EB-2015-0089

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Sch. B;

AND IN THE MATTER OF an application by Milton Hydro Distribution Inc. under section 78 of the *Ontario Energy Board Act, 1998* for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2016.

AND IN THE MATTER OF the Board's Decision with Reasons dated July 28, 2016.

MOTION RECORD OF MILTON HYDRO DISTRIBUTION INC.

For a Review of the Board's Decision Dated July 28, 2016

Milton Hydro Distribution Inc.
By its Counsel

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AND TO: Intervenors of Record

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EB-2015-0089

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AND IN THE MATTER OF the Board's Decision with Reasons dated July 28, 2016.

NOTICE OF MOTION

Milton Hydro Distribution Inc. ("Milton Hydro") will make a motion to the Ontario Energy Board (the "Board") on a date and at a time to be determined by the Board.

PROPOSED METHOD OF HEARING: Milton Hydro proposes that the Motion be heard by way of a written hearing.

THE MOTION IS FOR:

1. A review and variance of those portions of the Board's Decision and Order dated July 28, 2016 (the "Board's Decision"), in the matter of Milton Hydro's application for electricity rates and other charges beginning May 1, 2016 (the "Application"), relating to:

   (a) the valuation of the former Milton Hydro property located at Fifth Line and Main Street, Milton (the "Fifth and Main Property");

   (b) the determination of the percentage of the capital gain on the sale of the Fifth and Main Property to be paid to customers; and

   (c) the mechanism by which any portion of the capital gain on the sale of the Fifth and Main Property is to be paid to customers; and

2. An order staying the operation of the Board's Decision, including any Rate Order that may flow from the Decision, pending the resolution of this Motion; and

3. Alternatively, if the Board intends to issue a Rate Order in Milton Hydro's 2016 rates proceeding (which to date has not been issued), prior to the disposition of this Motion, a preliminary order:

   (a) declaring the Board's Rate Order in this proceeding to be interim pending the disposition of this Motion; and

   (b) if this Motion is successful, allowing the revenue requirement impact of the Motion to be tracked and recovered from ratepayers by way of an amended Rate Order to be issued following the disposition of the Motion, which would include a rider by which Milton Hydro would recover forgone revenue related to the Motion for the period from the effective date of Milton Hydro's 2016 Rate Order to the implementation date of the amended Rate Order.

THE GROUNDS FOR THE MOTION ARE:

1. On August 28, 2015, Milton Hydro applied for distribution rates effective May 1, 2016.

2. Prior to its acquisition and renovation of its current administration and operations centre at 200 Chisholm Drive (the "200 Chisolm Drive Property"), Milton Hydro leased space at 8600 Lawson Road and owned the Fifth and Main Property. The Fifth and Main Property was used for outside storage. It was originally acquired in 2008 for $2,218,530. As Milton Hydro was only going to be using 50% of the Fifth and Main Property as a storage yard, and therefore only 50% of the Fifth and Main Property would be used and useful in the 2011 Test Year, the parties to Milton Hydro's 2011 Cost of Service proceeding (EB-2010-0137) agreed, in their Board-approved Settlement Agreement, that only 50% of the cost of the property, being $1,109,265, would be included in the opening Rate Base of Milton Hydro's 2011 Cost of Service Rate Application.[1] Because only 50% of the Fifth and Main Property was in rate base, Milton Hydro's customers were only paying a return on 50% of the value of that property.

3. The Fifth and Main Property was sold in 2015. It is not part of the Milton Hydro rate base for the 2016 Test Year, because the 50% of the cost of the property that had been in rate base since 2011

[1] EB-2015-0089, Application, Ex.1, p.32, lines 11-14; and Decision and Order, at p.39

($1,109,265) was removed from rate base for the 2015 Bridge Year.[2]

4. The sale price of $2.4 million attributed to the Fifth and Main Property by Milton Hydro was based on a July 2015 Full Narrative Appraisal prepared by Colliers International Inc. (the "Colliers Report"), which was included as Attachment 1-3 to Exhibit 1 of the Application. The cover letter to the Colliers Report, and the "Final Estimate of Value" contained on the final page (the signed Certification page) of the Colliers Report, confirm the valuation of $2.4 million. The body of the Colliers Report contains other references to the $2.4 million valuation (including at page v of the Executive Summary and page 33).

5. In its Application, Milton Hydro indicated how it proposed to deal with the capital gain on the sale of the Fifth and Main Property. Specifically, Milton Hydro stated:

> "As discussed above, 50% of the land value was included in Rate Base in 2010. Upon the sale of the land, Milton Hydro will credit 50% of the net proceeds, being 100% of the net proceeds on the rate based portion of the land, to the benefit of customers as a revenue offset. The proceeds will be used to partially finance the new Service Centre and Administration building at 200 Chisholm Drive."[3]

6. The total net gain on the sale of the property for $2.4 million was $175,950. As the Board acknowledged, "Milton Hydro proposes to deduct 50% of its calculation of the gain of $175,950 or an amount of $87,975 from the 2016 base revenue requirement."[4]

7. In its Decision, the Board dealt with the Fifth and Main Property in conjunction with its consideration of the treatment of the 200 Chisholm Drive Property. The Board determined that it would make a series of disallowances and adjustments. Among those disallowances and adjustments were the following reductions:

    a) For the capital gain realized on the sale of the property at the Fifth and Main Property: a rate base reduction of about $506,000;

    b) For 6,800 square feet of excess office space at the 200 Chisolm Drive Property: a rate base reduction of $675,722; and

    c) For the capital cost differential between inside and outside storage at the 200 Chisolm

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[2] EB-2015-0089, Application, Ex.1, p.32, lines 15-16
[3] EB-2015-0089, Application, Ex.1, p.32, lines 19-24
[4] EB-2015-0089, Decision, at p.46

Drive property: a rate base reduction of $753,480.[5]

8. Three of the Board's determinations with respect to the Fifth and Main Property give rise to this Motion:

   a) The Board unilaterally increased the valuation of the Fifth and Main Property to $2.73 million, despite the Colliers valuation being $2.4 million. The Board's unilateral increase was based on a reference to "Rate Per Acre" of $425,000 in the body of the Colliers Report, as opposed to the correct $375,000 per acre valuation, also contained in the body of the Colliers Report, and ignores Colliers' signed Certification of the value of the property at $2.4 million. This increase has the effect of imputing a total net gain on the Fifth and Main Property of $505,950 rather than the correct amount of $175,950 based on the Colliers valuation of $2.4 million and used by Milton Hydro for rate-making purposes.

      At no point during the application process did Board Staff, any intervenor, or the Board panel make any inquiry of Milton Hydro or of Colliers in respect of the discrepancy between Colliers' valuation of the Fifth and Main Property and typographical errors in the body of its Report, nor did anyone bring it to the attention of Milton Hydro; Milton Hydro learned of it for the first time when it reviewed the Decision on July 28, 2016;[6]

   b) The Board allocated the entire net gain on the sale of the Fifth and Main Property to rate payers, notwithstanding that 50% of the Fifth and Main Property had never been in rate base; and

   c) In dealing with the capital gain realized by Milton Hydro on the sale of the Fifth and Main Property, the Board eliminated Milton Hydro's proposed five-year revenue requirement offset that would have paid out to rate payers the net gain on the sale of that portion of the Fifth and Main Property that had been in rate base, and instead permanently removed approximately $506,000, the net gain imputed by the Board on the Fifth and Main property based on the erroneous increase referenced above, from Milton Hydro's rate base.

9. Milton Hydro respectfully submits that the Board erred in fact in its Decision as it relates to the treatment of the impact of the 2015 sale of the Fifth and Main Property, as follows:

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[5] EB-2015-0089, Decision, at p.46
[6] EB-2015-0089, Decision, at p.46; Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 6.

a) First, the Board erred in imputing a value of $2.73 million to the Fifth and Main Property, and, as a result, the Board erred in imputing a total net gain on the Fifth and Main Property of $505,950 rather than the correct amount of $175,950, as follows:

> "Relying on an appraisal from Colliers International Realty Advisors Inc. dated August 5, 2015, Milton Hydro sold that property to its affiliate (Milton Energy & Generation Solutions Inc.) for $2.4 million. This appraisal states, in the "Final Estimate of Value" section, that "Given the Subject's location, development potential , land use controls in place and other influencing factors of employment land sites, a rate [per acre] in the range of $400,000 and $450,000 would be reasonable for the Subject Parcel". The "Executive Summary" section of the appraisal ascribes a "Rate per Acre" of $425,000 to the land having an area of 6.43 acres.
>
> The appraisal inexplicably presents a chart for values per acre ranging between $350,000 and $400,000 rather than the $400,000 to $450,000 already found to be reasonable. The value of $2.4 million that Milton Hydro has used to derive the capital gain realized on the sale of the land falls well below the $2.73 million value that results from multiplying the appraiser's $425,000 "Rate per Acre" by the area of the parcel consisting of 6.43 acres. At a sale value of $2.73 M, the capital gain is $505,950 and not the amount of $175,950 used by Milton Hydro for rate-making purposes. Milton Hydro proposes to deduct 50% of its calculation of the gain of $175,950 or an amount of $87,975 from the 2016 base revenue requirement.[7]
>
> [...]
>
> [T]he OEB finds that, for rate-making purposes, the appraisal evidence supports a sale value of $2.73 million for the 6.43 acre parcel rather than the $2.4 million amount presented by Milton Hydro. This sale value is derived by multiplying the $425,000 per acre mid-point of the value range, as determined by the appraiser, by the land area of 6.43 acres. The OEB finds that the capital gain realized on the sale is $505,950 and not the $175,950 calculated by Milton Hydro."[8] [footnotes omitted]

As a result of this error, the Board ultimately held as follows:

> "***After adjusting for Milton Hydro's inappropriately low sale value for the property rendered redundant by the purchase of 200 Chisholm Drive*** and the inappropriate regulatory treatment of the capital gain realized on that sale, the OEB reduces the value of rate base to be used in determining 2016 rates by about $1.935 million and eliminates Milton Hydro's proposed base revenue offset of $87,975 derived from a portion of the capital gain on the sale of the redundant property."[9] [emphasis added]

In determining the sale price of the Fifth and Main Property, Milton Hydro relied upon the signed Certification from an independent appraiser for the valuation of the property determined to be $2.4 million.

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[7] EB-2015-0089, Decision, at p.46
[8] EB-2015-0089, Decision, at p.54
[9] EB-2015-0089, Decision, at p.3

After the release of the Decision, Milton Hydro contacted Colliers to inquire about the inconsistencies contained within the body of the report with respect to references to the per acre valuation of the property raised for the first time in the Board's Decision.[10] Colliers confirmed that there were typographical errors in the body of the report but the total value of the property remains at $2.4M as was originally appraised and which Milton Hydro relied on to sell the property. The capital gain of $175,950 as reflected by Milton Hydro is supported by the signed Certification Page from Colliers.[11]

In particular, the references in the body of the Colliers Report to "a "Rate per Acre" of $425,000" and "a rate [per acre] in the range of $400,000 and $450,000" were typographical errors made by Colliers. In an August 4, 2016 addendum to its August 5, 2015 appraisal report (the "Colliers Addendum,"), Colliers advises as follows:

> "On August 1, 2016, there were typographical errors found in the appraisal report, which this Addendum addresses. This Addendum will amend the Full Narrative Appraisal Report with the following corrections:
>
> - Page V [Executive Summary]: Under the "Value Approach" heading, Rate per Acre was incorrectly noted at $425,000 per acre. The intended figure was $375,000 per acre as found in the value conclusion.
> - Page 31: In the analysis of Index 3, the last sentence incorrectly noted a rate per acre for the comparable at $246,558 per acre. The intended figure was $339,217.
> - Page 33: Under the Final Estimate of Value, paragraph 3 incorrectly noted that a rate in the range of $400,000 and $450,000 would be reasonable for the Subject Parcel. The intended figures were $350,000 and $400,000 per acre as found in the Value Matrix."[12]

Colliers' Corrected Full Narrative Appraisal of the Fifth and Main Property confirms that the correct valuation as certified in both its original and revised appraisals is $2.4 million, and not the value of $2.73 million unilaterally determined by the Board.[13]

The Board's imputing of a total net gain on the Fifth and Main Property of $505,950 rather than the correct amount of $175,950 on the basis of its interpretation of the text in the body of the Colliers Report with respect to the value of the Fifth and Main Property was therefore based on an error in fact which was discovered subsequent to the release of the Board's Decision, and the reduction should be reversed and the Board's Decision

[10] Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 7
[11] Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 8
[12] Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 8, Exhibit "A"
[13] Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 9, Exhibit "B"

varied to reflect the corrections made in the Colliers Addendum and in Colliers' Corrected Full Narrative Appraisal of the Fifth and Main Property.

b) Second, the Board erred in applying 100% of the amount of the capital gain realized on the sale of the Fifth and Main Property as a reduction to Milton Hydro's rate base, as follows:

> "In this case, where Milton Hydro's purchase of the 200 Chisholm Drive property effectively replaces the Fifth Line and Main Street property, the OEB finds that the appropriate regulatory treatment for the capital gain is to record the entire amount of the gain of almost $506,000 as a credit or reduction to the rate base value of the land at 200 Chisholm Drive. This regulatory treatment is most appropriate where one parcel of property acquired for future use is replaced with another."[14]

In fact, as acknowledged earlier in the Board's Decision,[15] only 50% of the original purchase price of the Fifth and Main Property was included in Milton Hydro's 2011 rate base; this was in order to account for space in the Fifth and Main Property which was not being used by Milton Hydro and therefore was of no benefit to ratepayers. This fact was not adverted to by the Board in its analysis of the appropriate percentage of capital gain on the property to be attributed to ratepayers. If it had been, the Board would have accepted Milton Hydro's request that only a portion (50%) of the capital gains realized on the sale of the property (i.e., 100% of the rate based portion of the land, for which Milton Hydro received revenues from customers) be applied as a reduction to Milton Hydro. The Board therefore erred in fact, and the reduction should be reversed and the Board's Decision varied to reflect that only 50% of the capital gains realized on the sale of the Fifth and Main Property be applied as a reduction to Milton Hydro.

c) Third, the Board erred in reducing Milton Hydro's rate base in order to reimburse customers for the gain rather than, as Milton Hydro requested, using a revenue offset. The gain on the sale of the Fifth and Main Property represents a finite amount of money. If Milton Hydro's proposal had been accepted, that amount would have been fully paid out to customers over the 2016 Test Year plus four years of IRM. The effect of the Board's approach is that Milton Hydro will be permanently paying its customers, on an annual basis, an amount equal to the revenue requirement impact of the reduction in rate base well beyond the net gain on the sale of the Fifth and Main Property.

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[14] EB-2015-0089, Decision, at p.55
[15] EB-2015-0089, Decision, at p.39

Milton Hydro has determined that the impact of including the Board's imputed gain on the sale of the Fifth and Main Street Property of $506,000 as a reduction to Milton Hydro's rate base reduces Milton Hydro's revenue requirement by $39,400 per year. Therefore, on the basis of the Board's imputed gain of $506,000, the reduction to Milton Hydro's revenue requirement will have repaid the imputed $506,000 back to customers in approximately 13 years. After 13 years, Milton Hydro will be overpaying customers over and above the imputed $506,000 gain in the amount of $39,400 per year, in perpetuity.[16]

The Board states in its decision that "The disposition of a utility-related land asset in rate base would normally result in a reduction in the value of rate base in an amount equal to the price realized on the disposition of the asset."[17] Milton Hydro agrees that on the disposition of a utility-related land asset in rate base that the rate base is reduced by the cost of the land included in rate base, exactly what Milton Hydro did by removing $1,109,265 from rate base in the 2015 Bridge Year. The OEB Accounting Procedures Handbook is clear on the treatment of a gain or loss on the disposition of an asset as discussed below, and this is precisely the treatment the Milton Hydro proposed.

Milton Hydro is not aware of any precedent for treating the capital gain on the sale of an asset as a permanent reduction to rate base as opposed to a one-time revenue offset. To do so is to permanently undervalue the new asset (in this case, the 200 Chisolm Drive Property) in rate base as opposed to providing a one-time credit to rate payers in respect of the gain realized on the sale of the old asset (in this case, the Fifth and Main Property). This is a departure from the practice of the Board and will have a significant impact on utilities going forward.

Milton Hydro also submits that the Board's decision raises a concern about regulatory consistency. As far as Milton Hydro is aware, the practice of the Board has always been to apply capital gains as revenue offsets, for the reasons outlined above. For example, in the May 15, 2008 Decision of the Board in Toronto Hydro's 2008-2010 Rate Application (the "Toronto Hydro Decision", Board File EB-2007-0680), capital gains were applied as revenue offsets. In addition, in the April 27, 2011 Decision of the Board

[16] Affidavit of Cameron McKenzie, sworn August 17, 2016, para. 10
[17] EB-2015-0089, Decision, at p.47

in Waterloo North Hydro's 2011 Rate Application (the "Waterloo North Hydro Decision", Board File EB-2010-0144), a capital gain was estimated, placed in a Deferral Account and returned to the rate payers as a revenue offset by way of a rate rider credit over four years. The Deferral Account was trued up in Waterloo North Hydro's 2016 Rate Application (Board File EB-2015-0108).

The Toronto Hydro and Waterloo North Hydro Decisions (which both relate to the treatment of capital gains from land/land and building) are consistent with the treatment of capital gains in the OEB Accounting Procedures Handbook, which provides at 4355:

> "4355 Gain on Disposition of Utility and Other Property
>
> This account shall be credited with the gain on the sale, conveyance, exchange, or transfer of utility or other property to another. The gain arising from the book cost of the item of property, plant and equipment or intangible asset so disposed less the amount chargeable to the applicable accumulated depreciation or amortization account and less the net proceeds realized shall be recorded in this account. Records shall be maintained as to show how the gains were determined. Gains on land and land rights recorded in Account 2040, Electric Plant Held for Future Use will be accounted for as Article 220 Uniform System of Accounts Income Statement Other Income/Deductions prescribed in paragraphs B, C, and D of Account 2040."[18]

Milton Hydro submits that consistency in decision-making is important to the integrity of the regulatory process and it should not be abandoned in the circumstances, that is, when the circumstances of one case are not clearly distinguishable from others. The principles applied by the Board in the Milton Hydro Decision of July 28, 2016 appear to have departed from those applied in the Toronto Hydro Decision, the Waterloo North Hydro Decision and the OEB Accounting Procedures Handbook. Milton Hydro recognizes that one panel of the Board cannot bind another. However, in these circumstances, where contradictory decisions were issued on similar facts, Milton Hydro submits that this regulatory inconsistency is a reasonable ground for review.

It is Milton Hydro's submission that for the foregoing reasons the Board erred, and the offset to Milton Hydro's rate base in respect of the capital gain realized on the sale of the Fifth and Main Property should be reversed and the Board's Decision Varied to apply the capital gain realized on the sale of the Fifth and Main Property as a revenue offset of $17,595 for the five year cost of service and IRM period.

[18] OEB Accounting Procedures Handbook, at 4355

10. Milton Hydro also relies upon:

(a) Rules 40 through 42 of the Board's *Rules of Practice and Procedure*; and

(b) such further grounds and material as counsel may advise and this honourable tribunal may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion**:**

(a) The Board's Decision with Reasons dated July 28, 2016;

(b) Milton Hydro's application for electricity rates and other charges beginning May 1, 2016 (EB-2015-0089, Application);

(c) The affidavit of Cameron McKenzie, sworn August 17, 2016, with exhibits;

(d) May 15, 2008 Decision of the Board in Toronto Hydro's 2008-2010 Rate Application (Board File EB-2007-0680);

(e) April 27, 2011 Decision of the Board in Waterloo North Hydro's 2011 Rate Application (Board File EB-2010-0144);

(f) Waterloo North Hydro's 2016 Rate Application (Board File EB-2015-0108);

(g) OEB Accounting Procedures Handbook, at 4355; and

(h) Such further and other documentary evidence as counsel to Milton Hydro may advise and this honourable tribunal may permit.

Date: August 17, 2016

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AND TO: Intervenors of Record

Ontario Energy Board
Commission de l'énergie de l'Ontario

DECISION AND ORDER

EB-2015-0089

MILTON HYDRO DISTRIBUTION INC.

Application for electricity distribution rates and other charges beginning May 1, 2016

Before: **Emad Elsayed**
Presiding Member

Ken Quesnelle
Vice Chair and Member

Peter C. P. Thompson, Q.C.
Member

July 28, 2016

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1 INTRODUCTION AND SUMMARY

Milton Hydro Distribution Inc. (Milton Hydro) provides electricity distribution services to about 35,000 customers in the Town of Milton. Milton Hydro asks the Ontario Energy Board (OEB) to approve changes to its electricity distribution rates effective May 1, 2016. The OEB is asked to re-base Milton Hydro's current 2015 rates to allow the utility to recover its budgeted 2016 base revenue requirement.

Energy Probe Research Foundation (Energy Probe), School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC) sought and were granted intervenor status in this proceeding. At a settlement conference held following Milton Hydro's responses to many interrogatories, these parties resolved most of the issues that the OEB had listed for determination.

The terms of this settlement are contained in a settlement proposal dated February 9, 2016 and an addendum thereto dated April 7, 2016. Collectively, these agreements are referred to as the Partial Settlement. OEB staff supports the Partial Settlement.

The OEB finds that the Partial Settlement produces outcomes that benefit ratepayers and approves its terms for use in determining Milton Hydro's 2016 rates.

The remaining disputed issues addressed in this Decision and Order are:

(i) Whether Milton Hydro's budgeted 2016 Operation, Maintenance and Administration (OM&A) expenses are appropriate (OM&A Expenses Issue); and
(ii) Whether recovery in rates of all of the 2016 revenue requirement related to the land and building at 200 Chisholm Drive is appropriate (200 Chisholm Drive Issue).

In deciding these disputed issues, the OEB describes and applies the principles embedded in its performance-based outcomes approach to rate regulation.

Following an analysis of the facts related to the OM&A Expenses Issue, the OEB finds that the total amount requested of $10,122,448 is too high by $550,000. About $50,000 of the excess is for OM&A expenses attributable to portions of the 200 Chisholm Drive property that the OEB finds to be of no value to Milton Hydro's customers. The remaining $500,000 is primarily attributable to the incompatibility of Milton Hydro's recent performance metrics with the continuous improvement and other objectives of the OEB's performance-based approach to rate regulation.

Its analysis of the facts related to Milton Hydro's acquisition and renovation of the 200 Chisholm Drive property leads the OEB to find that the building has been configured to provide 6,800 square feet of excess office space and 36,000 square feet of inside storage for use as a substitute for, but at a "premium" cost that materially exceeds the cost of outside storage. The OEB finds these outcomes to be of no value to Milton Hydro's customers.

After adjusting for Milton Hydro's inappropriately low sale value for the property rendered redundant by the purchase of 200 Chisholm Drive and the inappropriate regulatory treatment of the capital gain realized on that sale, the OEB reduces the value of rate base to be used in determining 2016 rates by about $1.935 million and eliminates Milton Hydro's proposed base revenue offset of $87,975 derived from a portion of the capital gain on the sale of the redundant property.

The 2016 rates that the OEB approves in this Decision and Order are based on the OEB's determination of the level of revenue required by Milton Hydro to cover reasonably incurred costs of operating and maintaining the distribution system at a service level that meets the needs of its customers.

The overall effect of the OEB's findings is a 2016 gross revenue requirement reduction, in addition to that specified in the Partial Settlement, of about $619,000[1]. Because ratepayers cannot benefit from accumulated depreciation related to rate base disallowances, the accumulated depreciation related to the $1,405,426 of depreciable assets in disallowed rate base will be eliminated for rate making purposes. The accumulated depreciation related to the $1,405,426 of depreciable assets being disallowed will also be eliminated for rate making purposes. The OEB estimates that about $33,000 of accumulated depreciation will be eliminated from 2016 opening rate base. The OEB estimates that the result of this decision will be a reduction in the gross revenue deficiency to be recovered in 2016 rates of about $634,000.[2]

As a result of the Partial Settlement and the adjustments made by the OEB in this Decision and Order, the impact on Milton Hydro's existing distribution rates and the total electricity bill is expected to be relatively minor. The exact amount will be confirmed in the next step of this proceeding through the rate order process.

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[1] The $619,000 estimate is derived from applying the approach used by Milton Hydro in its spreadsheet that accompanied its response to Undertaking J2.2 to the rate base amounts for un-renovated office space, renovated office space, the storage space premium, and the capital gain on the sale of the Fifth Line and Main Street property.
[2] The $634,000 estimate is derived from adjusting the Revenue Requirement Work Form (RRWF) attached to the Partial Settlement for the findings made in this Decision and Order including the reversal of an accumulated depreciation amount of about $33,000.

2 THE PROCESS

Milton Hydro filed a cost of service rates application (the Application) with the OEB on August 28, 2015 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Milton Hydro charges for electricity distribution, to be effective May 1, 2016.

The OEB published a notice to customers of Milton Hydro on September 24, 2015 in the Milton *Canadian Champion* newspaper. Energy Probe, SEC and VECC were approved as intervenors in the proceeding.

On November 2, 2015, the OEB hosted a community meeting in Milton to provide an opportunity for individual ratepayers to ask OEB staff and representatives from Milton Hydro about the Application. On November 17, 2015 Milton Hydro presented a summary of its Application to the OEB, OEB staff and intervenors at the OEB offices.

The Issues List for this case was approved by the OEB on January 20, 2016. After an interrogatory process, a settlement conference was held on January 25 and 26, 2016. Milton Hydro filed a settlement proposal on February 9, 2016 reflecting a partial settlement among all parties on the majority of issues. Three issues were not settled:

1. The OM&A Expenses Issue;
2. The 200 Chisholm Drive Issue; and
3. The recovery of the 2011-2014 Lost Revenue Adjustment Mechanism Variance Account (LRAMVA).

The OEB determined that it would not deal with the LRAMVA issue in the present proceeding as the issue was to be addressed on a generic basis in another proceeding.

In the Settlement Proposal, the parties agreed that the effective date of the rates arising out of the proposal, and out of the OEB’s decision on the outstanding matters, should be May 1, 2016. In the event that it were not possible for the OEB to issue its Rate Order in time for May 1, 2016 implementation, the parties agreed to a rate rider 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 OEB.

On April 7, 2016, Milton Hydro filed an addendum to the Settlement Proposal. This further agreement between Milton Hydro, Energy Probe, SEC, and VECC addresses an

OEB staff submission regarding the bill impact for the Sentinel Light class. OEB staff supports the addendum.

The OEB held an oral hearing on April 4 and 5, 2016 to hear testimony from Milton Hydro's witnesses on the OM&A Expenses and 200 Chisholm Drive Issues. Milton Hydro presented an oral Argument-in-Chief on April 5, 2016. OEB staff and intervenors filed their written submissions on April 19, 2016 and Milton Hydro filed its written reply submission on April 26, 2016.

The OEB issued an interim rate order on April 29, 2016, declaring Milton Hydro's current rates interim as of May 1, 2016 pending the OEB's final rate order.

3 STRUCTURE OF THE DECISION

In its October 18, 2012 report entitled *Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach* (RRFE), the OEB adopted an outcomes based approach to rate regulation. This approach is applied in this case to determine the questions requiring resolution, namely;

(i) Whether the terms of the Partial Settlement produce outcomes that are compatible with the RRFE;

(ii) Whether Milton Hydro’s budgeted 2016 OM&A Expenses are appropriate; and

(iii) Whether recovery of the entire 2016 requested revenue requirement related to the building and property at 200 Chisholm Drive is appropriate.

Matters relevant to each of these questions are described in the chapters that follow.

Chapter 4, entitled “Guiding Principles”, summarizes the outcomes approach to regulation established by the RRFE.

Chapter 5, entitled “Settled Issues”, contains a short narrative about the parties to the Partial Settlement and briefly explains why the terms of the Partial Settlement among those parties produce outcomes that are compatible with the RRFE and in the interests of all Milton Hydro’s ratepayers.

Chapter 6, entitled “Disputed Issues”, describes facts relevant to each of the contested OM&A Expenses and 200 Chisholm Drive Issues. The OEB applies the outcomes approach to these facts in making its findings on each of these disputed issues.

Chapter 7, entitled “Lost Revenue Recovery Rate Rider” stems from Milton Hydro’s request for an effective date of May 1, 2016 for its 2016 rates and the OEB’s April 29, 2016 Order declaring current rates interim as of May 1, 2016 pending the OEB’s final rate order.

The OEB’s instructions regarding the filing of a draft rate order, along with matters related to its implementation, are presented in Chapter 8, entitled “Implementation and Order”.

4 GUIDING PRINCIPLES

In the 2012 RRFE report, the OEB adopted an outcomes approach to rate regulation and promoted the achievement of four performance outcomes to the benefit of existing and future electricity customers and the public interest.

The RRFE describes the public interest outcomes that customers value as follows:

(i) Customer Focus: services are provided in a manner that responds to customer preferences;

(ii) Operational Effectiveness: continuous improvements in productivity and cost performance are achieved, and utilities deliver on system reliability and quality objectives;

(iii) Public Policy Responsiveness: utilities deliver on obligations mandated by government (e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the OEB); and

(iv) Financial Performance: financial viability is maintained, and savings from operational effectiveness are sustainable.

Accordingly, the RRFE policy confirms a performance-based outcomes approach to rate regulation that supports cost effective planning along with the efficient operation of a distribution network. As stated in the OEB's 2015 Hydro One decision, "The OEB intends that the policy provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price".[3]

Under this approach, the OEB determines just and reasonable rates having regard to its assessment of the facts related to each of the four categories of utility performance described in the preceding paragraph. Continuous improvements in all of the categories of performance are expected.

As the OEB indicated in its RRFE Scorecard Report:

> For distributors, a focus on delivering value will put a greater emphasis on understanding customer satisfaction and the cost/value trade-offs that customers are willing to make. This will help them to better plan their investments to focus on improvements valued by their customers. Distributors

[3] EB-2013-0416/EB-2014-0247 Decision, March 12, 2015, p. 8.

> are expected to achieve continuous improvements that reduce costs and deliver service levels that their customers value. For customers, the Board's performance-based approach aims to encourage distributors to operate effectively, continually seek ways in which to improve their productivity and performance and, importantly, better engage with their customers to better understand and respond to their needs, and demonstrate the value that they deliver.
>
> The Board remains committed to continuous improvement within the electricity sector. Individual distributors achieve continuous improvement through their ongoing efforts to improve services and/or processes that are valued by their customers. Over time and collectively, distributors will advance continuous improvement in the sector through achievement of benchmark performance on valued services and/or processes.[4]

Cost of service rate setting under this approach has transitioned to an output and program focused review with an emphasis on value for customers.

The OEB expects distributors to set their performance targets having regard to the continuous improvement objectives of the RRFE, their own historic year-over-year achievements, and the cost trends and other outcomes that their exemplary peers are achieving.

Utility performance in both planning for and achieving public interest outcomes that customers value will influence the assessment of the reasonableness of revenue requirements that the OEB is asked to approve. Generally speaking, utilities that objectively demonstrate measureable and sustainable continuous improvements in each of the performance categories can reasonably expect to have their test period revenue requirement requests approved without material disallowances.

Under the outcomes approach, recovery from ratepayers is limited to the OEB's determination of amounts that satisfy the operational effectiveness and other performance objectives of the RRFE. The fact that a utility either spends or plans to spend money does not, in and of itself, lead to a finding that the amount is recoverable from ratepayers. The Supreme Court of Canada has recently held that utility spending does not, in and of itself, give rise to a presumption of prudence.[5] Rather, the onus is on the utility to demonstrate to the satisfaction of the regulator that the money was spent wisely to achieve outcomes that customers value.

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[4] EB-2010-0379, Report of the Board: Performance Measurement for Electricity Distributors: A Scorecard Approach, March 5, 2014, p. i.
[5] *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44, paras. 102 to 105.

The foregoing principles guide the OEB's assessment of the Partial Settlement and its findings for both of the disputed issues in this case.

Moreover, in assessing recoverable costs related to a major utility project for which no prior OEB approval was required, such as the 200 Chisholm Drive project, the OEB considers many of the same criteria that are taken into account in a major project case for which prior OEB approval is required. These include need; alternatives considered; design; rate impacts; and any other matter relevant to the public interest. These factors are considered in the context of the principle that ratepayers should only be expected to pay for things that are of demonstrable value to them.

In the chapters that follow, these guiding principles are applied to determine just and reasonable 2016 test year rates for Milton Hydro.

5 SETTLED ISSUES

5.1 Facts

Energy Probe, SEC and VECC (Intervenors) are the parties to the Partial Settlement with Milton Hydro. These Intervenors have many years of experience with OEB rate-making. OEB staff supported the Partial Settlement. The Partial Settlement resolves all issues except the OM&A Expenses and 200 Chisholm Drive Issues.

The OEB notes that the parties to the Partial Settlement expressly recognize that the determination of the OM&A and 200 Chisholm Drive Issues is expected to have other impacts on other components of revenue requirement.[6]

The OEB has determined that within the ambit of the unresolved 200 Chisholm Drive Issue are the questions of the appropriateness of the regulatory treatment that Milton Hydro proposes for the capital gain realized on the sale of the property that became redundant with its purchase of 200 Chisholm Drive, and the value of the redundant property at the time it was sold.

The outcomes of the Partial Settlement include:

(i) A reduction in the applied for base revenue requirement of $76,851, from $16,998,621 to $16,921,770; and in the grossed up revenue deficiency of $99,292, from $721,186 to $ 621,894, a reduction of about 13.8%.

(ii) Acknowledgements from the participating parties that;
  (a) customer feedback and preferences were taken into account;
  (b) Milton Hydro's capital expenditure plans are appropriate and include sufficient rationale for the planning and pacing of capital investment projects; and
  (c) all elements of the base revenue requirement, except for the OM&A and 200 Chisholm Drive components, have been correctly determined in accordance with OEB policy;

(iii) Milton Hydro's express recognition of the importance of improving reliability, service quality, bill impacts, and compatibility with historic expenditure levels;

(iv) The acceptance of Milton Hydro's customer forecast, loss factors, and Conservation and Demand Management (CDM) adjustments and that the resulting billing determinants are appropriate and an accurate reflection of the energy and demand requirements of its customers;

[6] Settlement Proposal, February 9, 2016, p. 9.

(v) An agreement that the accounting procedures used by Milton Hydro, including changes in accounting standards, policies, and adjustments, have been properly identified and recorded and that the rate-making treatment of each of these impacts is appropriate;

(vi) Acceptance of Milton Hydro's cost allocation and rate design proposals which will be used to determine final rates once the disputed issues are adjudicated; and

(vii) A consensus that the balances and disposition of deferral accounts proposed by Milton Hydro are appropriate (except for the LRAMVA which the OEB removed from the ambit of this proceeding as this will be addressed on a generic basis in another proceeding).

These outcomes benefit all of Milton Hydro's customers. Rates will be lower than those requested in the Application. Costs associated with a prolonged rate hearing will be avoided.

5.2 Findings

Recognizing that the scope of the 200 Chisholm Drive Issue is as previously described and that all matters in the Partial Settlement linked to the disputed issues will be updated as a result of the OEB's determination of those issues, the OEB finds that the terms of the Partial Settlement produce outcomes that are compatible with the operational effectiveness and other applicable performance objectives of the RRFE. The OEB approves the terms of the Partial Settlement for use in the determination of Milton Hydro's 2016 rates.

6 DISPUTED ISSUES

6.1 Introduction

(a) Factual Context for Outcomes based Rate Regulation

Under the OEB's performance-based outcomes approach to rate regulation, the focus is on facts related to a utility's historic and prospective performance in relation to outcomes that customers value. There are four categories of facts to be considered. They are facts related to customer focus, operational effectiveness, financial performance and public policy responsiveness, if applicable in the particular case under consideration.

In this case, on the OM&A Expenses Issue, the parties, including Milton Hydro, devoted most of their examination time to facts related to historic and prospective operational effectiveness. Such facts included comparisons of the historic and prospective trends in Milton Hydro's year over year OM&A costs per customer and historic year over year comparisons to the OM&A costs per customer of its peers. Facts related to Milton Hydro's rapid growth, its urban and rural service territory, and other metrics were examined in detail.

These facts are of significance in the OEB's assessment of whether Milton Hydro's current and prospective performance satisfies the continuous improvement goal of the RRFE's performance objectives.

(b) Historic and 2016 Base Revenue Requirement Context

After adjusting for the benefits of the Partial Settlement, Milton Hydro seeks to re-base its current 2015 rates to recover a budgeted base revenue requirement for 2016 of $16,921,770. Milton Hydro's current rates stem from the OEB's application of its Incentive Price Cap Rate Methodology to Milton Hydro's OEB approved 2011 cost of service rates. The approved base revenue requirement for 2011 was $13,005,179,[7] an amount of about $427 per customer for the 30,461 OEB approved customer numbers for 2011. Since only 29,814 customers were actually served in 2011, the actual 2011 revenue was about $12,730,578.

[7] Exhibit 1, p. 33, Table 1-8.

Revenue being recovered under the 2015 current rates is $16,299,876.[8] Under the Incentive Price Cap methodology, and having regard to its rapid growth, Milton Hydro is recovering $3,569,298 or about $3.570 million of revenue incremental to its 2011 actual base revenue. This incremental revenue included an estimated amount of about $1,529,398 of OM&A costs incremental to the OM&A costs embedded in the 2011 base rates at an OM&A cost per customer of about $215.[9] The derivation of this $1,529,398 estimate is described below.

Under the auspices of the Price Cap plan, Milton Hydro's 2011 rates escalated between 2011 and 2015 by about 4.21%.[10] Applying this total escalator of 4.21% to the OM&A cost per customer embedded in 2011 rates of about $215 produces an estimated value of the OM&A cost per customer embedded in current 2015 rates of about $223. With the addition of 6,858 customers between 2011 and 2016, from a 2011 level of 29,814 customers to the estimated 2016 level of 36,672 customers,[11] the OM&A costs embedded in the incremental revenues of about $3.570 million attributable to customer additions and escalation of the 2011 rates is estimated at $1,529,334 (6,858 times $223). Milton Hydro's incremental revenues related to customer growth are discussed in further detail in Section 6.2 subsection I.

(c) Accounting Policy Adjustment

The OM&A expenses budget included in the requested 2016 base revenue requirement is $10,122,448. This amount is materially more than the $6,300,000 OM&A expense budget that the OEB approved for 2011. However, the two amounts are not comparable because, for Milton Hydro, the Canadian Generally Accepted Accounting Principles (CGAAP) accounting policy that prevailed in 2011 was replaced by the Modified International Financial Reporting Standards (MIFRS) methodology as of 2013. The 2016 budgeted amount must be adjusted to reflect this change in accounting policy in order to derive a 2016 budgeted amount comparable to the 2011 approved amount of $6,300,000.

Relying on the opinion of its auditors with respect to its 2015 results, and its own incremental MIFRS adjustment of $234,375 for 2016, Milton Hydro calculates the cumulative MIFRS adjustment for 2016 to be $1,455,845.[12]

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[8] See Revenue Requirement Work Form attached to the Partial Settlement, Revenue Deficiency/Sufficiency form at line 2.
[9] For 2011 OM&A cost per customer of $214.56 see Table J1.12 (2) for years 2006-2016.
[10] The escalation factors determined by the OEB were 0.88%, 0.48%, 1.40% and 1.45% for the years 2012, 2013, 2014 and 2015 respectively for a total escalator over the period of 4.21%.
[11] For customer numbers, 2011 to 2016, see table cited in footnote 7.
[12] Milton Hydro response to Undertaking J1.8, April 12, 2016.

SEC argues that this adjustment amount of $1,455,845 should be lower but does not quantify what it regards as the appropriate or reliable adjustment amount.[13] VECC argues that the adjustment amount should be $823,507[14] rather than $1,455,845.[15] Energy Probe and OEB staff appear to accept Milton Hydro's calculation.

In the Partial Settlement, all of the parties agreed that Milton Hydro's evidence properly identified and recorded the impacts of changes in accounting standards and policies.[16]

The OEB accepts Milton Hydro's calculation of the MIFRS adjustment of $1,455,845 and finds that the amount of the 2016 OM&A Expenses budget that is comparable to the $6,300,000 OEB approved amount for 2011 is $8,666,602. This amount is $2,366,602 or about 37.6% more than the 2011 approved amount of $6,300,000. Table 1 below shows Total OM&A for the years 2011 to 2016 inclusive adjusted for CGAAP.

Table 1
OM&A Adjusted to CGAAP
2011 to 2016

	OEB Approved 2011	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Unaudited 2015	Forecast 2016
	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS	MIFRS	MIFRS
OM&A	$ 6,300,000	$ 6,396,763	$ 6,761,992	$ 8,435,973	$ 8,543,897	$ 9,898,207	$ 10,122,448
MIFRS Adjustment				-$ 1,273,132	-$ 1,261,505	-$ 1,315,032	-$ 1,455,845
OM&A Adjusted to CGAAP	$ 6,300,000	$ 6,396,763	$ 6,761,992	$ 7,162,841	$ 7,282,392	$ 8,583,175	$ 8,666,603
			5.7%	5.9%	1.7%	17.9%	1.0%
Source: Undertaking J1.12							

(d) OM&A Expenses Issue

Intervenors and OEB staff contend that the total OM&A budgeted amount of $10,122,448 is incompatible with the performance objectives of the RRFE and should be reduced by as much as $970,000. The OM&A Expenses Issue is addressed in the next section of this Decision and Order.

(e) 200 Chisholm Drive Issue

The other disputed matter relates to Milton Hydro's purchase and renovation of the land and building at 200 Chisholm Drive. Milton Hydro purchased this property and

[13] SEC Argument, April 19, 2016, pp. 13-15.
[14] This is a number that appears in SEC's submission at p. 14 in para. 3.3.8 which SEC does not urge the OEB to adopt as a reliable amount – see p. 15, para. 3.3.16.
[15] VECC Argument, April 15, 2016, p. 7.
[16] Settlement Proposal, February 9, 2016, p. 27.

renovated the building to satisfy its need for land and building space to house the administration, operations and outside storage requirements of its electricity distribution business. The 200 Chisholm Drive location replaced the leased premises that Milton Hydro occupied at 8069 Lawson Road until December 31, 2015, when the lease expired.

The property at 200 Chisholm Drive also replaced and rendered redundant the land located at the intersection of Fifth Line and Main Street. Milton Hydro purchased this land in 2009 for the purpose of using it as the location for its new office and service centre.

The portion of the $16,921,770 base revenue requirement attributable to 200 Chisholm Drive is calculated by SEC to be almost $1,700,000.[17] Intervenors and OEB staff contend that a materially lower revenue requirement amount should be used in the OEB's determination of Milton Hydro's 2016 rates.

(f) Overlap between the OM&A Expenses and 200 Chisholm Drive Issues

Included in the disputed $10,122,448 OM&A expenses amount for 2016 are land and building operating costs related to 200 Chisholm Drive of about $467,000. The question of whether all of these land and building OM&A costs are recoverable from ratepayers depends upon a determination of matters related to the 200 Chisholm Drive Issue. Accordingly, this component of the OM&A Expenses Issue will be addressed in the section of this Decision and Order that deals with the 200 Chisholm Drive Issue.

(g) Structure of the Decision on Disputed Issues

As a result of the foregoing analysis, the order of topics addressed in the sections that follow will be:

(i) The OM&A Expenses Issue; and

(ii) The 200 Chisholm Drive Issue, including its 2016 rate base, revenue requirement and OM&A Expenses implications.

[17] SEC Argument, April 19, 2016 at p. 26 where the total revenue requirement related to the land and building is estimated at $1,688,707. Milton Hydro did not challenge this calculation in its Reply Argument. The OEB accepts the calculation as a reasonable estimate.

6.2 OM&A Expenses

A. OM&A 2016 EXPENSES BUDGET

1. Amount Requested

Milton Hydro seeks approval for a 2016 OM&A Expenses budget of $10,122,448.[18] This amount is a $3,822,448 increase over the $6,300,000 amount that the OEB approved for Milton Hydro's 2011 test year, the year when Milton Hydro's rates were last set by the OEB on a cost of service basis.

The $3,822,448 requested increase includes the MFIRS accounting policy change that Milton Hydro adopted in 2013. The MFIRS accounting policy adds $1,455,845 of OM&A expenses in 2016 compared to the CGAAP accounting policy that prevailed in 2011. Intervenors and OEB staff acknowledge that $1,455,845 of the requested increase, being the amount attributable to the accounting policy change to MIFRS, is recoverable from ratepayers.

2. 2016 Increase Over 2011 OEB Approved OM&A Expenses Excluding the MIFRS Amount

As shown in Table 1 above, after adjusting the 2016 expense budget to eliminate the increase attributable to MIFRS, the 2016 OM&A amount of $8,666,603 is an increase of $2,366,603 over OEB 2011 approved expenses of $6,300,000. In percentage terms, this is an increase of about 37% or, on average about 7.5% per year.

3. 2016 Increase Over 2013 OM&A Expenses Excluding the MIFRS Amounts

The information presented in Table 1 shows that, from 2013 to 2016, total expenses (excluding the MIFRS policy amounts) increased by $1,503,762 from $7,162,841 to $8,666,603. This is an increase of about 21% or, on average, about 7.0% per year.

4. 2016 Increase over 2013 OM&A Expenses Including the MIFRS Amounts

In 2013, when the MIFRS accounting policy was first adopted, Milton Hydro's total OM&A expenses were $8,435,973. This amount included a MIFRS related increase of

[18] In Exhibit J1.3, Milton Hydro reduced a budget amount of $200,000 for electricity, water/sewer and gas request by $33,000. In its Reply Argument, Milton Hydro made some further changes including a reduction of $72,460 for preparing the Application. Offsetting this reduction was an increase of $61,400 mentioned for the first time in Milton Hydro's Reply Argument related to the 2016 OEB cost assessment that exceeded the budgeted amount. The net reduction of these items is an amount of about $44,060. The OEB assesses the appropriateness of Milton Hydro's $10,122,448 request without specifically bringing this net reduction $44,060 into account.

$1,273,000.[19] The total 2016 OM&A Expenses budget of $10,122,448 that includes a MIFRS amount of $1,455,845 is $1,686,475 or about 20% higher than the 2013 amount. This equates to an average yearly increase of about 6.7%.

5. Summary

The foregoing five and three year analyses indicate that, regardless of whether the MIFRS amounts are included or excluded, the OEB is being asked to approve a very significant percentage and dollar amount increase in the level of Milton Hydro's OM&A expenses for recovery from ratepayers. An increase of this magnitude requires careful scrutiny.

B. THE ISSUE

The elements that the OEB considers when assessing whether the Milton Hydro's 2016 OM&A expenses are compatible with performance based outcomes of value to customers are described under the OM&A Expenses Issue that the OEB framed at the outset of this proceeding. The OM&A Expenses Issue is as follows:

> Is the level of planned OM&A expenditures appropriate and is the rationale for planning and pacing choices appropriate and adequately explained, giving due consideration to:
>
> - customer feedback and preferences;
> - productivity;
> - compatibility with historical expenditures;
> - compatibility with applicable benchmarks;
> - reliability and service quality;
> - impact on distribution rates;
> - trade-offs with capital expenditures;
> - government mandated obligations; and
> - the objectives of the applicant and its customers.

Facts falling within the ambit of these matters are addressed in the sections that follow.

[19] Milton Hydro Reply Argument, April 28, 2016, p. 5.

C. INFORMATION TO ASSIST OEB RATEMAKING

Over the years, the OEB has allocated significant resources to have independent consultants and its own staff compile statistical and other information for consideration in the determination of just and reasonable rates that produce outcomes of value to customers. Such materials include:

(a) A method for prospectively estimating, in each year, the annual rate of inflation;

(b) Productivity allowances as an offset to inflation, currently ranging between zero (0)% for the most efficient to 0.6% for the least efficient utilities; and

(c) Specified measures for presenting annual information for each electricity distributor, in a scorecard format so that the information can be used to monitor and assess the year-over-year performance of a particular utility in relation to its own past performance and the performance of other reasonably comparable electricity distributors.

In addition to inflation and productivity, the utility-specific metrics that this material enables the OEB to consider include: OM&A cost per customer; number of customers per full time equivalent utility staff (FTE); OM&A cost per kilometer of line; and overall efficiency. This material allows utilities to be grouped in cohorts according to their size and other characteristics and ranked from the least to the most costly and from the most to the least efficient.

The material that the OEB's consultants and staff compile and regularly update also includes estimates of the extent to which OM&A costs are likely to increase as new customers are added to the network. The most recent material indicates that, for the average distributor, total OM&A costs increase by about 0.44% for every 1% increase in the customer base[20]. This material states that it can be used to make a prediction of this factor for a particular utility. In its argument, Energy Probe applies this criterion to submit that the utility-specific factor for Milton Hydro is 0.4582.[21]

The purpose of the information compiled by the OEB's consultants and staff is to inform rate setting. Distributors are expected to give due consideration to all of this information when formulating the level of year-over-year increases in planned spending that they ask the OEB to approve for recovery in rates.

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[20] Exhibit K1.6, VECC Compendium, p. 5, excerpt from report "Empirical Research in Support of Incentive Rate Setting: 2013 Benchmark Update." Pacific Economics Group, July 2014.
[21] Energy Probe Argument, April 19, 2016, pp. 8-10.

D. MILTON HYDRO 2011-2020

At the hearing and in argument, Milton Hydro, Intervenors and OEB staff referred to facts related to the 2011 to 2016 year-over-year changes in Milton Hydro's total OM&A expenses as well as year-over-year changes in the utility's OM&A expense-related metrics to support their divergent positions on the OM&A Expenses Issue. These metrics include total OM&A cost per customer, customers per FTE and OM&A cost per FTE. Reference was also made to the metrics that stem from Milton Hydro's forecasts of OM&A expenses, total customers and total FTEs for 2017 to 2020.

Tables 2 and 3 below present Milton Hydro's total OM&A Expenses and other metrics that were examined during the course of this proceeding. Table 2 covers the period 2011-2016. Table 3 provides similar information covering the period 2014 to 2020.

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

	OEB Approved 2011	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Unaudited 2015	Forecast 2016
	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS	MIFRS	MIFRS
Total OM&A	$ 6,300,000	$ 6,396,763	$ 6,761,992	$ 8,435,973	$ 8,543,898	$ 9,898,208	$ 10,122,448
year to year percentage change	-		7.3%	24.8%	1.3%	15.9%	2.3%
3 years from 2013 to 2016							*20.0%*
Customer Numbers (ave. annual)	30,461	29,814	31,405	33,199	34,592	35,498	36,672
year to year percentage change	-		3.1%	5.7%	4.2%	2.6%	3.3%
3 years from 2013 to 2016							*10.5%*
FTEs (year end)	49	46	48	52	52	55	62
year to year percentage change	-		-2.0%	8.3%	0.0%	5.8%	11.8%
3 years from 2013 to 2016							*18.3%*
OM&A per Customer	$ 207	$ 215	$ 215	$ 254	$ 247	$ 279	$ 276
year to year percentage change	-		4.1%	18.0%	-2.8%	12.9%	-1.0%
3 years from 2013 to 2016							*8.6%*
Customers per FTE	622	648	654	638	665	645	596
year to year percentage change	-		5.2%	-2.4%	4.2%	-3.0%	-7.6%
3 years from 2013 to 2016							*-6.6%*
Ontario Inflation per OEB (%)	n/a	1.3	2.0	1.6	1.7	1.6	2.1
average of 5 years							*1.80*

Sources: March 24, 2016 Update, Table 4-13 (Appendix 2-JC), Table 4-12 (Appendix 2-L) and Undertaking J1.12(2).

Table 3
Operations, Maintenance & Administration Expenses
Customer Numbers & FTEs
Actuals and Forecast: 2014 to 2020

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

Source: Undertaking J.1.12 (2)

E. CUSTOMER BASE AND SERVICE TERRITORY

In 2011, when the OEB last determined a cost-of-service revenue requirement for Milton Hydro, the OEB approved customer base consisted of 30,461 customers. In that year, Milton Hydro actually served 29,814 customers located in its service territory. The service territory has an area of about 371 square km. While 315 square km or 85% of the service territory is rural, most of these customers are located within the densely populated 56 square km of urban space within the service territory.[22]

For 2016, it is estimated that the utility will serve 36,672 customers. This constitutes an increase of about 6,858 customers over the actual 2011 customer base of 29,814 customers. This constitutes about a 23% increase in the customer base over five years. The increase in total OM&A expenses over these five years of 37%, excluding the MIFRS amounts, is about 1.6 times the 23% increase in the customer base.

From 2013 to 2016, a total of 3,473 customers were added to the customer base. This is about a 10.5% increase in the 2013 customer base of 33,199. The increase in total OM&A expenses from 2013 to 2016 of about 20% is almost double the 10.5% increase in the customer base over those years.

[22] Exhibit K1.2, pp. 3 and 6.

The percentage increases in Milton Hydro's total OM&A expenses (other than those related to the adoption of the MIFRS accounting policy) are significantly outpacing the percentage increases in the customer base.

Looking ahead, Milton Hydro expects to add about 1,500 customers per year over the period 2017 to 2020. By 2020, the total customer count is forecast at 42,672. By 2026, the utility expects to be serving about 65,000 customers. By 2031, the customer base is expected to be about 76,000.[23]

Most of the customers that have been added over the past five years are located in the urban area.[24] While the costs of providing service to rural customers are higher than the cost of serving urban customers, this fact does not justify the very substantial increase in OM&A expenses that the OEB is being asked to approve.

F. MAGNITUDE OF THE REQUESTED INCREASE COMPARED TO INFLATION

The inflation statistics shown in Table 2 above indicate that the cumulative increase in inflation over the five years, 2012 to 2016 inclusive, is about 9%. Over that same timeframe Milton Hydro's total OM&A expenses (excluding increases related to the MIFRS accounting change) increased by about 37%, more than four times the cumulative increase in inflation.

For the three-year period beyond 2013, the cumulative increase in inflation derived from these statistics is 5.4%. The increase in total OM&A expenses in that period of about 20% is a multiple of about 3.7 times the increase in the rate of inflation.

Increases in Milton Hydro's total OM&A expenses (other than those related to the adoption of the MIFRS accounting policy) are materially outpacing increases in the rate of inflation.

G. TIMING AND CAUSES OF THE SIGNIFICANT EXPENSE INCREASES

Significant OM&A expense increases occurred in 2015 being the last year of the current Price Cap Incentive Regulation Mechanism (IRM) period. Excluding MIFRS amounts,

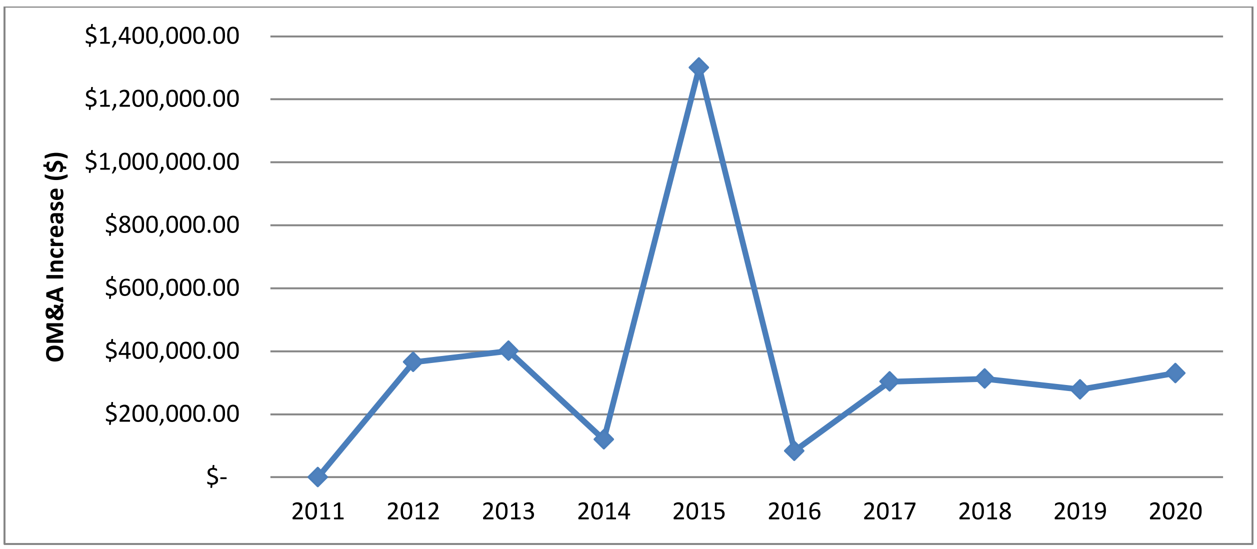
[23] Exhibit K1.2, pp. 7 - 8.
[24] Oral Hearing Transcript, Vol.1, pp. 54, 55 and 57 indicating that about 98% of the customers are located in the urban area in 2016, up from about 90% in 2006. The number of rural customers over the years has remained at about 2,000.

2015 OM&A expenses of $8,583,175 were $1,300,783 higher than the 2014 total expense level.[25]

In stark contrast to this $1,300,783 increase are the historic and test year-over-year increases in total OM&A expenses, excluding the MIFRS amounts. These year-over-year increases were as follows: for 2012 over 2011, an amount of $365,229; for 2013 over 2012, an amount of $400,849; for 2014 over 2013, an amount of $119,551; and for 2016 over 2015, an amount of $83,428.[26]

Looking ahead beyond 2016, the year-over-year increases in total OM&A expenses are forecast to be: for 2017 over 2016, an amount of $303,673; for 2018 over 2017, an amount of $312,784; for 2019 over 2018, an amount of $278,458; and for 2020 over 2019, an amount of $330,521.[27]

Figure 1
Year-Over-Year Increases in OM&A Expenses (2011-2020)



Sources: March 24, 2016 Update, Table 4-13 (Appendix 2-JC), Table 4-12 (Appendix 2-L) and Undertaking J1.12(2). *Excludes changes due to MIFRS transition*.

Figure 1 illustrates the extent to which total OM&A expense increases for 2015 to 2020 were not appropriately paced to spread them out more evenly over the planning horizon. The $1,300,783 of cost increases in the 2015 bridge year is more than three times higher than the next highest year-over-year increase over the 2012 and 2020 period ($400,849 in 2013). This evidence strongly suggests that excessive cost increases have been scheduled to occur in the 2015 bridge year to support an unreasonably high 2016 test year OM&A expenses budget.

25 Milton Hydro response to Undertaking J1.12, April 12, 2016.
26 *Ibid.*
27 *Ibid.*

Intervenors and OEB staff contend that the level of Milton Hydro's OM&A expenses are too high because they fail to reflect the reduced level of unit OM&A costs for the 1,500 customers per year that are being added to Milton Hydro's already densely populated urban service territory. Even if one accepts that the total OM&A cost increases between 2015 and 2020 of $2,609,647 are appropriate, a uniform pacing of these increases at about $435,000 per year would produce a total OM&A expenses budget target for 2016 of about $9.6 million, about $500,000 less than the requested amount of $10,122,448.[28]

One of the objectives of an outcomes-based approach to rate regulation is to have utilities pace and manage the incurrence of additional OM&A costs in a way that produces sustainable savings that can be carried forward at the end of the IRM term. It is inappropriate for utilities to plan and incur very high OM&A cost increases in the last year of an IRM plan to support an excessive test year OM&A expenses budget. An excessive test year OM&A expenses budget provides a utility with an inappropriate opportunity to realize significant benefits for its shareholder during the ensuing IRM term with no consequential value to ratepayers because the benefits are attributable to cost savings and incremental revenues that turn out to be non-sustainable beyond the end of that IRM period.

In 2015, Milton Hydro continued to lease premises at Lawson Road and incurred additional OM&A expenses related to its property at 200 Chisholm Drive. It also continued to incur costs related to the property at Fifth Line and Main Street, which was being used for outside storage. Further increases in total OM&A over and above the very high 2015 amount are being planned for 2016, being the cost of service rebasing test year, even though Milton Hydro vacated the Lawson Road premises at the end of 2015 and sold the property at Fifth Line and Main Street. It is no longer incurring OM&A costs associated with these two business locations, yet its 2016 OM&A costs are still budgeted to increase above 2015 actual levels.

According to Milton Hydro, the significant cost increases relate to new systems (GIS, SCADA, Outage Management, Health and Safety Management). The test year expenses include the ongoing maintenance costs associated with these new applications. Milton Hydro maintains that these costs are incurred to support operations and customer billing systems and to provide benefits such as improved accuracy of customer bills, improved system automation and security, and enhanced customer service levels (shorter outages and customer response times). Reliance is also placed

[28] The OM&A expenses increases from 2015 to 2020 inclusive are; $1,300,783 + $83,428 + $303,673 + $312,784 + $278,458 + $330,521 = $2,609,647. The average amount over the six years is $434,942 or about $435,000. To get the imputed 2016 budget amount, assuming even pacing over the years 2015 to 2020, start with the 2013 OM&A expense excluding MIFRS of $7,282,392 shown in Table 1, add $435,000 for each of the years 2015 and 2016 along with the 2016 MIFRS amount of $1,455,845. The total is $9,608,237 or about $9.6 million.

on the incremental costs of tree trimming, load/dispatching/control room and consulting services.

Increased staffing levels are also cited by Milton Hydro as a significant cause for the cost increases. Milton Hydro only hired three of the six planned staff additions in 2015 but intends to make these planned hires and others in the 2016 test year.

Milton Hydro maintains that its 2016 budgeted OM&A expenses reflect its investment in areas that its customers identified as priorities: 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 customer communication.

H. INFLATION, PRODUCTIVITY AND CUSTOMER GROWTH

In Appendix 1 of its written argument, Energy Probe presents the inflation factors, base productivity and stretch factors that the OEB has established to set the escalators for rate increases under its Price Cap IRM methodology. Energy Probe also uses the materials upon which the OEB relies to guide its rate-making to determine the customer growth factor for Milton Hydro of 0.4582. This statistically derived factor indicates that for every 1% increase in its customer base, the total OM&A costs for Milton Hydro are likely to increase by 0.4582%.

Applying these factors in various starting point scenarios, Energy Probe presents, in Appendices 1 to 4 of its written argument, a range of outcomes that indicate that Milton Hydro's 2016 OM&A expenses budget is excessive. Included in this presentation is a calculation showing that a reduction in the 2016 OM&A expenses budget of about $315,000 would be required even if one assumes that no productivity gains, no stretch factors and no economies of scale were available to Milton Hydro over the years 2011 to 2016. In this timeframe, there was a 23% increase in Milton Hydro's customer base as a result of the addition of more than 6,800 customers.

I. ECONOMIES OF SCALE AND INCREMENTAL REVENUES

The incremental revenues and economies of scale associated with Milton Hydro's continuing rapid rate of growth in the years 2017 to 2020 can be estimated on a revenue per customer basis.

One way of deriving such an estimate is to take the 2016 revenue requirement amount of $16,921,770, shown in Table 1 of the Partial Settlement, subtract from that amount the approximate $600,000 of revenue deficiency which the OEB disallows in this decision and divide the remainder amount of $16,321,770 by the 36,672 customers in 2016. This approach yields a revenue per customer amount of about $445.

Another approach is to take Milton Hydro's calculation of the revenues being recovered under 2015 current rates from the 36,672 customers for 2016 of $16,299,876[29] which produces a revenue per customer of about $444.

A third approach is to estimate the amount using, as the starting point, the $3.570 million of incremental revenue discussed in Section 6.1(b), subtracting from that amount the portion attributable to the 4.21% of escalations related to the 2011 revenues attributable to the 29,814 customers in 2011 (being an amount of about $536,000) and dividing the remainder of about $3.034 million by the 6,858 customers added in 2012 to 2016. This approach produces an amount of about $442 per customer.

In 2016 and beyond, Milton Hydro expects to add about 1,500 customers per year. At rates that generate about $445 per customer, these incremental customers will generate about $667,500 of incremental revenue in 2017. In 2018, the 3,000 additional customers will provide additional revenue of about $1,335,000. By 2020, the additional 6,000 customers will provide additional revenue of about $2,670,000. These additional revenues will be available to cover incremental OM&A and other costs that these additional customers cause the utility to incur.

Because of the economies of scale, the OM&A cost per added customer is expected to be less than the current embedded OM&A cost per customer. The statistical material prepared by the OEB's consultants indicates that the average OM&A cost per added customer should be 55% less than the OM&A cost per customer embedded in Milton Hydro's current rates.[30]

As a result of the combination of the incremental revenues and economies of scale associated with the continuing growth of its customer base, Milton Hydro will have, in 2017 and beyond, significant incremental revenues to cover customer growth related and other cost increases.

J. ABILITY TO ACHIEVE SAVINGS TO ABSORB COST INCREASES

Subsection 1 of the trends analysis that follows provides the details of Milton Hydro's ability in the years 2013 and 2014 to manage its resources, including incremental revenues attributable to customer growth and cost savings, to absorb increases in costs and as well earn a return on equity in excess of the OEB's established equity return for

[29] See footnote 7.
[30] See footnote 20.

electricity distributors. Milton Hydro has the flexibility to achieve similar outcomes in the years 2016 and beyond.

K. TRENDS IN YEAR-OVER-YEAR METRICS

1. Total OM&A Cost per Customer

The total OM&A cost that Milton Hydro uses to compare its own performance from one year to the next is derived by dividing total OM&A expenses by the average number of customers in each year. However, to compare Milton Hydro's performance to other OEB regulated electricity distributors in a particular year, the denominator used in the calculation is the year-end number of customers in that year.[31] This explains why the OM&A costs per customer in Tables 2 and 3 and the exhibits referenced therein are a few dollars higher than the cost per customer for Milton Hydro in the peer comparison exhibits.[32]

Under CGAAP accounting, Milton Hydro's OM&A cost per customer was $207 in 2011, based on the OEB approved customer base of 30,461, increasing to $215 in 2012. Under MFIRS accounting, this metric was $254 in 2013, an increase of about $39 over the 2012 amount.[33] MIFRS accounting added about $1,273,000 to 2013 OM&A expenses. This amount represents a cost per customer of a little more than $38.[34] The $39 increase in the 2013 cost per customer is almost totally accounted for by the 2013 MIFRS amount.

Despite the increase of $1,673,981 in 2013 OM&A expenses over the 2012 amount of $6,761,992, Milton Hydro managed its resources to earn a return on equity of 10.60% being about 102 basis points above the OEB determined equity return for 2013 of 9.58%.[35] The ability to earn more than the OEB established equity return of 9.58% is evidence of Milton Hydro's considerable flexibility to manage its resources, including incremental revenues attributable to customer growth and cost savings, in a manner that is sufficient to prevent year-over-year OM&A expense increases, including those attributable to accounting policy changes, from impeding the achievement of an enhanced level of equity return to its shareholder.

Total OM&A costs in 2014 were higher than in 2013. However, the OM&A cost per customer metric declined from $254 in 2013 to $247 in 2014. The MIFRS amount in

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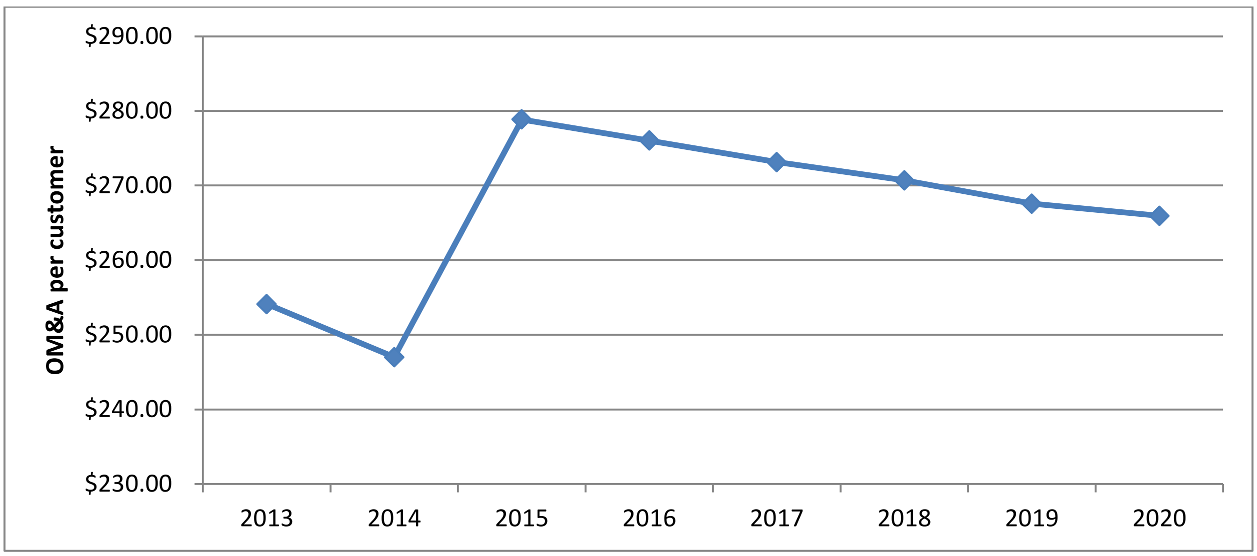
[31] Oral Hearing Transcript, Vol. 1, at pp. 88-89; and Exhibit K1.5 at p. 4.
[32] See for example Exhibit 1, p. 26, Table 1-4; and Exhibit K1.2 at pp. 11-13.
[33] See Table 2 above.
[34] $1,273,000/33,199 (average number of customers in 2013) = $38.34.
[35] Exhibit 1, p. 93.

2014 was slightly less than but almost the same as it was in 2013. Accordingly Milton Hydro was able to reduce OA&A costs per customer to its $247 level in 2014 by exercising its flexibility to hold other OM&A cost increases to a minimum while adding almost 1,400 customers in that year. In 2014 a cost per customer level of $247 was sufficient to cover the total 2014 over 2013 increase in OM&A expenses, the 2014 MIFRS amount of $1,262,000 and earn a 2014 return on equity of 10.29%, about 71 basis points higher than the OEB established equity return of 9.58%.

As shown in Table 2 above, the OM&A cost per customer metric rose sharply in 2015 by $32 per customer (almost 13%) to $279.

The OM&A cost per customer for 2016 is expected to be $276. For 2017 and beyond, the OM&A cost per customer metric is expected to gradually decline to about $273 in 2017 and down to about $266 in 2020.[36]

Figure 2
Summary of OM&A Cost per Customer (2013-2020)



Source: Milton Hydro response to Undertaking J1.12 (2).

Like Figure 1, Figure 2 again illustrates the extent to which total OM&A spending over the planning horizon has been inappropriately paced. Responses to circumstances giving rise to OM&A expense increases over the planning horizon should be planned and paced in a manner that reduces or eliminates material peaks and valleys in the OM&A cost per customer trend line. The pacing of such expenditures in Milton Hydro's case should be designed to produce a much smoother and gentler upwards slope in

[36] See Table 3 above.

that trend line to allow the incremental revenues and economies of scale associated with the addition of 1,500 customers per year over the planning horizon to help cover the expense increases.

The OEB expects Milton Hydro to consider the historic and prospective OM&A cost per customer trend line in its planning process and to both plan and pace increases in OM&A costs in a way that both flattens peaks and smooths the slope of that trend line.

2. Peer Group Comparisons

Because peer comparisons are based on an OM&A cost per customer derived from year-end rather than the average number of customers in each year, the cost per customer metric for peer comparison purposes will be a few dollars lower than each of the numbers shown in Tables 2 and 3 and Figure 2. For example, in 2014, the peer comparison metric is about $243 rather than the $247 amount shown in Tables 2 and 3 and Figure 2.[37] For 2016, the metric is about $270 compared to the $276 shown in those illustrations.

A comparison of Milton Hydro's OM&A cost per customer with its peer group (Mid-Size GTA Medium-High Undergrounding) shows that, while it was better than average in 2014 at about $243 per customer, this metric was about 30% higher than the same 2014 metric for Kitchener-Wilmot Hydro Inc. of about $187, and about 19% higher than the 2014 metric for Oshawa PUC Networks Inc. of about $205.[38]

In 2013, Milton Hydro ranked 19th out of all 73 distributors in Ontario with its OM&A cost per customer of about $247.[39] This ranking improved to 17th position in 2014 when the metric declined to about $243.[40] Milton Hydro shows this ranking slipping to 32nd position[41] in 2016 when the metric will be about $270 and the ranking was undoubtedly worse than that in 2015 when it peaked at an estimated amount of about $274.

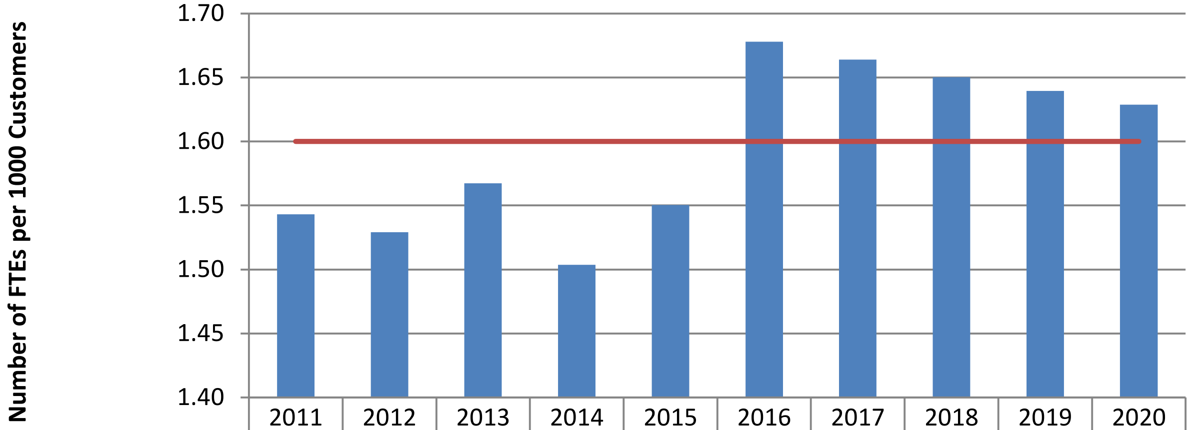
Milton Hydro's position within these groups has likely deteriorated since 2014 as a result of the steep rise in its OM&A cost per customer in 2015 and the continuing high level of that metric in 2016.

[37] See Exhibit K1.2 at p. 12.
[38] See Exhibit K1.2 at pp. 11-12.
[39] See Exhibit1 at p. 22.
[40] Exhibit K1.2 at p. 13.
[41] *Ibid.*

3. FTEs per 1,000 Customers

Milton Hydro’s number of customers per FTE metric increases from 1.57 in 2013 to 1.68 in the 2016 test year. It then gradually decreases over the next four years to 1.63 in 2020.

Figure 3
Summary of FTEs per 1,000 Customers (2011-2020)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
FTE/1000 Customers	1.54	1.53	1.57	1.50	1.55	1.68	1.66	1.65	1.64	1.63
Average	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Source: Milton Hydro response to Undertaking J1, 12(2)

The information in Milton Hydro’s response to Undertaking J1.12 (2) indicates that between 2015 and 2020, Milton Hydro plans to add 14.5 FTEs, 2.9 FTEs per year on average. However, it has paced 6.5 staff additions to occur in 2016 and another two FTEs per year in the four years that follow. If these FTE additions were more evenly paced, there would be 2.9 FTEs added in each of the years 2016 to 2020, being 3.6 FTEs less in 2016 and 0.9 FTEs more in each of the years 2017 to 2020.

Figure 3 illustrates the extent to which the incremental staff component of Milton Hydro’s OM&A expenses budget has been inappropriately paced. Scheduling incremental staff hires more evenly over the planning horizon operates to dilute the upward movement in the trend line between 2015 and 2016 and to flatten the trend line thereafter over the course of the planning horizon. This is the type of “pacing” response that the OEB expects.

Under the performance-based outcomes approach to rate regulation, Milton Hydro is expected to plan staff additions at a pace that keeps the FTEs per 1,000 customers trend line at as flat a slope as is possible.

4. OM&A Cost per Kilometre

The OM&A cost per kilometre of line increases by about 18.8% from 2013 to 2016, far in excess of inflation over that time period.[42]

5. Overall Efficiency

In its evidence[43] and Reply Argument,[44] Milton Hydro recognizes that the level of its OM&A cost increases in 2015 and 2016 have caused its efficiency to decline from a Group 2 to a Group 3 factor in 2016 and beyond. Milton Hydro projects that this decline will be reversed but not until 2020.

6. Milton Hydro's Deteriorating Performance

This analysis of trends indicates a deterioration in Milton Hydro's OM&A expense metrics, particularly in 2015 which carries over into 2016. The expenses trend analysis also indicates that the peak OM&A cost per customer in 2015 is temporary. Beginning in 2016, that peak starts to decline. The decline in 2016 and beyond indicates that Milton Hydro will start realizing increasing incremental revenues and economy of scale benefits from the continuing rapid pace of its customer additions of about 1,500 per year. However, the decline in OM&A cost per customer from 2016 to 2020 is only 3.7% over four years compared to the increase of approximately 12.9% in 2015 alone.[45]

The benefits of the significant efficiencies achieved in 2013 and 2014, which were sufficient to absorb large OM&A increases attributable to the adoption of MIFRS accounting policy and produce earnings above the OEB established equity return, were not sustained beyond December 31, 2014. The trends analysis beyond 2016, showing a continuing decline in OM&A costs per customer in years 2017 to 2020, indicates that the 2015/2016 OM&A expenses peak is likely to produce similar opportunities for Milton Hydro to produce significant benefits for the utility owner in the next IRM period if the $10,122,448 amount is approved in full.

Rather than pacing a meaningful proportion of the significant growth related OM&A expenses incurred in 2015 for incurrence in 2016 to 2020 inclusive, Milton Hydro's approach of incurring most of the cost increases in 2015 and 2016 creates an opportunity for the utility to use the incremental revenues and economies of scale

[42] Milton Hydro response to Undertaking J1.11.
[43] See Exhibit K1.4 at p. 7.
[44] Reply Argument, p. 17.
[45] Exhibit 1, p. 93.

associated with continuing customer growth to provide incremental benefits to the utility owner instead of providing the value of these benefits to utility customers.

L. SUBMISSIONS OF THE PARTIES

1. Milton Hydro

Facts upon which Milton Hydro relies to justify its budgeted OM&A expenses include:

- its rapid growth and transformation from a small to medium size utility
- its rural service territory which it says adds to the costs it faces compared to those utilities whose service territories are primarily urban
- the expenditures it is incurring in areas that its customers identified as priorities
- comparisons of its current and prospective OM&A costs per customer and other metrics to its own historical metrics and those of its peers which it says indicate that it continues to be a lean and efficient operator

Milton Hydro reiterated in its reply submission that the incremental costs that have been and are continuing to be incurred for new systems and the ongoing costs associated with these new applications could not be reduced or avoided. It maintained that all incremental amounts were necessary to support customer needs. It maintained that all of its planned staffing requirements for 2016 are necessary and resisted the suggestion that some of these items could reasonably be deferred to a subsequent year. Detailed tables were included in the reply submission showing expenditures and expected benefits to consumers.

Milton Hydro contends that any formulaic approach to determining the total amount of its 2016 OM&A expenses is inappropriate because it will not reflect material incremental costs not present in the starting point amount from which the formula is applied. It submits that such incremental costs must be considered as distinct costs and recognized independently of any model.

Milton Hydro argues that the recent trends in its year-over-year OM&A cost-related metrics are a consequence of the lumpiness of the incremental costs that it is incurring during the course of its transition from a small to medium size distribution utility. It notes that, in the years 2017 to 2020, these unfavourable trends will reverse and that it will then resume its status as a better than average distribution company to the benefit of all of its customers.

Milton Hydro rejects, as unreasonable, the approach that OEB staff asks the OEB to apply to what they characterize as “corporate transformation costs”. The utility submits that all costs so characterized are reasonable and appropriate. The OEB is asked to approve the total OM&A amount of $10,122,448 to enable Milton Hydro to continue to service its customers and achieve the outcomes customers expect.

Milton Hydro refers to the customer communication activities in which it engaged and notes the willingness of its customers to accept a distribution rate increase.

Milton Hydro in effect argues that, in its particular circumstances, it would be inappropriate for the OEB to refrain from approving the full amount of the 2016 OM&A budget of $10,122,448.

2. Intervenors and OEB Staff

While Intervenors and OEB staff generally accept that Milton Hydro is rapidly growing, they reject the characterization of this as “super growth”. They emphasize that, by far, most of the growth is concentrated in the already dense urban area of Milton Hydro’s service territory. They point out that adding significant growth to an already densely populated area maximizes the opportunities for benefitting from economies of scale.

Intervenors and OEB staff contend that the existence of Milton Hydro’s large rural service territory does not justify the very large OM&A cost increases in 2016 that the utility asks the OEB to approve.

While acknowledging that customer preferences are important, OEB staff submits that many components of the total requested increase are not directly traceable to the expression of customer preferences contained in responses to a written customer survey conducted on Milton Hydro’s behalf.

Intervenors and OEB staff point to the material deterioration in Milton Hydro’s OM&A cost metrics in 2015 and 2016, to support their requests that the OEB approve a total 2016 OM&A budget in an amount significantly lower than the amount requested.

To inform their recommended reductions to the total requested 2016 OM&A expenses, Intervenors and OEB staff apply, in various starting point scenarios, the inflation rates, productivity allowances and the OM&A cost increase factors for the average utility and for Milton Hydro that are contained in materials that the OEB and its independent consultant have compiled to assist performance-based outcomes rate making.

An analysis of the range of outcomes that these calculations produce is provided in Appendices 1 to 4 of the written argument submitted by Energy Probe. The total OM&A

expense reductions recommended by Intervenors and OEB staff range between $800,000 and $970,000.

Intervenors and OEB staff also focus on a number of categories of expenses and specific line item amounts as additional support for the total amount of their recommended OM&A expense reductions. Energy Probe provides an historic and more current comparison of Milton Hydro's percentage increases in customers and FTEs to support a submission that the employee cost portion of the 2016 OM&A budget should be reduced by the value of five FTEs. The same intervenor contends that the compensation increases Milton Hydro proposes are excessive having regard to the external benchmark that the OEB uses for labour costs in its setting of the inflation rate. Line item amounts for OM&A building expenses, board of director costs, regulatory costs and the percentage of OM&A costs capitalized are also challenged by Intervenors and/or OEB staff.

OEB staff also question the FTE component in the 2016 budget in the context of the fact that Milton Hydro successfully operated in 2015 without three of the staff that it initially planned to hire in that year. Staff also question the magnitude of 2016 amounts budgeted for billings and collections, and tree trimming.

OEB staff identify a number of items of 2016 budgeted costs that they characterize as "Corporate Transformation Costs". Staff argue that these items of cost are incurred solely to benefit the corporation in its transformation from a small to medium-sized utility. They submit that these items of cost have no value for customers. They contend that such corporate transformation costs that do not enhance service quality, should not be recoverable in rates set under the auspices of the OEB's performance-based rate setting policy. OEB staff rely on this position as additional support for their total OM&A expenses reduction recommendation of $970,000.

The overall effect of the submissions made by intervenors and OEB staff is that the full amount of Milton Hydro's $10,122,448 OM&A expense budget for 2016 is incompatible with the continuous improvement goal of the OEB's performance-based outcomes approach to utility rate making. They contend that a material reduction is needed to bring the total amount into alignment with the objectives of the RRFE.

3. Essence of the Dispute

The essence of the matter to be decided is the appropriate level of 2016 OM&A expenses for Milton Hydro having regard to the performance-based objectives of the RRFE.

J. FINDINGS

1. Continuous Improvement in Performance is a Priority

Under the auspices of an outcomes approach to rate regulation, a convincing demonstration by a utility applicant of the extent to which a particular category of expenditures provides value to ratepayers is a high priority. Costs that are not providing outcomes that ratepayers value, including OM&A costs that are unjustifiably and materially out of alignment with the continuous improvement goal of the outcomes approach to rate setting, are not recoverable in OEB regulated utility rates.

2. OEB Guides to Inform Rate-Setting Apply to Milton Hydro

The OEB does not accept Milton Hydro's submission that the use of inflation, productivity and customer growth metrics contained in the extensive materials that the OEB has commissioned and prepared to guide utility ratemaking is inappropriate in the case of a rapidly growing utility. This submission is based on the contention that an application of these factors does not provide coverage of any incremental cost increases. This is incorrect. The price cap methodology does provide some incremental cost coverage through the added revenues that the utility recovers from each new customer. Because Milton Hydro is rapidly expanding, these added revenues are materially greater than they would be in the case of a slowly growing utility.

Rather than arguing that the formulas and metrics contained in these materials are inapplicable to its particular circumstances, Milton Hydro should use these metrics and materials to guide its planning and pacing of expected increases in OM&A costs over its five year planning horizon. If these metrics and formulas are considered to be deficient in their ability to adequately recognize some categories of incremental costs, then Milton Hydro should propose enhancements to the derivation of these guides to rate making that are capable of reducing or eliminating these alleged deficiencies rather than suggesting that they have no application to a rapidly growing utility.

The OEB finds that the results of applying inflation, productivity factors, formulas and other elements of the guides that it has provided to assist rate making in its performance-based outcomes approach are to be considered and taken into account when determining just and reasonable 2016 rates for Milton Hydro.

3. Reasonable and Appropriately Paced Transformation Costs Are Recoverable From Ratepayers.

The OEB staff submission that no corporate transformation costs are recoverable from ratepayers is too extreme. A "reasonable" level of corporate transformation costs should be recoverable provided that such costs are appropriately paced to avoid extreme increases in OM&A costs in a particular year. The matters to be considered relate to the reasonableness of the amounts and the appropriateness of the pacing of such costs. The OEB is satisfied that a reasonable level of appropriately paced transformation costs can contribute to continuous improvement in operational efficiency and other performance-based outcomes that customers value.

4. Customer Tolerance for a Rate Increase Does Not Justify Excessiveness

The OEB finds that Milton Hydro's reliance on the willingness of its customers to accept a distribution rate increase is misplaced. Milton Hydro must first satisfy the OEB that its proposed 2016 OM&A expenses budget is compatible with performance based outcomes that customers value. Customer tolerance for a rate increase does not justify a budget that is incompatible with these outcomes.

5. Milton Hydro's 2016 OM&A Budget is $550,000 Too High

The OEB finds that, including the $50,000 disallowance of OM&A property expenses related to 200 Chisholm Drive that is addressed in the next section of this Decision and Order, Milton Hydro's proposed 2016 OM&A budget is too high. For 2016 rate-making purposes, the budget shall be reduced by $550,000, from $10,122,448 to $9,572,448. This finding is based upon the following considerations:

- Milton Hydro is seeking a significant increase (20%) in OM&A over the 2013-2016 period with little, if any, demonstrable gain in operational efficiency.

- The requested OM&A spending increase significantly outpaces predicted customer growth which is claimed to be the primary driver of the increase. Moreover, the OEB sees the growth of Milton Hydro's customer base as a contributor to cost reduction because of the combined effect of the incremental revenues and economies of scale associated with that growth.

- Although Milton Hydro's layout in terms of rural territory lends itself to a higher cost utility, it does not either explain or justify more than a minuscule portion of the total increase.

- Milton Hydro's OM&A cost per customer has deteriorated over time relative to its own historic performance and to other utilities.

- Comparison of Milton Hydro's OM&A cost per customer with its "peer group" shows that, while it is slightly better than average, certain utilities in this "peer group" have OM&A costs per customer that are below that of Milton Hydro.

- Milton Hydro's projected improvements in OM&A cost per customer and OM&A cost per FTE over the 2017-2020 period are significantly lower than the proposed percentage increases in 2016 relative to the 2013/2014 levels indicating that the projected future performance improvements are not expected to compensate for the increases in 2015 and 2016.

- The allocation and scheduling of more than $1.3 million of cost increases for 2015 and further increases in 2016 was inappropriate. These cost increases should have been more appropriately paced over the planning horizon between 2015 and 2020 so that the combined effect of incremental revenues and economies of scale associated with customer growth in those years provides value to ratepayers by being applied more towards cost increases and less towards the enhancement of equity returns.

- The OEB finds that the reduction in 2016 OM&A expenses that stems from a consideration of a more appropriate pacing of the significant cost increase in 2015 that is carried forward into 2016,[46] as well as the reduction of $315,000 calculated by Energy Probe for the hypothetical scenario of no productivity gains, no stretch factors and no economies of scale (i.e. only accounting for customer growth and inflation), provides a good starting point for determining the appropriate level of the 2016 OM&A for Milton Hydro.

- At the other end of the spectrum, the OEB finds that the $800,000 to $970,000 reduction in the 2016 OM&A suggested by Intervenors and OEB staff does not fully take into account the fact that Milton Hydro's transition to a larger utility would realistically take place over a period of time with the costs to be paced and the benefits of Milton Hydro's new systems including the GIS, SCADA, Outage Management Systems, to be realized over time.

The OEB considers a reduction of $550,000 in total OM&A expenses to be appropriate with the expectation that Milton Hydro will perform in 2016 and beyond, as it did it 2013 and 2014, by actively managing its resources to achieve

[46] See Figure 1.

performance levels consistent with its historical levels and those of the best performing LDCs.

6.3 200 CHISHOLM DRIVE ISSUE

A. OVERVIEW

The sections that follow summarize the facts relevant to the OEB's consideration of Milton Hydro's proposed regulatory treatment for the costs related to its acquisition and renovation of the premises at 200 Chisholm Drive.

The OEB applies an "outcomes-based" approach to resolve questions that the 200 Chisholm Drive Issue raises. For the reasons described below, Milton Hydro's proposal to provide ratepayers with a share of the capital gain realized on the sale of the land at Fifth Line and Main Street by way of a revenue requirement offset of $87,975 is reversed and replaced with a rate base reduction in the full amount of the capital gain of about $506,000.[47]

The OEB disallows the rate base values for excess office space in the building[48] and for the capital cost "premium" differential between inside and outside storage for the 36,000 square feet of indoor building space that Milton Hydro uses for outside storage.[49]

Including the capital gains reduction of about $506,000, these rate base value reductions total about $1.935 million.[50] In addition, OM&A building related costs are reduced by about $50,000.[51] The net effect of these findings is a modest reduction in the 2016 revenue requirement related to 200 Chisholm Drive that the OEB estimates to be about $119,000.[52]

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[47] See Section 6.3.D subsection 8 of this Decision and Order.
[48] See Section 6.3.D subsection 3 and 4 of this Decision and Order.
[49] See Section 6.3.D subsection 5 of this Decision and Order.
[50] Capital gain in full - about $505,950; excess office space - $675,772; capital cost differential between inside and outside storage - $753,480; Total - about $1,935,000.
[51] See Section 6.3.D subsection 6 and 7 of this Decision and Order.
[52] Revenue requirement components: un-renovated office space - about $25,000; renovated office space - about $36,000; inside storage space premium - about $59,000 and capital gain - about $37,000 for a total of about $157,000. Subtract elimination of revenue offset of about $88,000 for a net of $69,000 and then add the $50,000 of building related OM&A disallowances for a total of $119,000.

B. CHRONOLOGY

1. Office and Operations Building Space and Outside Storage as of 2011

Milton Hydro requires indoor building space for two purposes: office use, and operations space for inventory management and vehicle storage. The utility also requires land for outside storage of other materials that it uses in its operations.

As of 2011, when its rates were last rebased to its test year cost of service, Milton Hydro's office and operations space requirements were being met at premises it leased at 8069 Lawson Road. That lease had an initial five year term, expiring at the end of November 2014. That term was subsequently extended to expire on December 31, 2015. At Lawson Road, Milton Hydro had between 12,775 and 15,000 square feet of office space and between 22,000 and 24,000 square feet of industrial/operations space.[53]

The land at the Lawson Road site was insufficient to satisfy all of the utility's outside storage requirements. Milton Hydro used its vacant land at Fifth Line and Main Street to fulfill its remaining outside storage needs.[54] Together the land space available at these two separate locations was more than sufficient to satisfy Milton Hydro's needs for outside storage.

2. Decision to Own and Build Instead of Leasing

Milton Hydro's decision to acquire land and build its own facilities, rather than continue to lease them, was made in 2009.[55] Upon making that decision, Milton Hydro purchased about 6.4 acres of un-serviced land located at the corner of Fifth Line and Main Street. The land was purchased from the Town of Milton for $2,218,530. The Town had acquired that land from Hydro One.[56] Hydro One owned another property adjacent to

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[53] The evidence about the amount of office space at Lawson Road is imprecise. The Lawson Road plans filed as Exhibit K2.3 show about 12,775 square feet of space. See Oral Hearing Transcript, Vol. 2, at pp. 73-74. An internal presentation made at Milton Hydro on November 14, 2012 shows 15,000 square feet of office space at Lawson Road, see Milton Hydro response to Interrogatory I-SEC-14, attachment at p. 752 of 901. At pp. 57-58 of the Oral Hearing Transcript, Vol.2, the Milton Hydro witness estimated the office space at 16,000 square feet but also acknowledged that the amount of office space at 200 Chisholm Drive doubled the amount of office space held at Lawson Road. In this Decision and Order, the OEB uses an office space area at Lawson Road ranging between 12,775 and 15,000 square feet for the purpose of its analysis.

[54] Exhibit 1, p. 30.

[55] In Exhibit 1 at page 30 Milton Hydro incorrectly states that the property was acquired in 2008. The Relocation Committee Minutes, the evidence and settlement proposal in the EB-2010-0137 proceeding and Milton Hydro's January 7, 2014 letter to the OEB requesting a one year deferral of its 2015 cost of service application referenced at Exhibit 1 page 32 all confirm that the property was purchased in 2009.

[56] Letter to OEB, January 7, 2014.

this property. There was also a privately owned adjacent parcel of land about 1.3 acres in size.

In proceedings under docket number EB-2010-0137, the OEB established 2011 cost of service rates for Milton Hydro on the basis of a settlement proposal dated December 17, 2010. In that agreement, the intervenors and Milton Hydro acknowledged that the land at Fifth Line and Main Street would be the site for Milton Hydro's future office/service centre. These parties also agreed that only 50% of the value of the parcel would be used and useful in the 2011 test year. As a result, it was agreed that 50% of the cost of that land would be excluded from the opening capital for the 2010 bridge year in order to calculate the 2011 average opening and closing fixed assets.[57] The expectation then was that Milton Hydro would be able to acquire the additional land it needed for its project at Fifth Line and Main Street from either Hydro One or the private owner of the adjacent land.

3. Benefit/Cost Analysis of Own/Build versus Leasing

Milton Hydro presents an estimate of $15,605,000[58] for the total costs of acquiring the necessary land and building its own facilities at the Fifth Line and Main Street site. This estimate lacks detailed support and it is unclear when the estimate was prepared. Milton Hydro relies on this estimate to demonstrate that the total costs it incurred of $14,460,000 to acquire and renovate the premises at 200 Chisholm Drive are lower than its estimated costs of completing the project at the Fifth Line and Main Street location. A comparison of the costs of the 200 Chisholm Drive project to a hypothetical own and build scenario does nothing to demonstrate that ratepayers will benefit from the trade-off of OM&A leasing costs for the Lawson Road premises or some other leasing option for the capital costs of the 200 Chisholm Drive premises.[59] No evidence was adduced to demonstrate that the costs and benefits to Milton Hydro's ratepayers of the own and renovate option at 200 Chisholm Drive was more favourable than the leasing option.

The 2016 impact on ratepayers of the 200 Chisholm Drive acquisition and renovation is clearly negative. That project is estimated to add about $1,000,000 to the 2016 base revenue requirement compared to the lease option at the rents being paid for the

[57] EB-2010-0137, Proposed Settlement Agreement, December 17, 2010, p. 10.
[58] Exhibit K1.3, p. 5.
[59] The capital expenditure issue that the OEB framed called for Milton Hydro to give due consideration for the trade-offs with OM&A spending in the planning and pacing of its capital expenditures.

Lawson Road premises.[60] There is no evidence showing if or when that impact turns positive in the years ahead.

Neither intervenors nor OEB staff questioned the lack of an own versus lease cost/benefits analysis. The completion and presentation of such an analysis should be a pre-requisite for every utility that wishes to switch from leasing to acquiring land on which to construct its own office and operations facilities. It appears that all participants in this proceeding, including Milton Hydro, assumed that such a cost/benefit analysis would demonstrate that, over the longer term, the own and renovate option is of material benefit to Milton Hydro's ratepayers.

4. Current Estimate of Building Space and Outside Storage Requirements for Milton Hydro

The minutes of meetings held by Milton Hydro's Relocation Committee indicate that, by November 2012, the utility quantified its building space needs, for the longer-term planning horizon commencing as of the end of 2014, at 26,000 square feet of office space and 34,000 square feet of warehouse/operations space.[61] The slide presentation made by Milton Hydro at the April 2016 oral hearing in this case states that these needs were subsequently quantified as being 9-10 acres of land, 26,000 square feet of office space, 37,000 square feet of operations space and 65,000 square feet of outside storage.[62]

Apart from the visits that were made to recently constructed facilities of other electricity distributors and discussions held with those utilities about their "lessons learned", there does not appear to be any further evidence explaining how these requirements were derived.[63] There are no details of the future scenario(s) on which the estimates are based.

There is a paucity of information that explains why the office space requirements, at 26,000 square feet, should be almost double the 12,775 to 15,000 square feet at Lawson Road, or why 22,000 to 24,000 square feet of operations space at Lawson Road should be increased to 37,000 square feet. The FTE level at 2014 of about 52 is expected to increase by about 33% to 69.5 FTEs by 2020. Customer numbers in 2014

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[60] SEC Argument, April 19, 2016, p. 26. SEC's estimate of the negative impact at about $1 million was not questioned by Milton Hydro in its Reply Argument. This estimate appears to be compatible with the table in Milton Hydro's response to SEC's Information Request 2 for Oral Hearing, which shows the 2015 revenue requirement to be almost $1 million less when the revenue requirement related to 200 Chisholm Drive is eliminated.
[61] Minutes of Relocation Committee meeting, November 14, 2012, attached to Milton Hydro response to Interrogatory, 1-SEC-14, p. 758 of 901.
[62] Exhibit K1.3, p. 3.
[63] Oral Hearing Transcript, Vol. 2, pp. 54-59.

of 34,592 are expected to be about 42,672 in 2020; an increase of about 23%.[64] These metrics do not support the level of increased office and operations requirements on which Milton Hydro relies.

5. Decision to Buy and Renovate 200 Chisholm Drive Premises

Despite its consideration of various alternatives over the course of more than four years, from 2010 to the spring of 2014, Milton Hydro quite suddenly decided, in May of 2014, to offer to purchase the land and building at 200 Chisholm Drive.

Preceding this decision was a January 7, 2014 request from Milton Hydro to the OEB for a one-year deferral, from 2015 to 2016, of its application for a cost of service rebasing of its current rates. This request was based on the difficulties Milton Hydro was then having in relation to the Fifth Line and Main Street property. This request noted the $15,000,000 amount that Milton Hydro had budgeted to spend on its project in 2014 and 2015 and expressed concern with the exclusion of this level of expenditure from a cost of service re-setting of its rates.[65] In expressing its commitment to file a cost of service application for 2016, Milton Hydro effectively imposed on itself an obligation to be moved into new premises by the end of 2015. In subsequent reports to its board of directors, this obligation was characterized as “our Regulatory expectation of move in by end of 2015.”[66]

During the course of the several years that Milton Hydro had been considering alternatives for its building space and outside storage requirements, many properties were identified as options. The 200 Chisholm Drive property did not surface as a possibility until the end of April 2014.[67] The evidence indicates that Milton Hydro immediately offered the property owner a letter of intent to purchase the premises. No evidence was adduced to demonstrate that any thorough assessment of the compatibility of these premises with Milton Hydro’s requirements was made before making this offer.

By May 21, 2014, the solicitors for Milton Hydro and the vendor were drafting a purchase agreement which was still being fine-tuned in June.[68] By August 25, 2014, the purchase agreement had been signed, conditions precedent in it in favour of Milton

[64] Milton Hydro response to Undertaking J1.12, April 12, 2016.
[65] Letter to OEB, January 7, 2014 referenced in Exhibit 1 at page 32.
[66] Relocation Update, April 28, 2014, attached to Milton Hydro response to 1-SEC-14, p. 836 of 901.
[67] *Ibid.*
[68] Relocation Update dated May 21, 2014 for the May 26, 2014 board meeting, and Relocation Update dated June 17, 2014 for the June 23, 2014 board meeting, both attached to Milton Hydro response to 1-SEC-14, pp. 837 and 839 of 901.

Hydro had been waived, and the deal scheduled to close within 30 days.[69] The purchase was completed on September 24, 2014.[70]

The OEB finds that Milton Hydro's planning process for long-term accommodation of its needs to be lacking both in terms of timing and scope. There is a lack of clarity about the range of options considered and the timely evaluation of these options (e.g. constructing at Fifth Line and Main Street and leasing space elsewhere for outside storage). According to the Milton Hydro witnesses, the sudden decision to buy 200 Chisholm Drive was based on the conclusion that there was no other option.[71]

6. Incompatibility Between 200 Chisholm Drive Premises and Milton Hydro's Estimated Requirements

Milton Hydro only needs building space for its office and operations functions. Its leased premises at Lawson Road contained 37,000 square feet of building space for office and operations functions. The building at 200 Chisholm Drive provides 91,800 square feet of indoor space, 36,000 square feet of which is being utilized for indoor storage. This leaves 55,800 square feet for office and operations space. The 55,800 square feet of space for office and operations is significantly larger than the 37,000 square feet that Milton Hydro had at Lawson Road for those purposes. The 91,800 square feet of building space at 200 Chisholm Drive also greatly exceeds the total increased office and operations space requirements that Milton Hydro had estimated at 63,000 square feet.[72] The selected building is far too large for Milton Hydro's office and operations needs.

The seven acres of land at 200 Chisholm Drive provides 29,000 of outside storage space, an amount materially less than the estimated outside storage space requirements of 65,000 square feet.

7. No Consideration of Ratepayer Impacts

Milton Hydro's witnesses acknowledge that they did not consider impacts on ratepayers when making decisions related to the acquisition of the 200 Chisholm Drive premises.[73]

No evidence was adduced to demonstrate how the decision to acquire the oversized building and an inadequate amount of land produces outcomes that customers value. Excess office space is an outcome that is of no value to customers. The increased

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[69] Relocation Update dated August 21, 2014 for the August 25, 2014 board meeting, attached to Milton Hydro response to 1-SEC-14, p. 841 of 901.
[70] Relocation Update dated September 21, 2014 for the September 29, 2014 board meeting, attached to Milton Hydro response to 1-SEC-14, p. 845 of 901.
[71] Oral Hearing Transcript, Vol. 2, p. 10.
[72] Exhibit K1.3, p. 3.
[73] Oral Hearing Transcript, Vol. 2, p. 50.

capital cost of treating inside storage as an equivalent to outside storage is an outcome of no value to customers.

8. Configuration of the Building Renovations

Without considering how best to optimize the use of the building and premises to achieve outcomes that its ratepayers value, Milton Hydro proceeded to renovate the building to create 32,800 square feet of office space. This amount of office space was more than double the 12,775 to 15,000 square feet of office space at Lawson Road. The 32,800 square feet of office space that was created exceeded the 26,000 square feet contained in the most recent version of the requirements calculations.[74]

The amount of office space that Milton Hydro created exceeded its reasonable requirements over the planning horizon. Milton Hydro recognized that at least 5,160 square feet of office space was excessive and not needed. This amount of mezzanine space has been left vacant and has been closed in as raw and empty space.

The renovations were made to provide 23,000 square feet of space for operations use, about the same amount of space that had been used for that purpose at Lawson Road.

About 36,000 square feet of building space was allocated for use as the equivalent of outside storage. Along with the 29,000 square feet of outside storage, this provides total storage capacity of about 65,000 square feet.[75]

With the unused 5,160 square feet of mezzanine space and the use of 36,000 square feet of expensive indoor storage for outside storage, the design of the building is less than optimal.

The option of making up to about 41,000 square feet of space[76] in the building available for lease to third parties was not pursued because of alleged inefficiencies in having outside storage at separate locations.[77] This was an obvious alternative to allocating 36,000 square feet of building space for use as the equivalent of outside storage and leaving 5,160 square feet of office space vacant and closed in. This option would require either the use of part of the land at Fifth Line and Main Street for outside storage or the acquisition by purchase or lease of additional land elsewhere to supplement the 29,000 square feet of outside storage at 200 Chisholm Drive. Milton Hydro had previously used a two location approach to outside storage with its Lawson Road and Fifth Line and Main Street outdoor storage locations. Milton Hydro has not

[74] Exhibit K1.3, p. 3.
[75] Oral Hearing Transcript, Vol. 1, p. 153.
[76] 36,000 sq. ft. inside storage + 5,160 mezzanine space = 41,160 sq. ft.
[77] Oral Hearing Transcript, Vol. 2, p. 28.

demonstrated that the incremental cost "premium" incurred in using inside storage as a substitute for outside storage provides any value to its customers.

9. Total Capital Costs

The total project capital costs of the 200 Chisholm Drive premises including land, building, renovations and other costs are $14,460,000. Milton Hydro seeks to recover this amount in full from ratepayers. Milton Hydro calculates these total project costs at $158 per square foot. The denominator in the calculation is the full 91,800 square feet of building space even though 5,160 square feet of office space was not renovated and the 36,000 square feet of space treated as the equivalent of outside storage required little renovation compared to the 49,640 square feet of renovated office and operations space.[78]

SEC contends that by lumping renovated and un-renovated space together, the calculation of $158 per square foot is misleading.[79] Milton Hydro compares its calculated total project cost amount to calculations of the total project costs per square foot incurred by other utilities who have purchased and built their own office and service facilities. The amount of land acquired by these utilities is in some cases materially more than the seven acres acquired by Milton Hydro.[80] Moreover, land costs can vary significantly depending on their location and the market conditions at the time the land was purchased. The square footage of the buildings of the comparators is limited to office and operations usages. The denominators in the cost per square foot calculations for the other utilities materially differ from the denominator Milton Hydro uses for itself which includes a substantial amount of un-renovated space.

Milton Hydro heavily relies on the fact that the total cost per square foot of the lands, building and its renovation of $158 per square foot is less than the total costs per square foot incurred by other utilities to meet their land and building space requirements. Relying on this fact, Milton Hydro in essence urges the OEB to find that its costs are so low, in comparison to the costs of others, that they render moot the questions about outcomes that customers value and ratepayer responsibility for excess office space costs and the differential between the capital costs of inside and outside storage that the purchase of 200 Chisholm Drive raises.[81]

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[78] Exhibit K1.3, p. 17.
[79] SEC Argument, p. 25.
[80] Exhibit K1.3, pp.5-10.
[81] Milton Hydro Reply Argument, April 28, 2016, p. 33.

10. Inside and Outside Storage Capital Cost Differential

Milton Hydro calculates the difference in capital costs between 200 Chisholm Drive inside storage and outside storage to be about $20.93 per square feet. This translates into a rate base value of $753,480 for its 36,000 square feet of inside storage.[82]

11. Raw and Empty Office Space

Milton Hydro calculates the rate base value of the 5,160 square feet of office space that has been left raw, empty and closed in, at a value considerably less than $158 per square foot on the grounds that it was not renovated.[83] In Reply Argument it ascribes a rate base value of about $291,146 to the building and renovation components of that part of the property. With adjustments to the land and building components to reflect 5,160 square feet rather than 5,000 square feet the rate base value of the un-renovated space and related land is about $343,308 or about $66.50 per square foot.[84]

12. Land and Building OM&A Costs

The 2016 OM&A Costs of 200 Chisholm Drive, including property taxes, were presented as a total amount of $467,000. The property taxes component of that total is an amount of almost $120,000.[85]

In response to an undertaking during the oral hearing (Table J1.3), the electricity, water/sewer and gas costs were reduced from a total of $200,000 to a total of slightly more than $167,000. Electricity and gas costs total about $160,400. In calculating the revenue requirement amount related to the 5,160 square foot of office space that has been left raw, empty and closed in, Milton Hydro included OM&A costs related to that space for property taxes, gas and electricity.[86]

The total 2016 OM&A expenses for the land and entire building for property taxes, gas, and electricity are about $280,000. About 5.6% or about $15,738 of this amount is allocable to the 5,160 square feet of office space that has been left unfinished and vacant.[87]

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[82] Milton Hydro response to Undertaking J1.3 (amended).
[83] Milton Hydro response to Undertaking J2.2.
[84] Milton Hydro Reply Argument, April 28, 2016, p. 34.
[85] Exhibit K2.2, p.2.
[86] Milton Hydro response to Undertaking J2.2.
[87] Milton Hydro's calculation of this OM&A expenses amount of $14,191 appears to be understated. In the spreadsheet that was filed along with Undertaking J2.2, Milton Hydro uses gas and electricity costs totalling about $140,700 rather than the $160,400 shown in Undertaking response J1.3. The OEB has used the J1.3 numbers rather than the inexplicably lower spread sheet numbers.

The OM&A expenses related to the space being used as the equivalent of outside storage are, at most, a portion of the gas and electricity costs allocable to the 36,000 square feet of inside storage. As already noted, the total gas and electricity costs for the entire building are about $160,400.[88] The 36,000 square feet comprises about 39% of the total building area of 91,800 square feet. Accordingly, at most, about 39% of $160,400 or about $63,000 relates to the 36,000 square feet of inside storage space.

13. Capital Gain on Sale of Fifth Line and Main Street Land

Milton Hydro's agreement to purchase 200 Chisholm Drive premises was subject to a condition in its favour calling for its purchase of additional lands adjacent to that property. However, prior to August 25, 2014, a determination was made that, without any additional lands, the 200 Chisholm Drive site will suit Milton Hydro for the next 25 years.[89]

This determination made the property at Fifth Line and Main Street redundant. Relying on an appraisal from Colliers International Realty Advisors Inc. dated August 5, 2015, Milton Hydro sold that property to its affiliate (Milton Energy & Generation Solutions Inc.[90]) for $2.4 million. This appraisal states, in the "Final Estimate of Value" section, that "Given the Subject's location, development potential , land use controls in place and other influencing factors of employment land sites, a rate [per acre] in the range of $400,000 and $450,000 would be reasonable for the Subject Parcel". The "Executive Summary" section of the appraisal ascribes a "Rate per Acre" of $425,000 to the land having an area of 6.43 acres.

The appraisal inexplicably presents a chart for values per acre ranging between $350,000 and $400,000 rather than the $400,000 to $450,000 already found to be reasonable. The value of $2.4 million that Milton Hydro has used to derive the capital gain realized on the sale of the land falls well below the $2.73 million value that results from multiplying the appraiser's $425,000 "Rate per Acre" by the area of the parcel consisting of 6.43 acres. At a sale value of $2.73 M, the capital gain is $505,950 and not the amount of $175,950 used by Milton Hydro for rate-making purposes.[91] Milton Hydro proposes to deduct 50% of its calculation of the gain of $175,950 or an amount of $87,975 from the 2016 base revenue requirement.[92]

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[88] Milton Hydro response to Undertaking J1.3.
[89] Relocation Update dated August 21, 2014, for August 25, 2014 board meeting, attached to Milton Hydro response to 1-SEC-14, p. 842 of 901.
[90] Exhibit 1, Attachment 1-3.
[91] Milton Hydro response to Interrogatory 4.0-Staff-63.
[92] The OEB estimates that a land and building rate base value around $880,000 would be required to generate a revenue requirement amount of about $88,000. The Milton Hydro proposal is the equivalent of a temporary rate base reduction of this amount.

Because Milton Hydro will be operating under the OEB's Price Cap Incentive Rate Making methodology for four years after 2016, the effect of Milton Hydro's proposal would be to provide ratepayers with the benefit of this reduction for five years. Milton Hydro relies on the benefit that this proposal confers on ratepayers as additional support for its argument that the OEB should disregard the cost consequences of excess office space and the use of inside storage as an equivalent for outside storage when resolving questions related to the 200 Chisholm Drive Issue.

A feature of Milton Hydro's proposed treatment of the capital gain on the sale of the Fifth Line and Main Street site is that all of the costs of excess office space and inside versus outside storage remain in rate base with return depreciation and PILs thereon being recovered from ratepayers. The revenue offset treatment of the capital gain proposed by Milton Hydro expires at the end of five years with the result that the amount then recoverable from ratepayers would automatically increase by $87,975.

Rate base disallowances for the costs of excess office space and the capital cost differential between inside and outside storage, instead of a temporary revenue requirement offset, protect ratepayers from having to pay, at any time, for any 200 Chisholm Drive outcomes that are of no value to them.

In its consideration of buy and build options at locations other than at the Fifth Line and Main Street, Milton Hydro reflected the entire proceeds of a sale of that land as a reduction to the total capital cost of the project at a different location.[93] This approach benefits ratepayers by treating the capital gain as a rate base reduction rather than as a revenue requirement offset. This approach is particularly appropriate where a new utility asset has been acquired to replace the utility asset that has been sold.

The disposition of a utility-related land asset in rate base would normally result in a reduction in the value of rate base in an amount equal to the price realized on the disposition of the asset.

A rate base reduction of the entire capital gain of about $506,000 would produce a revenue requirement reduction in the order of $37,000 compared to the $87,975 revenue requirement reduction that Milton Hydro proposes. Milton Hydro in essence proposes that the benefit of its treatment of the capital gain be reduced to a revenue requirement offset of $17,595 if any of the costs of 200 Chisholm Drive are found not to be recoverable from ratepayers.[94]

[93] See Relocation Committee Minutes, November14, 2012, attached to Milton Hydro response to 1-SEC-14, pp. 744-761 of 910 and, in particular, p. 756.
[94] Milton Hydro Reply Argument, April 28, 2016, p. 34.

C. SUBMISSIONS OF THE PARTIES

1. Milton Hydro

Milton Hydro asks the OEB to include in its 2016 rate base the full $14,460,000 of capital cost for the 200 Chisholm Road premises and the full $467,000 of building and property related OM&A costs in the 2016 cost of service and revenue requirement. If the OEB adjusts these requested amounts, then Milton Hydro effectively requests that its $87,975 revenue requirement offset be adjusted.[95]

2. OEB Staff and Intervenors

OEB staff and Intervenors contend that the building's total size of 91,800 square feet greatly exceeds Milton Hydro's reasonable office and operations space requirements. They contend that ratepayers should not be held responsible for excess building space for office and operations uses and the extent to which Milton Hydro's capital costs of inside storage exceed the capital costs of outside storage.

Intervenors also submit that ratepayers should not be responsible for the building and property related OM&A expenses related to any capacity that is excess of Milton Hydro's reasonable office and operations space requirements and for the capacity that is used as a substitute for inside storage.[96]

Further details of the submissions of the parties are contained in the OEB Findings related to the questions that the 200 Chisholm Drive Issue raises.

D. FINDINGS

1. Outcomes of No Value to Customers

The over-arching principle embedded in the OEB's performance based outcomes approach is whether what the utility is asking the OEB to approve produces outcomes that customers value.

The OEB finds that there are two outcomes of Milton Hydro's acquisition of the land and the renovation of the building at 200 Chisholm Drive that have no value to its customer. First, office space has been created that exceeds Milton Hydro's reasonable requirements over the planning horizon. Second, the incremental "premium" costs of

[95] *Ibid.*
[96] See SEC Argument, April 19, 2016, p. 3.

more expensive indoor space for use as an equivalent to outside storage is similarly of no value to ratepayers.

2. Cheaper Total Project Capital Costs Do Not Displace the OEB's Consideration of the Cost Consequences of Valueless Outcomes

The OEB does not accept Milton Hydro's argument that the cost consequences of the outcomes that have no value for customers should be disregarded because total project capital costs for the 200 Chisholm Drive premises of $158 per square foot of building space are materially lower than the total project capital costs per square foot of building space incurred by other electricity distributors in the acquisition of land and the construction of their own office and operations facilities.[97]

Milton Hydro's argument is effectively a proposal that the OEB accept the creation of a new bundled total project capital cost per square foot of building space benchmark for use when considering utility proposals to own and construct their own office and operations facilities. The submission is that higher benchmark costs incurred by other utilities can be relied upon by an applicant utility to justify the cost consequences of outcomes that have no value to customers. The OEB rejects this proposal for several reasons.

First, the total project capital costs per square foot of building space benchmark that Milton Hydro proposes is an unreliable basis for comparing costs of the land acquisition and building projects of one utility to another. Bundling land, site development and building costs to calculate a cost per square foot of building space leads to results that are not comparable. For example, the land costs for 200 Chisholm Drive are for seven acres. The land costs for Waterloo North are for 24 acres.[98] The size of the land component in the benchmark proposed by Milton Hydro can significantly influence the utility-specific total project cost per square foot of building space calculation. Moreover, land costs per acre can significantly vary on the basis of location and market conditions prevailing at the time of purchase.

Similarly, the denominator in the calculation being the total square footage of the building constructed or purchased and renovated can materially distort the calculation. The square footage of the buildings in the sample of comparators that Milton Hydro relies on includes office and operations space only. However, the square footage that Milton Hydro uses in the calculation of its total project cost benchmark includes about 41,000 square feet of space that is excess to its reasonable office and operations requirements and was not renovated to provide office or operations services. Using

[97] Milton Hydro Reply Argument, April 28, 2016, p. 33.
[98] Exhibit K1.3, p. 7.

square footage that is supplemental to office and operations space in the calculation materially understates Milton Hydro's cost per square foot of renovated office and operations space.[99] The OEB finds that the total capital cost per square foot of building benchmark that Milton Hydro proposes is inappropriate.

For the same reasons, the OEB finds that the bundled benchmarking approach that OEB staff propose in their submission for the purpose of valuing the excess office space in 200 Chisholm Drive is inappropriate.

Third, simply said, ratepayers should only be expected to pay for things that are of demonstrable value to them. A utility's assessment of its needs has to start there. Mapping of expenditures to valuable outcomes should be at the core of a utility's planning process. This process should be clearly defined and articulated for that purpose. There should be no expectation that those expenditures that cannot be linked to a valuable outcome can be included in a revenue requirement.

For all of these reasons the OEB does not accept Milton Hydro's proposed "benchmark" approach.

3. Amount of Excess Office Space and Operations Space

Intervenors and OEB staff took different approaches to support their submissions on the amount of office and operations space in the 200 Chisholm Drive building that exceeds Milton Hydro's reasonable requirements over the planning horizon.

Using the area of the space that Milton Hydro had at Lawson Road for office and operations use as the point of departure, along with the size of offices, common areas, meeting rooms and board rooms at that location, SEC urges the OEB to find that 12,800 square feet of the 32,800 square feet of office space that Milton Hydro has created at 200 Chisholm Drive exceeds its reasonable requirements. SEC appears to accept that the 23,000 square feet of operations space at the new location is reasonable.[100]

OEB staff approached the excess space issue by considering the combined amount of office and operations space that is reasonably required to meet Milton Hydro's requirements. Using square foot per FTE metrics derived from the buildings of other electricity distributors being an average of 778 square feet per FTE and Milton Hydro's FTE count as of 2016 of 61.5, OEB staff submitted that Milton Hydro's reasonable office and operations space requirements should be found to be a total of about 47,800

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[99] See Section 6.3.C subsection 4(b) where $220 per square foot is derived from numbers that Milton Hydro has provided.
[100] SEC Argument, April 8, 2016, p. 34

square feet.[101] This is about 8,000 square feet less than the 55,800 square feet of office and operations space that has been created at 200 Chisholm Drive.

In reply, Milton Hydro submitted that if the estimated FTE count of 69 projected for 2020 is used, then the OEB staff approach produces an office and operations area of about 53,682 square feet.[102] This is about 2,118 square feet less than the 55,800 square feet of office and operations space in the new premises.

The OEB finds that there is a total 6,800 square feet of office space at Chisholm Drive that exceeds Milton Hydro's reasonable requirements over the planning horizon. There are two components of this excess.

First, there is the 5,160 square feet of office space on the mezzanine which was left as raw and vacant space and closed in to comply with fire regulations. This space is obviously in excess of Milton Hydro's office space requirements.

Second, the OEB's finding that there is another 1,640 square feet of office space stems from the fact that throughout the entire planning process, which has spanned more than four years, Milton Hydro has quantified is office space requirements at 26,000 square feet. In these circumstances, the OEB finds that there was no reasonable basis for creating 27,640 square feet of renovated office space (an increase of 1,640 square feet above the 26,000 square foot requirements calculation) and holding another 5,160 square feet of raw space for future office use.

The OEB finds that Milton Hydro's creation of 23,000 square feet of operations space at 200 Chisholm Drive is reasonable. There is no excess operations space.

4. Capital Cost Consequences of Excess Office Space

(a) Un-renovated Area of 5,160 Square Feet

The OEB finds that the capital cost consequences of the 5,160 square feet of excess office space that was not renovated should be determined essentially as proposed by Milton Hydro in Undertaking response J2.2 along with the separately filed spreadsheet, subject to the following adjustments.

First, the rate base amount of $332,663 for the un-renovated space should be increased to $343,308 to align that amount with 5,160 square feet of space rather than the 5,000 square feet used in the Undertaking response. Second, for the reasons outlined in subsection 8, this rate base value (which includes the full cost of the land at 200 Chisholm Drive) should be reduced by the proportion of the capital gain of about

[101] OEB staff Argument, April 8, 2016, p. 20.
[102] Milton Hydro Reply Argument, April 28, 2016, p. 33.

$506,000 related to the sale of the property at the Fifth Line and Main Street. The reduction amount is 5.6% of $506,000 or $28,336 and the net rate base value for the excess un-renovated office space area is $314,972. Third, the amortization rate used in the calculation should be compatible with the weighted amortization rate in the Application materials related to the building purchase and renovation costs. The PILs should be calculated in the same manner shown in the spreadsheet filed with the response to Undertaking J2.2.

(b) Renovated Area of 1,640 Square Feet

The OEB finds that the rate base value of the 1,640 square feet of excess office space that has been renovated is about $360,800. This amount has been calculated by multiplying the 1,640 square feet of excess renovated office space by $220 per square foot which is the approximate cost of the 27,640 square feet of office space that was created. There is no land value in this amount.

The $220 amount stems from the information presented by Milton Hydro in Exhibit K1.3.[103] Total office renovation costs are $5,062,000. The 27,640 square feet of renovated office space comprises about 30% of the total 91,800 square foot building. The cost of the building was $3,390,000 of which 30% or $1,021,000 is allocable to the renovated office space. The total costs for the renovated office space are about $6,079,000 or about $219.93 per square foot or about $220.

(c) Total Rate Base Value of Excess Office Space

The OEB finds that the total rate base value of excess office space is about $675,722, being the sum of the rate base values of the un-renovated and renovated office space of $314,972 and $360,800, respectively.

5. Capital Cost Consequences of the Use of Inside Storage as an Outside Storage Equivalent

In response to Undertaking J1.3 (amended), Milton Hydro calculated the capital cost “premium” differential between inside and outside storage to be $20.93 per square foot. For the 36,000 square feet of inside storage being used as the equivalent of outside storage, this equates to a rate base value of $753,480. The OEB finds that this capital cost differential amount is of no value to Milton Hydro’s customers.

[103] Exhibit K1.3, pp. 5 and 14.

6. OM&A Costs Related to Excess Office Space

Intervenors submit that portions of the OM&A costs related to the land and building at 200 Chisholm Drive that can be linked to the excess office space and the use of inside storage as an equivalent to outside storage should not be recoverable from ratepayers.[104]

In the response to Undertaking J2.2 and in its Reply Argument,[105] Milton Hydro effectively acknowledges that the OM&A costs for property taxes, gas and electricity should not be included in the revenue requirement related to the 5,160 square feet of un-renovated office space. The OEB agrees and finds that these OM&A costs for excess office space should not be recoverable from ratepayers.

Having regard to the updated information provided by Milton Hydro in response to Undertaking J1.3, the OEB finds that gas and electricity expenses for the entire building total about $160,400. Property taxes for 2016 are about $120,000.[106] The total for these items of expense is $280,400. The 5,160 square feet of excess and un-renovated office space comprises about 5.6% of the total building. The OEB finds that areas within the building classified as office space should attract a full proportionate allocation of property taxes, gas and electricity costs being the result that would ensue if the office space was leased to a third party. Accordingly, the OM&A costs for property taxes, gas and electricity attributable to this un-renovated office space are about $15,700.

Since there is a total of 6,800 square feet of excess office space in the building, the appropriate disallowance for OM&A costs related to excess office space is about $20,700.[107]

The OEB rounds this number down and finds that $20,000 of OM&A costs related to excess storage should not be recoverable from ratepayers.

7. OM&A Costs related to the Use of Inside Storage as an Equivalent to Outside Storage

VECC submitted that a portion of OM&A costs linked to the use of 36,000 square feet of inside storage as outside storage should not be recoverable from ratepayers.[108] VECC was supported by the other Intervenors.

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[104] See VECC Argument, April 25, 2016, p. 9.
[105] Milton Hydro Reply Argument, April 28, 2016, p. 34.
[106] See Exhibit K2.2, p. 2.
[107] 6,800 sq. ft. divided by 5,160 sq. ft. x $15,700 = $20,689.
[108] VECC Argument, April 15, 2016, p. 9.

The OEB recognizes that the part of the building that is used as the equivalent of outside storage may not consume as much gas and electricity as is consumed in the areas classified as office space. The storage space comprises 39% of the total building. At best, the only amounts that might be considered for disallowance are the amounts for gas and electricity costs reasonably attributable to the 36,000 square feet of storage space. Property taxes related to this space are properly recoverable from ratepayers. A 39% proportion of total gas and electricity costs of $160,400 is $62,556. Taking into account the probability that gas and electricity consumption in this part of the building is less than in the areas classified as office space, the OEB finds that $30,000 of OM&A costs related to the use of the building as an equivalent to outside storage should not be recoverable from ratepayers.

8. Regulatory Treatment for the Capital Gain on the Sale of the Fifth Line and Main Street Property

The OEB finds that the questions of the value of the Fifth Line and Main Street property at the time of its sale and the appropriate regulatory treatment of the capital gain realized on that sale are questions that fall within the ambit of the unresolved 200 Chisholm Drive Issue. These questions are items that relate to a determination of the net capital costs to be allowed in rate base for the land at 200 Chisholm Drive. In the Settlement Proposal,[109] the parties agreed that items of cost linked to the Chisholm Drive Issue would be subject to adjustment.

With respect to the first question, the OEB finds that, for rate-making purposes, the appraisal evidence supports a sale value of $2.73 million for the 6.43 acre parcel rather than the $2.4 million amount presented by Milton Hydro. This sale value is derived by multiplying the $425,000 per acre mid-point of the value range, as determined by the appraiser, by the land area of 6.43 acres. The OEB finds that the capital gain realized on the sale is $505,950 and not the $175,950 calculated by Milton Hydro.

With respect to second question pertaining to the appropriate regulatory treatment of that capital gain, the OEB finds that the Fifth Line and Main Street property was purchased in 2009 for eventual use as the site for Milton Hydro’s office and operations centre. The property at 200 Chisholm Drive is essentially a substitute for and replaces the Fifth Line and Main Street property.

Milton Hydro proposes that 50% of its calculation of the amount of the capital gain be credited to ratepayers as a revenue requirement offset. The proposal is premised on OEB approval for recovery in rates of all costs related to the 200 Chisholm Drive premises. Under Milton Hydro’s proposal, the revenue requirement offset benefit to

[109] Settlement Proposal, February 9, 2016, p. 9.

ratepayers is temporary. The benefit expires at the end of 2020. At that time, Milton Hydro's rates would automatically increase by the amount of the offset. Moreover, throughout 2016-2020 and beyond, ratepayers would be paying return, depreciation and taxes related to excess office space costs and the capital cost differential between inside and outside storage, which the OEB has found to be of no value to Milton Hydro's customers.

While Milton Hydro's proposal does provide ratepayers with a significant benefit, that benefit is inappropriately temporary. OEB approval of the benefit would inappropriately require ratepayers, from 2016 onwards, to pay rates that include costs that have been found to be of no value to them. The OEB does not accept the revenue requirement offset benefit that Milton Hydro proposes. The OEB finds that the $87,975 revenue requirement reduction is to be reversed and eliminated.

In this case, where Milton Hydro's purchase of the 200 Chisholm Drive property effectively replaces the Fifth Line and Main Street property, the OEB finds that the appropriate regulatory treatment for the capital gain is to record the entire amount of the gain of almost $506,000 as a credit or reduction to the rate base value of the land at 200 Chisholm Drive. This regulatory treatment is most appropriate where one parcel of property acquired for future use is replaced with another. The appropriateness of this approach is reinforced by the fact that this is the way Milton Hydro treated the capital gain on an assumed sale of the Fifth Line and Main Street property in its internal presentations of own and build options that involved land other than that at Fifth Line and Main Street.[110] Treating the entire capital gain as a rate base deduction rather than a revenue offset should produce a revenue requirement reduction of about $37,000.

The net effect of the foregoing adjustments is to reduce the revenue requirement reduction related to the capital gain to an amount more than the amount of $17,595 suggested by Milton Hydro in its Reply Argument but less than the $87,950 revenue offset that it proposed.[111] The OEB finds that it would be manifestly unfair to Milton Hydro to allow ratepayers to benefit from the combined effect of almost $1.935 million of rate base disallowances related to 200 Chisholm Drive and the $87,975 revenue requirement offset proposed by the utility.

The OEB's principled approach to the Chisholm Drive Issue achieves an outcome that permanently precludes the recovery from ratepayers of costs incurred that have been found to be of no value to customers. The benefit to ratepayers of these OEB's findings will prevail from 2016 to 2020 and beyond.

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[110] Relocation Committee Meeting Slides, November 14, 2012, attached to Milton Hydro response to 1-SEC-14 – see table at p. 756 of 910.
[111] Milton Hydro Reply Argument, April 28, 2016, p. 34.

This regulatory treatment of the $506,000 capital gain operates to reduce the Milton Hydro's proposed rate base value for the un-renovated office space component of the 6,800 square feet of excess office space by a total of $28,336 as described in subsection 4 above.

9. Accumulated Depreciation

The foregoing disallowed rate base values are gross value amounts. They do not reflect any depreciation thereon recorded by Milton Hydro in 2014 and 2015. The building at 200 Chisholm Drive was purchased in the last half of 2014. Renovations were made between the possession date and the end of 2015.

The depreciation rate that Milton Hydro used in its Undertaking response J2.2 was 2% per annum. The OEB has used that rate to derive its estimate of the accumulated depreciation at December 31, 2015 related to the depreciable components of the total of the 200 Chisholm Drive rate base disallowances in the amount of about $1.935 million. The depreciable components of the rate base disallowances total about $1,405,426, being $291,146 for the un-renovated mezzanine space, $360,800 for the renovated office space and $753,480 for the inside storage space premium.

After taking into account the half-year rule for 2014, the OEB estimates accumulated depreciation related to these disallowed building assets acquired in September 2014 to be 1% of the building value attributable to the 6,800 square feet of office space being a value of $479,905 for 2014 depreciation and accumulated depreciation at December 31, 2014 of $4,799. For 2015, the OEB estimates depreciation to be 2% of $1,405,426, being an amount of $28,108 for total accumulated depreciation at December 31, 2015 of $32,907 or about $33,000.

The adjustment for accumulated depreciation will increase Milton Hydro's opening 2016 rate base by about $33,000.

10. Summary of Disallowances and Adjustments Related to 200 Chisholm Drive

By way of summary, the disallowances and other adjustments related to the 200 Chisholm Drive Issue are as follows:

(i) For the capital gain realized on the sale of the property at the Fifth Line and Main Street – a rate base reduction of about $506,000;

(ii) For 6,800 square feet of excess office space – a rate base reduction of $675,722;

(iii) For the capital cost differential between inside and outside storage – a rate base reduction of $753,480;

(iv) The reversal and elimination of the revenue requirement offset of $87,975;

(v) For OM&A cost reductions related to excess office space and the use of building space as the equivalent of outside storage – a total amount of $50,000 included in the $550,000 OM&A expenses disallowance found in Section 6.2 of this Decision and Order; and

(vi) For the reversal of accumulated depreciation amounts at December 31, 2015 related to the depreciable components of disallowed rate base items – a total amount of $33,000. Rate base for 2016 will increase by this amount.

7 FORGONE REVENUE RECOVERY

In its original application, Milton Hydro requested a May 1, 2016 implementation of its new distribution rates. At that time, Milton Hydro also requested that, in the event the OEB were unable to issue a decision on the application by May 1, 2016, the OEB declare Milton Hydro's current rates interim from May 1, 2016 until the issuance of a final rate order.

On April 29, 2016, the OEB issued an interim rate order declaring Milton Hydro's current approved distribution rates interim as of May 1, 2016 and until such time as the OEB issues a final rate order.

The OEB has determined that the effective date for rates in this Decision is May 1, 2016, with an expected implementation date of September 1, 2016. Therefore, Milton Hydro is directed to calculate, as part of its draft Rate Order, the forgone revenues/credits to customers for this period and to propose an appropriate method for either recovering from or crediting these amounts to ratepayers over the remainder of the 2016-2017 rate year.

8 IMPLEMENTATION AND ORDER

The OEB directs Milton Hydro to file a Draft Rate Order reflecting the OEB's findings in this Decision, complete with detailed supporting material, including:

- all relevant calculations showing the determination of the revenue requirement for 2016
- a schedule (or schedules) clearly showing the allocation of the revenue requirements from this Decision to the customer classes for 2016
- a schedule (or schedules) clearly showing the calculation of the forgone revenue/credit rate rider regarding the May 1, 2016 to September 1, 2016 period
- a schedule of final rates and all approved rate riders, including bill impacts for all rate classes, and a calculation showing reconciliation of the total revenues by class to the revenue requirements
- any other documentation that would assist Intervenors, OEB staff and the OEB in their consideration of the proposed Draft Rate Order.

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Milton Hydro shall file with the OEB, and forward to all intervenors, a Draft Rate Order that includes all items listed above, including revised models in Microsoft Excel format as appropriate and a proposed Tariff of Rates and Charges reflecting the OEB's findings no later than **August 9, 2016**.

2. OEB staff and intervenors shall file any comments on the Draft Rate Order with the OEB with Milton Hydro no later than **August 15, 2016**.

3. Milton Hydro shall file with the OEB, and forward to intervenors, responses to any comments on its Draft Rate Order no later than **August 19, 2016**.

All filings to the OEB must quote the file number, **EB-2015-0089**, be made through the OEB's web portal at https://www.pes.ontarioenergyboard.ca/eservice/, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at http://www.ontarioenergyboard.ca/OEB/Industry. If the web portal is not available, parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file seven paper copies.

DATED at Toronto July 28, 2016

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

EB-2015-0089

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Sch. B;

AND IN THE MATTER OF an application by Milton Hydro Distribution Inc. under section 78 of the *Ontario Energy Board Act, 1998* for an Order or Orders approving or fixing just and reasonable distribution rates and other charges, to be effective May 1, 2016.

AND IN THE MATTER OF the Board's Decision with Reasons dated July 28, 2016.

AFFIDAVIT OF CAMERON MCKENZIE

I, Cameron McKenzie, of the City of Hamilton, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Director, Regulatory Affairs of Milton Hydro Distribution Inc. and as such, I have knowledge of the facts and matters hereinafter deposed to, except where stated to be on information and belief and where so stated I verily believe those statements to be.

2. Prior to its acquisition and renovation of its current administration and operations centre at 200 Chisholm Drive, Milton Hydro owned a property located at Fifth Line and Main Street, Milton (the "Fifth and Main Property").

3. The Fifth and Main Property was sold in 2015. The sale price of $2.4 million attributed to the Fifth and Main Property by Milton Hydro was based on a July 2015 Full Narrative Appraisal prepared by Colliers International Inc. (the "Colliers Report") which was included as Attachment 1-3 to Exhibit 1 of the Milton Hydro application for electricity rates and other charges beginning May 1, 2016 (the "Application"). The cover letter to the Colliers Report, and the "Final Estimate of Value" contained on the final page (the signed Certification page) of the Colliers Report, confirm the valuation of $2.4 million. The body of the Colliers Report contains other references to the $2.4 million valuation (including page v of the Executive Summary and page 33).

4. In its Decision and Order dated July 28, 2016 (the "Board's Decision"), in the matter of Milton Hydro's Application, the Board unilaterally increased the valuation of Fifth and Main Property to $2.73 million, despite the valuation of the property by Colliers being certified at $2.4 million.

5. The Board's unilateral increase was based on a reference to "Rate Per Acre" of $425,000 in the body of the Colliers Report, as opposed to the correct $375,000 per acre valuation also contained in the body of the Colliers Report, and ignores Colliers' signed Certification of the value of the property at $2.4 million. This increase had the effect of imputing a total net gain on the Fifth and Main Property of $505,950 rather than the correct amount of $175,950 based on the Colliers valuation of $2.4 million and used by Milton Hydro for rate-making purposes.

6. At no point during the application process did Board Staff, any intervenor, or the Board Panel make any inquiry of Milton Hydro or of Colliers in respect of the discrepancy between Colliers' valuation of the Fifth and Main Property and these typographical errors in the body of its Report, nor did anyone bring it to the attention of Milton Hydro; Milton Hydro learned of it for the first time when it reviewed the Decision on July 28, 2016.

7. I am advised by Milton Hydro's Vice President, Finance, Mary-Jo Corkum, and verily believe, that on July 29, 2016, she contacted Colliers to inquire about the inconsistencies contained within the body of the report with respect to references to the per acre valuation of the property raised for the first time in the Board's Decision.

8. In an August 4, 2016 addendum to its August 5, 2015 appraisal report (the "Addendum"), attached hereto as Exhibit "A", Colliers confirmed that there were typographical errors in the body of the report but the total value of the property remains at $2.4 million as was originally appraised and which Milton Hydro relied on to sell the property. In particular, the references in the body of Colliers appraisal to "a "Rate per Acre" of $425,000" and "a rate [per acre] in the range of $400,000 and $450,000" were typographical errors made by Colliers. In its Addendum, Colliers advises as follows:

> "On August 1, 2016, there were typographical errors found in the appraisal report, which this Addendum addresses. This Addendum will amend the Full Narrative Appraisal Report with the following corrections:
>
> - Page V [Executive Summary]: Under the "Value Approach" heading, Rate per Acre was incorrectly noted at $425,000 per acre. The intended figure was $375,000 per acre as found in the value conclusion.
>
> - Page 31: In the analysis of Index 3, the last sentence incorrectly noted a rate per acre for the comparable at $246,558 per acre. The intended figure was $339,217.
>
> - Page 33: Under the Final Estimate of Value, paragraph 3 incorrectly noted that a rate in the range of $400,000 and $450,000 would be reasonable for the Subject Parcel. The intended figures were $350,000 and $400,000 per acre as found in the Value Matrix."

9. In an August 4, 2016 Corrected Full Narrative Appraisal of the Fifth and Main Property, attached hereto as Exhibit "B", Colliers again confirms that the correct valuation of the Fifth and Main Property as certified in both its original and revised appraisals is $2.4 million, and not the value of $2.73 million unilaterally determined by the Board.

10. Milton Hydro has determined that the impact of including the Board's imputed gain on the sale of the Fifth and Main Street Property of $506,000 as a reduction to Milton Hydro's rate base as opposed to an offset to its revenue requirement results in an annual $39,400 reduction in Milton Hydro's revenue requirement. Therefore, on the basis of the Board's imputed gain of $506,000, the reduction to Milton Hydro's revenue requirement will have repaid the $506,000 imputed by the Board back to customers in approximately 13 years. After 13 years, Milton Hydro will be overpaying customers over and above the imputed $506,000 gain in the amount of $39,400 per year, in perpetuity.

Sworn before me at the Town of Milton, in the Province of Ontario this 17th day of August, 2016	)))))))	**Cameron McKenzie**
Commissioner for taking affidavits		

Kathleen Dawn Chafe
a Commissioner, etc.,
Regional Municipality of Halton
Corporation of the Town of Milton

This is Exhibit "A" referred to in the Affidavit of Cameron McKenzie, sworn before me this 17th day of August, 2016.

Commissioner for taking affidavits

Kathleen Dawn Chafe
a Commissioner, etc.,
Regional Municipality of Halton
Corporation of the Town of Milton

Exhibit A: Letter from Matthew Bruchkowsky, AACI P.App. – Addendum,

5th Line and Main St., Milton, August 4, 2016

August 4, 2016

Our File No. TOR-15-621

Milton Hydro
8069 Lawson Road
Milton, Ontario L9T 5C4

Attention: Mary-Jo Corkum

Dear Ms. Corkum;

RE: **Addendum to the Full Narrative Appraisal Report**
6.43 Acres of Land at 5th Line & Main Street, Milton, Ontario

The Toronto Valuation and Advisory Services Division of Colliers International Realty Advisors Inc. completed an appraisal of the above referenced property with an effective date of August 5, 2015 (our file no. TOR-15-621). The referenced appraisal concluded with a property market value estimate of $2,400,000 based upon the Direct Comparison Approach. On August 1, 2016, there were typographical errors found in the appraisal report, which this Addendum addresses. This Addendum will amend the Full Narrative Appraisal Report with the following corrections:

- Page V: Under the "Value Approach" heading, Rate per Acre was incorrectly noted at $425,000 per acre. The intended figure was $375,000 per acre as found in the value conclusion.

- Page 31: In the analysis of Index 3, the last sentence incorrectly noted a rate per acre for the comparable at $246,558 per acre. The intended figure was $339,217.

- Page 33: Under the Final Estimate of Value, paragraph 3 incorrectly noted that a rate in the range of $400,000 and $450,000 would be reasonable for the Subject Parcel. The intended figures were $350,000 and $400,000 per acre as found in the Value Matrix.

In conducting this Addendum, we have not completed a new inspection or analysis of the property. This Addendum should not be misconstrued as an updated appraisal. The analysis and the final value conclusion derived in the original appraisal report (our file no. TOR-15-621) remain unchanged. It is assumed herein that there are no material physical changes to the property, including any change in site area or land use controls, which would impact the original value.

Yours sincerely,

COLLIERS INTERNATIONAL REALTY ADVISORS INC.

Matthew Bruchkowsky, AACI P. App.
Senior Director
Valuation & Advisory Services, Toronto

This is Exhibit "B" referred to in the Affidavit of Cameron McKenzie, sworn before me this 17th day of August, 2016.

Commissioner for taking affidavits

Kathleen Dawn Chafe
a Commissioner, etc.,
Regional Municipality of Halton
Corporation of the Town of Milton

Exhibit B: Colliers International Realty Advisors Inc.

Full Narrative Appraisal, 5th Line and Main St., Milton, July 2015 (Corrected)

Full Narrative Appraisal

5th Line and Main Street East

Milton, Ontario

July 2015

PREPARED BY:
Matthew Bruchkowsky, AACI, P. App.
Senior Director
Valuation & Advisory Services

PREPARED FOR:
Mary-Jo Corkum
Director, Finance
Milton Hydro Distribution Inc.

One Queen Street East
Suite 2200
Toronto, Ontario M5C 2Z2
www.colliers.com

MAIN 416 777 2200
FAX 416 643 3470

TOR-15-621

August 5, 2015

Milton Hydro Distribution Inc.
8069 Lawson Road
Milton, Ontario, L9T 5C4

Attention: Mary-Jo Corkum

Dear Ms. Corkum;

RE: **Full Narrative Value of a Future Development Site at 5th Line and Main Street East, Milton, Ontario.**

In accordance with your request, we have inspected the property described above and have carried out a Full Narrative Appraisal in order to estimate the current market value of the property as at the effective date of the valuation, for internal purposes.

Based on our analysis, the market value of the subject property, subject to the Extraordinary Assumptions on page 3, and the Contingent and Limiting Conditions listed in Appendix A, and as at August 5, 2015 is estimated to be;

Based on our analysis, our estimate of market value of the Subject is:

$2,400,000

Two Million Four Hundred Thousand Dollars

The value estimates are based on an exposure time of four to six months, which is assumed to precede the valuation date.

Yours very truly,

COLLIERS INTERNATIONAL REALTY ADVISORS INC.

Matthew Bruchkowsky, AACI P. App.
Senior Director
Valuation & Advisory Services, Toronto

Table of Contents

Executive Summary

6.43 ACRES LOCATED AT 5TH LINE AND MAIN STREET EAST, MILTON, ONTARIO

Date of Appraisal	• August 5, 2015
Property Type	• Industrial land
Rights Appraised	• Fee Simple Interest
Purpose and Function	• The purpose is to estimate the current market value of the Subject parcel. • The function of the report is for internal purposes only.
PIN Numbers	• 250750982
Registered Owner	• Milton Hydro Distribution Inc.
Legal Description	• PT LT 13, CON 5 NS TRAF, PTS 1, 2 & 3, 20R18236; MILTON. TOGETHER WITH AN EASEMENT AS IN 408370
Assessment Roll	• 1901126550001000000

Site Description

The Subject parcel is located on the southern corner of Main Street East and 5th Line in Milton.

Site Area	• 6.43 acres (Source: GeoWarehouse)
Configuration	• Irregular
Services	• Municipal services are not available.

Land Use Controls

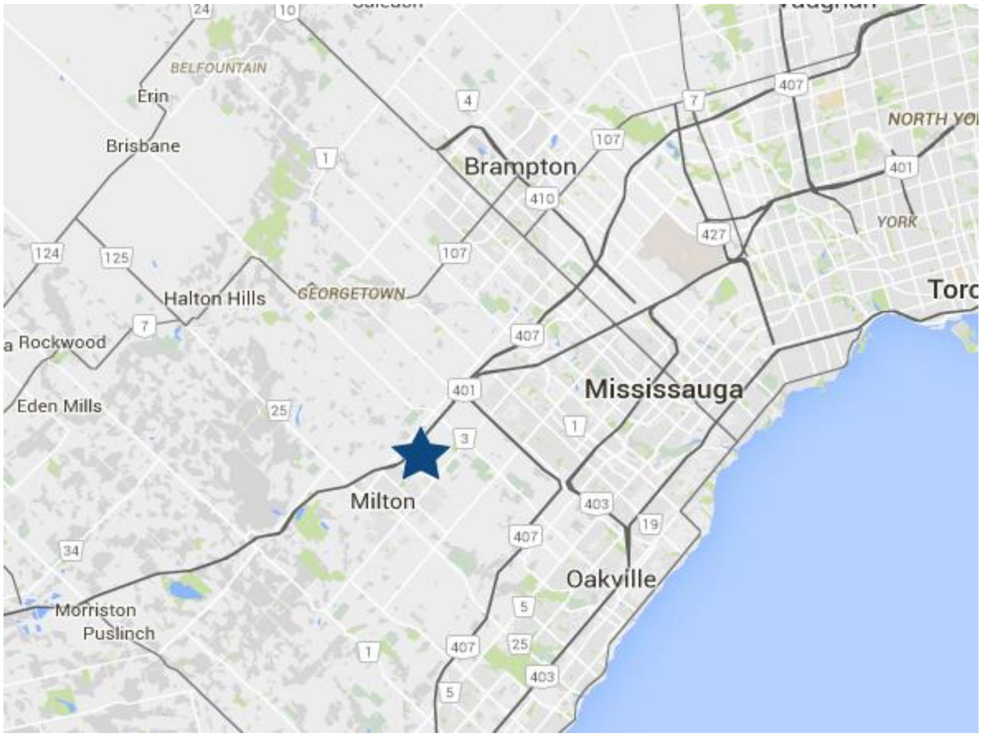
Official Plan	• As per the Town of Milton Official Plan, the Subject is located within an Industrial Area. The Town of Milton is in the process of implementing a Secondary Plan which will designate the property as a Business Park.

Zoning By-Law	• Currently, the Subject is zoned FD, a future development designation.
Servicing	• Currently, the Subject parcel is not serviced (Source: Town of Milton)
Compliance	• The subject Property is current vacant and unimproved. A gated fence exists, in which Milton Hydro Distribution Inc temporarily stores items. As per the zoning bylaw, no development can commence with until the FD zoning is replaced. The use is in compliance with the intent of the Derry Green Corporate Business Park Secondary Plan once completed and in force.
Highest and Best Use	• The Derry Green Corporate Business Park Secondary Plan will allow for Light Industrial and Office uses. Given the poor performance of suburban office assets in superior suburban markets, we feel it is unlikely that a developer would construct an office building. In addition to this, Milton has been a successful growing industrial hub, focused on light industrial uses such as logistics and warehousing. Provided that these two trends continue for the foreseeable future, we feel the highest and best use would be Industrial

Value Approach

Effective Date	• August 5, 2015
Rate per Acre	• $375,000
Size (Acres)	• 6.43
Value Estimate	• $2,400,000
Exposure Time	• Four to six months

Regional Map



Location Map

Photographs of Subject

VIEW OF SUBJECT SITE

VIEW OF SUBJECT SITE

VIEW EAST ALONG MAIN STREET

VIEW NORTH ALONG 5TH LINE

Terms of Reference

Purpose and Function of Report

The **purpose** is to estimate both the Subject's current market value "As Is" as at the date of valuation, August 5, 2015. This appraisal was written for **Milton Hydro Distribution** for **internal purposes**. In addition, **Ontario Energy Board** may rely on this appraisal for **regulatory purposes.** **Mary-Jo Corkum of Milton Hydro Distribution Inc.** has requested this report. This report has been prepared only for the party named above and only the specific use stated.

Property Rights

The property rights appraised are those of Fee Simple Interest.

Effective Date

The effective date of this valuation is August 5, 2015.

Inspection Date

An inspection of the property was conducted on August 5th, 2015 by Jozo Markic, AIC Candidate.

Market Value Definition

For the purposes of this valuation, market value is defined as:

> *"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of the specific date and the passing of title from seller to buyer under conditions whereby:*
>
> 1. Buyer and seller are typically motivated;
> 2. Both parties are well informed or well advised, and acting in what they consider to be in their best interests;
> 3. A reasonable time is allowed for exposure in the open market;
> 4. Payment is made in terms of cash in Canadian Dollars or in financial arrangements comparable thereto; and
> 5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

(Source: The Appraisal Institute of Canada "Canadian Uniform Standards of Professional Appraisal Practice". 2012

Exposure Time

Exposure time is the estimated length of time the property interest being appraised would have been offered in the market prior to the hypothetical sale at the estimated market value on the effective date of the appraisal. Reasonable exposure encompasses not only adequate, sufficient and reasonable "time" but also adequate, sufficient and reasonable effort.

In addition to price, exposure time is also a function of use and type of real estate. The Subject parcel, as at the effective date of this appraisal, consisted of vacant future development land.

The Subject is located in the eastern part of the Town of Milton and benefits from being in close proximity to numerous arterial routes and highways including Highway 401. Based on our statistical data regarding days on market, discussions with brokers and information derived through analysis of comparable data, it is our opinion a reasonable exposure time for the Subject parcel is approximately four to six months.

Scope of the Valuation

This is a ***Full Narrative Appraisal Report*** and complies with the reporting requirements set forth under the Canadian Uniform Standards of the Appraisal Institute of Canada. As such, all relevant material is provided in this report including the discussion of appropriate data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Additional supporting documentation concerning the data, reasoning, and analyses are retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated herein.

Market information reviewed is available from publicly available sources including economic reports, Statistics Canada, the municipal economic development office, etc.

Market information was obtained from Colliers Research, commercially available information databases (RealNet and Marsh Report), the Town of Milton and local real estate professionals knowledgeable about the local market.

During the course of preparing this valuation, the following was completed:

- A personal inspection of the property and the surrounding area.
- A review of available data regarding the local market.

- Verification of current land use and zoning regulations, including discussions with the City of Toronto planning department and review of the prevailing Official Plan and Zoning By-Law.
- A review of sales and listing data on comparable properties. This involved thoroughly researching the surrounding market and those deemed similar to the subject for relevant and reliable data.
- An examination of market conditions and analysis of their potential effects on the property.
- A review of the local competitive market.
- Interviews with market participants.
- An analysis of the highest and best use of the property.

Contingent and Limiting Conditions

This report is Subject to the Contingent and Limiting Conditions set forth within the Addenda to this appraisal in addition to any specific assumptions that may be stated in the body of the report. **These conditions are critical to the value stated herein and should be thoroughly read and understood before any reliance on this report is considered.**

Extraordinary Assumptions

An Extraordinary Assumption is an assumption, which if not true, could alter the appraiser's opinions and conclusions. They are required when a Hypothetical Condition is necessary due to circumstances that are not self-evident regarding the appraised property. Hypothetical Conditions include retrospective appraisals, significant renovations to the improvements, completion of proposed improvements, etc.

Extraordinary Limiting Conditions

An Extraordinary Limiting Condition refers to a necessary modification or exclusion of an Appraisal Institute Standard Rule. Such special circumstances include the inability to complete a property inspection, the purposeful exclusion of a relevant valuation technique, etc.

No Extraordinary Limiting Conditions were invoked within this report.

Property Data

Municipal Address

5th Line and Main Street East, Milton, Ontario.

Legal Description

PT LT 13, CON 5 NS TRAF, PTS 1, 2 & 3, 20R18236; MILTON. TOGETHER WITH AN EASEMENT AS IN 408370

Ownership and History

Current Ownership

As per the Ontario Land Registry, the properties are held under the registered ownership of Milton Hydro Distribution Inc. as of the effective date.

Current Contracts

According to the information provided or available, the property is not currently offered for sale nor is it subject to any current agreement or option.

Encumbrances

We are not aware of any easements or rights of way that adversely affect the market value of the Subject. For greater certainty a legal opinion should be solicited for a full explanation of the effects of these encumbrances. Additionally, the property has been valued as if it were free and clear of any financing.

Assessment and Realty Tax Data

The Subject parcel has a total phased-in Assessment for the 2015 tax year of $1,795,500. Tax bills were not provided to us. Upon being developed, the Subject will be reassessed and taxed accordingly.

Site Description

The Subject comprised an irregular shaped site totaling 6.43 acres. The site features mostly vacant future development land as well as a small gated lot used by Milton Hydro for storage. The property is located on the southern corner side of the 5th Line and Main Street East intersection, in Milton.

Area	• 6.43 Acres (Source: Geowarehouse).
Frontage	• The Subject parcel fronts onto the south side of Main Street East, the west side of 5th Line.
Lease	• There are currently no leases in place.
Configuration	• Irregular
Topography	• The site appears to be at grade with the surrounding properties.
Services	• Currently, the Subject parcel is not serviced.
Access	• The Subject can be accessed from Main Street East and 5th Line.
Title Instruments	• For the purposes of this analysis, the instruments registered against the title to the property are assumed not to have a significant effect on the property's marketability or its market value. For greater certainty, a legal opinion should be solicited for a full explanation of the effects of any existing encumbrances. • For the purposes of this analysis, we assume the title is marketable without any encumbrances.
Soil Conditions	• We have not undertaken a detailed soil analysis, and as we are not qualified to comment on soil conditions, we have assumed that there are no contaminants affecting the site. However, a full environmental assessment would be required for certainty and any cost of remedy should be deducted from the reported value herein. The sub-soil is assumed to be similar to other lands in the area and suitable in drainage qualities and load bearing capacity to support future development.
Conclusion	• The site is situated in the eastern part of the Town of Milton. The site has a configuration, topography, soil conditions, and access which would likely permit development.

Neighbourhood Overview

The Town of Milton is located in Halton Region, which is located west of Toronto in the western section of the Greater Toronto Area. Along with Milton, the Halton Region includes the City of Burlington and the Town of Oakville. Neighboring Milton to the north is Halton Hills and to the south is Burlington. Cambridge borders it to the west and Oakville and Mississauga to the east.

Transportation

The town is located 40 km (24 miles) west of the City of Toronto, on Highway 401. The town is well connected, forming the western end of the Milton Line commuter train. Milton is very well served by an excellent network of highways. The town has very easy access throughout the Greater Toronto Area by Highways 401, 407 and 25, connecting Oakville, Burlington and Hamilton with the town. The town is located a short distance from the Toronto Pearson International along Highway 401.

Employment

Being located in the western part of the Greater Toronto Area, Milton's economy benefits from a large population and Toronto's large economy. Manufacturing is Milton's leading sector. Along with product distribution and corporate sectors, manufacturing makes up approximately half of Milton's businesses.

Town of Milton Economic Profile			
Population			
Population (est. July 1, 2012)	% of Canadian Total	% Change 2006-2012	Average Annual Growth Rate
78,980	0.23%	40.50%	5.83%
Income			
% Above/Below National Avg.	Total Income 2012 Estimate	% Canadian Total	Per Capita
18% Above	$3,200,776,353	0.27%	$40,526
Retail Sales			
% Above/Below National Avg.	Retail Sales 2012 Estimate	% Canadian Total	Per Capita
2% Below	$1,067,165,351	0.22%	$13,512
Other Data			
Average Household Expenditures		Building Permits	
Item	Value	Year	Value ($ 000)
Food	$9,316	2008	600,169
Shelter	$21,504	2009	368,811
Clothing	$3,906	2010	300,834
Transportation	$14,324		

Source: Financial Post Markets, Canadian Demographics 2012

Access to the area is considered good with several arterial routes including Main Street, Fifth Line, Steeles Avenue and Derry Road located in close proximity. In addition, Highways 401 north of the subject site. Finally, the GO Transit Rail line is located just south of the subject property of 5th Line.

Adjacent Land Uses

North	•	North of Steeles Avenue is mainly agricultural land, with a number of small commercial developments. Further north is the Trafalgar exit on Highway 401, as well as the Toronto Premium Outlets in Halton Hills.
South	•	South of the Subject are residential properties which form the southern end of Milton. Further to the south is Agricultural land and Highway 407.
East	•	East of the Subject is mainly agricultural land. Further to the east are Trafalgar Golf Club, Royal Ontario Golf Club, and Piper's Heath Golf Club.
West	•	West of the Subject is Highway 401. Further to the west lies an industrial neighborhood abutting the north side of Highway 401.

Major Arterials & Access

Access	•	General access to the neighbourhood is considered to be very good.
Arterials	•	Main Street, Fifth Line, Steeles Avenue
	•	Highway 401

Summary

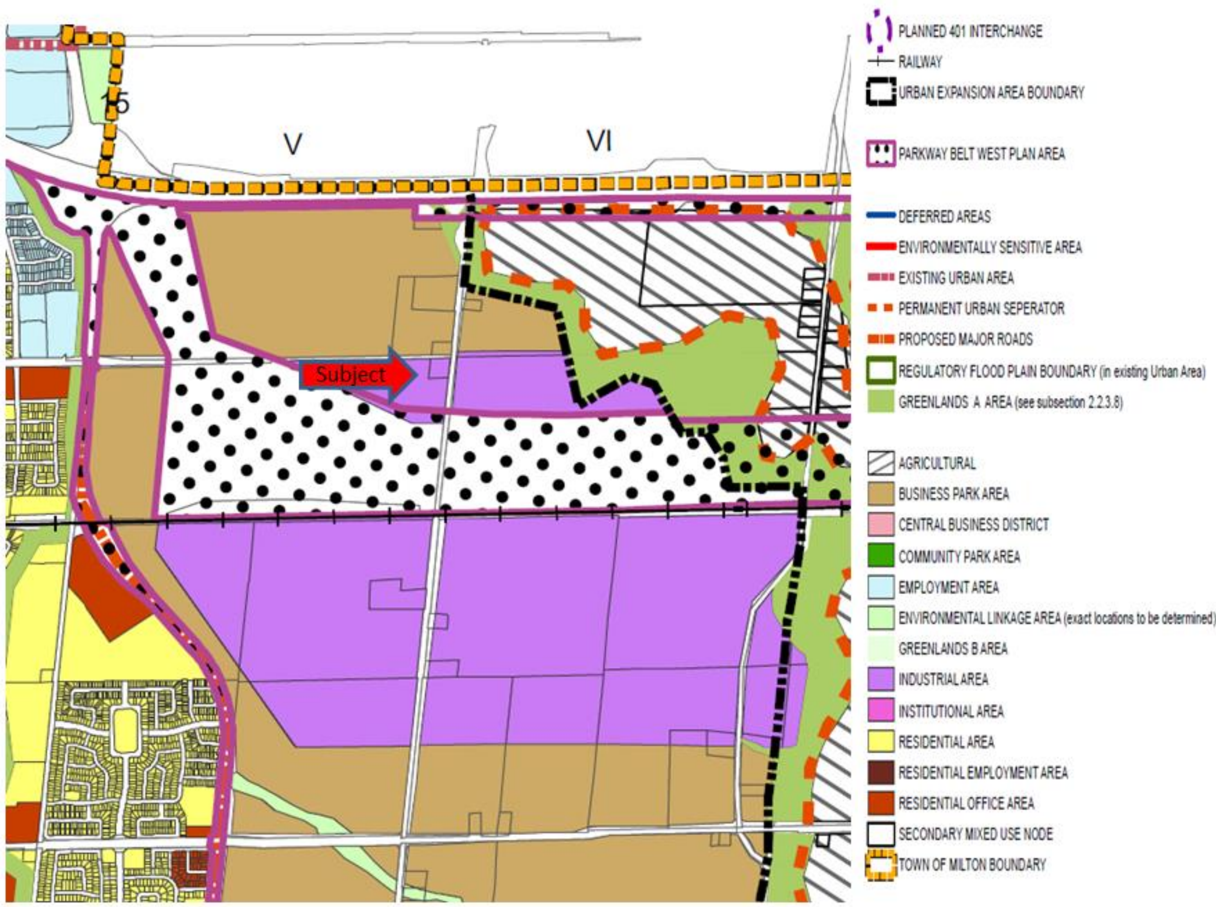
The Subject property is located in an area which is transitioning from future development lands to industrial lands. The Subject benefits from its proximity to numerous arterial routes, including Highway 401.

Land Use/Planning

Official Plan

The Town of Milton Official Plan designates the Subject as being within an Industrial area. Permitted uses shall be light and general industrial uses including some recycling applications, as set out by subsections of the Official Plan. Given this Official Plan designation, the owner of the subject premises can seek to amend the current zoning of FD to an industrial designation for the purpose of development.

Official Plan Map



Conversations with the Town of Milton's planning department indicate that the subject premises and surrounding area will soon undergo an Official Plan amendment to create a Secondary Plan known as the Derry Green Corporate Business Park. The Derry Green Corporate Business Park is being implemented as a part of the Halton Urban Structure Plan in order to create an employment area within Milton to accommodate the majority of the Town's employment growth over the next six years. The Derry Green Corporate Business Park will encompass approximately 2,000 acres in size and will be bound by 401 to the north, Sixth Line to the east, Centre Tributary of the Middle Branch of Sixteen Mile Creek to the south, and James Snow Parkway to the west.

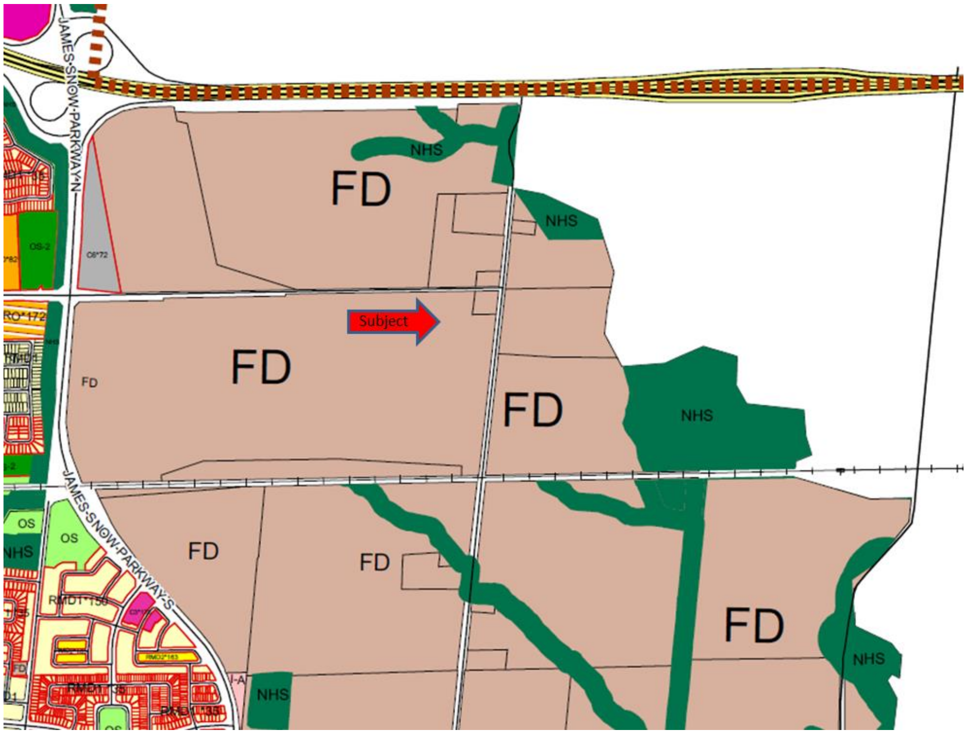
According to information provided to us by the Town of Milton, the subject site will be designated a Business Park under the Derry Green Corporate Business Park Secondary Plan. This secondary plan will be implemented in phases, with the subject site located in Phase 3. 60% of the developable land in Phase 1 must be developed before Phase 2 can begin. Likewise, 60% of developable land in Phase 2 must be developed before Phase 3 can begin. Milton's planning office has estimated that Phase 3 will begin development in roughly 5 years. The most recent amendments to the Business Park designation allows for light industrial and office uses.

Zoning

The Subject parcel is currently zoned FD – Future Development.

This is a zoning designation to identify lands which have no immediate development potential, however the lands indicated by this zone will ultimately be rezoned to permit some form of urban development in the future once the required secondary plans and development plans among other matters have been approved.

Zoning Map



Compliance

The subject Property is current vacant and unimproved. A gated fence exists, in which Milton Hydro Distribution Inc. temporarily stores items. As per the zoning bylaw, no development can commence with until the FD zoning is replaced. The use is in compliance with the intent of the Derry Green Corporate Business Park Secondary Plan once completed and in force.

Market Overview

July 2015 Canadian Economic Overview

Surprising job gains follow troubling first-quarter GDP Numbers. The Canadian economy created 59,000 new jobs in May. That was well above the predictions of most economists, and it was the largest one-month increase since last October. Despite this good news, the Canadian economy performed worse than expected in the first quarter of 2015 with weakening growth prospects for the rest of the year. While a poor performance in the first part of the year was expected following the slide in oil prices, it was not anticipated that GDP would drop by quite so much. After a particularly sharp contraction in January 2015, real GDP continued to shrink in February and March. Total output fell by an annualized rate of negative 0.6% for the quarter as a whole – the worst performance by the Canadian economy since the second quarter of 2009 when the recession was at its height.

The oil price shock has been particularly detrimental to Canada's trade balance. After reaching an all-time high of $3.85 billion in March, the trade deficit narrowed in April but still sat at its second-highest level ever – almost $3 billion dollars.

Furthermore, the plunge in crude oil prices have been a major disappointment for the federal government and the Bank of Canada as its revenues are cut. On the positive side, however, the lower oil prices are providing an additional lift to an already strengthening U.S. economy. The result will be to further stimulate demand for Canadian exports made more competitive by the lower value of the Canadian Dollar.

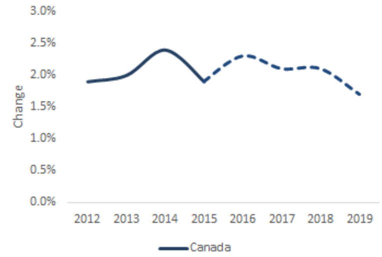
Economic Indicator	Historical 2012 - 2014	Current Period Forecast 2015	Mid-Term Forecast 2016-2019 (1)	Forecast Trend
GDP	2.2%	1.9%	2.1%	↑
Employment	1.0%	1.0%	1.4%	↑
Unemployment (improvement)	2.8%	1.4%	4.8%	↑
Personal Income per capita	2.6%	2.8%	2.9%	↑
Population	0.7%	1.1%	1.1%	↑
Retail Sales per Capita	2.7%	1.6%	2.6%	↑
CPI	1.4%	1.2%	2.0%	↑
Housing Starts	-6.1%	-9.3%	4.7%	↑

1) Average Annual Compound Growth Rate

Forecast Risk

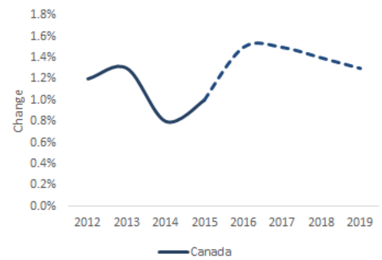
A slower than expected U.S. economy would lead to a softer outlook for exports.

Real Gross Domestic Product (GDP)



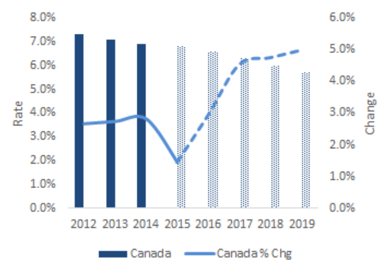
Canada's economy is forecast to expand by just 1.9% in 2015. The sharp drop in oil prices will cost producers more than US$40 billion in lost revenue, resulting in a substantial decline in business investment that will ripple through the economy. The non-energy export market, however, is expected to make a large contribution to the nation's overall economic growth in 2015. The challenges that the trade sector faced over the past several years – most notably, a rapidly appreciating Canadian dollar and a lackluster U.S. economic recovery – have largely dissipated.

Employment



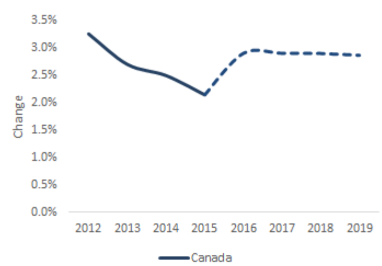
Canada's total employment is expected to grow 1.0% in 2015 adding 187,000 jobs. Total employment mid-term growth is expected at an average rate of 1.4% annually. By 2019, there will be over 19.1 million employed Canadians.

Unemployment



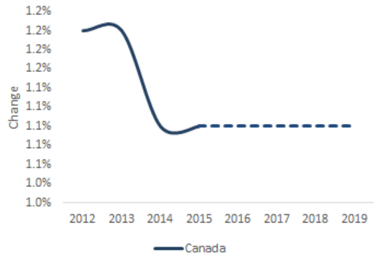
Canada's unemployment rate is expected to edge down only slightly from 6.9% last year to 6.8% this year. Nationally, business Investment is expected to stay weak as capital budgets are being significantly cut across the oil and gas industry. Investment in residential construction is also expected to cool this year.

Personal Income per Capita



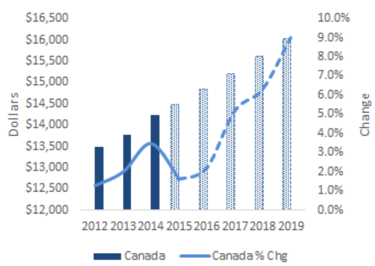
Canadians have received consecutive real wage gains since 2012 averaging 2.6% per annum. Per capita personal income growth is expected to cool this year to 2.1% but is forecast to accelerate in the mid-term to average 2.9% annually. Personal income is expected to rise from $42,300 in 2015 to nearly $47,500 in 2019.

Population



The country's population growth has grown 1.1% annually the last two years. The nation's population growth is expected to maintain this growth rate this year and into the mid-term. Canada's population is expected to grow from 35.8 million this year to 37.5 million by 2019.

Retail Sales per Capita

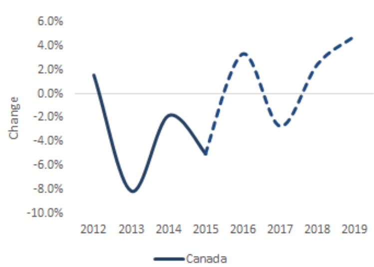


Historically, Canada's retail sales per capita has grown an average of 2.7% since 2012. However, consumer spending will be restrained this year by soft employment growth, including the threat of job losses in oil-rich provinces, weak wage gains, and high levels of household debt and easing real estate markets. Nationally, retail sales per capita is expected to grow 1.6% this year, and is expected to average 2.6% growth over the mid-term.

Consumer Price Index

After posting a CPI growth of 1.9% in 2014, the nation's CPI growth will slow to 1.2% this year due to the decline in oil prices. Future mid-term CPI growth is projected to accelerate to an average of 2.0% annually.

Housing Starts



Residential construction investment is expected to cool this year. A combination of declining oil prices and oversupply in some cities' condominium markets will prompt a 9.3% decline in new home construction, as housing starts fall from 189,400 units in 2014 to 171,700 units in 2015.

The information is sourced from:

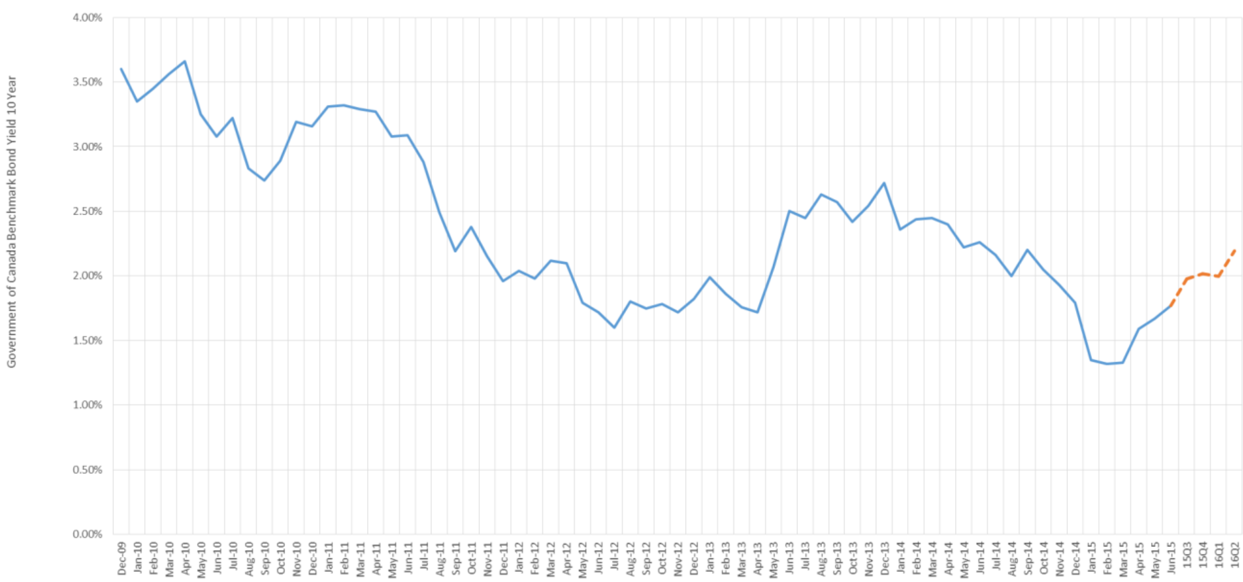
a) The Conference Board of Canada, Metropolitan Outlook 1 Spring 2015, based on November 28, 2014 Canadian economic accounts

b) Statistics Canada

Bond Yields

The 40% jump in West Texas Intermediate (WTI) oil prices from the mid-March low reflected a correction after an eight-month period of relatively steady decline. The recovery in oil prices helped to dispel concerns that the global economy was heading into a period of deflation. The easing in the risk of a deflation-driven pullback in economic activity saw investors reduce their holdings of government securities resulting in bond yields shifting significantly higher. The Bank of Canada 10 year benchmark has risen from 1.63% on June 1 to 1.74% on July 2, 2015.

As this year unfolds, the already small odds of another BoC rate cut will become even smaller. Higher oil prices are a positive sign that the oil shock may not fulfil forecasters' worst fears of a few months ago, leading to reduced expectations for further Bank of Canada rate cuts. The next probable move to raise interest rates sometime in 2016.



* based on Bank of Canada monthly mid-market closing yields
** Canada's five major banks averaged forecast

The information is sourced from:

a) Bank of Canada, Government of Canada benchmark bond yields 10 year
b) RBC Economics, Financial Market Monthly, June 5, 2015
c) TD Economics, Dollars & Sense, June 24, 2015
d) Scotia Bank Global Economics, Global Forecast Update, June 26, 2015, 2015
e) CIBC Interest & Exchange Rate Forecast Update, June 3, 2015
f) BMO Economic Research, Rates Scenario, July 3, 2015

July 2015 Ontario Economic Overview

The economic expansion in Ontario appears to be on track to accelerate further in 2015 after it gained noticeable momentum in 2014. Solid merchandise export activity remains a primary engine propelling the expansion this year and a boost to tourism from the Greater Toronto Area hosting the Pan Am and Parapan Am Games this summer will add a strong services component. An impressively dynamic household sector in the early months of 2015 also points to consumer spending and housing contributing much to the expansion this year. That being said, job creation to date has been somewhat weaker than it has been anticipated and the province's real GDP is projected to expand by 2.9%.

The outlook for Ontario exports remains robust. Increased competitiveness of Canadian manufacturers through a lower Canadian dollar coupled with a growing US economy which buys nearly 80% of the province's exports is projected to grow exports by 4.5% this year. Overall, the trade sector will be a positive contributor to Ontario's economy over the next two years, boosting real GDP growth by 0.9 percentage points in 2015 and 0.3 percentage points in 2016.

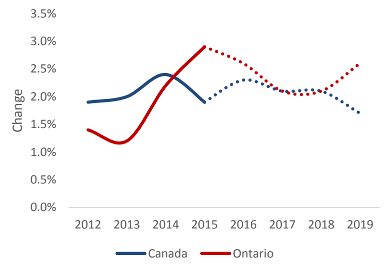
Average Annual Compound Growth Rate

Economic Indicator	Historical 2012 - 2014	Current Period Forecast 2015	Mid-Term Forecast 2016-2019	Forecast Trend
GDP	1.7%	2.9%	2.3%	↑
Employment	1.3%	1.2%	1.5%	↑
Unemployment (improvement)	3.9%	4.1%	5.2%	↑
Personal Income per capita	2.2%	2.9%	2.7%	↑
Population	1.0%	0.8%	1.2%	↑
Retail Sales per Capita	2.4%	3.6%	2.3%	↑
CPI	1.7%	1.1%	2.0%	↑
Housing Starts	-12.3%	-2.5%	11.8%	↑

Forecast Risk

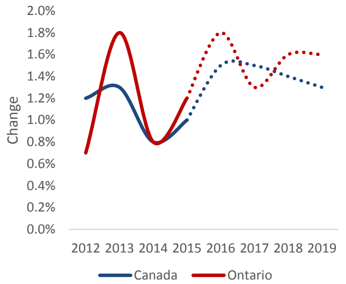
A market correction in the housing sector remains the biggest risk to forecast for the next few years, as it could disrupt the balance sheets of Ontario households, weakening consumer spending.

Real Gross Domestic Product (GDP)



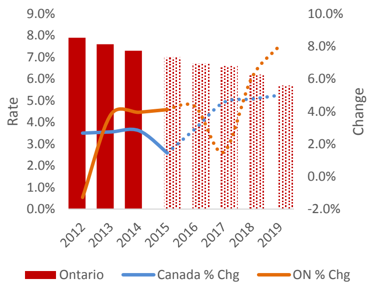
Ontario's economic growth is expected to accelerate by 2.9% as business investment finally ends its two-year slump. From 2016 to 2019, Ontario's economy is forecast to grow by an average of 2.4% driven by growth in exports and an improving job market. Comparatively, Canada GDP growth is estimated at 2.1% for the same period.

Employment



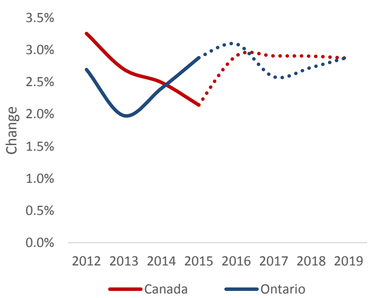
The province's job growth is expected to pick up its pace this year boosting employment growth by 1.2%, up from a five-year low of 0.8% in 2014. Employment within the manufacturing sector, surprisingly, continues to track lower in February despite manufacturing output growth. It is anticipated that the employment outlook for the manufacturing sector will change with longer term vitality.

Unemployment



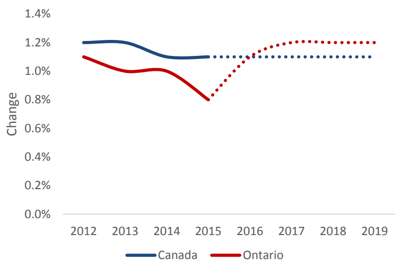
After posting an unemployment rate of 7.3% in 2014, Ontario's unemployment rate is forecasted to improve this year declining to 7.0%. The mid-term forecast indicates that the province's unemployment rate will continue to decline and reach 5.7% by 2019.

Personal Income per Capita



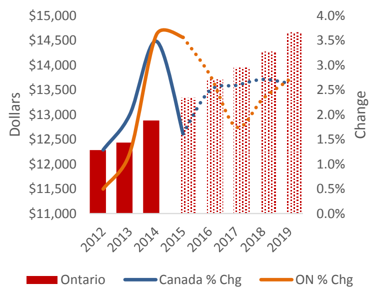
Ontario's personal income per capita is expected to grow by 2.9% this year resulting from employment growth, stronger exports, a lower Canadian dollar as well as government support. Personal income per capita is expected to increase from nearly $42,200 this year to over $47,100 by 2019 with average annual growth forecasted at 2.7% annually.

Population



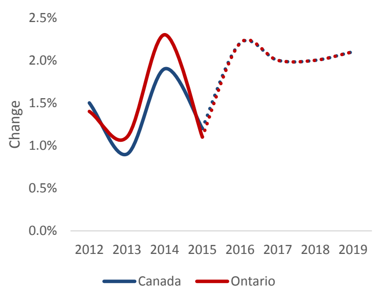
Ontario's population has steadily grown an average of 1.0% annually since 2012 lagging slightly behind the national growth rate of 1.1%. The province's population growth is expected to slow to 0.8% this year then accelerate in the mid-term to average 1.2% annually. In comparison, Canada's population growth is projected at 1.1% this year and beyond. By the end of 2019. Ontario's population is projected to reach over 14 million.

Retail Sales per Capita



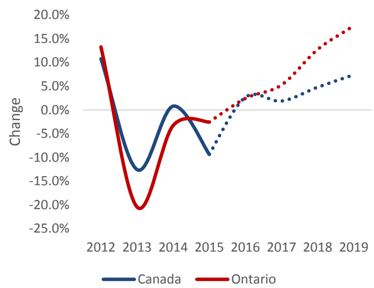
2015's retail sales per capita are projected to increase by 3.6%. The province's retail sales per capita are forecasted to continue to grow at an average rate of 2.4% from 2016 through 2019. Lower gas prices are leaving households with more discretionary income boosting consumer spending.

Consumer Price Index



Both the national and provincial CPI growth are expected to slow by 1.1% this year and rebound to 2.2% in 2016. The province's CPI growth trajectory is expected to mirror the national rate until 2019.

Housing Starts



After posting 3.3% fewer housing starts in 2014, provincial housing starts are projected to decrease another 2.5% this year to 57,600 units. From 2016 onwards, housing starts are projected to accelerate by 2.4% in 2016 with 59,000 units and by 5.3% in 2017 with 62,100 units.

The information is sourced from:

a) The Conference Board of Canada, Metropolitan Outlook 2 Spring 2015, based on November 28, 2014 Canadian economic accounts.

b) Statistics Canada.

July 2015 Toronto Economic Overview

Toronto's economy grew at its fastest pace in four years in 2014, advancing by 2.9%. Growth was boosted by strong gains in several sectors, including manufacturing, transportation and warehousing, wholesale and retail trade, and business services. These sectors are expected to post healthy increases again in 2015. Both the manufacturing sector and the transportation and warehousing sector will continue to benefit from a growing U.S. economy this year and a weaker Canadian dollar. At the same time, consumer spending is expected to rise in line with a return to positive employment growth and also with increased tourism due to the Pan Am Games this summer. Meanwhile, after falling for the past two years, output in the construction sector is expected to expand in 2015 thanks to rising housing starts and a busy non-residential sector. On the other hand, the contribution to growth from the public sector will be modest, as the provincial government remains focused on balancing its budget. In total, Toronto's read gross domestic is expected to rise 3.1% in 2015.

The first quarter of 2015 was positive for the City of Toronto. Indeed, at the end of May, unemployment rate in Toronto was at 7.4% (vs. 7.5% in April).

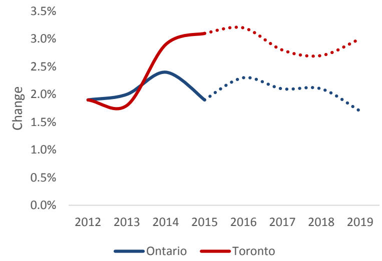
Average Annual Compound Growth Rate

Economic Indicator	Historical 2012 - 2014	Current Period Forecast 2015	Mid-Term Forecast 2016-2019	Forecast Trend
GDP	2.3%	3.1%	2.8%	↑
Employment	2.1%	1.9%	2.4%	↑
Unemployment (improvement)	4.1%	5.0%	5.5%	↑
Personal Income per capita	2.0%	2.2%	2.9%	↑
Population	1.6%	1.7%	1.9%	↑
Retail Sales per Capita	2.4%	5.1%	8.8%	↑
CPI	1.9%	3.2%	2.1%	↑
Housing Starts	-22.5%	1.2%	2.0%	↑

Forecast Risk

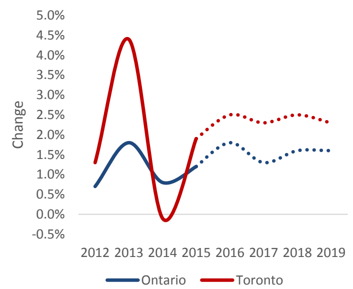
A lower-than-expected Canadian dollar could raise exports further, leading to even stronger growth in manufacturing.

Real Gross Domestic Product (GDP)



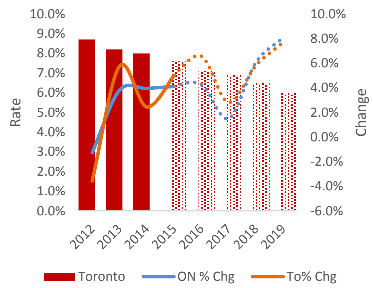
Toronto is forecasted to post the strongest GDP growth of 13 major Canadian metropolitan economies this year. As a result of healthy outlooks within the manufacturing, wholesale & retail trade as well as business services sectors, the city's economy is expected to expand by 3.1% this year. The city's GDP growth will continue to expand in the mid-term averaging 2.8% outpacing both the national rate projected at 2.1% and provincial rate projected at 2.3%.

Employment



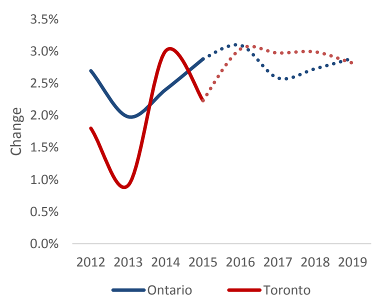
After posting employment growth of minus 0.1%, Toronto's employment growth is projected to recover in 2015 advancing 1.9%. As the city's economy continues to improve, employment growth is projected to improve by an average of 2.4% annually through 2019. Employment gains are expected within the financial-insurance-real-estate, professional-scientific-technical, education, health and food services industries.

Unemployment



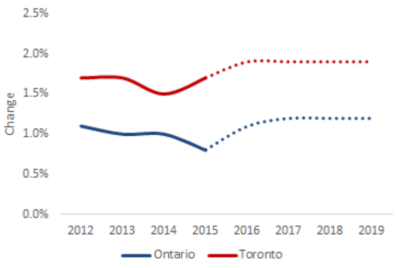
Toronto's improving economic conditions are projected to reduce the city's unemployment rate to 7.6% by the end of this year. Further declines with the unemployment rate are expected in the mid-term dropping the unemployment rate to 5.7% by 2019. 4

Personal Income per Capita



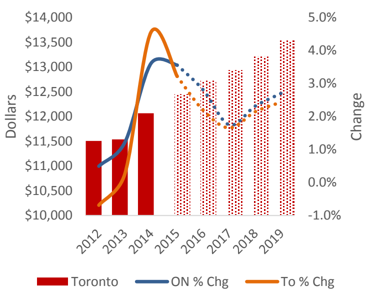
Toronto's per capita personal income is expected to grow by 2.2% in 2015. Employment growth should help personal income. By the end of 2019, the city's per capita personal income is projected to reach over $48,400, up from the nearly $43,100 expected this year.

Population



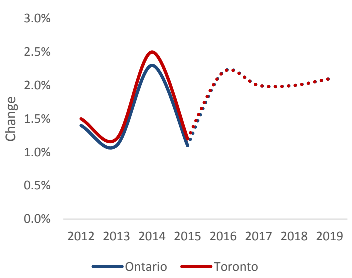
Historically, Toronto's population growth has outpaced both the national and provincial growth rates since 2012. The city's population is forecasted to grow 1.7% this year up from 1.6% last year. In contrast the national growth rate is projected at 1.1% and provincial growth rate 0.8% for this year. International immigration remains a key source of Toronto's population growth with a large proportion non-permanent residents. In contrast, a larger net intercity outflow of population is expected as city's retirees migrate to other areas within the province.

Retail Sales per Capita



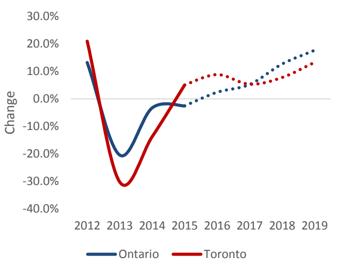
Toronto's per capita retail sales are forecast to increase by 3.2% in 2015. Consumer spending is expected to rise as a result of positive employment growth as well as increased tourism from hosting the Pan Am Games this summer.

Consumer Price Index



After posting a CPI growth of 2.5% last year, Toronto's CPI growth is projected to slow to 1.2% this year. Similarly, the province's CPI growth was 2.3% last year and it is expected to slow to 1.1% this year. Both mid-term CPI's are expected rebound in 2016 with a 2.2% gain.

Housing Starts



Housing starts posted double-digit increases from 2010 to 2012, thanks to many factors as a recovering economy, solid population growth, and low interest rates. Housing starts fell by a total of roughly 44% over 2013 and 2014. Single starts are forecast to fall once more in 2015. But, with the economy on solid footing, multiple starts are expected to rise again. Overall, total housing starts are forecast to increase by 5.1% this year

The information is sourced from:

a) The Conference Board of Canada, Metropolitan Outlook 2 Spring 2015, based on November 28, 2014 Canadian economic accounts.

b) Statistics Canada.

Valuation

Highest and Best Use

Fundamental to the concept of value is the principle of highest and best use which is defined as that use which would most likely produce the greatest net return to the land over a given period of time, bearing in mind that the reference to net return is not limited to monetary advantage but may be in the form of amenities.

The four essential tests of highest and best use are:

- Legally permissible;
- Physically possible;
- Financially feasible; and
- Maximally productive (market demand).

A full land use feasibility study was not performed. The highest and best use conclusions are based on general observations in the market, land use patterns, and prevailing economic conditions.

Highest and Best Use as Vacant

In the case of the Subject, the legal permissibility, physical possibility, financial feasibility, and maximum profitability must be determined; these factors have been analyzed as follows.

Legal Permissibility	• The Town of Milton Official Plan designates the Subject as being within an Industrial area, while the current zoning FD, Future Development. Conversations with the Town of Milton indicate that they are in the process of implementing a Secondary Plan known as the Derry Green Corporate Business Park which will change the property's Official Plan designation to Business Park. The Town of Milton's Senior Planner has indicated that industrial and office uses will be permitted.
Physical Possibility	• The site is of a size/configuration that would accommodate the construction of an industrial or office development.
Financial Feasibility	• Of the permitted uses, industrial use would be most feasible and marketable, based on the Subject's location, site area, and developer's recent appetite to construct industrial product in Milton.

Maximum Productivity	•	Given primarily the land use controls and financial feasibility, the maximally productive land use is estimated to be for industrial use.

As Vacant

Under the current land use controls, the Subject is permitted for development with industrial uses. As discussed previously in this report, the Town of Milton is in the process of implementing the Derry Green Corporate Business Park Secondary Plan in the immediate area surrounding the subject. This Secondary Plan will allow for light industrial and office uses.

Having regard to the above, the highest and best use for the Subject parcel "As Vacant" is considered to be for industrial use in compliance with the prevailing land use controls.

As Improved

As the Subject parcel was vacant as of the effective date of this report, the Highest and Best Use "As Vacant" therefore directs the overall Highest and Best Use.

Valuation Methodology

Traditionally, there are three accepted methods of valuing real property:

- Cost Approach
- Direct Comparison Approach
- Income Approach

The selection of a relevant methodology depends upon the nature and characteristics of the real estate under consideration.

1) **The Cost Approach** to value is based upon the economic principle of substitution, which holds that the value of a property should not be more than the amount by which one can obtain, by purchase of a site and construction of a building without undue delay, a property of equal desirability and utility.

2) **The Direct Comparison Approach** examines the cost of acquiring equally desirable and valuable substitute properties, indicated by transactions of comparable properties, within the market area. The characteristics of the sale properties are compared to the Subject on the basis of time and such features as location, size and quality of improvements, design features and income generating potential of the property.

3) The **Income Approach** recognizes that for many market participants, the primary purchase criteria is the property's ability to generate income. In this approach, the potential income the property is capable of generating is analyzed and then converted into an expression of market value by the application of an appropriate technique. There are two main Income Approaches used by market participants.

   - The Income Approach via ***Overall Income Capitalization*** method is based solely upon the conversion of current earnings directly into an expression of market value in much the same way that stocks are valued through the use of a price-to-earnings multiplier. In this method, the net operating income for the forthcoming year is capitalized by an overall capitalization rate which represents a typical investor's expectations as witnessed in the sales and listings of similar properties.

   - The Income Approach via ***Discounted Cash Flow Analysis*** involves forecasting the future earnings for a prescribed time period and then discounting these annual amounts and the reversionary value of the asset to arrive at an expression of current market value. This technique is predicated upon a number of assumptions with respect to lease renewals and inflation, etc., and thus is considered somewhat less objective than the traditional Overall Income Capitalization method.

Selection of Relevant Methodology

The Direct Comparison Approach, which is the most common technique used to value land, is the preferred method when sales of comparable properties are available. The highest and best use of the Subject property is as a site for employment use. The valuation methodology employed in this report is limited to the Direct Comparison Approach.

As mentioned above the Direct Comparison Approach is considered the primary method by which investors evaluate various purchase options. In this regard, it is felt that both the Income and Cost Approach to values are not widely employed by the general market in evaluating competing land purchase options. As such, the Income and Cost Approaches to value have not been utilized herein.

Direct Comparison Approach

The Direct Comparison Approach is based on the Principle of Substitution which maintains that a prudent purchaser would not pay more for a property than the cost to purchase a suitable alternative property which exhibits similar physical characteristics, tenancy, location, etc. Within this approach, the property being valued is compared to properties that have sold recently or are currently listed and are considered to be relatively similar to the subject property. Typically, a unit of comparison (i.e. sale price per square foot, sale price per acre) is used to facilitate the analysis. In the case of properties similar to the subject, the sale price per acre is commonly used.

Selection of Comparable Land Sales

As one sale is not necessarily indicative of market value, an appraiser examines a number of market transactions. When properly reconciled, trends emerge, leading to the estimate of market value of the property being appraised. In this instance we have investigated sales of lands that have the potential for employment use.

In valuing the subject lands, comparison was made to each of the index sales. The basis for comparison included the consideration of the following:

- Sale Date;
- Property Rights Conveyed;
- Financing Terms;
- Conditions of Sale;
- Location;
- Site Utility;
- Development Potential, and
- Site Size (acres)

Analysis

Sale Date

- Where the market is changing, it may be necessary to adjust prices to reflect the time difference between the date of sale of a comparable property and the date of valuation.

Property Rights Conveyed

- When real property rights are sold, they may be the sole subject of the contract or the contract may include other rights. In the sales comparison analysis, it is pertinent that the property rights of the comparable sale be similar to the property rights of the subject property. All the sales considered were fee simple transfers, no adjustments were necessary.

Financing Terms

- The transaction price of one property may differ from that of a similar property due to different financing arrangements. Financing arrangements may include existing mortgages at favourable interest rates or paying cash to a lender so that a mortgage with a below-market interest rate could be offered.

Conditions of Sale

- Adjustments for conditions of sale usually reflect the motivations of the purchaser and vendor. In some cases the conditions of sale significantly affect transaction prices. Sales that reflect unusual situations, require an appropriate adjustment for motivation or sale condition. For example, power-of-sale conditions involve a certain degree of urgency on part of the lender - leading to a somewhat lower sale price than what would otherwise be expected.

Location

- An adjustment for location within a market area may be required when the locational characteristics of a comparable property are different from those of the subject property. Excessive locational differences may disqualify a property from use as a comparable. Although no location is inherently desirable or undesirable, the market recognizes that one location is better than, similar to, or worse than another.

Site Utility	•	Site utility adjustments take into account site size and configuration and other emcumbrances that may have impact upon development. As site size decreases, certain types of development can become problematic from the standpoint of physical and financial feasibility. A site size that allows for more flexibility in development is favoured over a smaller more restrictive site. The configuration of the site will have impact upon maximum usable area of the site. Oddly configured sites tend to have more leakage of usable land.
Development Potential	•	Land use regulations play a big part in determining the value of a property. Permitted land uses are generally reflected in the sale price, as are permitted development densities. Adjustments may be required to differentiate between densities as well as permitted uses.
Development Timeline	•	An adjustment for the anticipated time to development may be required when the site requires demolition, rezoning, and site plan approval. The time required to prepare the site for development may affect the sale price (a longer development timeline requires a downward adjustment). Development timeline adjustments were made when necessary.

The Appraisal Institute of Canada recommends the use of "paired sales analysis" in the derivation of adjustments. This involves locating two very similar sales that sell in a similar time period. If the two sales differ in only one key feature, then the difference in sale price can be used as the "market indicator" for the adjustment for that feature. In practice, this concept usually only applies to newer homes in the subdivision. Development sites tend to be unique and, therefore, in practice it is not usually possible to find paired sales to derive adjustments. In the absence of paired sales, it is the appraisers' experience and judgment (based on observation), which is used for adjustments. A table of the relative adjustments is presented on the following page.

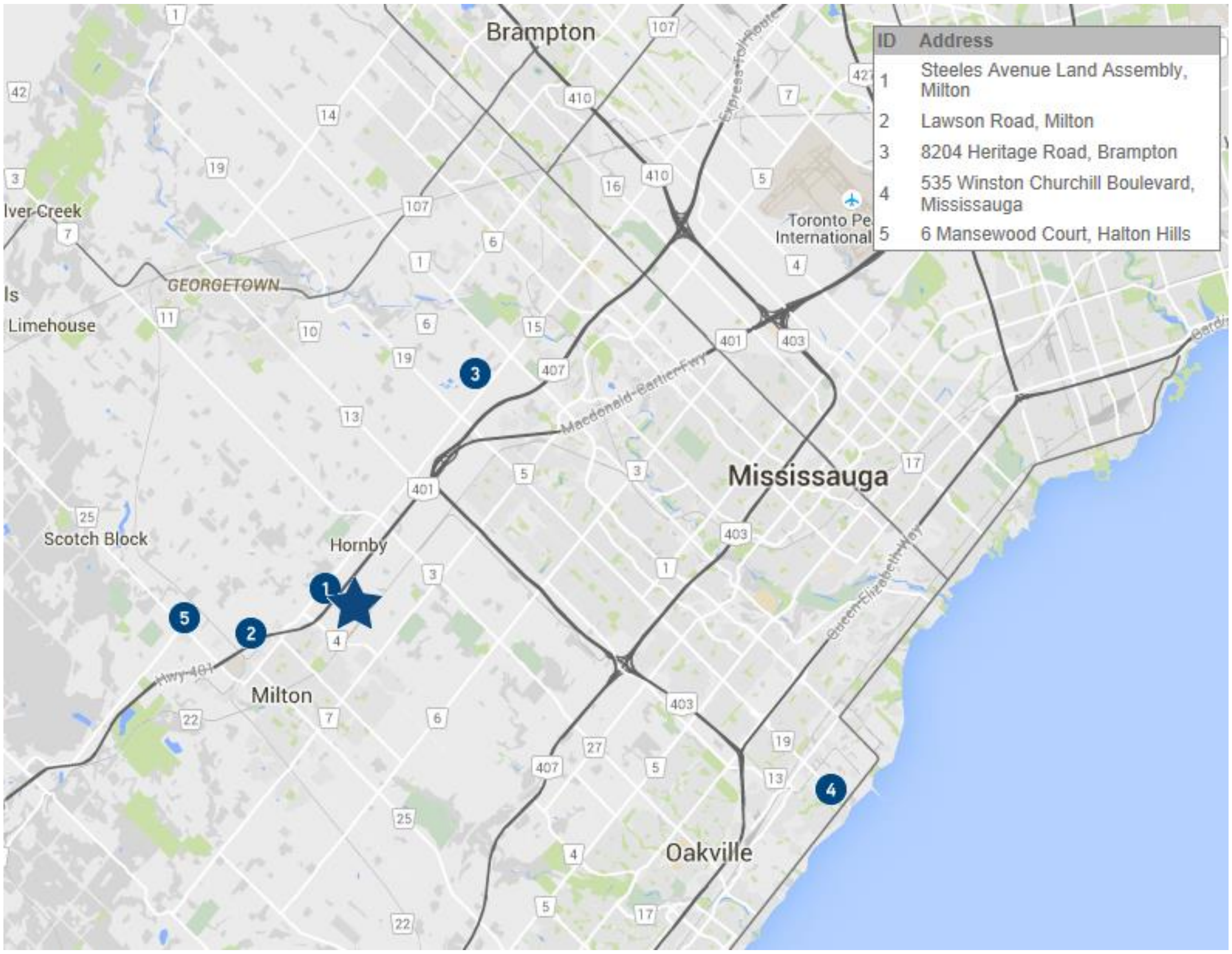
Valuation

Land Transactions & Analysis

	Subject	Transaction One	Transaction Two	Transaction Three	Transaction Four	Transaction Five
Address	5th Line and Main Street	Steeles Avenue Land Assembly, Halton Hills	Lawson Road, Milton	8200-8204 Heritage Road, Brampton	535 Winston Churchill Boulevard, Mississauga	6 Mansewood Court, Halton Hills
Transaction Date	——	27-May-15	23-Sep-14	03-July-14 / 29-Aug-14	03-Dec-13	21-Jun-12
Transaction Status	——	Closed	Closed	Closed	Closed	Closed
Transaction Price	——	$15,240,001	$8,538,870	$5,170,000	$1,710,000	$2,519,040
Zoning	FD	M7	M2	A	E3-12	RU-EMP
Official Plan	Industrial/Business Park	Prestige Industrial	Industrial	Industrial	Industrial	Rural Industrial
Site Area (Acres)	6.43 Acres	34.46 Acres	18.55 Acres	15.24 Acres	3.82 Acres	5.26 Acres
Value Per Square Foot Buildable	——	$442,213/Acre	$460,341/Acre	$339,217/Acre	$447,761/Acre	$478,723/Acre

Transaction & Other Adjustment	Subject	Description	Adj.	Description	Adj.	Description	Adj.	Description	Adj.	Description	Adj.
Property Rights Conveyed	Fee Simple	Fee Simple	None	Fee Simple	None	Fee Simple	None	Fee Simple	None	Fee Simple	None
Financing	——	Cash	None	Cash	None	Cash	None	Cash	None	Cash	None
Conditions of Sale	——	Arm's Length	None	Arm's Length	None	Arm's Length	None	Arm's Length	None	Arm's Length	None
Market Conditions (Time)	05-Aug-15	70 days	None	316 days	None	398	Upward	610 days	Upward	1,140 days	Upward
Location	Good	Good	None	Very Good	Downward	Good	None	Very Good	Downward	Good	None
Access	Very Good	Very Good		Very Good		Very Good		Very Good		Very Good	
Development Timeline	No Application	Superior	Downward	Superior	Downward	Superior	Downward	Superior	Downward	Superior	Downward
Improvements	Vacant	Improved	Downward	Vacant	None	Improved	Downward	Improved	Downward	Vacant	None
Parcel Size	6.43 Acres	Larger	Upward	Larger	Upward	Larger	Upward	Smaller	Downward	Smaller	Downward
Configuration	Irregular	Superior	Downward	Superior	Downward	Superior	Downward	Comparable	None	Comparable	None
Overall Comparability & Adjust.		**Superior**	**Downward**	**Superior**	**Downward**	**Inferior**	**Upward**	**Superior**	**Downward**	**Superior**	**Downward**
Conclusion		Lower Than $442,213/Acres		Lower Than $460,341/Acres		Higher Than $339,217/Acres		Lower Than $447,761/Acres		Lower Than $478,723/Acres	

Comparable Map



The following is a brief description and summary of the adjustments made to each of the key sales.

Index 1 is located on the south side of Steeles Avenue, north of Brownridge Road within the Municipality of Milton. The Official Plan designates the property Prestige Industrial in the 401/407 Employment Area Corridor Secondary Plan. The Zoning By-law classifies the property M7, an Industrial classification. The sale was a land assembly, comprised of a 9.70 acre site and a 24.76 acre site, totaling 34.46 acres. The transaction was registered on May 27, 2015 at a price of $4,288,534.59 or $442,213 per acre. At the time of sale, the site was improved with two single family detached homes.

No adjustment is required to account for time, as market conditions have remained stable since this transaction occurred. An upward adjustment is required for site size given this index is larger than the Subject. This index is felt to be similar in terms of location, given it is situated in a growing industrial neighbourhood within Halton Hills in close proximity to the subject property, thus requiring no adjustment. This index is superior to the Subject in terms of development timeline, as it is already zoned for industrial development, thus requiring a downward adjustment. At the time of sale, there were no services available at the site. Therefore, no adjustment is required, as the subject property is currently unserviced. This index was improved with a building, thus requiring downward adjustment. This site is a regular configuration, which is considered to be superior to the Subject, thus requiring downward adjustment. Finally, an upward adjustment is required to account for the added development potential associated with the Subject given the Business Park designation that will be in effect under the Derry Green Corporate Business Park Secondary Plan.

A final adjusted sale price for Index 1 reflects a unit value below the $442,213 per acre indicated by this sale.

Index 2 is located on the north side of Lawson Road, east of Boston Church Road in the Municipality of Milton. The Official Plan designates the property Industrial. The Zoning By-law classifies the property M2, an Industrial classification. The sale is comprised of an 18.55 acre site. The transaction was registered on September 23, 2014 at a price of $8,538,870 or $460,341 per acre. At the time of sale, the site was vacant and unimproved.

No adjustment is required to account for time as market conditions have remained stable since this transaction occurred. An upward adjustment is required for site size given this index is larger than the Subject. Despite being located in close proximity to the subject property, this index is located in a well-established industrial park within Milton, thus requiring a downward adjustment. At the time of sale, there was water, storm water, and sewer services available at the site. Therefore, a downward adjustment is required, as the subject property is currently unserviced. This index is superior to the Subject in terms of development timeline, as it is already zoned for industrial development, thus requiring a downward adjustment.

This Index is vacant an unimproved, therefore a downward adjustment is warranted. Finally, an upward adjustment is required to account for the added development potential associated with the Subject given the Business Park designation that will be in effect under the Derry Green Corporate Business Park Secondary Plan.

A final adjusted sale price for Index 2 reflects a unit value below the $460,341 per acre indicated by this sale.

Index 3 is located north of Steeles Avenue West, on the west side of Heritage Road in the City of Brampton. The Official Plan designates the property Industrial. The Zoning By-law classifies the property A, an Agricultural classification. The sale comprised a 15.24 acre site. The transaction was registered on July 3, 2014, while the second parcel was sold on August 29, 2014 at a total price of $5,170,000 or $339,217 per acre. At the time of sale, the site was vacant and unimproved. This Index was part of a 3 parcel land assembly. However, given that the first parcel in the assembly transacted in 2003, we have excluded it from this analysis.

An upward adjustment is required to account for time as market conditions have improved since this transaction occurred. An upward adjustment is required for site size given this index is larger than the Subject. This index is felt to be similar in terms of location, given its close proximity to the 401 and its location within a growing industrial node. As this Index had a zoning application submitted in 2012, it is thought to be superior to the Subject in terms of development timeline, thus requiring a downward adjustment. At the time of sale, there were no services available at the site. Therefore, no adjustment is required, as the subject property is currently unserviced. This Index is vacant an unimproved, therefore a downward adjustment is warranted. Finally, an upward adjustment is required to account for the added development potential associated with the Subject given the Business Park designation that will be in effect under the Derry Green Corporate Business Park Secondary Plan.

A final adjusted sale price for Sale 3 reflects a unit value above the $339,217 per acre indicated by this sale.

Index 4 is located north of Lakeshore Road West, on the east side of Winston Churchill Boulevard the City of Mississauga. The Official Plan designates the property Employment. The Zoning By-law classifies the property a mixture of E3-12, an Employment Zone classification. The sale comprised a 3.82 acre site. The transaction was registered on December 3, 2013 at a price of $1,710,000 or $447,761 per acre. At the time of sale, the site was improved with a 2,200 square foot office/warehouse.

An upward adjustment is required to account for time as market conditions have improved since this transaction occurred. A downward adjustment is required for site size given this index is smaller than the Subject. This index is felt to be superior in terms of location given it is situated in a well-developed neighbourhood, thus requiring downward adjustment. As this index is zoned employment which allows for industrial uses, this index is superior to the Subject in terms of development timeline, thus requiring downward adjustment. At the time of sale, there was water, storm water, and sewer services available at the site. Therefore, a downward adjustment is required, as the subject property is currently unserviced. This index was improved with a building, thus requiring upward adjustment. Finally, an upward adjustment is required to account for the added development potential associated with the Subject given the Business Park designation that will be in effect under the Derry Green Corporate Business Park Secondary Plan.

A final adjusted sale price for Index 4 reflects a unit value below the $447,761 per acre indicated by this sale.

Index 5 is located on the north side of 5 Side Road, East of Highway 25 in the Municipality of Halton Hills. The Official Plan designates the property Rural Industrial. The Zoning By-law classifies the property RU-EMP, a rural employment designation. The sale comprised a 5.26 acre site. The transaction was registered on June 21, 2012 at a price of $2,519,000 or $478,723 per acre. At the time of sale, the site was vacant and unimproved.

An upward adjustment is required to account for time as market conditions have improved since this transaction occurred. A downward adjustment is required for site size given this index is smaller than the Subject. This index is felt to be comparable in terms of location given it is situated in a growing industrial neighbourhood in Milton. This index requires only Site Plan approval to permit development which is considered to be superior to the Subject. As such, a downward adjustment is warranted to account for the shorter development timeline of this index. At the time of sale, there were no services available at the site. Therefore, no adjustment is required, as the subject property is currently unserviced. This Index is improved to a similar level when compared to the Subject, thus requiring no adjustment. Finally, an upward adjustment is required to account for the added development potential associated with the Subject given the Business Park designation that will be in effect under the Derry Green Corporate Business Park Secondary Plan.

A final adjusted sale price for Index 5 reflects a unit value below the $478,723 per acre indicated by this sale.

Final Estimate of Value

The Direct Comparison Approach, which is the most common technique used to value land, is the preferred method when sales of comparable properties are available. The highest and best use of the subject property is as a development site for Employment uses. The direct comparison approach is the only approach used in the valuation of the Subject.

Indices 1 and 3 provide indication of achievable rates for industrial lands in the Subject's immediate area. Overall, the Subject would likely achieve a rate per acre above the rate indicated by Index 3, largely given its dated nature and smaller size. The Subject would reasonably achieve a rate per acre below the rate indicated by index 1 due to this index's superior development timeline, and superior site configuration. The Subject parcel should achieve a rate per acre in the narrowed range of $339,217 to $442,213 indicated by transactions 1 and 3.

The five key comparable sales indicate a unit value ranging from approximately $339,217 to $478,723 per acre for properties similar to the Subject. Given the Subject's location, development potential, land use controls in place and other influencing factors of employment land sites, a rate in the range of $350,000 and $400,000 would be reasonable for the Subject Parcel.

It is our opinion that the market value of the Subject parcel, subject to the assumptions set forth herein as well as those outlined on Page 3, and as at **August 5, 2015** is as follows:

Value Matrix - Land Valuation		
Site Size (Acre)	Value Per Acre	Value(1)
6.43	$350,000	**$2,300,000**
6.43	$375,000	**$2,400,000**
6.43	$400,000	**$2,600,000**

(1) Rounded to nearest $10,000

Appendices

APPENDIX A

CONTINGENT AND LIMITING CONDITIONS

Contingent and Limiting Conditions

1. This report has been prepared at the request of **Mary-Jo Corkum of Milton Hydro Distribution Inc.** for the purpose of providing an estimate of the market value of the **development site located at 5th Line and Main Street East, Milton Ontario, for Internal Purposes.** In addition, **Ontario Energy Board** may rely on the appraisal for **regulatory purposes**.

2. The estimated market value of the real estate, which is the object of this appraisal, pertains to the value of the **fee simple interest** in the real property. The property rights appraised herein exclude mineral rights, if any.

3. The concept of market value presumes reasonable exposure. The exposure period is the estimated length of time the asset being valued would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of valuation. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. The reasonable exposure period is a function not only of time and effort, but will depend on the type of asset being valued, the state of the market at the date of valuation and the level at which the asset is priced. (The estimated length of the exposure period needed to achieve the estimated market value is set forth in the Letter of Transmittal, prefacing this report).

4. The estimate of value contained in this report is founded upon a thorough and diligent examination and analysis of information gathered and obtained from numerous sources. Certain information has been accepted at face value, especially if there was no reason to doubt its accuracy. Other empirical data required interpretative analysis pursuant to the objective of this appraisal. Certain inquiries were outside the scope of this mandate. For these reasons, the analyses, opinions and conclusions contained in this report are Subject to the following Contingent and Limiting conditions.

5. The property has been valued on the basis that title to the real estate herein appraised is good and marketable.

6. The author of this report is not qualified to comment on environmental issues that may affect the market value of the property appraised, including but not limited to pollution or contamination of land, buildings, water, groundwater or air. Unless expressly stated, the property is assumed to be free and clear of pollutants and contaminants, including but not limited to moulds or mildews or the conditions that might give rise to either, and in compliance with all regulatory environmental requirements, government, or otherwise, and free of any environmental condition, past, present or future, that might affect the market value of the property appraised. If the party relying on this report requires information about environmental issues then that party is cautioned to retain an expert qualified in such issues. We

expressly deny any legal liability relating to the effect of environmental issues on the market value of the property appraised.

7. The legal description of the property and the area of the site were obtained from the Ontario Land Registry. Further, any plans or sketches contained in this report are included solely to aid the recipient in visualizing the location of the property, the configuration and boundaries of the site and the relative position of the improvements on the said lands.

8. The property has been valued on the basis that the real estate is free and clear of all value influencing encumbrances, encroachments, restrictions or covenants except as may be noted in this report and that there are no pledges, charges, liens or special assessments outstanding against the property other than as stated and described herein.

9. The property has been valued on the basis that there are no outstanding liabilities except as expressly noted herein, pursuant to any agreement with a municipal or other government authority, pursuant to any contract or agreement pertaining to the ownership and operation of the real estate or pursuant to any lease or agreement to lease, which may affect the stated value or saleability of the Subject or any portion thereof.

10. The interpretation of the leases and other contractual agreements, pertaining to the operation and ownership of the property, as expressed herein, is solely the opinion of the author and should not be construed as a legal interpretation. Further, the summaries of these contractual agreements are presented for the sole purpose of giving the reader an overview of the salient facts thereof.

11. The property has been valued on the basis that the real estate complies in all material respects with any restrictive covenants affecting the site and has been built and is occupied and being operated, in all material respects, in full compliance with all requirements of law, including all zoning, land use classification, building, planning, fire and health by-laws, rules, regulations, orders and codes of all federal, provincial, regional and municipal governmental authorities having jurisdiction with respect thereto. (It is recognized there may be work orders or other notices of violation of law outstanding with respect to the real estate and that there may be certain requirements of law preventing occupancy of the real estate as described in this report. However, such circumstances have not been accounted for in the appraisal process).

12. Investigations have been undertaken in respect of matters regulating the use of the land. However, no inquiries have been placed with the fire department, the building inspector, the health department or any other government regulatory agency, unless such investigations are expressly represented to have been made in this report. The Subject must comply with such regulations and, if it does not comply, its non-compliance may affect the market value of this property. To be certain of such compliance, further investigations may be necessary.

13. The property has been valued on the basis that there is no action, suit, proceeding or investigation pending or threatened against the real estate or affecting the titular owners of the property, at law or in equity or before or by any federal, provincial or municipal department, commission, board, bureau, agency or instrumentality which may adversely influence the value of the real estate herein appraised.

14. The data and statistical information contained herein were gathered from reliable sources and are believed to be correct. However, these data are not guaranteed for accuracy, even though every attempt has been made to verify the authenticity of this information as much as possible.

15. The estimated market value of the property does not necessarily represent the value of the underlying shares, if the asset is so held, as the value of the share could be affected by other considerations. Further, the estimated market value does not include consideration of any extraordinary financing, rental or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary market value of the property, unless the effects of such special conditions, and the extent of any special value that may arise therefrom, have been described and measured in this report.

16. Should title to the real estate presently be held (or changed to a holding) by a partnership, in a joint venture, through a Co-tenancy arrangement or by any other form of divisional ownership, the value of any fractional interest associated therewith may be more or less than the percentage of ownership appearing in the contractual agreement pertaining to the structure of such divisional ownership. For the purposes of our valuation, we have not made any adjustment for the value of a fractional interest.

17. In the event of syndication, the aggregate value of the limited partnership interests may be greater than the value of the freehold or fee simple interest in the real estate, by reason of the possible contributory value of non-realty interests or benefits such as provision for tax shelter, potential for capital appreciation, special investment privileges, particular occupancy and income guarantees, special financing or extraordinary agreements for management services.

18. Unless otherwise noted, the estimated market value of the property referred to herein is predicated upon the condition that it would be sold on a cash basis to the vendor Subject to any contractual agreements and encumbrances as noted in this report as-is and where-is, without any contingent agreements or caveats. Other financial arrangements, good or cumbersome, may affect the price at which this property might sell in the open market.

19. Should the author of this report be required to give testimony or appear in court or at any administrative proceeding relating to this appraisal, prior arrangements shall be made beforehand, including provisions for additional compensation to permit adequate time for preparation and for any appearances which may be required. However, neither this nor any other of these assumptions and limiting conditions is an attempt to limit the use that might be made of this report should it properly

become evidence in a judicial proceeding. In such a case, it is acknowledged that it is the judicial body, which will decide the use of this report which best serves the administration of justice.

20. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without notice or warning, the estimate of market value expressed herein, as of the effective date of this appraisal, cannot necessarily be relied upon as of any other date without subsequent advice of the author of this report.

21. The value expressed herein is in Canadian dollars.

22. This report is only valid if it bears the original signature(s) of the author(s).

23. These Contingent and Limiting Conditions shall be read with all changes in number and gender as may be appropriate or required by the context or by the particulars of this mandate.

APPENDIX B

DEFINITIONS

Definitions

Property Interests

Fee Simple

Absolute ownership unencumbered by any other interest or estate Subject only to the four powers of government.

Leased Fee Estate

An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; the rights of lessor or the leased fee owner and leased fee are specified by contract terms contained within the lease.

Leasehold Estate

The right to use and occupy real estate for a stated term and under certain conditions; conveyed by a lease.

General Definitions

Adjusted or Stabilized Overall Capitalization Rate is usually derived from transactions with excessive vacancy levels or contract rents over/under market levels. In such cases, net operating income is "normalized" to market levels and the price adjusted to reflect expected costs required to achieve the projected net operating income.

The Cost Approach to value is based upon the economic principle of substitution, which holds that the value of a property should not be more than the amount by which one can obtain, by purchase of a site and construction of a building without undue delay, a property of equal desirability and utility.

Direct or Overall Capitalization refers to the process of converting a single year's income with a rate or factor into an indication of value.

The Direct Comparison Approach examines the cost of acquiring equally desirable and valuable substitute properties, indicated by transactions of comparable properties, within the market area. The characteristics of the sale properties are compared to the Subject on the basis of time and such features as location, size and quality of improvements, design features and income generating potential of the property.

Discount Rate is a yield rate used to convert future payments or receipts into a present value.

Discounted Cash Flow Analysis offers an opportunity to account for the anticipated growth or decline in income over the term of a prescribed holding period. More particularly, the value of the property is equivalent to the discounted value of future benefits. These benefits represent the annual cash flows (positive or negative) over a given period of time, plus the net proceeds from the hypothetical sale at the end of the investment horizon.

Two rates must be selected for an application of the DCF process:

- The internal rate of return or discount rate used to discount the projected receivables;
- An overall capitalization rate used in estimating reversionary value of the asset.

The selection of the discount rate or the internal rate of return is based on comparing the Subject to other real estate opportunities as well as other forms of investments. Some of the more common benchmarks in the selection of the discount rate are the current yields on long-term bonds and mortgage interest rates.

Exposure Time is the property's estimated marketing time prior to a hypothetical sale at market value on the effective date of the appraisal. Reasonable exposure time is a necessary element of a market value definition but is not a prediction of a specific date of sale.

Highest and Best Use - The purpose of a highest and best use analysis is to provide a basis for valuing real property. Highest and best use is defined by the Appraisal Institute of Canada as:

> ***"that use which is most likely to produce the greatest net return over a period of time." The highest and best use must be legally permissible, physically possible, financially feasible and maximally productive.***

The Income Approach to value is utilized to estimate real estate value of income-producing or investment properties.

Internal Rate of Return is the yield rate that is earned or expected over the period of ownership. It applies to all expected benefits including the proceeds of sale at the end of the holding period. The IRR is the Rate of Discount that makes the net present value of an investment equal zero.

Market Value - The Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Institute of Canada define market value as:

> *"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus."*

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised and acting in their own best interests;
- A reasonable time is allowed for exposure in the market; and
- Payment is made in cash in Canadian dollars or in terms of financial arrangements comparable thereto.

The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Net Operating Income is the actual or anticipated net income remaining after all operating expenses are deducted from effective gross income before debt service and depreciation. Net Operating Income is usually calculated for the current fiscal year or the forthcoming year.

Overall Capitalization Rate is an income rate that reflects the relationship between a single year's net operating income expectancy and the total property price. The Overall Capitalization Rate converts net operating income into an indication of a property's overall value.

Reasonable Exposure Time - Exposure time <u>is always presumed to precede</u> the effective date of the appraisal. It may be defined as:

> "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. It is a retrospective estimate based upon an analysis of past events assuming a competitive and open market."

A Yield Rate is applied to a series of individual incomes to obtain a present value of each.

APPENDIX C

COMPARABLE SALES

Index No. 1

Steeles Avenue Land Assembly, Halton Hills, Ontario

Property Description

Property Type	Industrial Land
Site Area	34.46 Acres
Topography	Level
Access/Exposure	Very Good
Site Improvements	Improved

Transaction Details

Sale Price	$15,240,001
Interest Transferred	100 %
Sale Price per Acre	$442,213
Status	Closed
Date	27-May-15
Vendor	1316137 Ontario Limited, Ontario Horticultural Trade Foundation, Horticulture Trade Association, and an Individual acting in his/her own capacity.
Purchaser	Investors Group (I.G. Investment Management, Ltd.)
Rights Conveyed	Fee Simple

Location / Legal / Land Use

Address	Steeles Avenue Land Assembly
City	Halton Hills
Province	Ontario
Legal	Part of Lot 15, Concession 5, Trafalgar New Survey, as described in Instrument No. 797733, Save and Except Part 10 on Plan 20R-8178, Part of Lot 15, Concession 5, Trafalgar New Survey, as described in Instrument No. 458161, Save and Except Part 11 on Plan 20R-8178 Part of Lot 15, Concession 5, Trafalgar New Survey, designated as Part 1 on Plan 20R-19675, Save and Except Part 4 on Plan 20R-19925

Comments

At the time of sale, the property was improved with two single family detached homes.

A Site Plan Application (No. D11SPA15.008) was submitted on May 4, 2015 pertaining to the land in this transaction and adjacent parcels (34.463 acres total). The Application proposed the development of a prestige industrial building containing a gross floor area of approximately 640,000 square feet.

As of June 2015, the Application was still in circulation subject to conditions.

Discussions with Halton Region's engineering department indicate that the site lacked sewer, water, and storm water servicing as of the date of sale.

Index No. 2

Lawson Road, Milton, Ontario

Property Description

Property Type	Industrial Land
Site Area	18.549 Acres
Topography	Level
Access/Exposure	Very Good
Site Improvements	Vacant

Location / Legal / Land Use

Address	Lawson Road
City	Milton
Province	Ontario
Legal	Part of Lot 2, Concession 4, Esquesing, designated as Part 1 on Plan 20R-16085

Transaction Details

Sale Price	$8,538,870
Interest Transferred	100 %
Sale Price per Acre	$460,341
Status	Closed
Date	23-Sep-14
Vendor	Manheim Auto Auctions Company
Purchaser	Prologis (PLD 8277 Lawson Road Investment LP), (PLD Canadian Holdings 2 GP ULC)
Rights Conveyed	Fee Simple

Comments

At the time of sale, the property was vacant and unimproved.

As of September 2014, no applications had been submitted to the Town of Milton Planning Department regarding development of the property. As a result of the land use regulations in place at the time of sale, only a site plan application is required for development to commence.

Our discussions with professionals familiar with this transaction indicated that the Purchaser had acquired the property in order to construct two multi-tenant industrial buildings containing a total gross floor area of approximately 378,750 square feet.

The Vendor had acquired the property in January 2007 for a total consideration of $7,962,410, representing a price per acre of $429,264. For additional information on this transaction, follow the link near the top of the record.

Index No. 3

8200-8204 Heritage Road, Brampton, Ontario

Property Description

Property Type	Industrial Land
Site Area	15.24 Acres
Topography	Level
Access/Exposure	Very Good
Site Improvements	Vacant

Location / Legal / Land Use

Address	8200-8204 Heritage Road
Municipality	Brampton
Province	Ontario
Legal	Part of Lot 2, Concession 6, West of Hurontario Street, Chinguacousy, as described in Instrument No. VS20645, Save and Except Part 4 on Plan 43R-1316

Transaction Details

Sale Price	$5,170,000
Interest Transferred	100 %
Sale Price per Acre	$246,558
Status	Closed
Date	03-Jul-14
Vendor	An individual(s) acting in his/her own capacity
Purchaser	Orlando Corporation
Rights Conveyed	Fee Simple

Comments

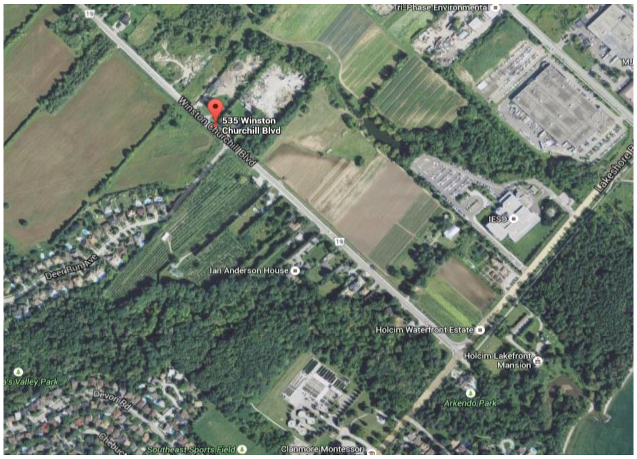
At the time of sale, the property was improved with a single family detached residential dwelling.

A Rezoning Application (No. C06W01.003 & C06W01.004) was originally submitted on October 30, 2012 and was subsequently revised to include the adjacent parcels to the south. The Application proposed the development of an industrial building containing approximately 1,189,000 square feet.

The subject property is part of a land assembly by the Purchaser. Subsequent to this transaction, the Purchaser also acquired Heritage Road (46.468 acres) for a total consideration of $5,823,130.50 on June 26, 2003. The overall assembly represents a total area of 62.706 acres which was purchased for an aggregate price of $10,993,130.50, resulting in an adjusted price per acre of $175,312, and an adjusted price per square foot buildable of $9 based on the current application.

Index No. 4

535 Winston Churchill Boulevard, Mississauga, Ontario



Property Description

Property Type	Industrial Land
Site Area	3.819 Acres
Topography	Level
Access/Exposure	Very Good
Site Improvements	Improved

Location / Legal / Land Use

Address	Winston Churchill Boulevard
City	Toronto
Province	Ontario
Legal	Part of Lot 35, Concession 3, South of Dundas Street, Toronto, as described in Instrument No. RO1080536, Save and Except, designated as Part 5 on Plan 43R-22510

Transaction Details

Sale Price	$1,710,000
Interest Transferred	100 %
Sale Price per Acre	$447,761
Status	Closed
Date	03-Dec-13
Vendor	2150776 Ontario Ltd.
Purchaser	Veronica Holdings Ltd.
Rights Conveyed	Fee Simple

Comments

At the time of sale, the property was improved with a single family detached residential dwelling (converted to office) and warehouse with a total of 2,200 square feet.

As of January 2014, no applications had been submitted to the City of Mississauga Planning Department regarding development of the property. As a result of the land use regulations in place at the time of sale, a Rezoning Application or a Site Plan Application is required for development to commence.

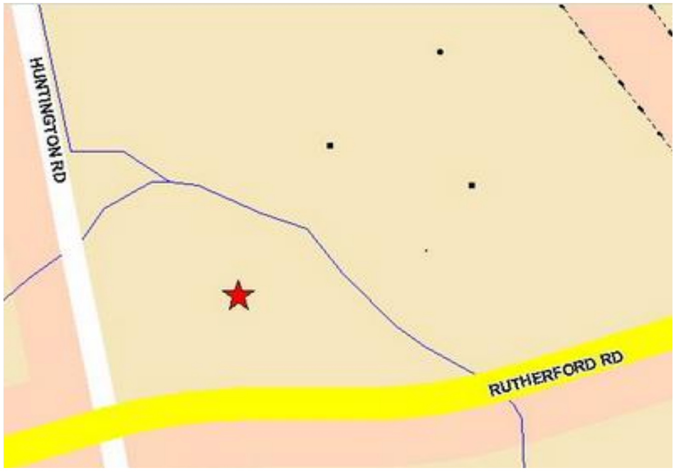
Based on discussions with industry professionals familiar with this transaction, the Purchaser intends to use the subject site for its own business purposes and hold the land as a long term investment with future development potential.

Industry professionals familiar with this transaction indicated that the property was on the market for approximately 5 months. The original asking price for the property was $2,300,000 and was subsequently reduced to $1,950,000.

The Vendor had acquired the property in November 2007 for a total consideration of $1,350,000, representing a price per acre of $353,496. For additional information on this transaction, follow the link near the top of the record.

Index No. 5

6 Mansewood Court, Halton Hills, Ontario



Property Description

Property Type	Industrial Land
Site Area	5.26 Acres
Topography	Level
Access/Exposure	Very Good
Site Improvements	Vacant

Location / Legal / Land Use

Address	6 Mansewood Court
City	Halton Hills
Province	Ontario
Legal	Lot 8, Plan 20M-943

Transaction Details

Sale Price	$2,519,000
Interest Transferred	100 %
Sale Price per Acre	$478,723
Status	Closed
Date	21-Jun-12
Vendor	An individual(s) acting in his/her own capacity
Purchaser	Belor Construction Ltd
Rights Conveyed	Fee Simple

Comments

At the time of sale, the property was vacant and unimproved.

As of June 2012, no applications had been submitted to the Town of Halton Hills Planning Department regarding development of the property. As a result of the land use regulations in place at the time of sale, only a site plan application is required for development to commence.

Based on the anticipated time required to complete a standard site plan application, together with the review and approval process, we have estimated the time to development to be approximately six months to one year from the date of sale.

It is our understanding that the Purchaser had acquired the property in order to construct one industrial development.

APPENDIX E

CERTIFICATION

Certification

RE: **Estimate of development site located at 5th Line and Main Street East, Milton, Ontario.**

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the Subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the Subject of this report.
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Canadian Uniform Standards of Professional Appraisal Practice and with the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute of Canada (A.I.C.).
- Jozo Markic (AIC Candidate Member) made significant contribution to the valuation of this property through research and analysis of sales data.
- I have the knowledge and experience to complete the assignment competently.
- The Appraisal Institute of Canada has a Mandatory Recertification Program for designated members. As of the date of this report, **Matthew Bruchkowsky, AACI, P.App** has fulfilled the requirements of the program.
- The value estimate contained in this report applies as at the effective date of valuation as defined within the body of this report.

Final Estimate of Value

Based on our analysis, the market value of the subject property, subject to the Extraordinary Assumptions on page 3, and the Contingent and Limiting Conditions listed in Appendix A, and as at August 5, 2015 is estimated to be;

Based on our analysis, our estimate of market value of the Subject is:

$2,400,000

Two Million Four Hundred Thousand Dollars

The value estimates are based on an exposure time of four to six months, which is assumed to precede the valuation date.

COLLIERS INTERNATIONAL REALTY ADVISORS INC.

M. B

Matthew Bruchkowsky, AACI, P.App.
Senior Director
Valuation & Advisory Services, Toronto

Date: August 5, 2015