



MILTON HYDRO DISTRIBUTION INC.

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April 28, 2016

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Young Street
27th Floor
Toronto, ON
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Re: OEB File No. EB-2015-0089
Milton Hydro Distribution Inc. ED-2003-0014
Reply Argument

Milton Hydro is filing its Reply Argument to the Oral Hearing held April 4 and 5, 2016.

Two hard copies of the responses will follow by courier under separate cover.

Yours truly,

Original signed by

Cameron McKenzie
Director, Regulatory Affairs
Milton Hydro Distribution Inc.

cc: Intervenors of Record

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

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

MILTON HYDRO DISTRIBUTION INC. (“MILTON HYDRO”)

REPLY ARGUMENT

Filed: April 28, 2016

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BACKGROUND:

Milton Hydro Distribution Inc. (the “Applicant” or “Milton Hydro”) filed a cost of service application with the Ontario Energy Board (the “OEB”) on August 28, 2015 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) (the “Act”), seeking approval for changes to the rates that Milton Hydro charges for electricity distribution, to be effective May 1, 2016 (OEB File Number EB-2015-0089) (the “Application”).

The OEB issued a Notice to Customers of Milton Hydro Distribution Inc. dated September 24, 2015. In Procedural Order No. 1, dated November 9, 2015, the OEB set out dates for a Presentation Day to the OEB, OEB staff and intervenors; written interrogatories; Milton Hydro’s responses to interrogatories; Settlement Conference dates; and outlined the timetable of the various other elements in the proceeding. In addition to PO #1, the OEB set a Community Event in which customers may attend and learn about Milton Hydro’s Application.

Following the receipt of interrogatories, Milton Hydro filed its interrogatory responses with the OEB on December 18, 2015 and filed responses to VECC and Energy Probe clarifying questions on January 23, 2016.

On January 6, 2016 the OEB issued Procedural Order No. 2 rescheduling the dates for the Settlement Conference to January 25, 26 and 27, 2016.

On January 13, 2016 OEB staff submitted a proposed issues list as agreed to by the parties. On January 20, 2016 the OEB issued its decision on the proposed issues list. In addition to approving the list submitted by OEB staff the OEB added “compatibility with historical expenditures” and revised the issue “benchmarking of costs” to read “compatibility with applicable benchmarks” to each of sections 1.1 Capital and 1.2 OM&A. The OEB also confirmed that a settlement conference would occur in accordance with Procedural Order No. 2.

A Settlement Conference was convened on January 25 and 26, 2016 in accordance with the OEB’s *Rules of Practice and Procedure* (the “Rules”) and the OEB’s *Practice Direction on Settlement Conferences* (the “Practice Direction”).

Milton Hydro filed a Settlement Proposal on February 9, 2016 reflecting a partial settlement among all parties with respect to some of the issues in this proceeding. The unsettled issues were:

1. The 2016 Test Year Operations, Maintenance & Administration (“OM&A”) expense;

2. The capital addition in respect of the Chisholm Drive building; and
3. The recovery of the 2011 – 2014 LRAMVA

The OEB determined that it would not deal with the third outstanding issue in this proceeding. It is being dealt with by the OEB on a more generic basis. The first two unsettled issues were the subject of an oral hearing conducted by the OEB on April 4 and 5, 2016.

On April 7, 2016, Milton Hydro filed an addendum to the Settlement Proposal to address an OEB staff submission with respect to the bill impact for the Sentinel Light class, which was agreed to by all parties.

The Parties have agreed that the effective date of the rates arising out of the Settlement Proposal, and out of the OEB's decision on the outstanding matters, should be May 1, 2016. Further, the parties agreed that in the event that it was not possible for the Board to issue its Rate Order in time for May 1, 2016 implementation, a rate rider would be established to refund/recover to or from ratepayers the difference in revenue collected from the effective date of May 1, 2016 through to the actual implementation date as determined by the Board. Milton Hydro will prepare a draft rate rider as part of its draft rate order following the Board's issuance of a Decision and Order in this proceeding.

INTRODUCTION

Milton Hydro filed its Application on August 28, 2015 under the Renewed Regulatory Framework for Electricity ("RRFE"). The cost of service application process provides the means for electricity distributors to update their Capital expenditures and Operations, Maintenance and Administration ("OM&A") expenditures from their last OEB-Approved Cost of Service Application to a forward looking "Test Year". Under normal conditions distributors are expected to show improvements and an understanding of the needs and expectations of their customers in their delivery of service.

On September 30, 2015 Milton Hydro filed its 2014 Scorecard with the OEB and also made its Scorecard available to the public on its website. Milton Hydro showed improvement in all areas of Customer Focus – Customer Service Quality and Customer Satisfaction; Operational Effectiveness – Safety, System Reliability, Asset Management and Cost Efficiency Assessment. Milton Hydro undertook a Customer Satisfaction Survey in 2014 with an overall performance

rating of “A”, (see Exhibit 1, Attachment 1-7, pg. 64). Milton Hydro customers identified five “high priority” investments, (see Exhibit 1, Attachment 1-8, pg. 65 & pg. 74):

- Maintaining and upgrading equipment;
- Reducing the time needed to restore power;
- Educating customers about energy conservation;
- Investing more in the grid to reduce the number of outages; and
- Proactive communication

Milton Hydro’s Application has addressed these customer priorities in 2014, 2015 and 2016 through its capital and OM&A investments. This proceeding and Reply Argument address Milton Hydro’s OM&A on-going expenditures on systems that have been implemented over this time period and the staffing requirements to meet customer expectations. Costs have been incurred to improve system reliability and response/restoration times, customer communication, ensure billing accuracy and improvement in customer satisfaction. This is being accomplished through new staffing requirements and the contracting out of specialized work to share the costs and benefits with other distributors.

Milton Hydro respectfully requests that its OM&A in the amount of \$10,122,448 be approved for recovery through rates.

Milton Hydro’s OM&A increases have been incurred in the period subsequent to its last OEB-Approved Cost of Service Application in 2011 and particularly in the years 2014, 2015 and the 2016 Test Year.

Milton Hydro submits that one challenge with a formulaic process as discussed by OEB staff and Intervenor is that as Milton Hydro grows and invests in resources to meet customers’ needs and service expectations, these costs may not be approved in its 2016 OM&A requirements. It appears the approach taken by OEB Staff and Intervenor is to suggest that the determination of costs going forward should be based on Milton Hydro’s 2011 OEB-Approved OM&A and then calculated formulaically to arrive at expected OM&A in the Test Year. This approach ignores new investments in applications and systems implemented by Milton Hydro from the last rebasing year and the addition of new staff positions as Milton Hydro grows and its corporate infrastructure transitions to that of a larger LDC. These investments in people and processes enhance its ability to continue to service its customers and achieve the

outcomes customers expect. These new investments may appear somewhat “lumpy”, in that they involve significant costs now, particularly when viewed on a cost per customer basis, but Milton Hydro has shown in its Application that those expenditures are justified now; they provide benefits to customers, particularly in areas such as the maintenance of a safe and reliable electricity system and the meeting of customers’ expectations with respect to enhanced communication with their utility. Moreover, on a per customer basis, the new costs will decline over time given Milton Hydro’s rapid growth rate. (see Undertaking J1.12 (2)).

Milton Hydro adopted the accounting changes for depreciation and capitalization policies on January 1, 2013 in accordance with the OEB’s letter dated July 17, 2012. The MIFRS adjustments required for 2013, 2014 and 2015 of \$1,273,000, \$1,262,000 and \$1,221,000 respectively have been audited by KPMG and are not subject to change. The additional adjustment of \$234,375 for the 2016 Test bringing the total adjustment for 2016 Test to \$1,455,000 is estimated using the same historical methodology and adjusting for Milton Hydro’s 2016 forecasted staffing requirements.

Milton Hydro’s approved 2011 Cost of Service application indicated that Milton Hydro would construct a new Administration and Operations facility at its owned vacant property at Fifth and Main. (see Exhibit 1 pg. 30-32). At that time, Milton Hydro was in the midst of a five year lease agreement for part of a building which was shared with the landlord at Lawson Rd. The lease was scheduled to expire in November 2014 to coincide with the Region of Halton and the Town of Milton projection for the availability of hard servicing at the Fifth and Main site. By late 2013 it was evident that the water and sewer servicing would not be available in the near term and Milton Hydro extended its lease to the end of 2015, as the landlord wished to obtain use of the full building rather than lease part of it to a third party.

Until the property at 200 Chisholm became available, multiple real estate agents could not locate an existing or new facility that matched Milton Hydro’s non-typical building requirement of administration, operations and outside storage space, and that would cost less than the original plan to build a new facility at Fifth and Main. In 2014 Milton Hydro successfully purchased and subsequently renovated the 200 Chisholm property at a cost of \$14,460,000 or \$158.00 per square foot. The purchase also allowed Milton Hydro to declare the Fifth and Main property surplus, and Milton Hydro sold that property – as discussed below, Milton Hydro has applied the net proceeds of the sale against its proposed service revenue requirement.

The rate payers thus received two benefits, namely the building at 200 Chisholm was the lowest cost solution to the requirement that Milton Hydro had to vacate the premises at Lawson Rd. and secondly the proceeds for the gain on the sale of the property at Fifth and Main in the amount of \$87,975 has been included as a revenue offset for each and every year within the Cost of Service period, 2016 to 2020.

Milton Hydro has provided the customer bill impacts for its average Residential and General Service < 50 kW customers in the following table. These customer impacts incorporate all of the changes agreed to in the Settlement Proposal, but assuming for all purposes the capital addition in respect of the 200 Chisholm Drive property as filed. Milton Hydro submits that these customer bill impacts are reasonable, and that the revenue requirement-related amounts requested with respect to the 200 Chisholm Drive property and Milton Hydro's 2016 Test Year OM&A should be approved as requested in the Application.

Rate Class	kWh	2015 Bill \$	2016 Bill \$	\$ Difference	Total Bill Impact %	Distribution Bill Impact %
Residential	800	\$ 147.45	\$ 147.72	\$ 0.27	0.19%	4.96%
GS <50 kW	2,000	\$ 361.30	\$ 358.58	-\$ 2.73	-0.75%	5.27%

Milton Hydro offers the following more detailed submissions with respect to the unsettled issues related to OM&A and Milton Hydro's new Administration and Operations building at 200 Chisholm Drive.

The structure of the reply submission generally follows that of the OEB Staff submission. Milton Hydro will summarize its requests with respect to each of OM&A and the Chisholm property; identify the matters addressed by OEB staff and the intervenors, and provide its reply. Milton Hydro may not provide an explicit reply to every statement made by OEB staff and the intervenors. However, this should not be considered to be an acceptance of those statements. Milton Hydro repeats and relies upon the request made in its Application as modified for the increase to its 2016 Test Year OM&A in the amount of \$249,691 in response to interrogatories and as detailed in Undertaking No. J1.1, its building costs for 200 Chisholm Drive as filed and in the submissions made in its Argument-in-Chief following the hearing. Specifically, Milton Hydro requests the approval of \$10,122,448 in OM&A for the 2016 Test Year and the inclusion of \$14,460,000 in its Revenue Requirement in respect of the 200 Chisholm Drive property.

Operations, Maintenance & Administration

- ***The Milton Hydro Request:***

The Cost of Service Application is the opportunity for a LDC to “resize” based on the activities of the previous five years of IRM, while projecting the efficiencies for the upcoming five year period. Milton Hydro has undertaken several changes to improve operational performance, customer feedback and communication. These changes have implementation costs as well as ongoing costs, particularly software maintenance costs. It is true that the costs of these new applications have increased some of the parameters such as Milton Hydro’s OM&A per customer but Milton Hydro has submitted evidence that the benefits of those changes will be recognized in the 2016 – 2020 period where the OM&A per customer shows a continual decline. Any model that uses the last OEB-Approved Cost of Service Application and escalates the costs forward does not account for the addition of new costs, and these factors must be considered as distinct costs and recognized independent of any model. Milton Hydro submits that its OM&A request for \$10,122,448 is appropriate and will enable Milton Hydro to continue to service its customers and achieve the outcomes customers expect.

1. Performance Assessment

Rural Service Territory Adds to Costs

OEB staff notes that Milton Hydro's service area is 85% rural but represents only 5% of the total number of customers. In addition, the growth in customer numbers is found in the urban territory which diminishes the overall cost of servicing the rural territory.

The Vulnerable Energy Consumers Coalition ("VECC") and the School Energy Coalition ("SEC") agree with OEB staff.

Milton Hydro Reply

Milton Hydro's rural distribution service territory approximates 85% of its total service territory, and this has remained unchanged since Milton Hydro's 2011 Cost of Service Application. Milton Hydro has 588 km of O/H lines (see Undertaking J1.11) of which 500 km are in the rural distribution service area. This equates to 82.3% of Milton Hydro's overhead distribution system.

The urban growth in the Town of Milton is to the south of the current urban service area as provided in Exhibit No. K1.2 slides 5 to 8. The rural area to the north of this urban growth is not reduced in size and Milton Hydro must still maintain and service the rural area; urban growth to the south does not remove this responsibility or cost.

Milton Hydro submits that the rural service area made up primarily of overhead distribution system is more expensive to maintain and represents \$1,080,940 of Milton Hydro's 2016 total O/H distribution system maintenance costs being Maintenance O/H Lines, Maintenance Line Transformers and Tree Trimming as set out in Appendix 2-JC of Milton Hydro's response to Energy Probe's Information Request for Oral Hearing (at page 5).

High Growth Utility

OEB staff agrees that growth in the Milton Hydro service territory has been high, but also notes that growth does appear to 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 and projected customer growth from 2016 to 2020 at about 3.8% per year which does not justify the rate of OM&A growth.

Energy Probe and VECC agree with OEB staff that Milton Hydro's customer growth appears to be slowing and does not support the proposed rate of growth in OM&A.

Milton Hydro Reply:

While it may appear that Milton Hydro's growth slowed in 2014 and 2015, the percentages do not provide an accurate picture of growth in the service area. Milton Hydro's customer growth percentage decline for 2014 and 2015 is attributed to a controversy over proposed development charges between the Region of Halton and the development community. Developers held back on building pending resolution of the proposed development charges, which was resolved in 2015. (see Milton Hydro's response to Interrogatory 3.0-Staff-43. As a result Milton Hydro's residential services increased in 2015 by only 733 compared to Milton Hydro's forecast for 2015 of 1,500 residential services.

However, growth for 2016 and beyond is projected at 1,500 new residential customers per year based on on-going discussions with the development community and the Town of Milton. Milton Hydro's revenue forecast assumes 1,500 new residential customers per year as well. Milton's growth has followed the Best Planning Estimates of the Region of Halton with the exception of the dispute period noted above. Milton Hydro provided the residential forecast for 2017, 2018 and 2019 by extension in response to SEC's interrogatory 1-SEC-13 – see Milton Hydro's Budget 2016 and Forecast 2017, at page 3. Milton Hydro would note that mathematically, the percentage growth rate will decline as the denominator, being total customers, increases and the numerator, being the number of new customers remains constant, at 1,500 for the forecast years. Milton Hydro's actual growth in number of customers is the true growth for Milton Hydro, and Milton Hydro submits that it is this actual growth in customer numbers that should be used to align customer growth with OM&A growth.

OM&A Cost per Customer Comparisons

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.

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.

Intervenors agree with OEB staff.

SEC also, agrees with OEB staff that the OM&A per customer may be impacted by Milton Hydro's MIFRS adjustment.

Milton Hydro Reply:

Milton Hydro addressed the MIFRS adjustment in the introduction. The MIFRS adjustment for the years 2013 to 2015 has been audited and the 2016 adjustment is estimated based on Milton Hydro's 2016 Application and projected staffing changes.

Milton Hydro has addressed the increase in OM&A per customer throughout this proceeding, including the oral hearing. Since Milton Hydro last rebased in 2011, new costs have been incurred related to the implementation of new systems (GIS, SCADA, Outage Management System, Cayenta Work Management System; Springboard – Health & Safety Management System). While Milton Hydro funded the one-time implementation costs for these new systems during the intervening years since 2011, included in the 2016 Test Year are the ongoing maintenance costs associated with the new applications. New consulting costs have also been implemented to ensure the accurate and timely billing to customers

StorageASP – Disaster Recovery/Monitoring Service; EARTH -CIS Application Support; Util-assist – Sync Operation Services; Savage – Smart Meter Mixed Mode). Where feasible, Milton Hydro has also looked to share costs including the control room with Guelph Hydro and the sharing of a health & safety contractor with two other LDCs.

These costs are incurred to support Milton Hydro's operations and customer billing systems and provide the following benefits:

- Improved accuracy of customer bills;
- Improved system automation;
- Improved security;
- Improved customer service levels; and
- Improved responses to system problems, resulting in shorter outage times and more comprehensive customer outage information (outage map)

These costs did not exist in 2011 and therefore should be reflected in the 2016 Test year OM&A costs.

The following tables set out the details and the customer benefits of these expenditures. In addition, the use of consulting services provides a level of expertise that Milton Hydro does not currently have in-house and does not have to hire thereby saving on staffing costs.

Table 1 – Software Requirements 2013 to 2016 Test

SoftwareService Provider	Customer Benefit	2013	2014	2015 Bridge	2016 Test
Savage Data Systems	Application developed by Kinetiq / Savage Data in connection with Milton Hydro -- perpetual license granted at no charge to MH except for ongoing annual maintenance streamlines the management of incoming reports from the MDM/R to ensure accurate billing to the customer	20,000	20,000	20,000	21,000
AGSI - Angus GeoSolutions					
Polaris Digital Mapping	The GIS and SCADA investment provide an electronic representation of the distribution system that delivers improved distribution and customer information capabilities. System Information, in response to customer requests, can be accessed and confirmed quickly and accurately utilizing the GIS and SCADA systems. In reactive situations, Milton Hydro can provide improved customer service levels and improved response to system problems - shorter outage time; customer outage information (outage map) these tools are required to maintain control functionality and greatly assist operators located in another community	-	1,893	17,032	17,032
ARCPAD/ARCGIS Esri GIS		-	6,625	15,771	16,560
ARCGIS Publisher		-	-	4,500	4,725
AGSI		-	-	23,656	24,838
Survalent Scada (OMS 2016)		-	14,605	14,605	25,605
Serview Com	Improved control and response times to non-responsive meter issues providing gaps in hourly data. Provides more accurate billing data and better communication with customer. Also the contract expired in 2015 and supplier would not renew at current levels	1,175	-	-	131,250
Total		21,175	43,123	95,564	241,010

Table 2 – Consulting Services Required in 2013 to 2016 Test

Administration - Consulting Services	Customer Benefit	2013 Actual	2014 Actual	2015 Bridge	2016 Test
Springboard	A more structured Health & Safety Management system reduces the risk of accidents benefitting MH staff, customers and the community as a whole		64,500	64,500	71,111
Disaster Recovery/Documentation	Allows for a prompt structured response to emergency/disaster ensuring uninterrupted customer service			39,500	30,000
Total			64,500	104,000	101,111
Billing - Computer Services	Customer Benefit	2013 Actual	2014 Actual	2015 Bridge	2016 Test
Savage Data (Smart Meter Mixed Mode)	Mixed Mode is the mode in which SmartSuite works hand in hand with the MDM/R to provide a series of automated systems that resolves most data issues that would require manual intervention by an LDC. SmartSuite running in Mixed Mode saves time and money while insuring that customers are billed correctly	15,548	15,695	16,329	17,254
ERTH	Provides Application Management Services including 1st Tier Support, Patch Management, Software Configurations, Securities Administration; ERTH clients including Milton Hydro benefit from a group buying pool associated with such things as software customizations, automation tools, bill presentment changes and consumable materials.	35,605	34,800	34,800	34,800
Util-Assist	Monitors the day to day management of AMI network including data and exceptions as data flows between CIS, AMI, ODS and MDM/R; works with MH to rectify issues in a timely manner ensuring accurate billing date for customers. Proper analysis, reporting and resolution will ensure MH is not exposed to any AMI performance risks from both an operational and financial perspective	49,035	49,730	50,973	52,246
Total		100,187	100,225	102,102	104,300
Engineering - Consulting services	Customer Benefit	2013 Actual	2014 Actual	2015 Bridge	2016 Test
AESI Acumen - Dist System Planning	A Distribution System Plan developed by Milton Hydro with support from industry experts which delivers a detailed, customer focussed, plan that balances the financial and technical requirements associated with operating a distribution system and customer expectations surrounding cost and service levels.		17,135	12,780	13,419
Total			17,135	12,780	13,419
Grand Total		100,187	181,860	218,883	218,830

Milton Hydro has also set out its staffing requirements for 2016 to facilitate and improve its internal operations and enhance its customer outcomes. The following Table 3 provided in response to OEB staff interrogatory 4.0–Staff–67 sets out Milton Hydro’s staffing requirements for 2015 and 2016. Based on the OEB Yearbook, Milton Hydro has consistently been one of the LDCs with the highest Customers to FTE ratio. Milton Hydro only hires new staff on an as required basis and with less than half the expected residential growth occurring in 2015 for the reasons discussed above, the position of Customer Service/Billing Clerk was postponed until

2016. As well, the Communications Specialist position was delayed until 2016. While interviews took place in 2015 a final decision was delayed.

Milton Hydro's objectives in determining its additional staffing needs include:

- System reliability, and reductions in both the number and duration of system outages;
- Maintaining a high level of customer service and meeting the OEB SQIs;
- Proactive communications and education for customers;
- Remaining in the top quartile of customers served per employee; and
- Maintaining below average OM&A per customer.

Table 3 – Staffing Requirements

Position	Type	Objective
2015		
Communication Specialist	New position	During 2013 ice storm and as supported by the Customer Engagement Survey, Milton Hydro fell short in its communication with customers. The new position is responsible to deliver corporate communication strategies designed to enhance the image and reputation of the company. Multiple communication strategies and channels will be employed to enlighten all stakeholders; to proactively address and mitigate issues. The position will also be used in CDM related activities
AMI Operator	New Positon	Decision to take the AMI function in-house as contract with Trilliant expires December 31, 2015; position will takeover MV90 function being performed by Meter Technicians who are better utilized in field
Network Administrator	New position	Continued growth in the Milton community required adequate IT resources with specialized skill set
Customer Service/Billing Clerk	Additional resource	Continued growth in the Milton community; ensure SQI at least maintained or improved
2016		
SCADA Technician (Engineering)	New position	Requirement for additional skill set as smart grid initiatives are enhanced
Powerline Technician	Additional resource	Continued growth in the Milton community; reduce the level of overtime; succession planning
Human Resource Specialist	New position	Continued growth in the Milton community required adequate human resources; specialized skill set required as staff level increases

In response to the Board Panel Undertaking J1.12 (2) and the accompanying table, as below, Milton Hydro has provided its forecast for 2016 to 2020 indicating a reduction in the OM&A per customer and an increase in the customers served per employee which supports Milton Hydro's continued commitment to its customers. Milton Hydro has included the highlighted column to amend the 2014 OEB Yearbook OM&A for the \$500,000 accounting adjustment related to the 2013 ice storm. The \$9,043,897 is Milton Hydro's actual 2014 OM&A. (see TR Vol. 1 pg. 27 – 28). Based on Milton Hydro's forecast it is expected that Milton Hydro's OM&A per Customer for 2020 will be close to Milton Hydro's actual OM&A per customer for 2014.

Undertaking Table J1.12 (2)

	2014 Actuals	2014 Actuals adjusted for Ice Storm	2015 Unaudited Actuals	2016 Test Year	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Avg. Number of Customers	34,592	34,592	35,498	36,672	38,172	39,672	41,172	42,672
Total OM&A as per OEB Yearbook (2014)	\$ 8,543,897	\$ 9,043,897	\$ 9,898,207	\$ 10,122,448	\$ 10,426,121	\$ 10,738,905	\$ 11,017,363	\$ 11,347,884
OM&A cost per customer	\$ 246.99	\$ 261.44	\$ 278.84	\$ 276.03	\$ 273.14	\$ 270.69	\$ 267.59	\$ 265.93
Number of FTEs 3,4	52	52	55	61.5	63.5	65.5	67.5	69.5
Customers/FTEs	665	665	645	596	601	606	610	614
OM&A Cost per FTE	\$ 164,306	\$ 173,921	\$ 179,967	\$ 164,593	\$ 164,191	\$ 163,953	\$ 163,220	\$ 163,279
Inflation factor (per OEB)	1.70%	1.70%	1.60%	2.10%				

The proposed OM&A increase for 2016 reflects additions to staff, the implementation of new applications and systems and the use of contracted services to augment Milton Hydro's staff complement; all new since Milton Hydro last rebased in 2011. These staff changes, new systems and contract arrangements not only make internal business processes more efficient and cost-effective, they positively impact customers: GIS, the Outage Management System, and SCADA address communication and response to power outages; Smart Meter Mixed Mode (Savage), Disaster Recovery Services (StorageASP), Northstar Application Support (ERTH), Serviewcom (Trilliant) and AMI Sync Operation Services (Util-assist) ensure timely and accurate customer billing. Since 2011, Milton Hydro has added twelve new staff including the five positions projected for 2016. Of the twelve positions, five positions are new positions to Milton Hydro and demonstrate the need for expertise including Communication Specialist, HR Specialist, SCADA Technician, AMI Operator, Network Administrator. The balance of the staff additions are associated with growth of existing functions – customer service/billing clerks,

lineperson, and technicians – front line positions dealing with customers on a day to day basis. While some costs may not directly benefit the customer such as the implementation of the Springboard Health & Safety Management system, the costs are justified in meeting legislative requirements and protecting staff and the community as a whole. The implementation of this number of new systems during this six year timeframe is not the norm for most LDCs but in order to address customers' needs, Milton Hydro escalated their implementation. It is not expected that this level of implementation of new systems or additions of new personnel will carry on during the next five year period. The Undertaking Table J1.12 (2) demonstrates that Milton Hydro's forecasted OM&A cost per customer and OM&A per FTE is projected to decrease over the succeeding years from 2017 to 2020.

Growth Factors and Benchmarking

OEB staff reference Exhibit K1.7, where Milton Hydro states that it did not use any kind of growth factor to determine its 2016 Test Year OM&A costs. In cross-examination, Mr. Janigan referenced the Pacific Economics Group (PEG) report of July 2014. 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. PEG's model determined that for the average company, for each 1% in customer growth, costs increase by 0.44%.

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.

It is suggested that another indication of reduced efficiency is revealed in Milton Hydro's 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.

Energy Probe, SEC and VECC each support the OEB staff position.

Milton Hydro Reply:

Milton Hydro has provided the major changes to its 2015 and 2016 OM&A costs including software, consultants and staffing requirements above in order to meet its Vision, Values and Success Factors as set out by Milton Hydro's Board of Directors in Exhibit 1, pages 14 to 21 of Milton Hydro's Application. Milton Hydro has summarized its Vision; Values and Strategic Areas of Focus below:

Vision: Milton Hydro is committed to "Reliably Powering Our Community"

Values: Safety | Innovation | Integrity

Strategic Areas of Focus:

1. Industry Leader
2. Operational Excellence
3. People & Culture
4. Proactive Communication
5. Customer Satisfaction

Milton Hydro reviewed its proposed 2016 OM&A and rate impacts with customers by way of its Customer Engagement surveys with positive support – see Appendix 1, Attachment 1-7 and 1-8 of the Application. At that time Milton Hydro was advising its residential customers its distribution rate increase may be as high a 9.24% for the average residential customer. Despite this increase, two-thirds of the respondents were prepared to accept the proposed estimated increase (see Exhibit 1, Attachment 1-8, page 43). The actual proposed distribution rate increase from the Settlement Proposal including Milton Hydro's OM&A and building capital as filed is 4.96% for the average residential customer, almost one-half of what customers were prepared to accept.

Furthermore, as set out in Table J1.12 (2) above, Milton Hydro has provided its forecast for 2016 to 2020 indicating a reduction in the OM&A per customer and an increase in the

customers served per employee which supports Milton Hydro's continued commitment to its customers.

Milton Hydro recognizes that it has moved from a Group 2 efficiency factor to a Group 3 factor, to being an average distributor. Until the 2015 PEG Report came out Milton Hydro was always in the average distributor group. Notwithstanding what the 2015 result was, Milton Hydro remains in the average distributor efficiency group. However, Table 4 below forecasts that Milton Hydro's efficiency and cost performance improves each year beginning in 2017 with the efficiency factor improving to the Group 2 efficiency level by 2020.

The following Table 4 sets out the results of the PEG Prediction Model using the outcome of the Settlement Proposal and Milton Hydro's capital addition in respect of the Chisholm Drive property as filed, and the OM&A as filed. The 2020 projection is based on the three year average change in the current year results.

Table 4 – PEG Prediction Model

Three Year Average	2016	2017	2018	2019	2020 Projected on 3 yr avge change
Current Year	-5.16%	-5.81%	-8.03%	-10.70%	-14.25%
Previous Year	-2.15%	-5.16%	-5.81%	-8.03%	-10.70%
Two Years Ago	-5.83%	-2.15%	-5.16%	-5.81%	-8.03%
Three Year Average Performance	-4.38%	-4.37%	-6.33%	-8.18%	-10.99%
Stretch Factor Group	3	3	3	3	2

Milton Hydro submits that the PEG Report, as well as most formulae which model future costs based on historical data, have one significant potential flaw. Any forward inflationary or cost adjustment is determined through a formulaic approach. Any new costs or incremental costs that do not follow the common approach are not reflected in the projected results, unless specifically identified. As a result, the PEG Report must be adjusted to reflect those costs that were either not present in the base years or that increased/decreased beyond the normal expectancy.

Milton Hydro submits that its Application addresses the customer priorities identified through the Customer Engagement surveys and the on-going OM&A expenditures incurred in 2014, 2015 and 2016 support the outcomes that customers have identified and expect. These OM&A costs cannot be ignored when forecasting future OM&A expectations using historical data.

Other Metrics

OEB staff suggest that 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. Milton Hydro's customers 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.

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. OEB staff suggest that this is again far in excess of inflation over this time period.

Milton Hydro Reply:

Milton Hydro has provided its staffing requirements for 2016 in order to meet its Vision, Values and Success Factors discussed above. As set out in Table J1.12 (2) above, Milton Hydro's forecasted level of customers served per employee will continue to improve beginning in 2017. Even with the forecasted level of customers served per employee being lower in 2016, Milton Hydro remains in the top quartile of LDCs in the province.

With respect to OM&A cost per km of line, Milton Hydro submits that this metric is dependent on the construction of overhead and underground distribution plant. As discussed above, residential customer growth was artificially slow in 2014 and 2015, resulting in the construction of fewer subdivisions and therefore underground distribution plant and total km of line. With the resolution of the dispute between developers and the Region (and the end of the artificial slowdown of the pace of development), residential development and the corresponding expansion of the Milton Hydro distribution system are expected to increase in 2016 and beyond. This in turn will improve Milton Hydro's OM&A cost/km of line result.

2. Assessment of Corporate Transformation Costs

OEB staff note that many of Milton Hydro's planned 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. OEB staff assert that these are costs which, as Milton Hydro concedes, do not necessarily serve the customer, but serve Milton Hydro "as a corporation".

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%.

Milton Hydro Reply

In 2016 Milton Hydro has included an HR Specialist to take on the legal and regulatory requirements for a company with over fifty employees. As Milton Hydro's witness panel discussed during the hearing, (see TR Vol. 1. Pg. 102) these functions are currently being performed by each individual Director and Manager. As Milton is transitioning into a larger distributor with over sixty employees in 2016, Milton Hydro has determined that an HR Specialist is required to ensure that these legal and regulatory requirements are met, which include Ontario Employment Standards Act, Occupational Health and Safety Act, Violence and Harassment in the Workplace, Accessibility for Ontarians with Disability Act Additional Requirements, Health and Safety Committee and Leave of Absence under the Employment Standards Act. This is a partial list of seventeen requirements. This position is a management position due to the confidential nature of the work to be undertaken, and this is the only employee being hired as a direct result of Milton Hydro's transition to a larger distributor.

The second position is the Communication Specialist being hired as a direct result of customer requests for timely communication as expressed through the Customer Engagement Surveys. Intervenor have supported this new position. This position is a management position due to the confidential nature of the work to be undertaken.

The remaining positions are Union positions and include a Customer Service/Billing Clerk carried over from 2015 as customer growth did not materialize; a SCADA Technician; and a lineperson. Each of these three positions is in place to serve Milton Hydro customers directly: the CSR is front line with the customer; the SCADA Tech operates the SCADA system monitoring system information, responding to customer requests and improving response time to system problems; and the lineperson, in their role of building and maintaining the distribution system, is also a front line worker in relation to the customer.

The remaining costs described by OEB staff as Corporate Transformation costs such as billing and collection; metering; bank charges; audit and security costs including the Board of Directors are fundamental to any business operations, and specifically to the maintenance of Milton Hydro's distribution business. The bank charges are not within the control of Milton Hydro and are below Milton Hydro's materiality of \$86,000. Milton Hydro's Board of Directors costs actually decreased from Milton Hydro's 2011 OEB-Approved by 13%, not an increase as OEB staff have indicated above (Undertaking No. J1.4). As discussed above and set out in Table 2 billing computer/consulting services do in fact service the customer through the improvements in Milton Hydro systems to ensure accurate and timely billing and by using consulting services as opposed to hiring in-house expertise. The OEB staff comment that changes to billing/computer/consulting service (the reference to 1,550%) is unrelated to service improvement is inappropriate. Incremental costs related to billing and CIS changes result from OEB regulatory changes that have occurred within the last few years. These include (for example) the set up and billing for the Ontario Clean Energy Benefit ("OCEB") and subsequent removal of the benefit; removal of the Debt Retirement Charge ("DRC") but reformatting the bill to reflect how much the residential customer saved without the DRC; the Ontario Electricity Support Program ("OESP"); and the Low-Income Energy Assistance Program ("LEAP") to name a few. It appears from the OEB staff argument that they are proposing that these costs are not recoverable and must be absorbed by Milton Hydro. These are not discretionary costs but rather a recurring cost as OEB regulation continues to change.

As discussed above, it is not expected that this level of implementation of new systems or additions of new personnel will carry on during the next five year period. These incremental costs make internal business processes more efficient and cost-effective, and they positively impact customers. Milton Hydro has positioned itself to improve customer service, reliability and efficiency going forward such that its OM&A costs per customer will decrease, its customers

served per employee will increase and Milton Hydro will become a better than average distribution company, all to the benefit of its customers.

Milton Hydro respectfully submits that the incremental staffing costs and other costs that OEB staff have characterized as “corporate transformation costs” are reasonable and appropriate, and should be approved.

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 what staff assert are the deteriorating outcomes it would entail. 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. OEB staff has not recommended category-specific reductions.

All intervenors support the reductions in OM&A using the envelope approach in the amount of \$800,000 to \$900,000. Energy Probe and SEC put forth their model calculations and VECC supported Energy Probe’s calculations.

Milton Hydro Reply

Milton Hydro has filed a detailed Cost of Service Application supporting its OM&A expenses for the 2016 Test Year. Included in its Application for OM&A expenditures are costs incurred in 2014, the 2015 Bridge Year and the 2016 Test Year that were not included in earlier years or the 2011 OEB Approved cost of service. These costs reflect Milton Hydro’s requirements to meet its commitments to its customers over the long term.

As discussed above and throughout the entire process, Milton Hydro has been, and continues to be diligent in refraining from increasing staff levels without a clear need for additional personnel. At times lumpiness occurs in OM&A depending on the timing of additional staff. Due to the current staff complement at Milton Hydro, the addition of a single staff member represents a much higher percentage impact than the addition of staff at a larger utility. For example, the addition of one staff member for a utility that has 60 employees represents a 1.6% increase but at a utility that has a staff of 100 it would be 1% and at a utility with 250 staff it would only be 0.4% (a quarter of the impact of the utility with 60 employees) Milton Hydro is transitioning into

a larger distributor and as such the impact of additional staff, particularly growth related staff such as an additional CSR/Billing Clerk, or an engineering technician or additional line staff is reflected in this Application. The HR Specialist, as discussed above, will assume the HR responsibilities currently being carried out by the individual Director or Manager thereby permitting those individuals to focus on their own responsibilities and productivity. Milton Hydro submits that all incremental staff positions have been supported in this Application and the balance of Milton Hydro's evidence, provide value to the customer in improved customer service, communications, response to customer concerns or problems and system reliability. Had Milton Hydro increased its staff levels without due regard to their need, the costs would already be embedded in prior years' OM&A. However, Milton Hydro does not operate in this way. Milton Hydro has always tried to act efficiently, and to add staff and increase OM&A only when necessary and only to the extent necessary, while making every effort to minimize impacts on its customers. This Application is no exception to that approach.

Milton Hydro's OM&A includes costs which will support its control room contracted to Guelph Hydro for \$150,000 and its in-house SCADA, GIS and mapping systems. Table 1 above sets out the SCADA, GIS and mapping costs. This investment will provide an electronic representation of the distribution system that delivers improved distribution and customer information capabilities. System Information, in response to customer requests, can be accessed and confirmed quickly and accurately utilizing the GIS and SCADA systems. In reactive situations, Milton Hydro can provide improved customer service levels and improved response to system problems – resulting in shorter outage time; and improved customer outage information (outage map). These systems along with the SCADA Technician support customer needs in response time and system reliability.

Milton Hydro has responded to customer needs for reliability identified through its Customer Engagement Surveys and Town Hall meetings with customers. A significant concern with customers was vegetation management. As a direct result of the 2013 Ice Storm, Milton Hydro revised its Tree Trimming requirements to be more effective in controlling tree growth by type of tree which has increased the tree trimming costs over the last three years. The effectiveness of Milton Hydro's improvement in tree trimming will be monitored by tracking the change in the number of tree related outages resulting from adverse weather and tree contacts as provided in Milton Hydro's response to interrogatory 4.0–VECC–24.

Milton Hydro submits that any of the “envelope” approaches ignore the additional costs incurred by Milton Hydro during the intervening years and that are now included in 2016 and which have been explained above. These costs are required to meet Milton Hydro’s customer growth, provide customer service and system response and reliability.

Regulatory Costs

OEB staff notes that these costs have increased significantly in this Application over the 2011 actual amounts. All intervenors agree with OEB staff.

Milton Hydro Reply:

On July 23, 2015 OEB staff held a Cost of Service orientation session for distributors filing applications that year. During the session, distributors were advised by OEB staff presenters that the costs to review DSPs would be borne by the distributor, and to date there has been no correspondence to the contrary. Milton Hydro is relying on OEB staff’s comment that these costs are being assessed under Section 26 of the *Ontario Energy Board Act, 1998*, and has therefore reduced this cost to the OEB staff proposed amount of \$20,000.

Milton Hydro has reviewed its costs to date and estimated costs to complete its application and has provided the following Table 5 in its Reply Argument. Table 5 is divided into two parts: 1) application costs amortized over five years; and 2) customer survey costs amortized over two years. Milton Hydro has revised its one-time costs expected to be incurred in the preparation of its Application and customer surveys resulting in a reduction to Milton Hydro’s 2016 OM&A of \$67,960 for preparation and defending its Application and \$4,500 related to the required customer surveys.

On February 9, 2016 the OEB issued a follow-up letter advising distributors of changes to the OEB Cost Assessment Model and the establishment of a new variance account to record material differences between OEB cost assessments currently built into rates and the new cost assessments - Account 1508 Other Regulatory Assets, Sub-account OEB Cost Assessment Variance. This variance account will be disposed when distributors next rebase.

Milton Hydro’s OEB assessment has increased from the \$93,000 included in its Cost of Service Application to \$154,400 – an increase of \$61,400, or 66%. Milton Hydro submits that its 2016

Cost of Service Application is the appropriate time to revise its OEB Assessment Costs as this is a rebasing application and these costs are entirely out of Milton Hydro's control.

Milton Hydro respectfully requests that its 2016 OM&A be increased by \$61,400 for the recovery of the increase in the annual OEB Assessment Costs.

Table 5 – Regulatory One-Time Costs

Line	Description	2016 Test Year as Filed	Amortized Over 5 Years	2016 Test Year Reply Argument	Amortized Over 5 Years	Reply Argument Change
4	Expert Witness costs					
5	Legal costs	375,800	75,160	156,000	31,200	(43,960)
6	Consultants' costs					
7	Incremental operating expenses associated with staff resources allocated to this application.					
8	Incremental operating expenses associated with other resources allocated to this application. OEB Expert Engineering Consultant -DSP	100,000	20,000	20,000	4,000	(16,000)
11	Intervenor costs	140,000	28,000	100,000	20,000	(8,000)
	Total	615,800	123,160	276,000	55,200	(67,960)
Line	Description	2016 Test Year as Filed	Amortized Over 2 Years	2016 Test Year- Reply Argument	Amortized Over 2 Years	Reply Argument Change
10	Customer Engagement total and amortized over 2 years	79,000	39,500	60,000	30,000	
12	Public Safety Survey	-	-	10,000	5,000	
	Total Survey Costs	79,000	39,500	70,000	35,000	(4,500)
	Total Application & Survey Costs - Annualized	694,800	162,660	346,000	90,200	(72,460)

200 Chisholm

- ***The Milton Hydro Request:***

Milton Hydro's lease on rented facilities was set to expire at the end of 2015. In 2014 Milton Hydro successfully purchased and subsequently renovated the building at 200 Chisholm Drive at a cost of \$14,460,000 or \$158.00 per square foot, which was lower than the cost to construct a new but smaller building.

Milton Hydro respectfully requests that the cost of the Chisholm Drive building in the amount of \$14,460,000 be included in Rate Base.

Background from OEB staff Submission

OEB staff and intervenors generally acknowledge that Milton Hydro had to relocate, as it was not possible for Milton Hydro to remain at the rented Lawson Road property. However, OEB staff and the intervenors do not agree with Milton Hydro on its proposed approach to the Chisholm Drive property with respect to the determination of Milton Hydro's rate base and 2016 Test Year Revenue Requirement.

Milton Hydro Reply

Milton Hydro moved from 55 Thompson Road in the fall of 2009 when the Town of Milton re-claimed the building and property for a future Arts and Culture Centre to be built on the site. A five year lease at 8069 Lawson Road expired in November 2014, with the landlord granting Milton Hydro a one year extension to the end of 2015.

As a point of clarification, the 200 Chisholm Drive building was the largest actual purchase made by Milton Hydro but it was not the largest purchase decision. In 2012, Milton Hydro evaluated the cost to build its own transformer station at a budgeted cost of \$25 M against the cost of having Hydro One or others build the station. The final decision was have Hydro One build a joint station to service both Burlington and Milton customers.

Milton Hydro began the search for a permanent solution in 2010 which included un-serviced, vacant land that Milton Hydro owned at the corner of Fifth Line and Main Street in the Town of Milton. As set out in Milton Hydro's 2011 Cost of Service Application this land was to be the

future home for a new Administration and Operation facility and established the benchmark costs for a new Administration and Operations Center.

Milton Hydro utilized multiple Real Estate agents to assist in the purchasing of additional property at Fifth and Main Street, as well as searching alternative sites when additional property negotiations at Fifth and Main stalled and local servicing was delayed.

Milton Hydro provided a partial list of properties considered over the four year period in Exhibit No. K1.3 slide 4. Alternative sites for new or existing buildings were compared to Milton Hydro's option of Fifth and Main as the base option, particularly with respect to cost, as the cost of the land and building is the primary driver for rate increases. Milton Hydro's estimate to purchase land and construct a building of 63,000 to 66,000 sq. ft. is approximately \$15,605,000, and all options were compared to that approach (see Exhibit No. K1.3, slide 5).

Milton Hydro used the professional services of multiple Real Estate agents and also visited adjoining utilities that had recently completed the construction of their own facilities. This interaction with other distributors, and the discussion of lessons learned from their experiences with the purchase or construction of their buildings provided important information that assisted Milton Hydro in determining its administration and operations space requirements. Milton Hydro determined that it would need 26,000 sq. ft. of administration space, 37,000 sq. ft. of operations space and 65,000 sq. ft. for outside storage (for a total of 128,000 sq. ft.) and approximately ten acres of land. (see Exhibit No. K1.3, slide 3)

Milton Hydro's office, operations and outside storage space requirements were not typical of the land and buildings available in the Town of Milton, whose major economic sectors include advanced manufacturing, distribution/warehouse and food production industries (see Exhibit 1, pg. 11). Vacant lands with the acreage sought by Milton Hydro were outside of the development zone of the Town of Milton, while vacant land within the Town's development area was held by developers (typically real estate trusts), and there was no interest in severing off a small parcel for Milton Hydro (see Milton Hydro's response to Interrogatory 1-SEC-14). Parties familiar with the real estate demographics within the Town of Milton would understand the difficulty in finding the "perfect" parcel and building – that ideal property did not materialize in the four years Milton Hydro spent searching for it, and Milton Hydro respectfully submits that this illustrates a significant problem with staff and intervenor attempts to apply formulaic approaches to matters such as administrative floor space and storage areas. Any consideration of what is

reasonable for use by Milton Hydro and for inclusion in Milton Hydro's Revenue Requirement must consider the realities faced by Milton Hydro in acquiring replacement space.

In 2014, Milton Hydro had an opportunity to purchase an existing building that, while not totally matching the functional requirements of office, warehouse and outdoor storage previously determined by Milton Hydro, provided, for the first time in several years a lower cost alternative to the construction of a new building at Fifth and Main as set out above.

The shortcomings of the Chisholm site were:

1. A smaller acreage that limited the outside storage space;
2. The irregular (triangle) shape of the office area which, at 20,000 square feet (10,437 on the first floor and 9,563 on the second floor), was inadequate to meet the requirements of the administration especially when the building had to be brought up to current standards for accessibility and Building Code; and
3. The warehouse area was larger than was required for the Operations department but also included a 12,800 square foot mezzanine that had limited functionality as storage space due to its limited accessibility.

Milton Hydro's staff and relocation committee ultimately determined that 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. (see Interrogatory Response SEC Attachment 1-SEC-14, Relocation Committee Report April 23, 2014). The building was constructed with quality materials which permitted the repurposing of the existing foundations, concrete interior/ exterior walls, some internal areas and stairwells leading outside.

200 Chisholm Drive Compared to Other Distributor Facilities

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

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.

All intervenors agree with OEB staff on the building size.

Milton Hydro Reply

As discussed above, Milton Hydro determined its space requirements after visits to adjoining utilities that had recently completed the construction of their own facilities. This consultation provided important information that assisted Milton Hydro in determining its administration and operations space requirements of 63,000 sq. ft. and outside storage of 65,000 sq. ft. on approximately ten acres.

Milton Hydro was unsuccessful in acquiring existing land and a building that would have allowed Milton Hydro to meet the ideal specifications for administrative and operations space, and storage. Notwithstanding four years of effort by Milton Hydro to procure the ideal property, these types of premises are simply not available in the Town of Milton. Milton Hydro submits that the building at 200 Chisholm was purchased and renovated in a very cost effective manner (at a lower cost than to construct a new smaller building) and the 5,160 square feet of surplus mezzanine space represents less than 6% of the total square footage of the parcel. This is not an excessive amount of additional space given that this was a building with an irregular office, mezzanine and concrete warehouse walls already in place.

Milton Hydro hired a well-recognized architect who had expertise in space planning, as well as electrical and mechanical services including heating, cooling and ventilation. Milton Hydro relied on the expertise of the architect and its team for the layout, design and functional aspects of the building. Due to space limitations on the second floor the architect expanded the administration space onto the mezzanine level to include male and female handicap accessible washrooms for the 2nd and mezzanine floors, the boardroom, two meeting/training rooms, the vault, the mailing room, the computer server room, janitorial room, storage, stairway and elevator, all of which total 4,500 sq. ft. In addition there is 5,160 sq. ft. (as measured) of future space which was renovated at minimal cost in the amount of \$101,000 with the construction of firewalls and epoxy flooring.

The first floor includes the front entrance, the lunchroom/staff training room (folding dividing doors) leaving 7,036 sq. ft. of work space for the engineering and IT department. The second floor finished is 17,363 sq. ft. less the 4,500 sq. ft. on the mezzanine leaves 12,863 sq. ft. of work space for customer service, billing, finance, settlement and directors and the President & CEO. Milton Hydro submits that it is appropriate to consider work space available for employees as opposed to total space which includes the common areas such as washrooms, corridors, public space and meeting rooms as examples. There is no question that washrooms

must be provided, for example, but a larger distributor with more employees sharing those washrooms will have less total square footage allocated to each employee than a distributor half the size but still sharing the same number of washrooms. This is only logical, as twenty staff using two washrooms or the same corridor have one-half the square footage allocated to each of them than ten staff using the same washrooms and corridors.

The building was not ideal, but Milton Hydro determined that purchased "as is", with the office space described above, the building would work for Milton Hydro. Milton Hydro's concern was locating its outside storage space, as the property was only seven acres. Milton Hydro was able to use 29,000 sq. ft. of outside storage for poles and transformers, and the remaining material is being stored in about 36,000 sq. ft. of the warehouse portion of the building, leaving 23,000 sq. ft. for the Operations Department, change rooms, work areas and vehicles.

Milton Hydro acknowledges that this is not the optimal use for inside storage and in a perfect world this material would be outside. However, as discussed, this building and land represented Milton Hydro's best choice over a four year search. Milton Hydro could have incurred additional costs to demolish part of the warehouse and convert inside space to outdoor storage; which would have countered some of the space arguments being presented, but it certainly would not have been of any benefit to the ratepayers in terms of cost.

With respect to the suggestion that Milton Hydro maintain a second location for outside storage, Milton Hydro explained during the oral hearing that this approach creates inefficiencies. As Mr. McKenzie discussed in response to a question from Board counsel (see Tr. Vol. 2, at pp.28-31):

"MR. MCKENZIE: It's not an efficient operation to have trucks in one location and part of the inventory in one location, have the crews pull out, go to a second yard and load up again with the remaining equipment. That's all downtime. That's not productive time.

It's much easier and much more efficient to have the trucks load up for the day and go out to their job site once. So to have a second storage, it still has to be paid for, but it's not an efficient and effective way to operate the business.

MR. RICHLER: Can you just elaborate on that a little more? I'm not sure I understand why you can't have an outside storage facility where all the workers go in the morning, load up, and go out to their jobs.

MR. MCKENZIE: Are you referring to a second building, an operations centre that would have --

MR. RICHLER: Well, that's my question. Do you need -- is it possible to have an outside

storage space with no building, or does it need to be connected to some physical building?

MR. MCKENZIE: No, it wouldn't be feasible to have outside storage without a building. We would still be housing our vehicles, our line trucks, trailers and equipment in one location, and then driving up and having a storage person at the second location to load up the trucks and trailers with additional equipment to begin their work for the day.

It's much more economical to have them loaded up in one location, and everybody pulls out at the same time.

You look perplexed. What I'm saying is we have our trucks in one location, and you're referring to a storage yard without a building. So the trucks have to leave one compound and drive to a second compound. There would have to be a person on-site for that compound to load their trucks, be it a storage person, and then they would leave.

Whereas the way we're set up, and I think you'll find from the pictures, the aerial pictures we took of the other utilities, they have their building and storage yard at the same location, and it would be for similar reasons. It is much more efficient to load up once and go to a job site.

MR. RICHLER: But some utilities do separate those areas. For example --

MR. MCKENZIE: That depends on the size of the service area and I can give you an example, if you like.

MR. RICHLER: Sure.

MR. MCKENZIE: Horizon Utilities service St. Catharines. So they have an office building and service centre in St. Catharines. They have an office building and an area where they keep some of their trucks downtown, on John Street, and they also have another service centre up on the mountain, which also houses a building and their trucks and their inventory, and their stores keepers.

So they have, yes, three locations. But they also have buildings and people and staff running those. They don't have an empty yard where they go to load up.

MR. RICHLER: Could you have continued to use Fifth and Main for outside storage, or at least some portion of it?

MR. MCKENZIE: We could have. We made the decision that it was not economical again to have an empty yard, and this is what we found when we were on Lawson Road. We had two yards. And it was more efficient to have everyone located in one spot and leaving one spot at the same time."

The solution selected by Milton Hydro may not be ideal, but the ideal clearly did not exist. However, it meets Milton Hydro's needs for administration, operations and storage space; it was less costly than acquiring additional land and building a new facility; and it represents good

value for Milton Hydro and its customers.

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.

Intervenors agree with OEB staff that Milton Hydro not recover the total cost of the building, although how much to recover differs between SEC and OEB staff. Energy Probe and VECC concur with SEC.

Milton Hydro Reply

As discussed throughout this process, the land and building that would meet Milton Hydro's requirement for 63,000 sq. ft. of building and 65,000 sq. ft. of outside storage did not exist in the Town of Milton. Had Milton Hydro operated in a perfect world it would have found exactly what it needed long before the four years that it took to find, evaluate and select 200 Chisholm. But the real estate environment in the Town of Milton did not accommodate Milton Hydro, so Milton Hydro ultimately had the choice of building a new facility at Fifth and Main or purchasing 200 Chisholm.

The size of 200 Chisholm is suitable to accommodate Milton Hydro's administration staff at an average sq. ft. of work space for the two floors of 480 sq. ft. per employee. Milton Hydro acknowledges that there is 5,160 sq. ft. of empty space on the second floor mezzanine.

Milton Hydro's outside storage is not sufficient to keep all its material outside so Milton Hydro has 36,000 sq. ft. available to store material inside and 23,000 sq. ft. remaining for its operations activities and trucks.

All comparisons to other distributors are based on square footage of space without regard to the circumstances surrounding the availability of vacant land, or land with an existing building. Milton Hydro would have to build new facilities on vacant land, or purchase 200 Chisholm since

certainly the availability of an existing right-sized building and outside storage space was non-existent.

Milton Hydro had vacant land and could acquire additional lands to construct a building to accommodate its requirements, as discussed above. Milton Hydro could have done so at more than the total cost of 200 Chisholm.

Milton Hydro purchased land at 200 Chisholm for \$4,040,000 and bought the building for \$3,390,000 or \$36.85 per square foot. The renovation costs were \$101 per square foot, including the mezzanine. The costs of renovations, site servicing costs and building costs totaled \$158 per square foot. The \$14,460,000 being requested for Milton Hydro's purchase of the 200 Chisholm building is lower than the costs had Milton Hydro constructed its own new building to the ideal specifications.

Arguments that the building is too big for Milton Hydro's needs are not accurate when Milton Hydro's overall needs, including storage, are considered. Milton Hydro determined that it needed a total of 128,000 sq. ft. for administration, operations and storage, and it has approximately 120,000 sq. ft. The suggestion that Milton Hydro ought to have found another parcel of land to use for outside storage are not sound. Land in Milton goes for \$375,000 or more per acre and would require the construction of a building on the land and the hiring of additional stores staff and equipment to move material around and load the trucks. All of this would be at additional cost to Milton Hydro and, ultimately, to its rate payers.

Although the costs of the building are the primary driver in the rate base, much attention has been focused on space or square footage. It is important to repeat that this was an existing building. Milton Hydro did not change foundations or exterior walls of the 1991 building, but rather renovated inside at a cost lower than if Milton Hydro had constructed its own building.

Milton Hydro is a growing utility that currently is projecting over 60 employees in 2016. The common space per employee will be higher initially but it will reduce as the staff level increases and the common space remains constant.

The OEB staff proposed a calculation to determine an appropriate estimation of the value of the building that should be included in rate base. The calculation is based on the average costs of recently built LDC buildings and an average square foot per employee. Milton Hydro would

note, once again, that in a smaller utility the common space (washrooms corridors etc.) is divided amongst less employees resulting in a higher requirement per employee.

Milton Hydro submits that a more appropriate calculation, if the rate per FTE is not adjusted, is to use the requirement based on the projected staff level at the end of the four year IRM period, namely 69 employees. Milton Hydro's Application establishes the revenue requirement for the next five years (subject to Price Cap IR adjustments), and OEB staff agreed in their submission "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" (see OEB Staff submission, pg. 18). The space requirement of the appropriately sized building, using the OEB staff proposal, would be 53,682 square feet (69 FTEs X 778 square feet per FTE).

Milton Hydro would also argue that the costs of the Ottawa building should not be included as this is an interim cost which may be adjusted in the future. The OEB staff adjusted average costs for Waterloo, Enersource and Innisfil is \$269.00 per square foot.

The expected costs of an appropriately sized building would therefore be \$14,440,458 (53,682 square feet X \$269 per square foot). This is a further confirmation that the purchase and renovation of the 200 Chisholm building and property was cost effective and should be included in the rate base as submitted.

Milton Hydro submits that the purchase of 200 Chisholm was Milton Hydro's best option given the availability of real estate in the Town of Milton; that it was a prudent and cost effective decision; and that this cost should be included in rate base. Milton Hydro knows of no distributors that have a cost base for a building of \$158 per sq. ft.

Disallowance vs. Imputing Rent

Milton Hydro's core business is the distribution of electricity and not the rental of property or becoming a landlord. Although market rental rates could be obtained, the costs of building modifications to provide multiple exits and meet current building and accessibility requirements including washrooms and elevators to the higher floors would be significant. Milton Hydro recognizes that the OEB has allowed this business activity in the case of InnPower Inc.,

however, Milton Hydro is not clear on whether this business activity of real estate rental is even compliant with Section 71 of the *Ontario Energy Board Act, 1998*.

Milton Hydro has identified 5,160 sq. ft. of empty space on the second floor mezzanine which was enclosed in order to meet building and fire codes. Once a major renovation is undertaken, the most current codes become effective (rather than those in place when the building was constructed) and the renovation must be compliant and inspected. The spending on the enclosure of the 5,160 sq. ft. was not discretionary spending, and Milton Hydro acted responsibly by limiting its spending on this space to meet the minimum applicable requirements.

In the event that the OEB decides to reduce Milton Hydro's building costs for rate base purposes, Milton Hydro submits that the only excess space at 200 Chisholm is the 5,160 sq. ft. on the mezzanine floor. Furthermore, as this space is on the second floor Milton Hydro submits that the cost applicable to this space should be no more than the costs of renovations of the 5,160 square feet – specifically, \$101,000 as presented in the oral hearing plus the cost of the building shell at \$36.85 per square foot. (see Exhibit No. K1.3, slide 15).

Milton Hydro has justified its cost for the building, however should the OEB wish to adjust the cost basis of the building, Milton Hydro respectfully submits that the OEB must also recognize the credit of \$87,975 from the sale of the property at Fifth and Main that Milton Hydro already has included in its Cost of Service Application. An \$87,975 annual revenue offset has been included in each of the five year cost of service/IRM period notwithstanding that the net proceeds on the sale of the Fifth and Main parcel were a one-time amount of \$87,975. (see Interrogatory Response 4.0-Staff 63). As a result, Milton Hydro has credited customers with \$87,975 as a revenue offset in 2016 and for each of the following four years of IRM when instead, Milton Hydro should have credited customers with \$17,595 or one-fifth of the proceeds in 2016 and each of the following four years of IRM.

Any calculation of an adjustment to the 2016 Test Year Revenue Requirement as it relates to 200 Chisholm should take this additional credit to rate payers into account.

CONCLUSION:

For all of the foregoing reasons, Milton Hydro respectfully requests that the Board approve its proposed 2016 Test Year OM&A in the amount of \$10,122,448, and the inclusion of \$14,460,000 in its Rate Base for the 2016 Test Year in respect of the 200 Chisholm Drive property.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 28TH DAY OF APRIL, 2016.

Milton Hydro Distribution Inc.

Original signed by

Cameron McKenzie
Director, Regulatory Affairs
Milton Hydro Distribution Inc.