



THE BOARD OF DIRECTORS

Chair, GAIL REGAN
President, Cara Holdings Ltd.

President, PATRICIA ADAMS

MAX ALLEN

Producer, IDEAS, CBC Radio

ANDREW COYNE

Columnist, National Post

GLENN FOX

Professor of Economics, University of Guelph

IAN GRAY

President, St. Lawrence Starch Co.

CLIFFORD ORWIN

Professor of Political Science, University of Toronto

Secretary/Treasurer, ANNETTA TURNER

ANDREW ROMAN

Barrister & Solicitor, Miller Thomson

ANDREW STARK

Rotman School of Management, University of Toronto

GEORGE TOMKO

Resident Expert, PSI Initiative, University of Toronto

MICHAEL TREBILCOCK

Chair, Law & Economics, University of Toronto

MARGARET WENTE

Columnist, The Globe and Mail

April 19, 2016

BY EMAIL & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2015-0089
Milton Hydro Distribution Inc. --- 2016 COS Application
Energy Probe – Submissions

Pursuant to a letter from the Board, dated April 13, 2016, extending the date for the filing of submissions by Board staff and intervenors, please find attached the Submissions of Energy Probe Research Foundation (Energy Probe) in the EB-2015-0089 proceeding for consideration by the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. Frank Lasowski, Milton Hydro Distribution (By email)
Mary-Jo Corkum, Milton Hydro Distribution (By email)
Cameron McKenzie, Milton Hydro Distribution (By email)
James Sidlofsky, Borden Ladner Gervais LLP (By email)
Randy Aiken, Aiken & Associates (By email)
Parties of Interest (By email)

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

EB-2015-0089

Milton Hydro Distribution Inc.

**Application for electricity distribution rates and other
charges effective May 1, 2016.**

**SUBMISSIONS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

April 19, 2016

**MILTON HYDRO DISTRIBUTION INC.
2016 RATES CASE
EB-2015-0089**

SUBMISSIONS OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

Milton Hydro Distribution Inc. ("Milton Hydro") filed an 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. The OEB issued an approved issues list for this proceeding on January 20, 2016. A settlement conference was held on January 25 and 26, 2016 and Milton Hydro filed a Settlement Proposal between all parties to the proceeding on February 9, 2016.

The Settlement Proposal reflected a partial settlement of the issues in this proceeding. The issues that were not settled were:

- a) Operations, Maintenance and Administration ("OM&A") expense for the test year,
- b) The value of the capital addition of the new Milton Hydro building at 200 Chisholm Drive, Milton, Ontario, and
- c) Recovery of the 2011 – 2014 Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA").

On March 17, 2016, the OEB issued a procedural order wherein it agreed with submissions that until further policy guidance was provided by the OEB, it would be premature to approve Milton Hydro's disposition of the LRAMVA on a final basis. The OEB determined that it would not consider this issue within the current application.

In the same procedural order, the OEB ordered the parties to propose a revision, if they wished, to the settlement proposal as it related to the bill impact of the sentinel light class. Milton Hydro filled an addendum to the Settlement Proposal on April 7, 2016. As noted in that addendum, the parties, including Energy Probe Research Foundation ("Energy Probe"), agree that the revision is appropriate and recommend its acceptance by the OEB.

The following are the submissions of the Energy Probe Research Foundation ("Energy Probe") with respect to unsettled issues related to OM&A and the new Milton Hydro building.

B - SUBMISSIONS

a) Operations, Maintenance & Operations

i) General Comments

Milton Hydro is one of the fastest growing electric distributors in Ontario in terms of customer growth. In fact, Milton Hydro calls the growth "super growth model" (Tr. Vol. 1, pages 12-13 & Exhibit K1.1, page 2) and that this growth is expected to continue into the foreseeable future. Energy Probe notes that there is no evidence in this proceeding to support the contention that this level of growth is expected to continue into the future. Milton Hydro has introduced a customer forecast in the response to Undertaking J1.12. However, Energy Probe and other parties have not had an opportunity to test these figures. The evidence in this proceeding is clear for the test year relative to the past number of years. As can be calculated based on the figures shown in Exhibit K1.5, Table 4-12, the growth in the number of customers has fallen significantly, from 5.3% in 2012 and 5.7% in 2013 to 4.2% in 2014 and 2.6% in 2015. The forecast for 2016 is an increase of 3.3%. In other words, customer growth is on average, just under 3.0% in the bridge and test years compared to an average of 5.5% in 2013 and 2014.

In the direct evidence, Milton Hydro stated that it has no comparators in terms of growth in the province (Tr. Vol. 1, page 13). Of course, Milton Hydro then proceeded to provide a number of comparisons to various peer groups in the remainder of its direct evidence with respect to the OM&A (Tr. Vol. 1, pages 13-23). Milton Hydro did agree that it has benefited from significant economies of scale relative to other distributors that have not experienced the level of growth of Milton Hydro and this was reflected in the OM&A cost per customer ratio (Tr. Vol. 1, page 50).

Unfortunately, these economies of scale are not reflected in the actual and forecasted OM&A costs of Milton Hydro. In fact, Energy Probe submits that Milton Hydro has reflected diseconomies of scale.

Energy Probe does agree with Milton Hydro that it has no comparators in the province, given the strong customer growth. Even though this growth is slowing, as noted above, the growth in the bridge and test years remains strong relative to other distributors in Ontario. As a result, Energy Probe submits that any comparison between Milton Hydro and other peer groups is not appropriate. The best benchmarking of Milton Hydro is with itself, given the several years of super growth that it has experienced.

Energy Probe has provided submissions on the OM&A based on two approaches. The first is on an envelope basis, based on inflation, customer growth, expected productivity gains, and a stretch factor. The second is based on specific cost items. Energy Probe also provides submissions on the reasonableness of the increase in OM&A costs requested by Milton Hydro.

Based on these two approaches, which follow, Energy Probe submits that the Board should reduce the test year OM&A expense request by an amount in the range of \$800,000 to \$900,000.

ii) The Envelope Approach

Energy Probe submits that the Board should use an envelope approach in determining what a reasonable increase in OM&A expenditures is appropriate for the test year. Further, Energy Probe submits that this approach should take into consideration past actual expenditures, rates of inflation, base productivity and customer expectation with respect to stretch factor gains. In addition, Energy Probe submits that the approach needs to adjust actual expenditures for accounting changes, for one-time costs and for major changes in the operation of the distributor.

Energy Probe has developed a comprehensive model for reviewing OM&A expenses. This model has been provided in Appendix 1 to this submission. The following submissions are reflected in the figures provided in Appendix 1 and the references in what follows to line numbers are to the line numbers in Appendix 1. The submissions have also been separated into the four Sections shown in Appendix 1.

Section 1 - Adjustments to OM&A

Before an envelope approach to OM&A can be used to evaluate the forecast, it must be determined what costs are included in the envelope, and what costs are outside of the envelope.

Energy Probe submits that what should be included in the envelope are the expenses that reflect the normal operation of the distributor. These are generally all of the OM&A expenses incurred by a distributor, after adjusting for specific items that have been identified. These specific items include the removal of any one-time costs that have been incurred historically, but are not expected to be incurred in the test year, such as costs related to ice storm costs. An adjustment should also be made to both the historical, bridge and test years to reflect any significant changes in the operation of a distributor. These changes include accounting changes such as the change from CGAAP to MIFRS

and any other changes in capitalization policy or any significant changes to the way that a distributor operates.

Section 1 of Appendix 1 reflects the adjustments to the OM&A expenses of Milton Hydro. Section 1 is further subdivided into three parts: lines 8-11, lines 13-16 and lines 18-21.

In the first part, the final total OM&A expenditures and forecasts are taken from the updated evidence. In particular, line 8 reflects the updated information provided in Table 4-12 in Exhibit K1.5, including the updated OM&A request of \$10,122,448 for the 2016 test year and the \$9,898,207 based on the unaudited actuals for 2015.

However, as the OEB is aware, Milton Hydro, like all distributors, converted from CGAAP to MIFRS. Milton Hydro converted in 2013. The impact of this conversion is a significant increase in OM&A costs, as less costs can be capitalized under MIFRS than under CGAAP. Line 9 shows the adjustment for MIFRS in 2013 through 2016 taken from Table 4-8 in Exhibit K1.5. The figures shown in Appendix 1 reflect the additive nature of the cost driver information found in Table 4-8, as confirmed by Mr. McKenzie (Tr. Vol. 1, page 28). A further adjustment is needed for 2015 (line 10) to reflect the unaudited actuals. This results in the total OM&A figures on a CGAAP basis shown in line 11, which match the OM&A figures provided on a CGAAP basis in Table J1.12 (2) in Undertaking J1.12 (2).

The second part of the adjustments to OM&A reflects the removal of one-time costs in the historical and bridge years. There is no need for adjustments to one-time costs in the test year, as Milton Hydro has already amortized any such costs (such as the regulatory costs for this cost of service application) over the five year term of the IRM.

Energy Probe submits that there are three adjustments that should be made to reflect one-time costs or accounting entries. The first of these is the double counting of the regulatory costs associated with this cost of service application, which will be recovered on an amortized basis over a five year period beginning in 2016. This adjustment is shown on line 13 and is based on the response to Undertaking J1.6 where it is indicated that a total of \$105,481 in costs related to this application were included in the 2015 unaudited actuals. Energy Probe submits that this removal is necessary to avoid double counting this amount in 2015 and then including it in the amounts to be recovered over the 2017 to 2021 period.

The second adjustment deals with the ice storm costs (line 14). These costs were actually included in a deferral account and recovered through a Z factor application.

However, for accounting purposes, \$500,000 was added to the 2013 expenses, with a reversal of this amount in 2014. As such, Energy Probe has removed the \$500,000 added to the 2013 expense and added it back in for 2014. This eliminates the impact of the ice storm in these years.

The third adjustment (line 15) removes the one-time cost incurred in 2014 and 2015 associated with the financial system upgrade. Mr. McKenzie agreed that this was a one-time cost (Tr. Vol. 1, page 30).

Line 16 in Appendix 1 reflects the OM&A expense, adjusted to CGAAP, net of these one-time adjustments.

The third part of the adjustments reflect major changes at Milton Hydro that Energy Probe submits need to be reflected in the calculation of the envelope.

There are two adjustments that Energy Probe submits should be made. The first is related to the control room expense (line 18) and the second is associated with the move from renting office space at the Lawson Road facility to the new office building on Chisholm Drive. These expenses include both rent (line 19) and building expenses (line 20).

The control room expense is a new cost that began in 2014 and is increasing in costs in 2015 and 2016. The majority of these costs is associated with payments to Guelph Hydro for the provision of control room services. Milton Hydro initiated such coverage in 2014 with an 8 hour per day service, which increased to 16 hour service and is forecast to move to 24 hour service in 2016. Energy Probe has no issue with these costs, which are associated with a significant improvement in service. Since this is a new service, however, it should be removed from the envelope of expenses.

The building related OM&A costs (rent and building expenses) should also be removed from the OM&A envelope. The movement from the Lawson Road facility to the Chisholm Drive facility reflects a significant change for Milton Hydro. Instead of renting, it now owns its facilities. Instead of having two locations (Lawson Road and the land at 5th and Main Street), Milton Hydro has consolidated its operations at the Chisholm Drive facility. This means that any comparison between forecasted costs and historical costs for rent and building expenses is meaningless. Energy Probe submits that these costs need to be removed from the OM&A envelope and dealt with separately. Energy Probe makes submissions on these costs under part b) New Premises, below.

Line 21 in Appendix 1 shows the resulting total OM&A based on CGAAP and the removal of one-time costs and major changes discussed above.

Line 22 shows the percentage change in the OM&A expenses on a year to year basis of this adjusted amount. Line 23 shows the average annual compound rate of increase in this envelope from 2011 to 2016, being 6.43%.

Section 2 - Customers

One of the drivers in the change in the envelope of the OM&A costs is customer growth. Section 2 shows the number of customers for each year, taken from Table 4-12 in Exhibit K1.5 (line 27), along with the annual growth in customers (line 28) and the average annual compound rate of increase in the number of customers from 2011 to 2016, being 4.23% (line 29).

Energy Probe submits that these average annual compound increases should sound some alarms. The growth in the adjusted OM&A of 6.43% per year is significantly higher than the growth in customers of 4.23% over the 2011 to 2016 period.

The difference of 2.20% is higher than the rate of inflation over this period (line 33), which, on a compound annual basis, is 1.80%. In other words, the OM&A increase at Milton Hydro is higher than the sum of customer growth and inflation combined. There are no net productivity gains over the 2011 through 2016 period. There are no net stretch factor benefits for customers over this period either. Most alarmingly, however, is that there are absolutely no economies of scale being achieved. This is discussed further in Section 4 below.

Section 3 - Escalators

Section 3 of Appendix 1 reflects the components of the overall escalators that Energy Probe believes that the OEB should take into consideration when evaluating changes in the adjusted OM&A envelope. These factors include inflation, base productivity, stretch factors and customer growth.

Energy Probe has used the inflation factors (line 33), base productivity (line 34) and stretch factors (line 35) based on the OEB policy related to setting price caps, which in turn is based on external benchmarking.

The inflation rate is reflective of the response to Undertaking J1.12 (2) which reflects the mix of labour related and non labour related costs, as determined by the OEB each year.

Energy Probe submits that this is an appropriate inflation rate to use in the envelope calculations, since it represents a good external benchmark for all distributors in Ontario.

The base productivity also reflects an external benchmark, as utilized by the OEB in the setting of rates. The 0.72% figure in both 2012 and 2013 reflects the OEB determined base productivity in the third generation IRM model and the 0.00% shown for 2014 through 2016 reflect the OEB determined figures for the fourth generation IRM model.

The stretch factors for 2012 through 2015 reflect the actual cohort rankings for Milton Hydro as calculated by Pacific Economics Group ("PEG") each year and published by the OEB. The 2016 forecast reflects the Milton Hydro forecast as provided in the response to Interrogatory 1-Staff-7.

A key point to note here is that Milton Hydro has consistently been in the middle cohort in all years, except for 2015, when it was in the second best cohort. Milton Hydro has provided information that would suggest it has a low OM&A cost per customer relative to other distributors as well as a high customers per employee ratio relative to other distributors. The facts are, however, Milton Hydro is an average cost performer on an overall basis.

Energy Probe submits that one of the reasons why Milton Hydro is an average performer is that it is a fast growing distributor. This means that its capital expenditures are relatively high compared to past expenditures, meaning rate base is relatively new compared to other distributors. This also means that the capital costs (return on capital, depreciation and PILs) are likely relatively high for Milton Hydro compared to many other distributors that have an older, more depreciated rate base. However, Energy Probe submits that the relatively new rate base for Milton Hydro should be reflective of lower operating and maintenance expenses. However, this does not seem to be the case.

The final component of the escalator is the growth in customers and how that impacts the growth in OM&A. This relationship has been estimated by PEG and is used in their model that is used for benchmarking distributors and determining which cohort in which they reside. In particular, in the *"Empirical Research in Support of Incentive Rate-Setting: 2014 Benchmarking Update"* Report to the Ontario Energy Board dated July 2015, PEG states (page 6) that for the average company, the number of customers is a more important cost driver than the kWh delivered and capacity combined. The report then states that for the average company, for each 1% change in the number of customers, costs were estimated to change by 0.44%.

Energy Probe submits that it is important to understand the context of the PEG report. At page 2 of the report the benchmarking methodology is described as follows:

"The model used to determine the cost efficiency of distributors is based on econometrics. Distributor cost in this model is estimated as a function of business conditions faced by each distributor. These business conditions include the number of customers served and the price of inputs such as labor and capital. The parameters of this model establish the relationship between each business condition and distributor cost. These parameters were estimated using Ontario LDC data from 2002-2012.

The model can make a prediction of each distributor's cost given its business conditions by multiplying the company's business condition variables by the model parameters and summing the results." (emphasis added)

When asked if the 0.44% could be used for Milton Hydro, Mr. McKenzie stated that he understood the calculation, but that Milton Hydro was not your average utility as far as the PEG report goes because they are completely different in customer growth. He concluded that he would not say that the 0.44% was even relative to Milton Hydro (Tr. Vol. 1, page 73).

Milton Hydro did, however, file the PEG model in support of its position that it would be in the third cohort for the stretch factors in the 2016 test year in response to Interrogatory 1-Staff-7 and the Information Request for Oral Hearing of Energy Probe request 2 which was filed with the Board on March 24, 2016.

Mr. McKenzie did agree that the PEG report filed by Milton Hydro used parameters that were specific to Milton Hydro (Tr. Vol. 1, page 51). Milton Hydro did not file any other evidence related to the marginal impact on OM&A of a 1% change in the number of customers (Tr. Vol. 1, page 50).

A review of the PEG model shows that in place of the 0.44% factor noted in the PEG report for the average distributor, the specific Milton Hydro figure is 0.4582 (Table 2014 Forecasting, cell J164). In other words, an increase of 1% in the number of customers at Milton Hydro would increase OM&A costs by 0.4582%. This figure is shown on line 37 in Appendix 1 and is multiplied by the customer growth shown on line 28 to come up with the impact on the overall escalators for each of the years shown.

Energy Probe submits that use of this figure of 0.4582 is appropriate, as it is specific to Milton Hydro, has a solid foundation in its estimation and is the only factor on the record in this proceeding.

The resulting total escalator for each of 2012 through 2016 is shown on line 38 and is the sum of the inflation rate less the base productivity, less the stretch factor offset plus the increase due to customer growth.

Section 4 - OM&A Growth at Escalator

Section 4 in Appendix 1 applies the escalators calculated in Section 3 to the historical actual costs (and to the 2011 Board Approved figure) to bring them up to 2016 costs. In particular, Section 4 provides 6 separate calculations, using different starting points - 2011 Board Approved, 2011 actual, 2012 actual, 2013 actual, 2014 actual and 2015 unaudited actual - and applying the appropriate escalators to the starting point. As an example, line 50 starts with the actual adjusted OM&A expense of \$6,224,774 (from line 21) and increases it by the 2013 escalator of 3.01% (line 38), followed by an increase of 3.32% for 2014, 2.65% for 2015 and 3.32% for 2016. This results in a 2016 figure of \$7,032,195. Line 51 shows the adjusted 2016 test year request of \$8,030,369, taken from line 21. Line 52 shows the reduction necessary (\$998,174) for the 2016 figure to match the calculated figure based on the 2012 starting point. Similar calculations are done for all of the other starting points.

Energy Probe submits that it would not be reasonable to pick only one starting point to compare and contrast to the 2016 requested OM&A. This is because any individual year can be influenced by decision made in that year or in a previous year. For example, the cost associated with employees could vary from year to year to vacancies, timing of hiring, timing of retirements, maternity leaves, sick leaves and so on.

Energy Probe submits that using the average of all of the available starting points, which is shown on line 66, is more appropriate. This averages out any ups and downs from one year to another and gives a better long term view of the OM&A costs.

As shown on line 66, this average would result in a reduction of just over \$915,000 in the adjusted OM&A forecast for the 2016 test year. Any changes in building expenses would be over and above this amount, since the building expenses were removed from the adjusted OM&A. As noted above, Energy Probe has no issues with the control room costs forecast for 2016 which are also outside of the adjusted envelope.

iii) MIFRS Impact Uncertainty

In the analysis in the above section, Energy Probe has assumed that the CGAAP based figure provided in Undertaking J1.12 are the correct figures, but notes the issues identified in the submissions of the School Energy Coalition ("SEC") with the response to Undertaking J1.8 and whether or not the impact of the overhead capitalization policy of moving from CGAAP to MIFRS is correct. As a result, Energy Probe has performed the same analysis on the 2013 through 2016 data. Each of these years is already shown on a MIFRS basis, so no adjustment is needed to adjust them to a CGAAP basis, which was done to ensure the comparisons were done under the same accounting basis.

This analysis, which is shown in Appendix 2, is the same as in Appendix 1, except that the 2011 Board Approved, 2011 and 2012 actual data has been removed because it is not on a MIFRS basis. In addition, since the analysis is being done on a MIFRS basis, no adjustments are needed on lines 9 and 10.

As shown on lines 22 and 29 of Appendix 2, the average annual increase in adjusted OM&A on a MIFRS basis after removing the one-time costs and the control room and building expenses is 8.65%, while the annual growth is customers over this same period is 3.37%. Inflation over this period is under 2% per year on average, indicating that the OM&A cost is rising significantly faster than customer growth plus inflation.

Rather than having 6 comparison points to evaluate the 2016 OM&A forecast, there are only 3, being 2013, 2014 and 2015 starting points. The average result, as shown on line 66 is a reduction of just under \$800,000.

iv) Specific OM&A Expenses

The following is a list of expenses that Energy Probe submits supports the magnitude of the reduction using the envelope approach discussed above. This list is not intended to be comprehensive, but to reflect the opportunities for the cost reductions that Energy Probe submits would be reasonable.

1. Number of Employees

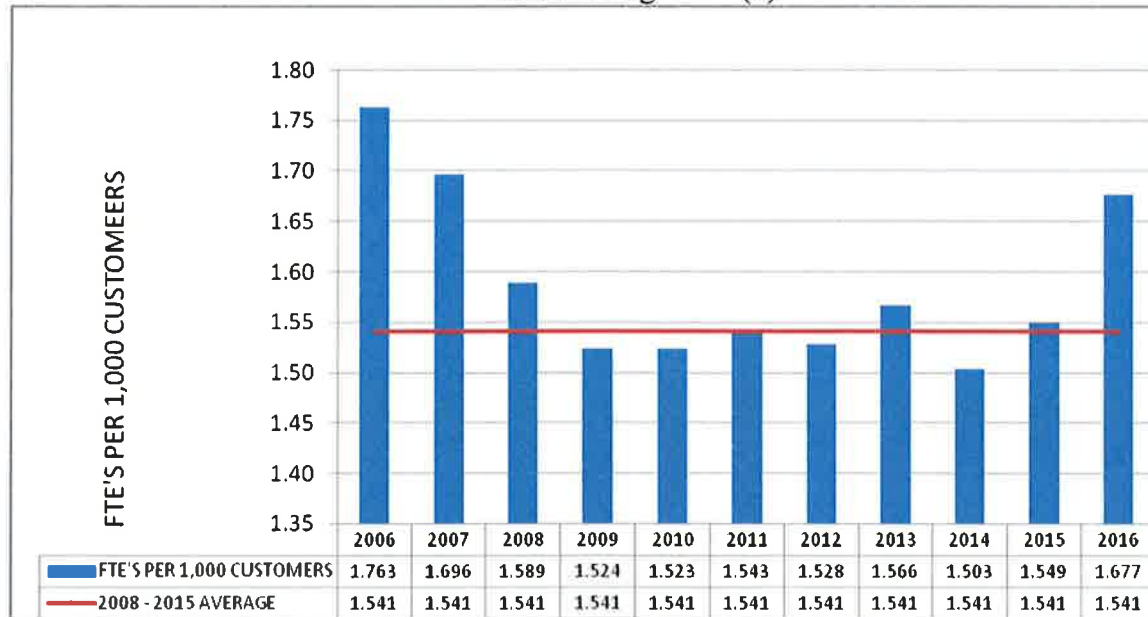
As shown in the response to Undertaking J1.12 (2) in the second Table J1.12 (2), there has been a significant change in the trajectory of the increase in employees relative to customers between the 2006 through 2011 period and the 2011 to 2016 period. In particular, between 2006 and 2011 the increase in the number of customers was more than 48% while the number of employees increased by 28%. This reflects economies of scale achieved during this period. However, over the 2011 to 2016 period, the increase

in the number of customers is about 23%, while the increase in employees is forecast to be more than 33%. This reflects, in the submission of Energy Probe, diseconomies of scale.

The following graph shows the number of FTE's per 1,000 customers for Milton Hydro over the 2006 through 2016 period. The information is taken from Undertaking J1.12 (2).

FTE's per 1,000 Customers

Source: Undertaking J1.12 (2)



The bars show the economies of scale realized in the 2006 to 2011 period, especially those achieved between 2006 and 2009. The graph also highlights that the number of FTE's per 1,000 customers was relatively stable, between 1.5 and 1.6 in each of 2008 through 2015. The line is the average number of FTE's per 1,000 customers over this period of stability.

In 2016, Milton Hydro is forecasting a significant increase in the ratio, to a level similar to that recorded in 2007 when it had about 60% of the customers forecast for 2016. In other words, Milton Hydro would have the OEB believe that the economies of scale achieved in 2006 through 2009 and maintained since then have magically disappeared in the rebasing year. Energy Probe submits that this increase is not warranted and should not be approved by the Board.

Furthermore, Energy Probe submits that the number of FTE's should be reduced in the 2016 test year by 5.0, from 61.5 to 56.5. The reduction of 5 FTE's is based on the maintaining the 2008 through 2015 average number of FTE's per 1,000 customers

(1.541) in the test year. Multiplying this figure by the number of forecasted customers (in thousands) results in an FTE figure of 56.5. Energy Probe notes that is still an increase of 1.5 FTE's from the 2015 figure. Energy Probe also notes that the 55 FTE's shown for the unaudited 2015 bridge year, is a full 4 FTE's lower than forecast for the bridge year (Exhibit K1.5, Table 4-12). Clearly Milton Hydro can continue to operate effectively with a smaller increase in FTE's than forecast.

Energy Probe also notes that the 56.5 FTE's in the test year represents an increase of about 23% from the level recorded in 2011, matching the increase in the customer growth over the same period. In other words, there is no improvement in economies of scale, it is simply being maintained at the current level. Thus, the 56.5 should be considered the maximum reasonable number of FTE's.

In order to calculate the OM&A impact of this reduction, the average OM&A cost associated with the proposed reduction of 5 FTE's must be calculated. Based on Table 4-14 in Exhibit K1.5, the average total compensation per FTE charged to OM&A in the test year is just over \$92,000. This can be calculated using the OM&A compensation figure of \$5,660,676 and the 61.5 FTE's shown in Table 4-14 for the 2016 test year.

Energy Probe submits that a reasonable OM&A cost per FTE of \$90,000 is reasonable. This is lower than \$96,000 average OM&A cost per FTE based on 2015 unaudited actuals, also shown in Table 4-14, and reflects that 4 out of the 9.5 FTE increase between 2014 and 2016 are for management, which tends to be higher paying positions than the union and non-union positions.

As a result, the reduction of 5 FTE's would translate into a reduction of OM&A expenses of \$450,000.

2. Average Compensation Increases

The average compensation increase at Milton Hydro has been substantially higher than the external benchmark that the OEB uses for labour costs in the setting of the inflation factor for IRM purposes.

Based on Table 4-25 in Exhibit 4, the union and non-union increases have been in the range of 2.5% per year and on a compound basis the increase in compensation between 2011 and 2016 is about 13.5%. This compares to a compound increase of about 10.6% based on the OEB's benchmark, assuming 2016 increases are the same as the 2015 increase of 2.61%. The benchmark figures for 2012 through 2015 are provided in Appendix 5 and are taken from the Statistics Canada website.

This means that on a cumulative basis, the compensation costs are about 2.9% higher than based on the external benchmark. Applying this 2.9% differential to the 2016 OM&A compensation cost excluding the \$450,000 noted above, results in a reduction of about \$140,000 $((\$5,295,180 - \$450,000) \times 2.9\%)$.

3. Heat, Water & Sewer

Milton Hydro forecast a cost of \$200,000 for heat, water and sewer costs associated with the Chisholm Drive building. This estimate was not based on any historical costs as this information did not exist. Milton Hydro has updated their estimated costs for these items in the response to Undertaking J1.3. The updated forecast, based on actual costs to date in 2016, is about \$167,000, a reduction of \$33,000. Energy Probe submits that this reduction is appropriate, subject to the comments below about the OM&A related costs for the building.

4. Board of Director Costs

As indicated in the response to Undertaking J1.4, the test year forecast includes a total cost for the Milton Hydro Distribution Inc. board and the management fee paid to Milton Hydro Holdings Inc. of \$216,034. Based on the update shown in that response, this forecast is now \$158,791, a reduction of about \$57,000. Energy Probe submits that this reduction is appropriate.

5. Regulatory Costs

Milton Hydro has forecast \$694,800 in costs associated with the current rates proceeding (Exhibit 4, Table 4-32). Based on 5 and 2 year amortization periods for these costs, the amount included in the 2016 OM&A is \$162,660. Energy Probe submits that this amount is overstated and should be reduced by \$58,000, as explained below.

First, the \$100,000 estimate for the OEB engineering consultant to review the distribution system plan ("DSP") is significantly too high, in the view of Energy Probe. Mr. McKenzie indicated that this was just a number they used and that they had no idea how much it was going to cost for the review (Tr. Vol. 1, page 44).

Energy Probe submits that this cost estimate is excessive given that this consultant is only reviewing the DSP, which is only one part of the overall application and evidence. The forecast for 3 intervenors is \$140,000 (which Energy Probe also considers excessive) and these intervenors review the entire body of evidence. While the OEB consultant may review the DSP in more detail than the intervenors, the intervenors also review various parts of the evidence in significant detail. Given the limited number of interrogatories on the DSP and the limited involvement of the consultant in other aspects

of the proceeding (settlement conference, oral hearing, etc.), Energy Probe submits that a more reasonable figure should be used, tied to the forecasted intervenor costs.

In any event, it is Energy Probe's understanding that the OEB has determined that it will not include the DSP review related costs in the cost recovery from the specific distributor, but will instead socialize these costs across all distributors, thereby significantly reducing the costs to those distributors that file a DSP. This would eliminate \$100,000 in costs.

Energy Probe submits that the legal cost forecast associated with this application of \$202,200 (Undertaking J1.5) is also vastly overstated. As shown in Table J1.5 the actual legal costs, which also included consultant costs, for the 2011 cost of service application was \$40,998. That application, like the current one, was a cost of service rebasing application. The 5 fold increase in this cost has not been justified. Energy Probe submits that a cost of \$100,000 is more reasonable. This is an increase of nearly 150%, and would reflect increases due the oral hearing and submissions, which were not required in the previous proceeding, along with the additional review needed for the various consultant reports and the DSP. This results in a reduction of more than \$100,000.

Similarly, Energy Probe submits that the intervenor costs of \$140,000 have been overstated. There are 3 intervenors in the current proceeding, the same number as in the previous cost of service application. The intervenor costs in that proceeding were \$42,840 (Table J1.5) which were significantly under the forecast of \$100,000 (4-Staff-69). Given the need for a hearing and submissions in this proceeding, Energy Probe submits that an increase to \$100,000 is appropriate. This reflects the need for an oral hearing and submissions in this proceeding as compared to that for 2011. This increase is comparable to the proposed increase in legal costs. The result is a reduction in the intervenor costs of \$40,000.

Customer engagement costs were forecast at \$79,000, but as shown in the response to Undertaking J1.6, the actual costs were about \$60,000, a reduction of \$19,000.

In total, Energy Probe submits that there should be reductions in regulatory costs associated with the current application for the OEB consultant (\$100,000), legal costs (102,000), intervenor costs (\$40,000), all amortized over 5 years. This equates to \$48,400. The reduction in the customer engagement cost (19,000) is amortized over 2 years for a further test year reduction of \$9,500. The overall reduction is, therefore, about \$58,000. This reduction does not take into account any reductions associated with the consulting cost forecast of \$173,600 shown in Table J1.5.

6. Percentage of OM&A Capitalized

As shown in the response to Undertaking J1.1, Milton Hydro has forecast a lower percentage of OM&A to be capitalized in 2016 (36%) as was done in 2015 (40%). Milton Hydro has not provided any evidence to support this decrease in the amount capitalized and the corresponding increase in the amount included in OM&A in the test year.

Energy Probe submits that the amount capitalized should be maintained at the 2015 level as this is the best information to forecast the 2016 figure. Increasing the amount capitalized from 36% to 40%, applied to the total shown of \$2,279,352 would result in a increase in capital and a decrease in OM&A of approximately \$90,000.

7. Summary

The above list of specific OM&A expenses, which is not meant to be exhaustive, totals more than \$800,000. This estimate is in line with the reductions shown in both Appendix 1 and Appendix 2.

v) Reasonableness of the Request

As noted above, the average annual increase in adjusted OM&A costs of 6.43% is significantly higher than the average annual increase in customers of 4.23%. Put another way, the increase in adjusted OM&A costs, as shown in Appendix 1, between 2011 and 2016 is more than 36%, while the total increase in the number of customers is only 23%. Energy Probe submits that this is a red flag.

Energy Probe has used its analysis and model to look at the reasonableness of the OM&A request for the 2016 test year. As noted above, this reality check is based on the adjusted OM&A envelope excluding the control room and building expenses. This analysis is provided in Appendix 3.

Energy Probe has done the same analysis and calculations as noted in the previous section, but has eliminated all productivity gains, included no stretch factor gains and assumed no economies of scale.

These assumptions are reflected in Appendix 3 in lines 34 and 35, which now show 0.00 for all years for base productivity and stretch factors. The 0.4582 factor calculated by PEG has been replaced by a factor of 1.000, as shown in line 37. This means that a 1% increase in the number of customers results in a 1% increase in OM&A costs. That is,

there are no economies of scale realized by Milton Hydro from customer growth. The resulting escalator is simply the sum of the growth in customers and the inflation rate.

Energy Probe submits that while none of these assumptions is realistic, the results are enlightening. As shown on line 66, the average implied test year reduction, assuming no productivity gains, no stretch factors, and no economies of scale, is still a significant reduction of more than \$315,000. In other words, Milton Hydro is asking for more than \$315,000 more than what is required to account for customer growth and inflation over this period and assuming absolutely no net productivity gains or any benefits from economies of scale from a growing distributor.

Another way to look at the 2016 OM&A request is to assume no efficiency gains and no stretch factors, and calculate what the average annual base productivity would be over the 2012 through 2016 period to justify the requested amount in 2016. Appendix 4 shows this analysis. This is accomplished by setting the result in line 66 to \$0 and solving for the annual base productivity factor in line 34. As shown in Appendix 4, this reflects a negative productivity factor of 1.27% per year over the entire period, or an aggregate productivity loss of more than 6% between 2011 and 2016.

Based on the analysis provided in Appendix 3 and Appendix 4, and given the Board's requirement that distributors show value for money and continuous improvement, Energy Probe submits that the adjusted OM&A request of Milton Hydro is not reasonable.

b) New Premises

Energy Probe has had the opportunity to review the detailed submissions of SEC on the new premises at 200 Chisholm Drive. Energy Probe supports those submissions.

Energy Probe submits that the process followed by Milton Hydro was not prudent and once a location was determined, the implementation was not done in a prudent manner.

The Relocation Committee met every few months and identified a number of potential properties that would be suitable for their needs. However these meetings appear to have stopped by the middle of 2013, with no decision being made. Most alarming to Energy Probe, however, is that there does not appear to be any external experts engaged in this search. Milton Hydro has expertise in a number of matters related to constructing, operating and maintaining an electricity distribution station. They do not, however, have any expertise or experience in analysing potential land and building purchases, renovations or leases. Hiring an expert in these matters would have been the prudent

thing to do, especially considering that this project was the largest capital project ever undertaken by the distributor (Tr. Vol. 2, pages 59-60). Instead, Milton Hydro kept looking at various properties over several years and in the end had to settle on their only remaining option as time was running out for them to vacate the Lawson facilities. This alternative was not considered ideal. For one, the property is not large enough for all of the outside storage that would be required. This resulted in additional expenditures to allow for indoor storage and may require additional costs to purchase additional adjoining land, if available or to purchase property at a second site for storage. This alternative would be inefficient in the view of Milton Hydro.

Second, the location of this property is very poor from a traffic congestion perspective with only one road in and out. As indicated in the Relocation Committee Meeting dated November 14, 2012 (1-SEC-14 Attachments), property at 100 Chisholm Drive was considered when it became available. However, the report states that *"The location is very poor from a traffic congestion perspective with only one road in and out. Furthermore, it is questionable that the investment would equal the return long term. We suspect that other prospective investors see the same issue which explains why the site is still for sale."* This could be an issue during winter storms.

Once the decision was made to purchase and renovate the property at 200 Chisholm Drive, Milton Hydro renovated much more space than it requires now and for the next several years. The amount of space per FTE is also significantly higher than for other distributors that have recently built or purchased new head offices. This is discussed in the SEC submission and will not be repeated here.

The SEC submission deals with the specific costs and has not be repeated here. Energy Probe submits that these costs were not prudently incurred and should not be paid for by ratepayers. Even more alarming is that Milton Hydro did not even stop and consider the impact on ratepayers (Tr. Vol. 2, pages 50-51).

Energy Probe concurs with the SEC analysis and recommendation. The Board should either impute rent in the amount of \$192,000 or disallow \$2,490,000 from rate base.

Energy Probe has also had the opportunity to review the Vulnerable Energy Consumers Coalition ("VECC") submissions with respect to the incremental cost of inside storage as compared to outside storage. Energy Probe supports the VECC analysis and submission on this issue.

In either case, there should also be a reduction in the OM&A associated with the building expenses of \$65,000, based on the excess amount of space relative to the total

square footage of the building times the forecasted operating costs. This reduction in OM&A is in addition to the \$800,000 to \$900,000 discussed above in part a) of this submission because as part of that analysis, the building expenses were explicitly removed from the calculations.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe worked with other intervenors throughout the process to limit duplication while ensuring that the record was complete.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

April 19, 2016

**Randy Aiken
Consultant to Energy Probe**

APPENDIX 1**OM&A CALCULATIONS****(Includes Property Taxes and LEAP)**

| SECTION 1 | ADJUSTMENTS TO OM&A | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------------------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | (1) | | | | | (2) | |
| Total OM&A - Exhibit K1.5 - Table 4-12 (CGAAP & MIFRS) | | 6,300,000 | 6,396,763 | 6,761,992 | 8,435,973 | 8,543,897 | 9,898,207 | 10,122,448 |
| MIFRS Adjustment - Exhibit K1.5 - Table 4-8 | | | | | (1,273,132) | (1,261,505) | (1,221,470) | (1,455,845) |
| Further Adjustment for 2015 Unaudited Actuals - Undertaking J1.12 (2) | | | | | | | (93,562) | |
| Total OM&A - Adjusted to CGAAP - Undertaking J1.12 (2) | | 6,300,000 | 6,396,763 | 6,761,992 | 7,162,841 | 7,282,392 | 8,583,175 | 8,666,603 |
| Regulatory Cost Double Counting - Undertaking J1.6 | | | | | | | (105,481) | |
| Ice Storm Costs - Table 4-8 & 4-EP-24 | | | | | (500,000) | 500,000 | | |
| Financial System Upgrade - Exhibit K1.5 - Table 4-8 & Tr. Vol. 1, pg. 30 | | | | | | (28,000) | (177,868) | 0 |
| Total OM&A - Adjusted to CGAAP - Net of One Time Costs | | 6,300,000 | 6,396,763 | 6,761,992 | 6,662,841 | 7,754,392 | 8,299,826 | 8,666,603 |
| Control Room - 4-Staff-59 & Exhibit K1.5 - Table 4-13 | | | | | | (6,884) | (73,744) | (168,600) |
| Rent - Lawson Road - Table 4-13 | | (349,055) | (342,916) | (388,064) | (392,102) | (359,359) | (355,273) | 0 |
| Building Expenses - Exhibit K1.5 - Table 4-13 | | (122,661) | (173,444) | (149,154) | (147,816) | (263,086) | (395,909) | (467,634) |
| Total OM&A - Adjusted for One Time Costs and Major Changes | | 5,828,284 | 5,880,403 | 6,224,774 | 6,122,923 | 7,125,063 | 7,474,900 | 8,030,369 |
| % Increase per Year | | | 0.89% | 5.86% | -1.64% | 16.37% | 4.91% | 7.43% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 6.43% |
| SECTION 2 | CUSTOMERS | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers - Exhibit K1.5 - Table 4-12 | | 30,461 | 29,814 | 31,405 | 33,199 | 34,592 | 35,498 | 36,672 |
| Customer Growth | | | | 5.34% | 5.71% | 4.20% | 2.62% | 3.31% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 4.23% |
| SECTION 3 | ESCALATORS | | | 2012 | 2013 | 2014 | 2015 | 2016 |
| Inflation - Undertaking J1.12 - Table J1.12 (2) | | | | 2.00% | 1.60% | 1.70% | 1.60% | 2.10% |
| Base Productivity | | | | 0.72% | 0.72% | 0.00% | 0.00% | 0.00% |
| Stretch Factor - PEG Reports & Interrogatory 1-Staff-7 | | | | 0.40% | 0.40% | 0.30% | 0.15% | 0.30% |
| Sub-Total | | | | 0.88% | 0.48% | 1.40% | 1.45% | 1.80% |
| Customer Growth - PEG Model | | 0.4582 | | 2.45% | 2.62% | 1.92% | 1.20% | 1.52% |
| Total Escalator (lines 33 - 34 - 35 + 37) | | | | 3.33% | 3.10% | 3.32% | 2.65% | 3.32% |
| SECTION 4 | OM&A GROWTH AT ESCALATOR | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 BA | | | 5,828,284 | 6,022,083 | 6,208,614 | 6,414,899 | 6,584,899 | 6,803,213 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (1,227,156) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 | | | 5,880,403 | 6,075,935 | 6,264,134 | 6,472,264 | 6,643,784 | 6,864,050 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (1,166,319) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2012 | | | | 6,224,774 | 6,417,583 | 6,630,812 | 6,806,533 | 7,032,195 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (998,174) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2013 | | | | | 6,122,923 | 6,326,361 | 6,494,014 | 6,709,315 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (1,321,054) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2014 | | | | | | 7,125,063 | 7,313,882 | 7,556,365 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (474,004) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2015 | | | | | | | 7,474,900 | 7,722,721 |
| Test Year Forecast (line 21) | | | | | | | | 8,030,369 |
| Implied Test Year Reduction | | | | | | | | (307,648) |
| Average Implied Test Year Reduction (average of lines 44, 48, 52, 56, 60 and 64) | | | | | | | | (915,726) |

NOTES

(1) Board Approved figures taken from Exhibit 4, Table 4-1

(2) Unaudited Actuals

APPENDIX 2**OM&A CALCULATIONS -MIFRS YEARS ONLY****(Includes Property Taxes and LEAP)**

| SECTION 1 | ADJUSTMENTS TO OM&A | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------------------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | (1) | | | | | (2) | |
| Total OM&A - Exhibit K1.5 - Table 4-12 (MIFRS) | | | | | 8,435,973 | 8,543,897 | 9,898,207 | 10,122,448 |
| MIFRS Adjustment - Exhibit K1.5 - Table 4-8 | | | | | | | | |
| Further Adjustment for 2015 Unaudited Actuals - Undertaking J1.12 (2) | | | | | | | | |
| Total OM&A - Exhibit K1.5 - Table 4-12 (MIFRS) | | | | | 8,435,973 | 8,543,897 | 9,898,207 | 10,122,448 |
| Regulatory Cost Double Counting - Undertaking J1.6 | | | | | | | (105,481) | |
| Ice Storm Costs - Table 4-8 & 4-EP-24 | | | | | (500,000) | 500,000 | | |
| Financial System Upgrade - Exhibit K1.5 - Table 4-8 & Tr. Vol. 1, pg. 30 | | | | | | (28,000) | (177,868) | 0 |
| Total OM&A - MIFRS - Net of One Time Costs | | | | | 7,935,973 | 9,015,897 | 9,614,858 | 10,122,448 |
| Control Room - 4-Staff-59 & Exhibit K1.5 - Table 4-13 | | | | | | (6,884) | (73,744) | (168,600) |
| Rent - Lawson Road - Table 4-13 | | | | | (392,102) | (359,359) | (355,273) | 0 |
| Building Expenses - Exhibit K1.5 - Table 4-13 | | | | | (147,816) | (263,086) | (395,909) | (467,634) |
| Total OM&A - MIFRS Adjusted for One Time Costs and Major Changes | | | | | 7,396,055 | 8,386,568 | 8,789,932 | 9,486,214 |
| % Increase per Year | | | | | | 13.39% | 4.81% | 7.92% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 8.65% |
| SECTION 2 | CUSTOMERS | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers - Exhibit K1.5 - Table 4-12 | | | | | 33,199 | 34,592 | 35,498 | 36,672 |
| Customer Growth | | | | | | 4.20% | 2.62% | 3.31% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 3.37% |
| SECTION 3 | ESCALATORS | | | 2012 | 2013 | 2014 | 2015 | 2016 |
| Inflation - Undertaking J1.12 - Table J1.12 (2) | | | | | 1.60% | 1.70% | 1.60% | 2.10% |
| Base Productivity | | | | | 0.72% | 0.00% | 0.00% | 0.00% |
| Stretch Factor - PEG Reports & Interrogatory 1-Staff-7 | | | | | 0.40% | 0.30% | 0.15% | 0.30% |
| Sub-Total | | | | | 0.48% | 1.40% | 1.45% | 1.80% |
| Customer Growth - PEG Model | 0.4582 | | | | 0.00% | 1.92% | 1.20% | 1.52% |
| Total Escalator (lines 33 - 34 - 35 + 37) | | | | | 0.48% | 3.32% | 2.65% | 3.32% |
| SECTION 4 | OM&A GROWTH AT ESCALATOR | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 BA | | | | | | | | |
| Test Year Forecast (line 21) | | | | | | | | |
| Implied Test Year Reduction | | | | | | | | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 | | | | | | | | |
| Test Year Forecast (line 21) | | | | | | | | |
| Implied Test Year Reduction | | | | | | | | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2012 | | | | | | | | |
| Test Year Forecast (line 21) | | | | | | | | |
| Implied Test Year Reduction | | | | | | | | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2013 | | | | | 7,396,055 | 7,641,794 | 7,844,307 | 8,104,375 |
| Test Year Forecast (line 21) | | | | | | | | 9,486,214 |
| Implied Test Year Reduction | | | | | | | | (1,381,839) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2014 | | | | | | 8,386,568 | 8,608,818 | 8,894,233 |
| Test Year Forecast (line 21) | | | | | | | | 9,486,214 |
| Implied Test Year Reduction | | | | | | | | (591,981) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2015 | | | | | | | 8,789,932 | 9,081,351 |
| Test Year Forecast (line 21) | | | | | | | | 9,486,214 |
| Implied Test Year Reduction | | | | | | | | (404,863) |
| Average Implied Test Year Reduction (average of lines 44, 48, 52, 56, 60 and 64) | | | | | | | | (792,895) |

NOTES

(1) Board Approved figures taken from Exhibit 4, Table 4-1

(2) Unaudited Actuals

APPENDIX 3

OM&A CALCULATIONS - NO PRODUCTIVITY, STRETCH FACTOR OR ECONOMIES OF SCALE

(Includes Property Taxes and LEAP)

| SECTION 1 | ADJUSTMENTS TO OM&A | 2011 BA (1) | 2011 | 2012 | 2013 | 2014 | 2015 (2) | 2016 |
|--|--------------------------|----------------|-----------|-----------|-------------|-------------|-------------|-------------|
| Total OM&A - Exhibit K1.5 - Table 4-12 (CGAAP & MIFRS) | | 6,300,000 | 6,396,763 | 6,761,992 | 8,435,973 | 8,543,897 | 9,898,207 | 10,122,448 |
| MIFRS Adjustment - Exhibit K1.5 - Table 4-8 | | | | | (1,273,132) | (1,261,505) | (1,221,470) | (1,455,845) |
| Further Adjustment for 2015 Unaudited Actuals - Undertaking J1.12 (2) | | | | | | | (93,562) | |
| Total OM&A - Adjusted to CGAAP - Undertaking J1.12 (2) | | 6,300,000 | 6,396,763 | 6,761,992 | 7,162,841 | 7,282,392 | 8,583,175 | 8,666,603 |
| Regulatory Cost Double Counting - Undertaking J1.6 | | | | | | | (105,481) | |
| Ice Storm Costs - Table 4-8 & 4-EP-24 | | | | | (500,000) | 500,000 | | |
| Financial System Upgrade - Exhibit K1.5 - Table 4-8 & Tr. Vol. 1, pg. 30 | | | | | | (28,000) | (177,868) | 0 |
| Total OM&A - Adjusted to CGAAP - Net of One Time Costs | | 6,300,000 | 6,396,763 | 6,761,992 | 6,662,841 | 7,754,392 | 8,299,826 | 8,666,603 |
| Control Room - 4-Staff-59 & Exhibit K1.5 - Table 4-13 | | | | | | (6,884) | (73,744) | (168,600) |
| Rent - Lawson Road - Table 4-13 | | (349,055) | (342,916) | (388,064) | (392,102) | (359,359) | (355,273) | 0 |
| Building Expenses - Exhibit K1.5 - Table 4-13 | | (122,661) | (173,444) | (149,154) | (147,816) | (263,086) | (395,909) | (467,634) |
| Total OM&A - Adjusted for One Time Costs and Major Changes | | 5,828,284 | 5,880,403 | 6,224,774 | 6,122,923 | 7,125,063 | 7,474,900 | 8,030,369 |
| % Increase per Year | | | 0.89% | 5.86% | -1.64% | 16.37% | 4.91% | 7.43% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 6.43% |
| SECTION 2 | CUSTOMERS | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers - Exhibit K1.5 - Table 4-12 | | 30,461 | 29,814 | 31,405 | 33,199 | 34,592 | 35,498 | 36,672 |
| Customer Growth | | | | 5.34% | 5.71% | 4.20% | 2.62% | 3.31% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 4.23% |
| SECTION 3 | ESCALATORS | | | 2012 | 2013 | 2014 | 2015 | 2016 |
| Inflation - Undertaking J1.12 - Table J1.12 (2) | | | | 2.00% | 1.60% | 1.70% | 1.60% | 2.10% |
| Base Productivity | | | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Stretch Factor - PEG Reports & Interrogatory 1-Staff-7 | | | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Sub-Total | | | | 2.00% | 1.60% | 1.70% | 1.60% | 2.10% |
| Customer Growth - PEG Model | 1.0000 | | | 5.34% | 5.71% | 4.20% | 2.62% | 3.31% |
| Total Escalator (lines 33 - 34 - 35 + 37) | | | | 7.34% | 7.31% | 5.90% | 4.22% | 5.41% |
| SECTION 4 | OM&A GROWTH AT ESCALATOR | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 BA | | 5,828,284 | 6,255,871 | 6,713,330 | 7,109,142 | 7,409,084 | 7,809,710 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (220,659) | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 | | 5,880,403 | 6,311,814 | 6,773,363 | 7,172,715 | 7,475,339 | 7,879,547 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (150,822) | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2012 | | | 6,224,774 | 6,679,958 | 7,073,803 | 7,372,254 | 7,770,888 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (259,481) | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2013 | | | | 6,122,923 | 6,483,925 | 6,757,488 | 7,122,881 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (907,488) | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2014 | | | | | 7,125,063 | 7,425,677 | 7,827,200 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (203,169) | |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2015 | | | | | | 7,474,900 | 7,879,085 | |
| Test Year Forecast (line 21) | | | | | | | 8,030,369 | |
| Implied Test Year Reduction | | | | | | | (151,284) | |
| Average Implied Test Year Reduction (average of lines 44, 48, 52, 56, 60 and 64) | | | | | | | | (315,484) |

NOTES

(1) Board Approved figures taken from Exhibit 4, Table 4-1

(2) Unaudited Actuals

APPENDIX 4**OM&A CALCULATIONS - NO STRETCH FACTOR OR ECONOMIES OF SCALE - RESULTING NEGATIVE PRODUCTIVITY****(Includes Property Taxes and LEAP)**

| SECTION 1 | ADJUSTMENTS TO OM&A | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | (1) | | | | | (2) | |
| Total OM&A - Exhibit K1.5 - Table 4-12 (CGAAP & MIFRS) | | 6,300,000 | 6,396,763 | 6,761,992 | 8,435,973 | 8,543,897 | 9,898,207 | 10,122,448 |
| MIFRS Adjustment - Exhibit K1.5 - Table 4-8 | | | | | (1,273,132) | (1,261,505) | (1,221,470) | (1,455,845) |
| Further Adjustment for 2015 Unaudited Actuals - Undertaking J1.12 (2) | | | | | | | (93,562) | |
| Total OM&A - Adjusted to CGAAP - Undertaking J1.12 (2) | | 6,300,000 | 6,396,763 | 6,761,992 | 7,162,841 | 7,282,392 | 8,583,175 | 8,666,603 |
| Regulatory Cost Double Counting - Undertaking J1.6 | | | | | | | (105,481) | |
| Ice Storm Costs - Table 4-8 & 4-EP-24 | | | | | (500,000) | 500,000 | | |
| Financial System Upgrade - Exhibit K1.5 - Table 4-8 & Tr. Vol. 1, pg. 30 | | | | | | (28,000) | (177,868) | 0 |
| Total OM&A - Adjusted to CGAAP - Net of One Time Costs | | 6,300,000 | 6,396,763 | 6,761,992 | 6,662,841 | 7,754,392 | 8,299,826 | 8,666,603 |
| Control Room - 4-Staff-59 & Exhibit K1.5 - Table 4-13 | | | | | | (6,884) | (73,744) | (168,600) |
| Rent - Lawson Road - Table 4-13 | | (349,055) | (342,916) | (388,064) | (392,102) | (359,359) | (355,273) | 0 |
| Building Expenses - Exhibit K1.5 - Table 4-13 | | (122,661) | (173,444) | (149,154) | (147,816) | (263,086) | (395,909) | (467,634) |
| Total OM&A - Adjusted for One Time Costs and Major Changes | | 5,828,284 | 5,880,403 | 6,224,774 | 6,122,923 | 7,125,063 | 7,474,900 | 8,030,369 |
| % Increase per Year | | | 0.89% | 5.86% | -1.64% | 16.37% | 4.91% | 7.43% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 6.43% |
| SECTION 2 | CUSTOMERS | 2011 BA | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Customers - Exhibit K1.5 - Table 4-12 | | 30,461 | 29,814 | 31,405 | 33,199 | 34,592 | 35,498 | 36,672 |
| Customer Growth | | | | 5.34% | 5.71% | 4.20% | 2.62% | 3.31% |
| % Average Annual Compound Increase 2011 to 2016 | | | | | | | | 4.23% |
| SECTION 3 | ESCALATORS | | | 2012 | 2013 | 2014 | 2015 | 2016 |
| Inflation - Undertaking J1.12 - Table J1.12 (2) | | | | 2.00% | 1.60% | 1.70% | 1.60% | 2.10% |
| Base Productivity | | | | (1.27%) | (1.27%) | (1.27%) | (1.27%) | (1.27%) |
| Stretch Factor - PEG Reports & Interrogatory 1-Staff-7 | | | | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |
| Sub-Total | | | | 3.27% | 2.87% | 2.97% | 2.87% | 3.37% |
| Customer Growth - PEG Model | 1.0000 | | | <u>5.34%</u> | <u>5.71%</u> | <u>4.20%</u> | <u>2.62%</u> | <u>3.31%</u> |
| Total Escalator (lines 33 - 34 - 35 + 37) | | | | 8.61% | 8.58% | 7.17% | 5.49% | 6.68% |
| SECTION 4 | OM&A GROWTH AT ESCALATOR | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 BA | | | 5,828,284 | 6,330,014 | 6,873,420 | 7,366,110 | 7,770,600 | 8,289,626 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | 259,257 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2011 | | | 5,880,403 | 6,386,620 | 6,934,885 | 7,431,981 | 7,840,088 | 8,363,755 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | 333,386 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2012 | | | | 6,224,774 | 6,759,145 | 7,243,643 | 7,641,409 | 8,151,805 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | 121,436 |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2013 | | | | | 6,122,923 | 6,561,816 | 6,922,141 | 7,384,495 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | (645,874) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2014 | | | | | | 7,125,063 | 7,516,317 | 8,018,358 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | (12,011) |
| Adjusted OM&A Growth - Based on Escalator (line 38) starting with 2015 | | | | | | | 7,474,900 | 7,974,175 |
| Test Year Forecast (line 21) | | | | | | | | <u>8,030,369</u> |
| Implied Test Year Reduction | | | | | | | | (56,194) |
| Average Implied Test Year Reduction (average of lines 44, 48, 52, 56, 60 and 64) | | | | | | | | 0 |

NOTES

(1) Board Approved figures taken from Exhibit 4, Table 4-1

(2) Unaudited Actuals

APPENDIX 5

Statistics Canada

[Home](#) > [CANSIM](#)**Table 281-0027** [4](#), [15](#), [16](#), [18](#)**Survey of Employment, Payrolls and Hours (SEPH), average weekly earnings by type of employee, overtime status and detailed North American Industry Classification System (NAICS) (Percentage Change (year-to-year))**
annual (current dollars)[Data table](#)[Add/Remove data](#)[Manipulate](#)[Download](#)[Related information](#)[Help](#)

The data below is a part of CANSIM table 281-0027. Use the [Add/Remove data](#) tab to customize your table.

Note: Scaling and units of measure are not applicable because these figures represent percentage change, year to year and not raw data.

Selected items [\[Add/Remove data\]](#)**Geography** = Ontario**Type of employees** = All employees [19](#)**Overtime** = Including overtime**North American Industry Classification System (NAICS)** [18](#) = Industrial aggregate excluding unclassified businesses [11-91N] [5](#), [6](#)

| 2011 | 2012 | 2013 | 2014 | 2015 |
|---|-------------------|-------------------|-------------------|-------------------|
| Percentage Change (year-to-year) | | | | |
| | 1.42 ^A | 1.55 ^A | 1.96 ^A | 2.61 ^A |

[Back to original table](#)**Footnotes:**

- Although the creation of Nunavut officially took place in April 1999, the Survey of Employment, Payrolls and Hours (SEPH) was only able to begin publishing separate estimates for Northwest Territories and Nunavut with the release of the January 2001 data. Efforts were undertaken to estimate the employment for Nunavut back to April 1999. These are available upon request by contacting Client Services at 1-866-873-8788 (toll-free) or 613-951-4090 (labour@statcan.gc.ca).
- Since January 2001, the Survey of Employment, Payrolls and Hours (SEPH) program no longer combines Northwest Territories and Nunavut. They are produced as two separate territories.
- These terminated series are based on the North American Industry Classification System (NAICS) 2002.
- Data quality indicators are based on the coefficient of variation (CV). Quality indicators indicate the following: A - Excellent (CV from 0% to 4.99%); B - Very good (CV from 5% to 9.99%); C - Good (CV from 10% to 14.99%); D - Acceptable (CV from 15% to 24.99%); E - Use with caution (CV from 25% to 34.99%); F - Too unreliable to publish (CV greater than or equal to 35% or sample size is too small to produce reliable estimates).
- Industrial aggregate covers all industrial sectors except those primarily involved in agriculture,

fishing and trapping, private household services, religious organisations and the military personnel of the defence services.

6. Unclassified businesses (00) are businesses for which the industrial classification (North American Industry Classification System [NAICS] 2012) has yet to be determined.
7. Goods producing industries (11-33N) includes the following sectors: forestry, logging and support (11N), mining, quarrying, and oil and gas extraction (21), utilities (22), construction (23) and manufacturing (31-33).
8. Forestry, logging and support (11N) includes the following industries: forestry and logging (113) and support activities to forestry (1153).
9. Non-durable goods (311N) of the manufacturing sector includes the following industries: food manufacturing (311), beverage and tobacco products manufacturing (312), textiles mills (313), textile products mills (314), clothing manufacturing (315), leather and allied products manufacturing (316), paper manufacturing (322), printing and related support activities (323), petroleum and coal products manufacturing (324), chemical manufacturing (325) and plastics and rubber products manufacturing (326).
10. Durable goods (321N) of the manufacturing sector includes the following industries: wood products manufacturing (321), non-metallic mineral products manufacturing (327), primary metal manufacturing (331), fabricated metal products manufacturing (332), machinery manufacturing (333), computer and electronic products manufacturing (334), electrical equipment, appliances and components manufacturing (335), transportation equipment manufacturing (336), furniture and related product manufacturing (337) and miscellaneous manufacturing (339).
11. Service producing industries (41-91N) includes the following industries: trade (41-45N), transportation and warehousing (48-49), information and cultural industries (51), finance and insurance (52), real estate and rental and leasing (53), professional, scientific and technical services (54), management of companies and enterprises (55), administrative and support, waste management and remediation services (56), educational services (61), health care and social assistance (62), arts, entertainment and recreation (71), accommodation and food services (72), other services (except public administration) (81) and public administration (91).
12. Trade (41-45N) industry includes the following sectors: wholesale (41) and retail trade (44-45).
13. Education special (611N) industry includes the following industries: elementary and secondary schools (6111), community colleges and CEGEP (6112), universities (6113), business schools and computer management training (6114) and technical and trade schools (6115).
15. The introduction of administrative data in 2001 and the associated change in methodology resulted in level shifts for some series. This affects the comparability of pre- and post-2001 estimates.
16. Earnings data are based on gross payroll before source deductions.
17. These terminated series are based on the North American Industry Classification System (NAICS) 2007.
18. Industry estimates in this table are based on the 2012 North American Industry Classification System (NAICS).
19. "All employees" is the sum of employees paid by the hour, salaried employees and other employees.

Source: Statistics Canada. *Table 281-0027 - Survey of Employment, Payrolls and Hours (SEPH), average weekly earnings by type of employee, overtime status and detailed North American Industry Classification System (NAICS) (Percentage Change (year-to-year)), annual (current dollars)*, CANSIM (database). (accessed:)

[Back to search](#)

Date modified: 2016-03-31