

EB-2015-0089

Milton Hydro Distribution Inc.

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

ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")
CROSS-EXAMINATION COMPENDIUM

Ontario Energy Board	
FILE No.	2015-0089
EXHIBIT No.	K 1.4
DATE	Apr 4/16
08/99	

6. Ref: 4-Energy Probe-27

- a) Please explain how the response to this interrogatory results in an increase in the test year OM&A of \$219,060 as shown in the Tracking Form in the RRWF.
- b) Please explain fully the increase in the 2016 OM&A of \$219,060.

Response:

- a) Milton Hydro updated its OM&A to its 2016 final budget at the same time as it updated its capital to actuals to date, this reference to Energy Probe is not correct.
- b) The following table sets out the increase in OM&A from Milton Hydro's Application to the final 2016 budget forecast.

	2016 Test year	2016 Budget	Variance	
Operations	2,477,284	2,477,284	-	
Maintenance	1,257,528	1,335,127	77,599	Misc Under threshold
	3,734,812	3,812,411	77,599	
Billing & collecting	2,194,699	2,329,699	135,000	Trilliant/Software maintenance contract
Community Relations	20,071	20,071	-	
Admin and General	3,953,806	3,960,267	6,461	
	6,168,576	6,310,037	141,461	Misc Under threshold
Total OM&A	9,903,388	10,122,448	219,060	

4-Energy Probe-21**Ref: Exhibit 4, pages 9-10 & Table 4-32 & Table 4-1**

- a) Please indicate what the year to date actual costs incurred are for each of the one-time costs shown in Table 4-32. Please confirm that Milton Hydro has not included any of these costs in the 2015 forecast of OM&A expenses shown in Table 4-1. If this cannot be confirmed, please indicate the amount included in 2015.
- b) What was the OEB's total annual assessment for 2015?

Response:

- a) Milton Hydro has provided the following table which includes the year to date costs for each of the one-time costs shown in Table 4-32. Milton Hydro confirms that it has not included any of these one-time costs in the 2015 forecast of OM&A expenses shown in Table 4-1.

Line	Description	2015 Bridge Year	2016 Test Year	2015 Actual to Date	Amortized Over 5 Years
4	Expert Witness costs				
5	Legal costs		202,200	44,927	40,440
6	Consultants' costs		173,600		34,720
7	Incremental operating expenses associated with staff resources allocated to this application.				
8	Incremental operating expenses associated with other resources allocated to this application. OEB Expert Engineering Consultant -DSP		100,000		20,000
10	Customer Engagement total and amortized over 2 years				
11	Intervenor costs		140,000		28,000
	Total		615,800	44,927	123,160

- b) Milton Hydro's total OEB assessment for 2015 was \$86,785.

4-Energy Probe-23

Ref: Exhibit 4, page 26

Milton Hydro has included a cost of \$150,000 associated with load dispatching, of which \$100,000 is paid to Guelph Hydro. Please explain the other \$50,000 in relation to overtime, connection costs, etc.

Response:

This reference refers to the variance between the 2016 Test Year and the 2011 OEB-Approved balances. In October 2014 Milton Hydro contracted with Guelph Hydro for control room services for \$50,000 for 16 hours per day of coverage and expects to have Guelph Hydro provide 24/7 coverage in 2016 for \$150,000. The amount on lines 29 to 30 on page 26 should be \$150,000.

4-Energy Probe-26

Ref: Exhibit 4, Table 4-8 & page 22

Please confirm that the increase in 2015 of \$150,000 for consulting - financial system upgrade and the resulting decrease of \$150,000 in 2016 means that this was a one-time cost. If this cannot be confirmed, please explain.

Response:

Milton Hydro confirms that the \$150,000 for consulting – financial system upgrade in 2015 is a one-time cost.

4-Energy Probe-29**Ref: Exhibit 4, page 46**

- a) Please break down the management fee paid to Holdings into the components noted at lines 24 to 26 on page 46.
- b) What administration, legal, audit and insurance services does Holdings provide to Distribution? Please explain for each of the items listed.
- c) Please provide a table that shows for 2011 through 2016 the costs associated with Milton Hydro Distribution's Board of Directors.

Response:

- a) Milton Hydro Distribution pays a management fee to Milton Hydro Holdings based on 98% of Holdings net cost incurred for carrying on Holdings company business which include such costs of Holdings as set out on lines 24 to 26 of page 46. These are costs incurred by Holdings and its financial records are not part of this Application.
- b) Please refer to a) above.
- c) Milton Hydro provides the following table which sets out the cost of associated with its Board of Directors:

2011	2012	2013	2014	2015	2016
78,123	120,884	126,663	143,310	150,333	157,225

4-Energy Probe-31

Ref: Exhibit 4, Table 4-51

- a) Please confirm that the property taxes shown in Table 4-51 are included in the OM&A costs shown in Table 4-1.
- b) Please provide the assessment and 2015 property tax bill associated with the new service centre and administration building by year.

Response:

- a) Milton Hydro confirms that the property taxes shown in Table 4-51 are included in the OM&A costs shown in Table 4-1. Milton Hydro also notes that it applied to the Town of Milton for a Property Reclassification from Industrial to Commercial in 2015 and was successful. As a result of this reassessment, Milton Hydro's revised 2015 Property tax Assessment was reduced to \$114,569 a difference in the 2015 Bridge amount of \$85,431. Milton Hydro's 2016 Test Year Property tax assessment is expected to be \$120,000, a difference in the 2016 Test amount of \$ \$87,030.
- b) Milton Hydro has included its 2015 property assessment notice and property tax bill associated with the new service centre and administration building following this interrogatory.

1.0 – Staff 7

Ref: Exhibit 1, Attachment 1-6, OEB Scorecard

Scorecard group and future cost performance. Milton Hydro's scorecard shows that it has been assigned to Group 2 for Efficiency Assessment, based on the PEG July 2014 report. PEG has also provided LDCs with a spreadsheet that enables them to project future cost performance.

- a) Did Milton Hydro forecast their future cost performance for 2016-2020 based on the information provided in this application?
- b) If so, please provide the results. If not, please complete the forecast model, provide the results, any assumptions made and if Milton Hydro's efficiency assessment is forecasted to worsen, then please provide an explanation on why this is the case.

Response:

- a) Milton Hydro did not forecast its future cost performance for 2016-2020 based on the PEG spreadsheet and the information provided in this application.

Milton Hydro's understands from the OEB's consultant, that the PEG prediction model was not intended to be used for Rate Setting Purposes. Milton Hydro's Cost of Service Rate Application is based on the 2015 Bridge Year and the 2016 Test Year. The forecasts for 2017 to 2020 are just that, forecasts and do not impact Milton Hydro's Application. In addition, the prediction model is only up to date to 2019

- b) Milton Hydro's Stretch Factor for 2016 has changed from Group 2 to Group 3 primarily due to the increase in staffing of an additional seven employees over both the 2015 Bridge Year and the 2016 Test Year. Milton Hydro has removed the land and building from the determination of the capital costs for 2014 and 2015 and a non-recurring capital investment.

Three Year Average	2016	2017	2018	2019
Current Year	-4.84%	-5.51%	-7.75%	-10.43%
Previous Year	-1.55%	-4.84%	-5.51%	-7.75%
Two Years Ago	-5.83%	-1.55%	-4.84%	-5.51%
Three Year Average Performance	-4.07%	-3.97%	-6.03%	-7.90%
Stretch Factor Group	3	3	3	3

4.0-Staff-57**Ref: Exhibit 4, p. 21**

Under Meter Reading, Milton Hydro refers to a decrease in costs in 2016 of \$168,860 and that it "...will bring the AMI meter system in-house January 1, 2016 as the contract with Trilliant for this service ends December 31, 2015. The savings in Meter Reading will be partially offset by the hiring of an AMI Operator and a support/maintenance agreement with Trilliant."

- a) Please provide an accounting of how the total Meter Reading costs will be affected by these moves to realize this saving.
- b) How will the investment in WiMAX affect the overall meter reading costs?

Response:

- a) At the time of submitting its rate application, Milton Hydro envisioned a savings of \$168,860 in Meter Reading costs associated with bringing the AMI function in-house. Milton Hydro's contract with Trilliant, signed in 2007, expires on December 31, 2015. The contract outlined the cost of the AMI software (Serviewcom - \$118,750) and outlined the associated annual cost for support (\$17,813; 15% of the software cost). Milton Hydro submitted its rate application under the terms set in the contract.

Milton Hydro was recently advised by Trilliant that Milton Hydro would require a software and firmware maintenance and support agreement. The explanation for the change is "In recent years, the AMI industry has shifted to place more value on the software that runs in both the head end system and on the devices in the field. Trilliant has followed this trend and now charges for software maintenance for both the head end system as well as the operating software (firmware) on the network field equipment. The current price for full software maintenance and support totals \$108,600 USD per year (CDN \$131,000). This consists of \$28,000 USD per year for the head end system, and \$80,600 USD per year for M&S on the device firmware. This is based on 35k meters, 561 repeaters and 86 collectors."

Accordingly, the \$168,860 savings in meter reading costs is offset by the increase in the

software and firmware maintenance and support agreement. Costs for 2016 are now estimated to be in line with 2015 Projected Costs.

	2015P	2016TEST	2016 Budget
DIRECT LABOUR	\$ 72,800	\$ 132,038	\$ 107,154
OLAMETER - Probing	\$ 22,302	\$ 23,946	\$ 23,946
TRILLIANT - AMI	\$168,277	\$ -	
SOFTWARE MTCE CONTRACT	\$ 28,868	\$ 31,827	\$ 161,562
Subcontract	\$ 3,495	\$ -	
TOTAL METER READING	\$ 295,742	\$ 187,812	\$ 292,662

- b) Once Milton Hydro's investment in WiMAX is completed and the full conversion over to the WiMAX is done it is anticipated that nearly all cell costs will be removed as the backhaul communication will be via the WiMAX network as opposed to the cellular system. Conversion of Milton Hydro's system over to this network should increase customer public relations and reduce field checks for failed calls, defective equipment etc. The savings are approximately \$40,000 once implemented.

4.0-Staff-59

Ref: Exhibit 4, p. 21

Under Load Dispatching, Milton Hydro discusses its decision to contact with Guelph Hydro for control room services and mentions an increase of \$149,617. Please provide a schedule of the Load Dispatching/Control Room costs from 2011 to 2016. Please provide a full rationale and business case for the decision to contract with Guelph Hydro for these services and the expected savings from this decision.

Response:

Please refer to the interrogatory 2.0 – Staff 22 above.

Milton Hydro has provided a schedule of the Load Dispatching/Control Room costs for 2014 to 2016 below. Milton Hydro would note that there were no costs incurred prior to 2014.

		2014	2015	2015	2016
		Actual	to date (Oct 2015)	Proposed	Budget
Load Dispatching	Direct Labour	1,405	7,959	7,959	
	Guelph Hydro	5,479	50,000	50,000	150,000
	Communications Tower/shelter space		11,100	15,800	18,600
	Total	6,884	69,059	73,759	168,600

4.0-Staff-61

Ref: Exhibit 4, p. 22

Interrogatory:

Under Rent-Lawson Road, Milton Hydro indicates the reduction in rent costs due to the move to the new building. The rental costs for the 2015 bridge year are \$328,664 which move to zero in 2016. However, building expenses cost are \$406,153 in 2016.

- a) Please provide the rationale and business case for the decision to purchase/renovate the new building and the additional costs incurred, compared to the previous rental building.
- b) Please provide a summary of any operational savings that the new building will generate.
- c) Please provide a summary of the expenses included in the \$406,153.

Response:

- a) Milton Hydro's lease expired November 2014. The landlord extended the lease for one year to November 2015 after which time the landlord required the building back for his own purposes. There was no alternative but to find another location. Also, please see the response to OEB Staff interrogatory 4.0 – Staff 62.
- b) Milton Hydro does not anticipate any operational savings from the new building. Milton Hydro anticipated a savings of \$66,558 at the time of preparation its Application were premature. Milton Hydro expects costs to increase for insurance, property taxes and operational costs such as cleaning, utilities, grounds maintenance, etc.
- c) Milton Hydro has provided a summary of the building expense adjusted for the property taxes due to a change in the property assessment as well as updated 2016 forecasts. Please refer to Energy Probe's interrogatory 4-Energy Probe-31 for the property tax assessment.

2016 Test Year - Building Expenses		
Labour and Materials		41,685
Subcontracting -	Snow Removal	
	Lawn Maintenance	
	Janitorial Services	
	Security System Maintenance	106,000
Taxes		119,949
Hydro, Water, Sewer		200,000
Total Building Expenses - 2016 Test Year		467,634

4.0-Staff-69**Ref: Exhibit 4, p. 10, p. 54, Table 4-32**

Milton Hydro indicates that the one-time costs of this application are \$615,800 which compare to the one-time costs in 2011 of \$224,500, an increase of 174%. Please provide an itemized breakdown of these totals, for 2011 and 2016 with rationales for the increase in each item. And please also define line 10 in Table 4- 32 for both years.

Response:

Milton Hydro has provided an itemized breakdown of the totals for 2011 and 2016 in the Table below.

Milton Hydro has determined that a more rigorous review of its 2016 Cost of Service Application is required in order to comply with the RRFE and filing guidelines including the Chapter 5 requirements for the Distribution System Plan ("DSP"). In addition Milton Hydro is responsible for the OEB's expert consultant's review of its DSP which was not required in 2011. Milton Hydro has also allowed legal, consulting and intervenor costs which will be required as a result of the detailed "Issues List" that must be addressed either through written or oral hearings.

Line	Description	2011 Cost of Service	2015 Bridge Year	2016 Test Year
4	Expert Witness costs			
5	Legal costs	58,500		202,200
6	Consultants' costs	66,000		173,600
7	Incremental operating expenses associated with staff resources allocated to this application.			
8	Incremental operating expenses associated with other resources allocated to this application. OEB Expert Engineering Consultant -DSP	-		100,000
10	Customer Engagement total and amortized over 2 years			
11	Intervenor costs	100,000		140,000
	Total	224,500		615,800

In 2011 Milton Hydro included newspaper advertng costs for its Application and costs related to

the anticipated preparation of the GEGEA Application and related proceedings in Line 10 of Table 4-32. In 2016 Milton Hydro has included the costs of undertaking the OEB required customer engagement in Line 10 of Table 4-32. As this is a two year requirement Milton Hydro included 50% of the actual costs of conducting the customer engagement as an ongoing cost.

Variance Analysis – OM&A Programs

- **Operations Programs**

Operations/Maintenance/Supervision

In 2011 Milton Hydro hired a contract employee to oversee the operations side of the company. In 2014 Milton Hydro hired a full time Director of Operations to assume this position. The services of the contract employee were no longer required resulting in no expenses being reflected in this program after his departure in mid-2014. The Director of Operations is included in the Engineering & Operations Administration program expense, therefore there are no costs reflected in the Operations/Maintenance/Supervision program account for the 2016 Test Year leaving a negative variance over the 2011 OEB approved (\$87,546) and the 2014 Actuals (\$94,900)

Engineering & Operations Administration

Engineering and Operations expenses were fully allocated in the 2011 OEB approved, the 2011 Actual and 2012 Actual years. Effective January 1, 2013 Milton Hydro followed the OEB's direction included in its letter dated July 12, 2012, and discontinued allocating overheads. Only Engineering and Operations costs that are directly attributable to capital work may be capitalized under MIFRS/IFRS, therefore the costs that are not directly attributable to capital are now reflected in Engineering and Operations expenses resulting in the variance of \$1,145,335 over the 2011 OEB approved. The variance over the 2014 Actual is attributed to the hiring of two additional employees.

Load Dispatching

The variance between the 2016 Test Year and the 2011 OEB approved balance amounts to \$150,000 and the variance is \$143,116 over the 2014 Actual. These variances are due to Milton Hydro contracting with Guelph Hydro for control room services in 2015. Milton Hydro contracted with Guelph Hydro for control room services which included sixteen hour coverage with an on-call person for eight hours in 2015. In the 2016 Test Year Guelph Hydro will provide 24/7 control room operations for a contracted price of \$100,000. Milton Hydro is responsible for any operator overtime, costs to connect the control room to Milton Hydro's system and Milton Hydro's internal cost of coordinating with the control room. This cost did not exist in the 2011

1 **Shared Services/Corporate Cost Allocation**

2
3 Milton Hydro currently has relationships with Milton Hydro Holdings Inc. (“Holdings”) and Milton
4 Energy Generation Services (“MEGS”) both are affiliated companies. These relationships are for
5 either the purchase of or provision of products and services and are in place to benefit from cost
6 savings due to increased efficiencies and economies of scale. A summary of the transactions
7 and pricing methodology used to assign costs for 2011 Actual, 2012 Actual, 2013 Actual, 2014
8 Actual and projections for the 2015 Bridge Year and 2016 Test Year, are shown in the following
9 Tables 4-28 to Table 4-30 in the format of the OEB Appendices 2-N.

10 **Shared Services**

11
12 The pricing methodology used for shared services is cost based as identified in the Tables
13 below. The fully allocated cost basis was selected as it is representative of the time devoted to
14 providing the services and is based on an average estimated time spent by Milton Hydro staff
15 on providing the services to Holdings and MEGS. All amounts billed to the affiliates excluded
16 from Milton Hydro’s OM&A.

17 **Milton Hydro Holdings Inc. (“Holdings”)**

18
19 Holdings’ Board of Directors meets every two months or as required. Holdings has no
20 employees and charges each of its active affiliates a management fee based on a current
21 estimate of the Board’s resource utilization. The management fee is reviewed annually and
22 covers the expenditures of the Board. Currently the Board’s resource utilization is allocated
23 98% to Milton Hydro Distribution and 2% to MEGS.

24 No mark-up is applied to Holdings costs which consist primarily of Holdings Directors fees,
25 meeting expenses, management services, administration, legal, audit and insurance
26 expenses.

27 **Milton Hydro Distribution Inc.**

28
29 Milton Hydro provides services to both Holdings and MEGS for administrative services with
30 includes accounting and finance, corporate support, banking services and management. The
31 following Table 4-28 breaks out the charges for the shared services.