from 144.2% to 82.2%. Because that is still higher than the 10% threshold that triggers the need for a mitigation plan under the OEB's filing requirements, Milton Hydro has agreed, as part of the settlement, to phase in the increase over three years to mitigate the total bill impact to 27.05% for the Sentinel Light class in 2016, or \$3.64 per month. While this is still above the OEB's 10% threshold, in OEB staff's view, the low dollar amounts makes this acceptable. This mitigation measure would have only a minimal impact on other rate classes.

The revised settlement proposal adequately addresses the concern raised by OEB staff.

-All of which is respectfully submitted.-

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<sup>60</sup> TR Vol. 2, p. 71.