2025

Application for an Accounting Order

MILTON HYDRO DISTRIBUTION INC.

Application for an Accounting Order

EB-2025-0241

July 31, 2025

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Milton Hydro Distribution Inc. to the Ontario Energy Board for an Order or Orders establishing a variance account.

MILTON HYDRO DISTRIBUTION INC.
APPLICATION FOR AN ACCOUNTING ORDER
EB-2025-0241

MANAGER'S SUMMARY

Filed: July 31, 2025

Dan Gapic, CPA, CMA
Director, Regulatory Affairs
Milton Hydro Distribution Inc.
200 Chisholm Drive
Milton, Ontario
L9T 3G9

Tel: 416-819-6762
dangapic@miltonhydro.com

MANAGER'S SUMMARY

1. Introduction

Milton Hydro Distribution Inc. (MHDI), (Milton Hydro), or (the Company) is a corporation incorporated pursuant to the Ontario Business Corporations Act with its head office in the Town of Milton. Milton Hydro carries on the business of distributing electricity within the Town of Milton.

2. Background

On April 14, 2022, Milton Hydro filed a cost-of-service application with the Ontario Energy Board (OEB) under Section 78 of the Ontario Energy Board Act, 1998, S.O., seeking approval for changes to the rates that Milton Hydro charges for electricity distribution effective January 1, 2023. The OEB assigned File Number EB-2022-0049 to the Application.

As part of the Settlement Proposal in the 2023 cost-of-service proceeding, Milton Hydro made a commitment to undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application. The intent of the study is to ensure that Milton Hydro's methodology to allocate costs between its affiliates is reasonable and complies with relevant provisions of the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters (ARC)[1].

Milton Hydro proactively took steps to have an independent third-party review conducted, of its methodology to allocate common costs among its affiliates, before its next cost of service rate application. Milton Hydro retained Atrium Economics to perform a review and Atrium Economics provided a report on the evaluation of MHDI's affiliate cost allocation methods describing Atrium Economics' Corporate & Shared Cost Allocation Methodology review.

Atrium Economics was retained by MHDI to support the process of updating and evaluating Milton Hydro's affiliate cost allocation methods to ensure that Milton Hydro's methodology to allocate costs between its affiliates is reasonable. The report details MHDI's compliance with each of the relevant provisions of the OEB's ARC. In addition to their review of the methodology to allocate corporate costs among MHDI and its affiliated companies, Atrium Economics also reviewed the allocation of costs for water billing

[1] EB-2022-0049 Decision and Order, October 13, 2022 page 5, paragraph two.

customers. The primary consultant supporting this review is John Taylor who supported similar projects for Hydro One and Alectra Utilities Corporation[2].

As a result of Atrium Economics study, they have indicated that they believe that Milton Hydro's Corporate & Shared Cost Allocation Methodology is appropriate for Milton because it achieves the purposes for which it was designed: to distribute costs in a manner that is consistent with OEB precedent and established regulatory practice for cost allocation, ensures legislative compliance, and promotes transparency and efficiency.

Atrium Economics indicated that their study demonstrates that Milton Hydro's methodology to allocate costs between its affiliates is reasonable and complies with relevant transfer pricing provisions of the OEB's ARC as set out in Appendix B of their report. The study also considered OEB Staff's direction on Transfer Pricing in Compliance Bulletin 200604 (pages 4-6) relating to the allocation of costs among its affiliates.

Atrium Economics identified that the updated corporate & shared cost allocation methodology applied by Milton Hydro to its operating data for the 2023 OEB approved and 2024 Business Plan costs yielded total costs allocated out of Milton Hydro into its affiliated companies of $512,742, and $535,781 respectively. In comparison, the 2023 OEB approved costs allocated based on the original allocation methodology for the shared services yielded total costs of $882,593 allocated out of Milton Hydro into its affiliated companies. The total change in cost allocation for the 2023 rebasing year is a reduction of $369,851 ($882,593 - $512,742) of costs allocated out of Milton Hydro into its affiliated companies, as per Table 1 of the Atrium Economics Report attached in Appendix 2.

Ratepayers are currently being subsidized by MHDI's affiliates as Atrium Economics found that $369,851 in costs for the 2023 rebasing year are currently being paid by the affiliates and should be allocated to MHDI.

This application is to address the subsidization issue and ensure that costs are being allocated fairly. Milton Hydro is requesting a variance account to capture the revenue requirement impacts due to this change in shared services and corporate cost allocation (Corporate Cost Allocation VA). While it is unclear how long ratepayers have benefitted from this issue, MHDI proposes to only record entries in the Corporate Cost Allocation VA on a go forward basis, from the 2025 fiscal year up to the year immediately preceding MHDI's next rebasing year. Milton Hydro has included the third-party report, Atrium Economics - Milton Hydro Corporate Cost Allocation Review report, (Atrium Economics

[2] John Taylor was formerly employed by Black & Veatch and supported similar projects for Hydro One Networks and Alectra Utilities Corporation. In Addition, John Taylor was the primary consultant and testifying expert for Hydro One's 2021 application EB-2021-0110 relating to (i) Common Corporate Cost Allocation Methodology, (ii) Overhead Capitalization Methodology, and (iii) Methodology for allocating Shared Assets. Atrium has since been retained by Alectra and Hydro One to develop other studies relating to affiliate cost allocation, overhead capitalization rates, and shared asset allocations for which Mr. Taylor was the primary consultant.

Report) which reviewed and updates the Company's shared services and corporate cost allocation methodology in Appendix 2.

Milton Hydro justifies that it is appropriate to make this request with the OEB in this Application for the following reasons:

(a) Now that better information is known, it has been identified that ratepayers have benefitted from being undercharged shared costs that they ought to have paid through rates. In 2024, once Milton Hydro was aware of the updated cost allocation methodology, the Company implemented the changes and updated its shared services and corporate cost allocations in its' 2024 fiscal year audited financial statements.

(b) Beginning in 2024, MHDI has allocated lower costs to its affiliates, resulting in increased OM&A expenses for its electricity distribution activities. Given that the OEB considers the recovery of prior-year shortfalls to be retroactive ratemaking, MHDI is seeking approval to implement the new Corporate Cost Allocation VA effective with its 2025 calendar and fiscal year.

(c) In 2023 and 2024, MHDI was within 300 basis points of its deemed ROE. However, MHDI expects that it would underearn in the later years of its IRM term due in part to the treatment of the PILS smoothing adjustment from the OEB approved 2023 Cost of Service Settlement. MHDI will only seek disposition and recovery of balances recorded in the Corporate Cost Allocation VA provided that MHDI's average actual regulated ROE, for the fiscal years from 2025 until the last audited fiscal year for the next rebasing application, does not exceed the OEB's approved ROE.

(d) MHDI justifies how it meets the DVA eligibility tests as shown in the ***DVA Eligibility Tests*** section below. There is an understatement of MHDI's Revenue Requirement of $369,851, which is equivalent to 1.61% of the approved 2023 Revenue Requirement of $22,939,188 which is material.

(e) There is precedent whereby an electricity distributor made a similar request for a variance account where the utility understated its revenue requirement in a cost-of-service rebasing application in which a settlement proposal was approved by the OEB in its decision. In Halton Hills Hydro Inc. (HHHI) 2018 IRM Application, HHHI filed for a request for a Depreciation DVA on October 23, 2017 in EB-2017-0045. In the OEB's decision the OEB conditionally approved the use of a deferral account to capture amounts related to understated depreciation and the OEB approved the use of the DVA account on a go forward basis, with future approval subject to HHHI not being permitted to dispose of the deferral account if HHHI's actual regulated ROE exceeds the OEB's approved ROE for the aggregated period from January 1, 2018 until December 31 of the last audited fiscal year for the next rebasing application. What MHDI is requesting is very similar as the cost allocation adjustments from new information provided by Atrium will have a material effect on MHDI during the IRM term. Given better information is now known, that was not available to MHDI previously, MHDI brings this information forward in this stand-alone application requesting that the OEB approves its request.

(f) There is also precedent regarding an electricity distributor requesting an accounting order to approve the establishment of a variance account related to the filing of an independent third-party study relating to a cost allocation between an electricity distributor and its unregulated affiliate. In Oakville Hydro Electricity Distribution Inc. application EB-2017-0202 Oakville Hydro filed such an application and the OEB approved the use of a variance account to record amounts resulting from an independent third-party study.

3. Cost Allocation Review

The Atrium Economics Report found that Milton Hydro had overallocated costs to its affiliates by $369,851 for allocated shared services and corporate costs for the 2023 approved test year revenue requirement. As detailed in the Atrium Economics Report, Milton Hydro's affiliates were overcharged based on the original shared services and corporate cost allocation methodology. The updated shared services and corporate cost allocation methodology allocates $369,851 fewer costs to the Milton Hydro affiliates while increasing Milton Hydro's operating costs.

Given the magnitude of the changes in shared services and corporate cost allocation implemented by MHDI, it will be difficult for the Company to absorb the resulting revenue shortfall through operations while also achieving its regulated return on equity for the years 2025 to 2027. Therefore, MHDI is requesting the creation of the Corporate Cost Allocation VA through this stand-alone application

4. Application

Milton Hydro is now seeking approval for an accounting order to establish a variance account to record the difference between the amounts approved in Milton Hydro's 2023 Cost of Service rate application and the amounts which have been determined to be appropriate through the Atrium Economics Report for the 2023 cost-of-service year, among other things noted below.

Relief Sought

Milton Hydro is applying to the Ontario Energy Board (OEB) with a stand-alone application to bring forward its third party prepared shared services and corporate cost allocation report, requesting the following:

a) Confirmation from the OEB that Milton Hydro has responded appropriately to the OEB's direction from the previous 2023 proceeding to undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report[3]. See Appendix 2 for the Atrium Economics Report.
b) Approval of an accounting order to authorize MHDI to establish a new variance account to capture the difference between the shared services and corporate costs allocated in the 2023 approved rate application and the updated shared services and corporate costs allocated per the Atrium Economics Report. See Appendix 1 for the draft accounting order for the Corporate Cost Allocation VA;
c) Approval to record in the account, the proposed amount, which is the difference between the originally allocated shared services and corporate cost amounts totalling $882,593[4], vs the updated allocated shared services and corporate cost amounts totalling $512,742[5]. The annual amount requested to be recorded in the account is $369,851;
d) Approval to record balances, proposed to accumulate for the calendar year and fiscal years from 2025 up to the year immediately preceding the next cost-of-service year. MHDI will only bring forward a request for disposition and recovery of balances recorded in the Corporate Cost Allocation VA provided that MHDI's average actual regulated ROE, for the fiscal years from 2025 until the last audited fiscal year for the next rebasing application, does not exceed the OEB's approved ROE.
e) Approval to record carrying charges to accumulate on the principal amounts recorded in the account based on the OEB prescribed interest rates for DVAs, for the years from 2025 up to the year immediately preceding the next cost-of-service year;

DVA Eligibility Tests

The OEB's 2025 Edition of its' Filing Requirements for Electricity Distribution Rate Applications[6] permits distributors to apply for a deferral or variance account with evidence that the account would meet the following eligibility requirements:

- **Causation** – the forecast amount to be recorded in the proposed account must be clearly outside of the base upon which rates were derived.

- **Materiality** – the annual forecast amounts to be recorded in the proposed account must exceed the OEB-defined materiality threshold and have a significant

[3] EB-2022-0049 Decision and Order, October 13, 2022 page 5, paragraph two.
[4] Per Table 1 – Proposed Adjustment for Corporate Cost Allocation update, Appendix 2-N Shared Services and Corporate Cost Allocation, and Per Table 1 of Appendix 2, Atrium Economics Report.
[5] Ibid.
[6] Filing Requirements for Electricity Distribution Rate Applications – 2025 Edition for 2026 Rate Applications, Chapter 2 Cost of Service, 2.9.2 Establishment of New Deferral and Variance Accounts

influence on the operation of the distributor, otherwise they must be expensed or capitalized in the normal course and addressed through organizational productivity improvements.

- **Prudence** – the nature of the amounts and forecast quantum to be recorded in the proposed account must be based on a plan that sets out how the amounts will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. For any costs incurred, in terms of the quantum, this means that the distributor must provide evidence demonstrating that the option selected represented a cost-effective option (not necessarily least initial cost) for ratepayers.

Causation

As discussed previously, in MHDI's last cost-of-service re-basing application, the Company committed to undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application. The intent of the study was to ensure that Milton Hydro's methodology to allocate costs between its affiliates is reasonable and complies with relevant provisions of the OEB's ARC. Milton Hydro determined that it would be beneficial to obtain the third-party report sooner than what the OEB's approved settlement proposal required for the following reasons:

- The decision to advance the study was a proactive measure to identify and correct potential inaccuracies sooner, rather than waiting for the next rebasing. MHDI is committed to accurate accounting and compliance with the OEB's ARC.
- MHDI wanted to reduce the volume of information filed at its next cost-of-service rate application; currently planned to be for 2028, and to reduce the volume of work for parties related to the testing of evidence by the OEB, OEB Staff and Intervenors, and to reduce the volume of work for MHDI responding to interrogatories and defending the third-party corporate cost allocation report.
- Since the third-party report was required to be put on the record in the future, MHDI determined that it would be prudent to have the study completed sooner, due to the potential financial impact the outcome of the study could have to ratepayers and its affiliates and also, since a third-party corporate cost allocation study had not been obtained since the current senior leadership team was put into office in 2020/2021, MHDI determined it needed to have this study prepared sooner.
- At the time MHDI decided to obtain the third-party report, MHDI was prepared to remedy the financial impacts due to the change in corporate cost allocation once it had the information needed to update its accounting allocations in its financial records thereby increasing or decreasing any allocations to affiliates. While the study was committed, the specific findings and the magnitude of the over-allocation

were unforeseen, necessitating this application to establish the Corporate Cost Allocation VA. Upon deciding to commission the study, MHDI intended to seek approval from the OEB, through a formal application, to return or recover any material adjustments to its revenue requirement to or from ratepayers via future rate riders.

- The outcome of the third-party report was that changes were required to MHDI's shared services and corporate cost allocation. MHDI commissioned a corporate cost allocation study from an expert cost allocation consultant that was able to identify a more appropriate way of allocating shared services and corporate costs, that MHDI was not aware of. As this information was not known at the time MHDI filed its 2023 cost-of-service application, subsequently approved by the OEB, the Company was not able to predict what the outcome of the third-party report would be at the time of preparing its 2023 cost-of-service rate application. While the proposed changes to the corporate cost allocation, lead to a recovery for MHDI, they ultimately ensure fair and accurate cost allocation, preventing future cross-subsidization and promoting the long-term financial health of the regulated utility, which is in ratepayers' interest. Therefore, the Company could not foresee what the impact would be of having an expert corporate cost allocation consultant produce its third-party report.

In Milton Hydro's 2023 cost-of-service rate application it identified in Appendix 2-N that a net corporate cost allocation of $882,593 related to net amounts charged by Milton Hydro to affiliated companies. Table 1 of the Atrium Economics Report, based on the updated corporate cost allocation methodology, indicates that the amount to allocate to affiliated companies by Milton Hydro should be updated to a net allocation of $512,742[7]. The difference of $369,851 is the net amount that was over-allocated to Milton Hydro's affiliates that the Company is seeking to recover through the new Corporate Cost Allocation VA. See below, Table 1 – Proposed Adjustment for Corporate Cost Allocation Update, below which presents the 2023 Appendix 2-N as filed, and the proposed adjusted Appendix 2-N Shared Services and Corporate Cost Allocation reflecting the changes presented in the third-party Corporate Cost Allocation Report. The difference of $369,851 is outside of the base upon which MHDI's rates were derived, and MHDI requests to recover this amount on a prospective basis.

[7] Per Table 1 of Appendix 2, Atrium Economics Report.

Table 1 - Proposed Adjustment for Corporate Cost Allocation Update
Appendix 2-N Shared Services and Corporate Cost Allocation

Shared Services

Name of Company		Service Offered	Pricing Methodology	2023 Test Year - Approved		2023 Test Year - Adjustment Proposed		Change
From	To			Price for the Service $	Cost for the Service $	Price for the Service $	Cost for the Service $	Cost for the Service
Milton Hydro Distribution Inc.	Milton Hydro Holdings Inc.	Administration Fee	Fully-Allocated Cost Based		$ 39,480		$ 106,239	$ 66,759
Milton Hydro Distribution Inc.	Milton Energy Generation Services	Administration Fee	Fully-Allocated Cost Based		$ 99,891		$ 36,538	-$ 63,353
Milton Hydro Distribution Inc.	Milton Energy Generation Services	Billing Sentinel Rentals	Fully-Allocated Cost Based		$ 3,828		$ 3,828	$ -
Milton Hydro Distribution Inc.	Milton Energy Generation Services	Chisholm Roof Rental	Fully-Allocated Cost Based		$ 3,897		$ 3,817	-$ 80
Milton Hydro Distribution Inc.	Milton Energy Generation Services	Water Billing	Fully-Allocated Cost Based		$ 856,155		$ 547,301	-$ 308,853
Subtotal					$ 1,003,250		$ 697,723	-$ 305,527

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	2023 Test Year - Approved		2023 Test Year - Adjustment Proposed		Change
From	To			% of Corporate Costs Allocated %	Amount Allocated $	% of Corporate Costs Allocated %	Amount Allocated $	Amount Allocated
Milton Hydro Holdings Inc.	*Milton Hydro Distribution Inc.*	Management Fee	Fully-Allocated Cost Based	90	$120,658	96.34	$184,981	$ 64,323
Subtotal					$120,658		$184,981	$64,323
Total					-$882,593		-$512,742	$369,851

Accordingly, in 2024, once Milton Hydro knew the results of the third-party corporate cost allocation study, it updated its cost allocations to affiliates in its 2024 fiscal year audited financial records and on a go forward basis, and now the Company files this application seeking a remedy to recover its understated revenue requirement established for 2023 on a prospective basis.

Materiality

The financial impact of this change is $369,851 or 1.6% of Milton Hydro's 2023 distribution base revenue requirement. The financial impact is significant, at over 3 times greater than the OEB's preset materiality threshold of 0.5% of distribution base revenue requirement for a distributor with a distribution base revenue requirement greater than $10 million and less than or equal to $200 million. Milton Hydro's materiality threshold is $114,696 (0.5% of 2023 base revenue requirement of $22,939,188).

Prudence

MHDI demonstrated prudent management and good governance by advancing the third-party review. Early action reduces the complexity of the next rebasing application, ensures more accurate cost recovery for the regulated utility sooner, and prevents the continued accumulation of an understated revenue requirement. It shows MHDI's commitment to ensuring its cost allocation methodology is robust, compliant, and fair. MHDI's decision to advance the third-party Corporate Cost Allocation Review report was financially responsible and considered both ratepayers and the shareholder. MHDI used a reputable and experienced consultant to prepare its Corporate Cost Allocation Review report, and the resulting report is well prepared justifying and explaining the reasons for the updates to the corporate cost allocation methodology. The third-party report follows the requirements of the OEB's ARC and aligns with the principle of fully allocated cost-based pricing, preventing regulated services from subsidizing non-regulated activities.

See Appendix 2, Atrium Economics Report for evidence for why the updated cost allocation is appropriate and reasonable.

MHDI also followed the OEB's Accounting Procedures Handbook and the Chapter 2 Filing requirements when preparing its proposed Draft Accounting Order. See Appendix 1, Draft Accounting Order.

5. Conclusion

Milton Hydro requests approval for an accounting order to establish a variance account to record the difference between the revenue requirement approved in 2023 rates and the amounts determined to be appropriate during the review of MHDI's shared services and corporate cost allocation review. The draft accounting order found in Appendix 1 includes a description of the mechanics of the account and an example of the general ledger entries

Form of Hearing Requested

Milton Hydro respectfully requests that this application be decided by way of a written hearing.

Respectfully submitted this 31st day of July 2025.

Dan Gapic, CMA, CPA
Director, Regulatory Affairs
Milton Hydro Distribution Inc.

Attachments

Appendix 1 – Draft Accounting Order

Appendix 2 – Atrium Economics Report

Appendix 1

Draft Accounting Order

Appendix 1 – Draft Accounting Order

1. Proposed Deferral Account

Account 1508 Other Regulatory Assets – Sub-account Corporate Cost Allocation Variance Account

Milton Hydro is proposing to record, a debit of $369,851 per year, the difference between the amount approved in rates in Milton Hydro's 2023 cost-of-service related to shared service and corporate cost allocation charged to its affiliates, and the amounts determined to be appropriate as documented in the Atrium Economics Report, in the new Corporate Cost Allocation VA. Balances are proposed to accumulate for the years from 2025 to the year immediately preceding the next cost-of-service year. Milton Hydro proposes to seek disposal of the Corporate Cost Allocation VA provided that Milton Hydro's average actual regulated ROE, for the fiscal periods from 2025 until the last audited fiscal year for the next rebasing application, does not exceed the OEB's approved ROE. If Milton Hydro comes forward to request the disposition of the Corporate Cost Allocation VA, it would do so as part of the Group 2 accounts at its next cost-of-service application subject to meeting the requirement above. If Milton Hydro seeks approval for a rate rider at its next rebasing application to recover amounts from customers, it would bring forward an approach to allocate amounts accumulated in the account and recover amounts from each customer rate class and would propose a rate rider recovery period.

Milton Hydro will record interest on the balance in the sub-account using the interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

2. The journal entries to be recorded are as follows:

DR 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation $369,851

CR 4080 Distribution Revenue $369,851

To record the difference between the amount approved in rates in Milton Hydro's 2023 cost-of-service for shared service and corporate cost allocation charges to its affiliates, and the amounts determined to be appropriate during the Atrium Economics review. Balances are proposed to accumulate for the years from 2025 to the year immediately preceding the next cost-of-service year.

DR 1508 Other Regulatory Assets, Sub-account Corporate Cost Allocation $XX,XXX

CR 4430 Interest on regulatory Assets $XX,XXX

To record the monthly interest improvement based on the closing principal from the previous month, based on the OEB prescribed interest rate.

Appendix 2

Atrium Economics Report

Milton Hydro Distribution Inc.

Atrium Economics – Milton Hydro Corporate Cost Allocation Review

September 27, 2024

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Glossary

Affiliate: A corporation is an affiliate of another if one of them is a subsidiary of the other or both are subsidies of the same corporation or each is controlled by the same person, as further defined in the Business Corporations Act (Ontario). Under Part I—Definitions, Interpretation and Application of the Business Corporations Act (Ontario), an affiliate means an affiliated body corporate. A body corporate means any body corporate with or without share capital and whether or not it is a corporation to which the Business Corporations Act (Ontario) applies. One body corporate shall be deemed to be affiliated with another body corporate if, but only if, one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person.

Affiliate Relationships Code: Ontario Energy Board's Affiliate Relationships Code ("OEB's ARC") for Electricity Distributors and Transmitters, revised March 15, 2010, sets out rules that govern the conduct of utilities as that conduct relates to their respective Affiliates. This code covers several objectives with the following two relating to the content of this report: (1) protecting ratepayers from harm that may arise as a result of dealings between a utility and its affiliate; (2) preventing a utility from cross-subsidizing affiliate activities.

Business Unit: The lowest tier of Milton Hydro's organizational structure. Atrium included a roll-up of Business Units into individual Line of Businesses which aids in the organization of the data for purposes of allocation.

Common Corporate Costs: Costs incurred to provide Shared Corporate Services to Milton Hydro and its affiliated companies.

Corporate & Shared Cost Allocation Methodology: The methods and processes employed to allocate common corporate costs among Milton Hydro and its affiliated companies is comprised of two components: (1) the allocation of Common Corporate Costs and (2) a methodology to allocate the use of Shared Assets.

Cost Causation: The guiding principle for cost allocation is that cost responsibility should follow cost causation. Cost causation means that there is a causal relationship between the basis used to allocate a cost, and the cost that has been incurred. Costs are recognized as being caused by a service or group of services if (a) the costs are brought into existence as a direct result of providing the service or group of services; or (b) the costs are avoided if the service or group of services is not provided.

Shared Assets: Tangible and intangible fixed assets that are held by Milton Hydro and are utilized by multiple businesses of Milton Hydro.

Shared Corporate Services: Centralized business operations that support multiple businesses, affiliated companies, or multiple parts of the same organization. As defined in OEB's ARC: means business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee, or public affairs.

Summary

Purpose and Organization of Report

Atrium Economics, LLC (“Atrium Economics”) is pleased to submit to Milton Hydro Distribution Inc. (“MHDI”, “Milton”, “Milton Hydro”, or “Company”) this report on the evaluation of Milton’s affiliate cost allocation methods, which describes our Corporate & Shared Cost Allocation Methodology review. Atrium Economics was retained by Milton to support the process of updating and evaluating Milton’s affiliate cost allocation methods to ensure that Milton Hydro’s methodology to allocate costs between its affiliates is reasonable and complies with relevant provisions of the OEB’s Affiliate Relationship Code for Electricity Distributors and Transmitters as set out in Appendix B.

The review conducted by Atrium Economics establishes and evaluates the methodology to allocate corporate costs among Milton and its affiliated companies, with two components: (1) a methodology to allocate Milton’s common corporate operation, maintenance, and administrative (“OM&A”) costs (“Common Corporate Costs”), and (2) a methodology to allocate the use of Shared Assets. The methods employed across these two components are collectively described as Milton’s Corporate & Shared Cost Allocation Methodology. In addition to our review of the methodology to allocate corporate costs among Milton and its affiliated companies, Atrium also reviewed the allocation of costs for water billing customers.

The primary consultant supporting this project is John Taylor who was formerly employed by Black & Veatch and supported similar projects for Hydro One Networks and Alectra Utilities Corporation. John Taylor, through Black & Veatch, was engaged by Alectra in August 2017 and conducted the review and analysis during the months of September 2017 through January 2018. In Addition, John Taylor was the primary consultant and testifying expert for Hydro One’s 2021 application EB-2021-0110 relating to (i) Common Corporate Cost Allocation Methodology, (ii) Overhead Capitalization Methodology, and (iii) Methodology for allocating Shared Assets. Atrium has since been retained by Alectra and Hydro One to develop other studies relating to affiliate cost allocation, overhead capitalization rates, and shared asset allocations for which Mr. Taylor was the primary consultant.

Background on Assignment

On October 13, 2022, the Ontario Energy Board ("OEB") issued its Decision and Order in EB-2022-0049, which inter alia, ordered that: Milton Hydro Distribution Inc. shall undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application.

This order resulted from the following commitment made by Milton Hydro in its Settlement Proposal: "Though not resulting in any modifications to Milton Hydro's proposed Other Revenue, the Parties agree that Milton Hydro will undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application. The intent of the study is to ensure that Milton Hydro's methodology to allocate cost between its affiliates is reasonable and complies with relevant provisions of the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters.

The purpose of this report is to provide an independent third-party review of Milton Hydro's methodology to allocate common costs among its affiliates in accordance with the EB-2022-0049 Order and the settlement agreement attached to that Order.

As part of this engagement, Atrium Economics did not independently audit the accounting balances for the 2023 OEB Approved amounts, or the 2024 Plan amounts which were used by Milton Hydro and were relied upon as accurate and complete for the purposes of the evaluation. Atrium did verify that based on the accounting data used by Milton Hydro to allocate costs, those costs were allocated consistent with the revised corporate cost allocation and shared service model allocation methodology, and the amounts presented in the 2023 OEB Approved Allocations, the 2023 OEB Approved Updated Allocations, and the 2024 Plan tables were complete and accurate for the purposes of this evaluation.

Profile of Atrium Economics

Atrium Economics is a consulting firm focused on the energy industry in North America with the firm's foundational business philosophy to bring objectivity, centered on expertise and critical thinking, to addressing a client's specific needs. Our consulting team includes recognized experts across a broad range of utility regulatory policies, costing and ratemaking practices, and energy industry trends. Our level of support has included expert witness testimony before federal, state, municipal, and provincial regulatory agencies.

Atrium Economics is experienced in conducting affiliate cost allocation reviews across North America, and the Atrium project team has led successful projects for other utilities similar to that requested by Milton. The major sections of this report are described below.

Glossary –Definitions of key terms used within this report.

Summary – Provides a description of the report, Atrium Economics' assignment, descriptions of the two components, and executive summary of the conclusions.

Corporate Cost Allocation Framework – Discusses the use of and reliance on Shared Corporate Services and Shared Assets and provides a description of the Milton organization.

Guiding Principles of Cost Allocation – Covers the primary principles employed in developing the Corporate & Shared Cost Allocation Methodology.

Allocation of Common Corporate Costs – Describes the methodology used to allocate Milton's Common Corporate Costs among Milton and its affiliated companies.

Allocation of Shared Assets – Describes the method used to allocate the use and cost of Shared Assets among Milton and its affiliated companies.

Water Billing – Describes the method used to allocate the use and cost of Shared Assets among Milton and its affiliated companies.

Atrium Economics' Assignment

Atrium Economics focused our effort during this review on gaining an understanding of Milton's current organizational structure and accounting data to aid in developing a methodology that can be adapted by Milton as changes occur in the future relating to the business of Milton, outside factors (e.g., governmental, or regulatory requirements), or technological change (e.g., availability of additional or more detailed information). The goal of this detailed and methodical review was to recommend and establish a best practice Corporate & Shared Cost Allocation Methodology for Milton for each of the two components described in detail below. In addition, Atrium was requested to document in this report that the Corporate & Shared Cost Allocation Methodology complies with relevant transfer pricing provisions of the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters set out in Appendix B.

Consistent with Atrium Economics' standard practice for consulting assignments, we relied on the genuineness and completeness of all documents presented to us by Milton, and we accepted factual statements made to us by Milton (e.g., headcount, budgeted amounts) subject only to their overall reasonableness and factual accuracy, but without our independent confirmation.

Components of Milton's Corporate & Shared Cost Allocation Methodology

The two components of Milton's Corporate & Shared Cost Allocation Methodology are described below.

Task 1. Allocation of Common Corporate Costs

Common Corporate Costs are incurred to provide Shared Corporate Services to Milton and its affiliated companies. The provision of these Shared Corporate Services is centralized so there is a need to allocate costs across the various Affiliates utilizing either cost drivers (e.g., certain Human Resources costs are allocated on company headcount) or time surveys (e.g., interviews and time estimates). The purpose of these allocations is to ensure no cross-subsidization between Affiliates by allocating Common Corporate Costs in accordance with the level of services being received.

An overview of the methodology is described below:

- Through interviews with Milton personnel, identify the Shared Corporate Services included in Common Corporate Costs and the activities performed to provide these Shared Corporate Services.
- Through interviews with Milton personnel and time surveys distribute the costs of each Shared Service among the activities performed by that Line of Business to provide that Shared Service.
- Distribute the cost of each activity among Milton and its affiliated companies, based on direct assignment or on cost drivers when direct assignment is not possible.

Task 2. Allocation of Shared Assets

In addition to the allocation of Common Corporate Costs it is necessary for compliance with the Affiliate Relationships Code to also allocate the use of Shared Assets among Milton and its affiliated companies. The general process employed to conduct this review was to gain an understanding of the nature of Shared Assets, the Shared Corporate Services that Shared Assets provide support for, and the use of the Shared Assets by Milton and its affiliated companies. With this understanding, allocation options were reviewed and decided upon to allocate the costs of these Shared Assets among Milton and its affiliated companies.

Executive Summary - Results of Review

Atrium Economics believes that Milton's Corporate & Shared Cost Allocation Methodology is appropriate for Milton because it achieves the purposes for which it was designed: to distribute costs in a manner that is consistent with OEB precedent and established regulatory practice for cost allocation, ensures legislative compliance, and promotes transparency and efficiency.

This study demonstrates that Milton Hydro's methodology to allocate cost between its affiliates is reasonable and complies with relevant transfer pricing provisions of the OEB's Affiliate Relationship Code for Electricity Distributors and Transmitters set out in Appendix B. This study also considered OEB Staff's direction on Transfer Pricing in Compliance Bulletin 200604 (pages 4-6) relating to the allocation of costs among its affiliates.

Task 3. Summary Tables of Corporate & Shared Cost Allocation Methodology

Milton's Corporate & Shared Cost Allocation Methodology has been applied by Milton to its Operating data for the 2023 OEB approved and 2024 Business Plan costs and compared to the 2023 OEB approved costs based on the original allocation methodology for the shared services and shared assets as provided below.

Table 1 - Distribution of Annual Common Corporate Costs and Shared Corporate Services

Shared Corporate Services ($ Thousands)	Service Offered/Shared Assets	2023 OEB Approved - Originally Allocated Costs		2023 OEB Approved - Updated Allocation Costs		2024 Allocated Costs	
		MHDI	Affiliated Companies	MHDI	Affiliated Companies	MHDI	Affiliated Companies
MHHI to MHDI	Management Fee	$120,658	-$120,658	$184,981	-$184,981	$193,860	-$193,860
MHDI to MHHI	Administration Fee	-$39,480	$39,480	-$106,239	$106,239	-$111,338	$111,338
MHDI to MEGS	Water Billing	-$856,155	$856,155	-$547,301	$547,301	-$571,999	$571,999
MHDI to MEGS	Administration and Other Fees	-$107,616	$107,616	-$44,183	$44,183	-$46,304	$46,304
Total Shared Corporate Services	Total OM&A Services	-$882,593	$882,593	-$512,742	$512,742	-$535,781	$535,781
MHDI & Affiliates	Shared Assets	$0	$0	$0	$0	$940,260	$3,300
Total Shared Assets	Totals Shared Assets	$0	$0	$0	$0	$940,260	$3,300

Corporate Cost Allocation Framework

The Use of and Reliance on Shared Corporate Services and Assets

Large corporations utilize Shared Corporate Services as an effective and efficient strategy for providing support services to affiliate companies and different business segments. The choice to provide Shared Corporate Services rather than to deliver services within each affiliate separately is dependent on the balance between the costs and benefits of decentralized and centralized provision of the services. The centralized provision of services benefits from economies of scale, efficient transfer of knowledge, common systems & support, and the ability of management to identify efficiencies and alignment across Affiliates. Decentralized operations can result in higher costs and different standards but also may provide the benefit of flexibility and recognition of specific requirements. For those services whose benefits outweigh the costs, the provision of the services centrally to multiple Affiliates is more desirable. For those services that require unique functions that only relate to one affiliate or in instances where the service benefits from the flexibility and ability to consider the unique requirements of an affiliate, these should remain decentralized. In the end, the balance of centralized vs. decentralized services is largely a question of corporate organizational strategy and will not be the same for all entities. This is a similar question for Shared Assets, where questions of when to share the use of assets across multiple Affiliates and when to purchase assets solely to service one affiliate will depend on the nature of the asset and the requirements of the affiliate. Savings can be expected from economies of scale when investing in assets that serve multiple Affiliates; even if those Affiliates may be serving different markets (e.g., software infrastructure, office buildings).

Milton has developed an organizational structure to take advantage of the benefits of Shared Corporate Services and Shared Assets. There are still many functions and assets that remain decentralized given they are directly serving one affiliate, and benefit from direct fulfillment of specific and unique requirements of that affiliate.

Milton's Organizations

The Milton group of companies includes the wholly owned subsidiaries and partnerships listed in Table 2.

Table 2 – Milton Affiliates and Businesses

SUBSIDIARY	DESCRIPTION
Milton Hydro Holdings Inc. (MHHI, the "Corporation")	A holding company established in response to the restructuring and deregulation of Ontario's electricity industry; and on October 1, 2000, the net distribution operating assets of the Milton Hydro-Electric Commission were transferred to Milton Hydro Holdings Inc. and subsidiaries. The Corporation is a holding company which owns 100%

	of the common equity of each of: Milton Hydro Distribution Inc. ("MHDI"), Milton Energy & Generation Solutions Inc. (formerly Milton Hydro Telecom Inc.), and Milton Hydro Services Inc. (the "subsidiaries").
Milton Hydro Distribution Inc. (MHDI)	The Corporation's principal operating subsidiary, MHDI, is an electricity distributor for residential and business customers within the Town of Milton regulated by the Ontario Energy Board ("OEB"). MHDI also provides certain water billing and customer care services to Milton Energy & Generation Solutions Inc. who has contracted with the Regional Municipality of Halton to provide Water/Wastewater billing and collection services only for customers in the service area of MHDI.
Milton Energy & Generation Solutions Inc. (MEGS)	MEGS is an affiliated company of MHHI. MHDI provides certain water billing and customer care services to MEGS who has contracted with the Regional Municipality of Halton to provide Water/Wastewater billing and collection services. MEGS is responsible for contracting the reading of the water meters. Milton Hydro performs routine administrative services for MEGS. MHDI provides certain water billing and customer care services to MEGS who has contracted with the Regional Municipality of Halton to provide Water/Wastewater billing and collection services only for customers in the service area of MHDI. MHDI provides for the billing of sentinel light rentals on behalf of MEGS within the Town of Milton. MHDI is looking to exit this business.

Guiding Principles of Cost Allocation

The Need for Cost Allocation

Cost allocation is required when costs are not tracked for each activity related to an individual service recipient. For instance, a Shared Service employee in accounts payable could track time spent processing each invoice and the entity being charged for that invoice and this time sheet record could be used to allocate costs for that employee to each entity. However, this is not practical or desirable given invoices may relate to multiple entities, time spent may be on improving or ensuring the process of reviewing invoices is effective, and activity-based time tracking requires significant time for the employee simply to track their time spent. If this was always practical, then there would be no need for cost allocation principles or methods; costs would simply follow the time sheets for all employees. This, however, is not practical given the time and effort for employees to track their time and the fact that there will always be employees who work on processes or projects that simultaneously benefit multiple business entities (i.e., the accounts payable manager who trains employees and works with the information systems division to develop more streamlined processes).

Principles of Cost Allocation

The guiding principle for cost allocation is that cost responsibility should follow cost causation. While the transfer pricing provisions of the Affiliate Relationships Code include safeguards to ensure that affiliate transactions are priced on an appropriate basis, they do not prohibit the selection of an affiliate as the provider of goods or services.[1] As such, company policy and allocation methodology should satisfy the following criteria:

- The method should be based on cost causation. Cost causation means a causal relationship exists between the basis used to allocate a cost and the cost that has been incurred. Costs are recognized as being caused by a service or group of services if (a) the costs are brought into existence as a direct result of providing the service or group of services; or (b) the costs are avoided if the service or group of services is not provided.
- If cost causation cannot be used or is determined to be inappropriate in the circumstances, the method usually considered next is benefits received (i.e., allocated to the business that received the benefits).
- The method should be based on data that can be obtained at reasonable cost and is objectively verifiable, in the initial year as well as in subsequent years.

[1] Notice of Revised Proposal To Amend a Code EB-2007-0662, 11 Feb 2008, p.7.

- When relying on estimates, results should be unbiased, reasonably consistent with comparable data, and provided by employees familiar with the costs.
- Where a reasonably competitive market exists, the transfer price for such transactions should be no less than the greater of the market price or the utility's fully-allocated costs so that utilities do not cross-subsidize affiliate activities.

Types of Costs Included

Shared Corporate Services costs include those costs that are direct, indirect, and fully-allocated. For instance, Milton incurs costs for an employee that is working in Human Resources relating to payroll costs (direct) and indirect costs (training, taxes, etc.). The result is a fully allocated cost that is the sum of both the direct costs and indirect costs. Milton's Corporate & Shared Cost Allocation Methodology is a method of allocating these fully allocated costs to each of Milton's affiliates based on the nature and level of services being provided.

Direct costs - costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre.

Indirect costs - costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre, and include but are not limited to overhead costs, administrative and general expenses, and taxes.

Fully-allocated cost - the sum of direct costs plus a proportional share of indirect costs.

Methods of Cost Allocation

Two methods exist to allocate or distribute fully allocated shared costs among a utility's businesses – **Direct Assignment** and **Allocation**.

Direct Assignment is used when it can be reasonably determined that all or a designated portion of an activity is performed for a particular business. Direct Assignment is completed through time studies or time surveys; participants either fill out time sheets during a sample period or indicate how their time is spent throughout the year through surveys or interviews.

Allocation is used when more than one business uses an activity, but the portions of the activity that each use cannot be directly established through a time study or time survey. In this case, a cost driver must be assigned to distribute the costs of the activity. A cost driver is a formula for sharing the cost of an activity among those entities that cause the cost to be incurred.

Cost Drivers

As stated above, a cost driver is a formula for sharing the cost of an activity among those entities that cause the cost to be incurred. The guiding principle that Atrium Economics uses in assigning cost drivers is cost causation and, in cases when cost causation cannot be easily established, cost drivers are assigned based on a review of the level of benefits received (e.g., diversity and inclusion activities may not be caused by a particular affiliate or group of businesses but the benefits of the programs can accrue to the Affiliates and businesses who participate in the strategies, plans, programs and policies).

Other factors considered in assigning cost drivers include:

- **Practicality** – The cost driver should be understandable, obtainable at a reasonable cost, and objectively verifiable in the initial year and subsequent years.
- **Stability** – Cost driver values should be reasonably stable yearly. When estimates are used, the cost driver should be able to be estimated with reasonable accuracy, and estimates should be unbiased.
- **Materiality** – When choosing between cost drivers, small differences can often be ignored in favor of the above-listed factors, Practicality and Stability.

Types of Cost Drivers

Cost drivers can be classified as **External** or **Internal**. **External** drivers are based on data that are external to the cost allocation process, such as physical units or financial amounts. **Internal** drivers are based on values computed as an integral part of the cost allocation process. For example, the cost of a supervisor's salary might be allocated in the same proportion as the salaries of the people being supervised, and the cost of general departmental expenses might be allocated in the same proportion as the specifically assigned departmental activities.

Table 3 – Types of Cost Drivers

TYPE	DESCRIPTION	EXAMPLES
External Cost Drivers		
Physical	Physical units; usually objectively determinate but often require estimates	Headcount (of employees), square footage of office space, users for IT systems
Financial	Financial information from accounting or management reports, budgets, or projections	Capital expenditures, Net utility plant, Program Project Costs, Total capital, Total revenue
Time Surveys	Time surveys are utilized to estimate the amount of time and associated costs of providing services	Portions of internal counsel, finance, executive oversight, regulatory

TYPE	DESCRIPTION	EXAMPLES
Blended or Multi-Factor	Weighted combinations of other drivers, used when one or more drives are applicable, and none is clearly preferable	Equal weighting of Capital, Labour, Revenue
Internal Cost Drivers		
All Internal Cost Drivers	Use the result of previous allocations as the basis for further allocations	Cost of general departmental expenses might be allocated in the same proportion as the specifically assigned departmental activities

Blended or Multi-Factor Allocation

The use of a multi-factor allocation to allocate costs that cannot be directly charged and for which a single cost allocation factor cannot be easily identified is a broadly respected and common practice across the utility industry. The most common multi-factor allocation is a three-factor formula, with each factor equally weighted (generally referred to as the Massachusetts Formula), where the three components of the factor are representative of: (1) Capital, (2) Revenue, and (3) Labour.[2] Implementing the Massachusetts Formula varies slightly as entities use different measures to represent the three components (e.g., net plant/rate base, revenue/margin, labour/headcount).

Often, the multi-factor allocator is chosen to account for the idea that the size and scope of a business impact the level of services provided to that entity from certain common corporate services. The corporate services that are impacted by the size and scope of the business are typically executive costs, board of directors, corporate affairs, CFO/controller, and general counsel. These are high-level costs that relate to the oversight and strategy of the business. The inability to find a single direct assignment that is most appropriate leads to the use of a multi-factor allocation that reasonably represents the size and scope of the business, which impacts the time and effort spent or the service received from these common corporate services. In short, it is more common to see multi-factor allocations as the requirement for an allocation moves away from direct operations up the organization to high-level support and strategy where multiple factors relate to the time and effort spent and benefits received.

For Milton's Corporate & Shared Cost Allocation Methodology the three-factor allocation driver based on Capital, Labour, and Revenue was utilized as appropriate to reflect the fact that the effort associated with a certain activity relates to the overall size, scale, and importance of each operating entity rather than to any single operating entity or by any allocation factor.

[2] For another example of the three factor formula being used see the Black & Veatch Common Cost Allocation Report filed in connection with Hydro One Networks Inc. 2023-2027 combined Distribution and Transmission rate application.

Allocation of Shared Corporate Services

Purpose of Allocating Shared Corporate Services

Milton's organizational structure takes advantage of the benefits of Shared Corporate Services and as a result it is necessary to allocate the costs for these Shared Corporate Services among Milton and its affiliated companies. While this allocation is in place to avoid cross-subsidization and comply with the Affiliate Relationships Code it also allows Milton leadership to evaluate all costs incurred by each affiliate.

Shared Corporate Services

Milton provides Shared Corporate Services through the Lines of Business that Atrium identified in **Table 4**, to the Affiliates and businesses identified in **Table 2**. **Table 4** contains the business units that provide Shared Corporate Services to other entities.

Table 4 – Lines of Business and Associated Business Units

Lines of Business	Business Unit	From	To	ARC Requirement
Corporate	CEO Office	MHHI	MHDI MHHI MEGS	s. 2.3.5.1
	CFO Office	MHHI	MHDI MHHI MEGS	s. 2.3.5.1
	Corporate Finance	MHDI	MHDI MHHI MEGS	s. 2.3.5.1
Customer Service	Customer Service - Billing	MHDI	MHDI MEGS (water billing)	s.2.3.4
	Customer Service - Call Centre Operations	MHDI	MHDI MEGS (water billing)	s.2.3.4
Information Technology	Information Technology	MHDI	MHDI MHHI MEGS	s. 2.3.5.1
	Communications Tower	MHDI	MEGS	s. 2.3.5.1
People, Culture and Safety	People, Culture and Safety	MHDI	MHDI MHHI MEGS	s. 2.3.5.1

Lines of Business	Business Unit	From	To	ARC Requirement
Regulatory Affairs	Regulatory Affairs	MHDI	MHDI	N/A[3]
Supply Chain Services	Supply Chain Services	MHDI	MHDI MHHI MEGS	s. 2.3.5.1

The Lines of Business in **Table 4** organize themselves into Business Units, which may represent a single activity or multiple activities. For instance, the Supply Chain Operations and Services Line of Business contains one Business Unit, however, supports multiple activities, including (1) Maintenance and oversight of facilities, (2) Oversight of fleet, (3) RFPs and Qualification Review, (4) Purchasing of goods and services, and (5) Stores and warehouse functions.

Cost Allocation Methodology

The allocation methodology for Milton's Common Corporate Costs was designed to address the following considerations:

- Compliance with relevant provisions of the Affiliate Relationships Code
- Cost incurrence- Are the costs needed to perform services required by the business?
- Cost allocation- Are costs appropriately allocated among businesses, based on the application of cost drivers /allocation factors supported by principles of causality?
- Cost/benefit- Do benefits received equal or exceed the cost?

An overview of the methodology is described below:

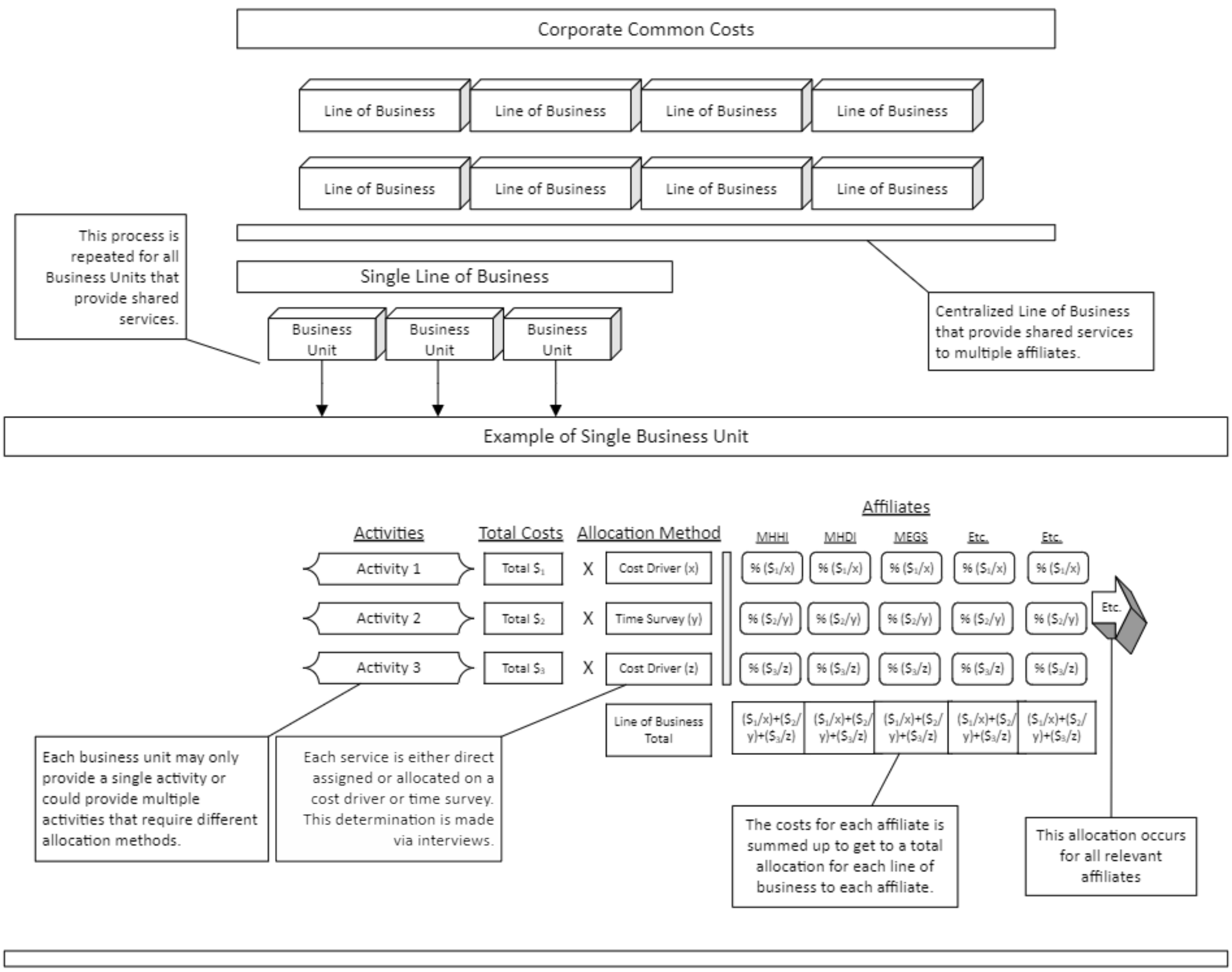
- Through interviews with Milton personnel, identify the Shared Corporate Services included in Common Corporate Costs and the activities performed to provide these Shared Corporate Services.
- Through interviews with Milton personnel, the costs of each shared service are distributed among the activities performed by that line of business to provide that shared service.
- Distribute the cost of each activity among Milton and its affiliated companies based on direct assignment or cost drivers when direct assignment is not possible.

[3] Regulatory Affairs only provides services to MHDI – however given the OEB's ARC definition of Shared Corporate Services includes regulatory this business unit was included.

Review Process Employed by Atrium Economics

The general process employed to conduct this review was to evaluate the Lines of Business that provide Shared Corporate Services to identify specific activities undertaken, review allocation options for those activities, and develop those allocation factors or time surveys to allocate the costs associated with each activity among Milton and its affiliated companies. The method is depicted below in Figure 1.

Figure 1 –Common Corporate Cost Allocation Methodology



Task 1. Review Milton's current organizational structure and identify Lines of Business that provide Shared Corporate Services

The purpose of this review was to evaluate which Lines of Business provide Shared Corporate Services to Milton and its affiliated companies. Milton captures these Common Corporate Costs within several Business Units which are listed in Table 4. The completion of this task resulted in the total Common Corporate Costs that provide Shared Corporate Services by Line of Business and the Business Units within each Line of Business.

Task 2. Identify the major activities performed in the provision of Shared Corporate Services

The purpose of this task was to identify the activities that are performed to provide each of the Shared Corporate Services. In short, it is the process of breaking down the Lines of Business into specific activities through reviewing budgeted data for Business Units and conducting interviews with each of the Lines of Business. To distribute the resources required to provide Shared Corporate Services based on cost causation, the activities performed were identified and described by Milton to Atrium Economics. The activities performed often aligned with the budgeted Business Units or a subset of the Business Unit was determined to provide a particular activity. For example, the Business Unit People, Culture and Safety was broken down into three separate activities General HR Functions, Health and Safety, External Communications, and Internal Communications, each with a unique allocation factor applied.

Task 3. Determine the level of costs incurred to perform the activities defined in Task 2

Once the activities were defined for each of the Lines of Business, the costs for each of these activities are derived using budgeted information for each Business Unit. If a Business Unit provides more than one activity, then the total Business Unit's cost was split across those activities based on input from Milton personnel familiar with the activities of that Business Unit.

Task 4. Review and choose an allocation method for each activity defined in Task 2

The purpose of this task was to choose which allocation method - either a time survey or a cost driver - is most appropriate for each activity. There are advantages and disadvantages to both time surveys and cost drivers. Time surveys can provide specific insights into how an employee or groups of employees spend time throughout a twelve-month period but also require judgement and estimation. Cost drivers are based on data but may not fully reflect the diversity in workload or the multi-faceted nature of what causes a cost to be incurred. Atrium Economics selected an allocation methodology and specific cost drivers based on applying the cost allocation principles discussed above, its expertise and experience in performing cost allocation studies, industry practices, and consultations with Milton as to the nature of each activity and availability of information.

Task 5. Determine which Affiliates and businesses are causing the activity to be performed or receiving the benefit of the activity

Once the allocation methodology was determined for a particular activity it was necessary to understand which affiliate companies or businesses were causing and/or receiving a benefit from that activity. The primary goal of this task was to ensure that costs were not being allocated to Affiliates who were not being served by the Shared Service activities.

Task 6. Review and determine allocation of non-labour costs

In addition to the detailed review conducted to determine the appropriate allocation methodology for labour costs, a review was completed to ensure non-labour costs were accurately allocated. In some instances, non-labour costs solely represent administrative and general departmental expenses for the Business Unit such as training for which those costs were allocated on the same basis as the labour dollars. In other instances where non-labour costs are unique in nature and should not follow the same allocation as labour a determination was made as to the appropriate cost driver.

Task 7. Populate cost drivers

The purpose of this task was to determine the values of each cost driver that are attributable to Milton and its affiliated companies to distribute the costs of each activity. The supporting information to develop these cost drivers was provided by Milton.

Task 8. Compute total Common Corporate Costs for Milton and its affiliated companies

The purpose of this task was to distribute the total cost of each activity based on the results of the time surveys and the chosen cost drivers. For allocations based on cost drivers, the amount allocated was computed by multiplying the activity cost to be allocated by the cost driver value for Milton and its affiliated companies.

Task 9. Compute Business Unit Allocation Factors for Milton's Business Plan Allocation Process

The culmination of Tasks 1-8 is the methodology for allocating the Common Corporate Costs which is applied to the costs within each Business Plan year for development of inputs into Milton's operating budgets. The method of converting the resulting Common Corporate Costs allocations into inputs into Milton's Operating Plan allocations is to develop allocation factors for each unique Business Unit. Milton's' budgeting and finance team then applies these Business Unit allocation factors to Milton's operating budgets.

Conclusions And Results

Atrium Economics believes that Milton's current Common Corporate Cost allocation methodology is appropriate for Milton because it achieves the purposes for which it was designed: to distribute costs in a manner that is consistent with OEB precedent and regulatory practice for cost allocation and promotes transparency and efficiency. Appendix A provides the resulting allocation methodology for each line of business and business unit.

Table 5 presents the results of Milton's distribution of the Common Corporate Costs for 2023 OEB approved as originally allocated, 2023 OEB approved based on updated allocation methodology and Business Plan year 2024 costs based on updated allocation methodology, among Milton Hydro and its Affiliates.

Table 5 - Distribution of Annual Common Corporate Costs

Shared Corporate Services	Service Offered/Shared Assets	2023 OEB Approved - Originally Allocated Costs		2023 OEB Approved - Updated Allocation Costs		2024 Allocated Costs	
		MHDI	Affiliated Companies	MHDI	Affiliated Companies	MHDI	Affiliated Companies
Total Shared Corporate Services	Total OM&A Services	-$882,593	$882,593	-$512,742	$512,742	-$535,781	$535,781

Allocation of Shared Assets

Purpose of Allocating Shared Assets

In addition to the allocation of Common Corporate Costs, it is necessary for compliance with the Affiliate Relationships Code to allocate the use and costs of Shared Assets among Milton and its affiliated companies. Atrium Economics' objective in reviewing the method of allocating Shared Assets was to ensure that the allocation is reasonable, reflects regulatory principles, does not result in cross-subsidization between businesses, and is consistent with the allocation of Common Corporate Costs.

Milton provided Atrium Economics with a list of all Shared Assets which is summarized by asset group and subgroup in Figure 2 below.

Figure 2 – Types of Shared Assets

ASSET GROUP	ASSET SUBGROUPS
Computer Software & Equipment	▪ Computer Hardware ▪ Computer Software
Buildings and Fixtures	▪ Land ▪ Buildings & Office Furniture and Equipment

Overview of Methodology

Most fixed assets are directly purchased by the businesses and the remaining assets, considered Shared Assets, are held by Milton Hydro for use by multiple affiliates. These assets are allocated to Milton Hydro and its Affiliates through an allocation factor. The general process employed was to gain an understanding of the nature of Shared Assets and the use of Shared Assets by Milton Hydro and its Affiliates. With this understanding, allocation options were reviewed and decided upon to allocate the costs of these Shared Assets amounts to Milton Hydro and its Affiliates.

Task 1. Review the nature and use of the Shared Assets

The asset subgroups listed in Figure 2 are comprised of dozens of fixed assets. These fixed assets are reviewed to gain an understanding as to the nature of the Shared Asset, the support the Shared Asset provides to the Shared Corporate Services, and support provided to businesses. Based on this review each specific asset was designated as solely supporting the activities of Milton Hydro or as a Shared Asset that supports its Affiliates.

Task 2. Calculate carrying cost of Shared Assets by Asset Group

For those assets that are designated as Shared Asset a carrying cost is calculated to reflect the cost of using these assets on an annual basis. The carrying cost was calculated by multiplying the net book value of the Shared Assets by the Milton Hydro's authorized weighed average cost of capital of 5.59%[4] and then adding to this product the annual depreciation and amortization.

Task 3. Allocated Shared Asset costs to the Businesses

The next step in the Shared Asset allocation methodology is to multiply the carrying cost for each Shared Asset subgroup by the chosen Cost Driver resulting in an allocation of total Shared Asset costs among Milton Hydro and its Affiliates. The Computer Software & Equipment and the Buildings and Fixtures carrying costs were allocated to the Affiliates based on total Headcount. These resulting dollar amounts were summed for each Shared Asset subgroup (i.e., Computer Software & Equipment and Buildings and Fixtures) to develop the total Shared Asset cost.

Conclusions and Results

Atrium Economics believes that Milton's current allocation of Shared Assets is appropriate for Milton because it aligns with the objectives for which it was designed; to fairly attribute and recover the Shared Assets from Milton Hydro and its Affiliates in a manner consistent with regulatory practice and the requirements of the Affiliate Relationships Code in Appendix B. Table 6 below provides the resulting allocation of Shared Asset values as of December 31, 2024[5].

Table 6 - Allocation of Shared Assets

	2024 Allocated Costs		
Shared Corporate Services	Total	MHDI	Affiliated Companies
Total Shared Assets	**$943,560**	**$940,260**	**$ 3,300**

[4] Milton Hydro 2023 Cost of Service Rate Application EB-2022-0049
[5] There were no shared assets prior to 2024.

Water Billing

In addition to our review of the methodology to allocate corporate costs among Milton and its affiliated companies, Atrium also reviewed the allocation of costs to Milton's water billing customers. Milton Hydro provides water billing services to the residents of the Town of Milton on behalf of the Regional Municipality of Halton ("The Region"). The Region and MEGS executed an agreement for water and wastewater billing and collection services to provide both billing and call centre support services. Additionally, Milton is responsible for contracting the reading of the water meters as well as all collection. Milton indicated to Atrium that they issued a request for information and proposals for water billing services from third-party vendors and did not receive any responses. As such, Atrium believes that the water billing services represents services where a reasonably competitive market does not exist, is not robust enough to serve Milton, or represents a niche market that would not result in competitive market pricing, and therefore s.2.3.4 of the Affiliate Relationship applies which the utility shall charge no less than its fully-allocated cost to provide that service. As such, Atrium's review was on the method of allocating costs to its water billing service.

Milton relies on internal resources to support the water billing and water meter reading processes with primary responsibility being within the Customer Service Billing group. This business unit supports billing activities for the distribution utility, water billings, and sentinel lights. Electric and water billings consist of daily bills, final bills, and new connection services. The Billing department handles all functions and costs of mailing out bills and verifying that electronic bills are appropriately issued. The Customer Service Call Centre Operations business unit manages all inbound communication support and collections for both water and electric billing.

To set appropriate rates, Milton is required to allocate costs between water and electricity customers. Currently, Milton utilizes the count of meters to allocate all indirect and direct charges between water and electric billing. However, approximately 96% of water meters are billed bi-monthly, whereas all electric meters are billed monthly.

Given the nature of the services being provided is more in proportion with the frequency of billing than the count of meters, Atrium finds it is more representative of cost causation to allocate these billing-related costs on the number of bills rendered rather than on the count of meters. It is far more likely that customers will call relating to their bills when bills are rendered, which is every two months for water billing customers. Further, the processes of reviewing bills, ensuring billing is accurate, verifying electronic bills are appropriately issued, and settlement processes will be aligned with the frequency of billing, not the count of meters.

Table 7 below outlines the impact of using meters billed vs. # of meters to allocate costs to electric and water billing for 2023 OEB Approved:

Table 7 - Operating Cost Allocated to Water Billing (2023 OEB Approved vs. 2023 OEB Approved - Reallocated)

Operating Expense Categories	($ Thousands)		
	2023 OEB Approved Original Allocation	2023 OEB Approved Updated Allocation	Changes Higher/(Lower)
Customer Service – Call Centre Operations	$319	$188	($130)
Customer Service - Billing	$445	$261	($184)
Supply Chain Services - Facilities	$7	$7	$0
Corporate Finance	$4	$4	$0
Information Technology - Labour	$19	$19	$0
IT License and Maintenance Costs	$30	$44	$14
Depreciation and Amortization	$24	$24	$0
Total	$847	$547	($300)

Table 8 below outlines the impact of using meters billed vs. # of meters to allocate costs to electric and water billing for the 2024 Plan:

Table 8 - Operating Cost Allocated to Water Billing (2024 Plan Original vs. Updated Allocation)

Operating Expense Categories	($ Thousands)		
	2024 Plan Original Allocation	2024 Plan Updated Allocation	Changes Higher/(Lower)
Customer Service – Call Centre Operations	$319	$245	($104)
Customer Service - Billing	$402	$212	($190)
Supply Chain Services - Facilities	$3	$3	$0
Corporate Finance	$3	$3	$0
Information Technology - Labour	$19	$19	$0
IT License and Maintenance Costs	$56	$56	$0
Depreciation and Amortization	$33	$33	$0
Total	$866	$572	($294)

Table 9 (based on the 2023 OEB Approved) below provides the underlying drivers for calculating the allocation percentages between number of meters billed and number of meters.

As shown in Table 9 below, for costs shared between water and electricity operations, the allocation to electricity increases by 15.27%, while the allocation to water decreases by the same amount. This shift results from using the number of bills rendered (i.e., meters billed) as the allocation basis instead of simply the number of meters (70.50% - 55.23% = 15.27% and 29.50% - 44.77% = -15.27%).

Table 9 - Allocation Of Meters (2023 OEB Approved)

Operating Expense Categories	# of Meters	# of Meters Billed
# of Electric Meters	43,676	524,111
# of Electric Unmetered	9	108
# of Electric (Final Bills)	843	10,120
# of Electric Meters and Unmetered Billed	44,528	534,339
# of Water Meters (Monthly)	1,169	14,032
# of Water Meters (Bi-Monthly)	34,367	206,201
# of Water Unmetered (Bi-Monthly)	9	54
# of Water (Final Bills) – (Bi-Monthly)	554	3,324
# of Water Metered and Unmetered Billed	36,099	223,610
Allocation to Electricity	55.23%	70.50%
Allocation to Water	44.77%	29.50%

Table 10 (based on the 2024 Plan) below provides the underlying drivers for calculating the allocation percentages between number of meters billed and number of meters for the 2024 Plan.

Table 10 - Allocation Of Meters (2024 Plan)

Operating Expense Categories	# of Meters	# of Meters Billed
# of Electric Meters	44,877	538,525
# of Electric Unmetered	9	108
# of Electric (Final Bills)	843	10,120
# of Electric Meters and Unmetered Billed	45,729	548,753
# of Water Meters (Monthly)	1,201	14,414
# of Water Meters (Bi-Monthly)	35,312	211,873
# of Water Unmetered (Bi-Monthly)	9	54
# of Water (Final Bills) – (Bi-Monthly)	554	3,324
# of Water Metered and Unmetered Billed	37,076	229,664
Allocation to Electricity	55.22%	70.50%
Allocation to Water	44.78%	29.50%

The rise in cost allocation to electricity activities is primarily attributable to charges from the Billing & Call Centre Operations business units, as well as offsetting reductions in cost allocation to electricity activities attributable to IT license and maintenance costs. Per Table 7, in the 2023 OEB-approved application by MHDI, shared service allocations to water billing activities amounted to $847K and based on the updated corporate shared services study, the costs allocated to electricity were reduced by $300K to $547K.

Table 11 below delineates the differences between the allocations for electricity and water activities for the 2023 OEB Approved customer service, call centre operations costs allocated based on the number of meters billed and the number of meters. Water activities costs for customer service, call centre operations are $188,282 allocated based on the number of meters billed as compared to water activities costs for customer service, call centre operations of $318,660 allocated based on the number of meters. Thus, resulting in a decrease in the allocation of costs to water activities of $130,379 with a corresponding increase in the allocation of costs to electricity activities of $130,379.

In addition, as part of the corporate cost allocation, originally Credit Insurance costs were allocated to water activities on the basis of number of meters. In the revised shared service model methodology, management reviewed the insurance policy to discern whether any of the insurance premiums related to only electricity activities or if such costs should be shared between water and electricity. As a result of this review it was identified that the insurance premiums related 100% to electricity activities. The Credit Insurance costs allocated to water activities were reduced from $34,083, to $0 based on the credit insurance policy.

Table 11 - Customer Service - Call Centre Operations (based on 2023 OEB Approved Amounts)

	# of Meters Billed			# of Meters				
	Allocation to electricity	Allocation to Water	Total Costs	Allocation to electricity	Allocation to Water	Total Costs	Variance (Electricity)	Variance (Water)
Bad debt expense and collections	152,840	-	152,840	152,840	-	152,840	-	-
Direct Labour - internal resources	441,827	184,896	626,723	346,122	280,601	626,723	95,705	(95,705)
Credit Insurance	76,125	-	76,125	42,042	34,083	76,125	34,083	(34,083)
Various Other	8,091	3,386	11,477	7,501	3,976	11,477	590	(590)
Total Call Centre	678,883	188,282	867,165	548,504	318,660	867,165	130,379	(130,379)

Table 12 below delineates the differences between the allocations for electricity and water activities for the 2023 OEB Approved customer service, billing costs allocated based on the number of meters billed and the number of meters. Water activities costs for customer service, billing operations are $261,051 allocated based on the number of meters billed as compared to water activities costs for customer service, billing operations of $444,558 allocated based on the number of meters. Thus, resulting in a decrease in the allocation of costs to water activities of $183,507 with a corresponding increase in the allocation of costs to electricity activities of $183,507.

In addition, there has been a change in how IT Software and license support costs are allocated; IT Software and license support are no longer charged to the Customer Service - Billing business unit. Costs have been centralized to the Information Technology department and are now detailed in Tables 7 and 8 under 'IT license and maintenance costs'. Moreover, there has been a $14K increase in 'IT license and maintenance costs' allocated to water billing activities per Table 7. In the revised shared service model methodology, management reviewed each license contract to discern whether the service was specifically required for electricity services or shared between water and electricity. As a result, 'IT license and maintenance costs' allocated between electricity and water were updated to reflect appropriate utilization and cost allocation.

Table 12 - Customer Service – Billing (based on 2023 OEB Approved Amounts)

	# of Meters Billed			# of Meters				
Customer Service - Billing	Allocation to electricity	Allocation to Water	Total Costs	Allocation to electricity	Allocation to Water	Total Costs	Variance (Electricity)	Variance (Water)
Consulting - electricity rate billing support	28,146	11,779	39,925	22,049	17,875	39,925	6,097	(6,097)
Direct Labour - internal resources	281,083	117,628	398,711	220,197	178,514	398,711	60,886	(60,886)
Postage and printing supplies	196,970	82,428	279,398	196,970	82,428	279,398	-	-
Various other	29,641	49,217	78,858	24,130	54,727	78,858	5,511	(5,511)
Total Billing	535,841	261,051	796,892	463,347	333,545	796,892	72,494	(72,494)
IT Software and license support *	-	-	-	136,935	111,013	247,948	(136,935)	(111,013)
Total	535,841	261,051	796,892	600,282	444,558	1,044,840	(64,441)	(183,507)

Table 13 below delineates the differences between the allocations for electricity and water activities for the 2024 Plan customer service, call centre operations costs allocated based on the number of meters billed and the number of meters. Water activities costs for customer service, call centre operations are $245,372 allocated based on the number of meters billed as compared to water activities costs for customer service, call centre operations of $349,805 allocated based on the number of meters. Thus, resulting in a decrease in the allocation of costs to water activities of $104,433 with a corresponding increase in the allocation of costs to electricity activities of $104,433.

Table 13 - Customer Service - Call Centre Ops (based on 2024 Plan)

	# of Meters Billed			# of Meters				
	Allocation to electricity	Allocation to Water	Total Costs	Allocation to electricity	Allocation to Water	Total Costs	Variance (Electricity)	Variance (Water)
Bad debt expense and collections	143,838	14,162	158,000	136,508	21,492	158,000	7,330	(7,330)
Direct Labour - internal resources	444,350	185,969	630,319	348,094	282,225	630,319	96,256	(96,256)
Credit Insurance	67,069	-	67,069	67,069	-	67,069	-	-
Various Other	17,302	45,241	62,543	16,455	46,088	62,543	846	(846)
Total Call Centre	672,558	245,372	917,930	568,126	349,805	917,930	104,433	(104,433)

Table 14 below delineates the differences between the allocations for electricity and water activities for the 2024 Plan for customer service, billing costs allocated based on the number of meters billed and the number of meters. Water activities costs for customer service, call centre operations are $212,377 allocated based on the number of meters billed as compared to water activities costs for customer service, call centre operations of $401,993 allocated based on the number of meters. Thus, resulting in a decrease in the allocation of costs to water activities of $189,617 with a corresponding increase in the allocation of costs to electricity activities of $189,617.

Table 14 - Customer Service – Billing (based on 2024 Plan)

	# of Meters Billed			# of Meters				
Customer Service - Billing	Allocation to electricity	Allocation to Water	Total Costs	Allocation to electricity	Allocation to Water	Total Costs	Variance (Electricity)	Variance (Water)
Consulting - electricity rate billing support	28,903	12,097	41,000	22,642	18,358	41,000	6,261	(6,261)
Direct Labour - internal resources	291,849	122,145	413,994	228,628	185,366	413,994	63,221	(63,221)
Bill printing, Settlement and MV90 services	231,704	16,227	247,931	223,305	24,626	247,931	8,399	(8,399)
Postage and printing supplies	144,587	60,513	205,100	144,587	60,513	205,100	-	-
Various other	3,333	1,395	4,729	2,611	2,117	4,729	722	(722)
Total Billing	700,377	212,377	912,754	621,774	290,980	912,754	78,603	(78,603)
IT Software and license support *	-	-	-	136,935	111,013	247,948	(136,935)	(111,013)
Total	700,377	212,377	912,754	758,709	401,993	1,160,702	(58,332)	(189,617)

Appendix A – Common Corporate Costs Allocation – Details on All Lines of Businesses

BUSINESS UNIT	DESCRIPTION OF ACTIVITES	METHOD OF ALLOCATION
MHHI		
Board of Directors	Executive Committee and Strategy	Capital, Labour, Revenue
CEO Office	Oversight of MHDI, Other Operations	Capital, Labour, Revenue
CFO Office	Oversight of MHDI, Other Operations	Capital, Labour, Revenue
Corporate	Corporate Operations	Capital, Labour, Revenue
Network Operations - Executive	LDC Oversight	Direct Assignment to MHDI
MHDI		
Corporate	Corporate Operations	Direct Assignment to MHDI
Corporate Finance	Financial Planning, Treasury, and Reporting. Accounting, Accounts Payable, Payroll Services	MHDI Oversight - Direct Assignment to MHDI General Corporate Support - Capital, Labour, Revenue
Customer Service – Call Centre Operations	The Customer Care Centre supports Call Centre Operations (phone lines) and customer care inbox monitoring. They support new customer set-ups, processing of payments, pre-authorization payment set-ups (budget billings), collections (reminders, collection letters, and shutoffs), and write-offs. Collect Sense is outsourced staff to help with collections. Ducon is an outside company that does repairs for sentinel lights.	Allocation to Water Billing on Number of Bills Rendered
Customer Service - Billing	The Customer Service Billing business unit supports billing activities for the distribution utility, water billings, and sentinel lights. Electric and water billings consist of daily bills, final bills, and setting up new services. Handle all functions and costs of mailing out bills and verifying that electronic bills get sent.	Allocation to Water Billing on Number of Bills Rendered
Information Technology	Information Technology supports multiple business activities. IT Security,	LDC Specific Software & Hardware – Direct to MHDI

BUSINESS UNIT	DESCRIPTION OF ACTIVITES	METHOD OF ALLOCATION
	Helpdesk support for laptops, service orders, system licensing, computer systems, CIS systems, Office 365, Cloud, etc. The System Analyst supports report building (ERP and Financial Systems). The IT team also maintains server data and equipment, cellular data plans and mobile costs.	PC Support - Headcount Direct Assignment to Water Billing based on Review of Software and Hardware
People, Culture and Safety	Human Resources including labour relations, compensations, benefits, disability management, and recruiting. Health and Safety for the distribution entity, fieldwork, and office staff. Communications both internal and external.	General HR, Internal Communications, and Health & Safety on Headcount External Communications on Capital, Labour, Revenue
Regulatory Affairs	OEB Compliance, Distribution Regulatory Activities, Service Level Agreements	Direct to MHDI
Supply Chain Services	Maintenance and oversight of facilities (includes control room), oversee and maintenance of fleet, including new vehicles. RFP and Qualification reviews, purchasing of goods and services, inbound/outbound freight to jobs.	MHDI Supply Chain Direct Assignment to MHDI MEGS Supply Chain Direct Assignment to MEGS Office Space Facilities on Headcount or Direct Assign to Control Room, Utility Locates, and MEGS Executive Garage & Warehouse Direct Assignment to MHDI, MEGS, Utility Locates
MEGS		
Water Billing	Water Billing, Meter Reading	Direct Assignment to Water Billing Services
Rooftop Rental	Rental of Rooftop	Direct Assignment to Solar/FIT
Communications Tower	Land Lease Rental Expense	Direct Assignment to Comms Tower
Utility Locates	Utility locating services	Direct Assignment to Utility Locates
Control Room	Control Room Operation Services	Direct Assignment to Control Room
Joint Use Duct	Management of communication duct infrastructure	Direct Assignment to Joint Use Duct

Appendix B – Provisions of the Affiliate Relationships Code Considered

In the Settlement Proposal filed on August 26, 2022, the Parties agreed that Milton Hydro would undertake an independent third-party review of its methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application. The Settlement Proposal states the intent of the study is to ensure that Milton Hydro's methodology to allocate cost between its affiliates is reasonable and complies with relevant provisions of the OEB's *Affiliate Relationship Code for Electricity Distributors and Transmitters*.

Atrium Economics primarily focused its analysis on the following provisions of the *Affiliate Relationship Code for Electricity Distributors and Transmitters* when assessing compliance:

"**affiliate**", with respect to a corporation, has the same meaning as in the Business Corporations Act (Ontario);

"**direct costs**" means costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre;

"**fully-allocated cost**" means the sum of direct costs plus a proportional share of indirect costs;

"**indirect costs**" means costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre, and include but are not limited to overhead costs, administrative and general expenses, and taxes;

"**information services**" means computer systems, services, databases and persons knowledgeable about the utility's information technology systems;

"**market price**" means the price reached in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act;

"**shared corporate services**" means business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee, or public affairs;

<u>2.3.3 Where a Market Exists</u>

2.3.3.1 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource or use of asset from an affiliate.

2.3.3.6 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall charge no less than the greater of (i) the market price of the service, product, resource or use of asset and (ii) the utility's fully-allocated cost to provide service, product, resource or use of asset, when selling that service, product, resource or use of asset to an affiliate.

2.3.4 Where No Market Exists

2.3.4.1 Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost may include a return on the affiliate's invested capital. The return on invested capital shall be no higher than the utility's approved weighted average cost of capital.

2.3.4.2 Where a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility sells to an affiliate, the utility shall charge no less than its fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost shall include a return on the utility's invested capital. The return on invested capital shall be no less than the utility's approved weighted average cost of capital.

2.3.5 Shared Corporate Services

2.3.5.1 For shared corporate services, fully-allocated cost-based pricing (as calculated in accordance with sections 2.3.4.1 and 2.3.4.2) may be applied between a utility and an affiliate in lieu of applying the transfer pricing provisions of section 2.3.3.1 or section 2.3.3.6, provided that the utility complies with section 2.3.4.3.