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BY EMAIL

October 21, 2025

Ritchie Murray
Acting Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ritchie Murray:

**Re: Ontario Energy Board (OEB) Staff Submission
Milton Hydro Distribution Inc.
2025 Application for an Accounting Order
OEB File Number: EB-2025-0241**

Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Original Signed By

Urooj Iqbal
Incentive Rate-setting

Encl.

cc: All parties in EB-2025-0241



ONTARIO ENERGY BOARD

OEB Staff Submission

Milton Hydro Distribution Inc.

2025 Application for an Accounting Order

EB-2025-0241

October 21, 2025

Application

This is OEB staff submission on Milton Hydro Distribution Inc.'s (Milton Hydro) application for an accounting order filed on July 31, 2025, with the Ontario Energy Board (OEB) under section 78 of the *Ontario Energy Board Act, 1998*. In the application, Milton Hydro requested an accounting order for the establishment of a new deferral and variance account: Corporate Cost Allocation Variance Account (CCAVA) to track the revenue requirement impacts arising from changes in the allocation of shared services and corporate costs approved in Milton Hydro's last rebasing application. If approved, the accounting order would allow Milton Hydro to record the difference between the amounts approved in its 2023 Cost of Service (CoS) proceeding and updated figures based on a third-party review of its cost allocation methodology.

As part of the Settlement Proposal in its 2023 CoS proceeding, Milton Hydro committed to undertake an independent third-party review of the methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application.¹ Milton Hydro proactively engaged in an independent third-party review of its methodology to allocate common costs among its affiliates, prior to its next rebasing application.

Atrium Economics conducted the third-party review and produced a cost allocation report dated September 27, 2024; this was included as part of Milton Hydro's accounting order application. The review revealed that \$369,851 in shared services and corporate costs were overallocated to Milton Hydro's affiliates. Milton Hydro stated that the overallocation of costs to its affiliates resulted in ratepayers being undercharged.²

Milton Hydro requested approval to establish the CCAVA to record the difference between the shared services and corporate costs allocated in the 2023 approved cost allocations and the updated amount pursuant to the Atrium Economics' Report. Although Milton Hydro does not request the disposition of the account balance in this application, Milton Hydro proposed to record \$369,851 annually from January 1, 2025, until the next rebasing year (2028) and apply carrying charges on the account balance. Milton Hydro also mentioned that it plans to recover the account balance only if Milton Hydro's average actual regulated Return on Equity (ROE) does not exceed the OEB-approved ROE, for the fiscal years from 2025 until the last audited fiscal year for the next rebasing application.³

¹ EB-2022-0049, Settlement Proposal, August 26, 2022, p. 22

² EB-2025-0241, Application for an Accounting Order, July 31, 2025, p.4

³ EB-2025-0241, Application for an Accounting Order, July 31, 2025, p.4

In response to an interrogatory,⁴ Milton Hydro clarified the proposed guardrail mechanism to be applied to the CCAVA:

A binary guardrail with no deadband: Disposition would not be permitted if Milton Hydro aggregated actual regulated ROE for January 1, 2025 through December 31 of the last audited fiscal year before the next rebasing (currently 2027) exceeds the OEB-approved ROE. How the guardrail is applied: The guardrail is tested at post-audit confirmation with a filing by May 1 of the next rebasing year. If the guardrail passes, the preliminary rider becomes final; if it fails, collections cease immediately, and all amounts billed under the preliminary rider are refunded with interest via Account 1595.⁵

OEB staff summarized Milton Hydro's rationale in supporting the new DVA in this application based on its interrogatory responses as follows:

- The DVA is an appropriate regulatory mechanism to address the misstated corporate cost in its 2023 rebasing application⁶
- The new DVA meets the OEB's eligibility criteria as stated in Chapter 2 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications*⁷
- The updated cost allocation study and the resulting impact sought by Milton Hydro in this application are not inconsistent with the settlement agreement approved by the OEB in its 2023 Cost of Service proceeding⁸
- OEB precedent cases (Oakville Hydro's 2018 and Halton Hill Hydro's 2018 IRM applications) support Milton Hydro's proposal in this application⁹

⁴ IRR OEB Staff-9 a) and Schedule A

⁵ IRR OEB Staff-9 (a)

⁶ IRR SEC-1, CCC-2 (d)

⁷ IRR CCC-2 (e)

⁸ IRR Staff-7

⁹ IRR CCC-3 (a) and (b), Staff-8 (a)

OEB Staff Submission

OEB Staff submits that on a stand-alone basis, the new DVA may meet the Causation and Materiality criteria and the updated cost allocation study may appear acceptable, although OEB staff has only reviewed the study on a preliminary basis in the context of the current application, OEB staff does not support Milton Hydro's proposal of seeking to recover the impact of previously misstated cost element in its fully settled 2023 rebasing application using a DVA on a prospective basis. OEB staff submits that Milton Hydro's proposal does not align with the intent of the OEB-approved 2023 CoS settlement proposal, which contemplated a review of Milton Hydro's methodology to allocate common costs among its affiliates and produce a report as part of its next rebasing application.¹⁰ OEB staff submits that the updated cost allocation study should be considered as part of Milton Hydro's next CoS application, when full assessment of costs, allocation, and related accounting treatment can be undertaken.

Furthermore, OEB staff notes that despite the alleged understated corporate cost approved in the 2023 rebasing application, there are no immediate concerns regarding Milton Hydro's financial viability. Milton Hydro's actual 2023 and 2024 return on equity (ROE), while within 300 basis points, still exceeded its approved ROE of 8.66%.^{11 12} This absence of financial viability concerns weakens Milton Hydro's proposal of recovering the cost differential from the updated cost allocation study through a DVA during the rate term.

OEB staff notes that Milton Hydro has proposed applying a Return on Equity (ROE) guardrail to support the use of a DVA for recovering the annual cost differential from 2025 until its next rebasing application. OEB staff does not support the creation of the DVA, but should the OEB decide to approve the DVA, OEB staff submits that the ROE guardrail could be further strengthened to better protect ratepayers while still maintaining Milton Hydro's financial viability. Specifically, OEB staff suggests enhancing the proposed guardrail—from limiting recovery when the actual ROE exceeds the approved ROE, to allow recording the cost differential amount (representing potential recovery from the ratepayers) only in the year when the actual ROE falls more than 300 basis points below the approved ROE from January 1, 2026, to December 31 of the last audited fiscal year immediately preceding the next rebasing year. In addition, carrying charges should not be allowed on any principal amount recorded in the account, even Milton Hydro passes the improved guardrail.

In this submission, OEB staff has addressed Milton Hydro's proposal in detail across the following areas:

¹⁰ EB-2022-0049, Settlement Proposal, August 26, 2022, p. 22

¹¹ IRR SEC-4 b)

¹² Manager's Summary, p.4

Consistency with the OEB-approved 2023 Settlement Proposal

A key issue in this application is whether the adjustment resulting from the updated cost allocation review is consistent with Milton Hydro's OEB-approved 2023 settlement proposal. Milton Hydro's view is that it is consistent because: 1) Milton Hydro's proposal is not changing what was settled in the 2023 CoS proceeding because the DVA request in this application is effective from 2025 until next rebasing application; and 2) the 2023 settlement proposal is silent on and contains no provisions permitting or restricting relief tied to the third-party review¹³. OEB staff cannot agree with these submissions and will address Milton Hydro's second point first.

OEB staff suggests that it would be helpful to begin by considering the preamble to the OEB-approved settlement proposal – presented as “a complete agreement on all issues in this proceeding.” At p.7, the parties state (in part):

The final agreements of the Parties following the Settlement Conference are set out below. The Parties explicitly request that the OEB consider and accept this Settlement Proposal as a package. None of the matters in respect of which a settlement has been reached is severable. Numerous compromises were made by the Parties with respect to various matters to arrive at this Settlement Proposal. If the OEB does not accept this Settlement Proposal in its entirety, then there is no agreement, unless the Parties agree, in writing, that the balance of this Settlement Proposal may continue as valid settlement subject to any revisions that may be agreed upon by the Parties.

It is further acknowledged and agreed that none of the Parties will withdraw from this Settlement Proposal under any circumstances, except as provided under Rule 30.05 of the Rules.

The list of modifications to the revenue requirement and associated rates and charges in Section C (Summary) clearly illustrates that compromises were made by the parties in arriving at the settlement proposal.

The matter at issue here relates to the calculations of Other Revenue used in the settlement proposal – Milton Hydro's “methodology to allocate cost between affiliates” related to the calculation of Other Revenue used and accepted by the parties. At p.27, the parties wrote:

d) Other Revenue: The Parties agree that the other revenue calculations, as presented in this Settlement Proposal, are appropriate and have been determined in accordance with OEB policies and practices.

Though not resulting in any modifications to Milton Hydro's proposed Other

¹³ Response to SEC-2.

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*.¹⁴

Whether the other revenues were modified or remained as filed in the application, OEB staff submits that agreement on other revenues represented one of the many matters the parties considered in arriving at their proposal. OEB staff does not agree that the silence of the settlement proposal on revisiting other revenues leads to a reasonable conclusion that the cost allocation component can be adjusted in isolation prior to the next rebasing application. Moreover, OEB staff submits that the settlement proposal is not silent on the issue of other revenues – on the contrary, the proposal provides that Milton Hydro will bring forward a third-party report as part of its next CoS application.

According to the OEB's *Practice Direction on Settlement Conferences*, a filed and OEB-accepted settlement proposal is binding on all the parties who have agreed to it.¹⁵ OEB staff submits that Milton Hydro appears to be attempting to reopen a single element of a comprehensive proposal. OEB staff submits that the proposed changes and associated accounting treatment would be more appropriately reviewed in Milton Hydro's next CoS application, when the broader cost structure, allocation, and rate impacts are fully assessed. That is consistent with the provisions of the approved settlement proposal, and with the OEB's policies in relation to settlement proposals.

OEB staff submits that Milton Hydro's first point (that the requested DVA is not changing what was agreed to in the settlement proposal because it would apply only from 2025 to Milton Hydro's next rebasing) ignores the purpose of its own requested DVA. Leaving aside the fact that Milton Hydro's rates for 2025 have already been established on a final basis, Milton Hydro is well aware that it is operating under the OEB's Price Cap IR framework. Its 2023 revenue requirement and rates were established based on the complete OEB-approved settlement proposal, in which Milton Hydro and the intervenors agreed to a value for other revenues. The rates for 2024 to 2027 are set under the OEB's price-cap IR framework.¹⁶ The OEB's *Handbook for Utility Rate Applications* identified that under the Price Cap IR methodology, base rates are set through a cost of service process for the first year and the rates for the following four years are adjusted using a formula specific to each year.¹⁷ While allowing the use of the DVA from 2025 forward might address retroactivity-related issues (again, ignoring the fact that Milton Hydro's rates are final for 2025), that is beside the point. The effect of Milton Hydro's proposed DVA would be to provide for the adjustment of a single component of the

¹⁴ EB- 2022-0049, Decision and Order, Settlement Proposal, October 13, 2022, Schedule A, p.22

¹⁵ [Ontario Energy Board Practice Direction on Settlement Conferences](#), February 17, 2021

¹⁶ IRR-CCC-a) and c)

¹⁷ [Ontario Energy Board Handbook for Utility Rate Applications](#), October 13, 2016, p.23

revenue requirement in isolation between rebasing applications and in the face of an agreement that explicitly provided that the third-party report of the kind relied on by Milton Hydro in the current case would be used in Milton Hydro's next rebasing case. OEB staff does not support an adjustment of this kind in the current circumstances.

OEB staff submits that it is appropriate for Milton Hydro to maintain the revenue requirement established based on the 2023 OEB-approved settlement proposal, subject only to formulaic adjustments. This approach aligns with the principles of the Price Cap IR framework and remains consistent with the approved 2023 settlement proposal.

Appropriateness of the Proposed Regulatory Mechanism

Milton Hydro considers the proposed new DVA the appropriate regulatory mechanism to recover incremental costs associated with a change to previously approved shared service and corporate cost allocation. Given the proposed effective date for the proposed CCAVA is January 1, 2025, Milton Hydro believes that the variance account enables the prospective recording of annual revenue requirement understatement resulting from the updated affiliate cost allocation methodology, as validated by the Atrium Economics review. Also, the proposed CCAVA avoids retroactivity while preserving customer protection at disposition.¹⁸

Moreover, in response to an interrogatory question, Milton Hydro stated that the proposed variance account is “consistent with prior OEB practice, the use of a variance account during an IR term to address a material understatement identified via improved information is appropriate and avoids retroactivity while preserving customer protections at disposition”.¹⁹

OEB staff submits that the DVAs may not be an appropriate rate mechanism to address any material adjustments due to improved information/evidence between the rebasing applications. OEB staff is of the view that a DVA is regulatory tool used by the OEB to either track the variance on the specific costs or revenues that deviate from amounts approved in a cost-based application or track the costs on certain programs or projects when the costs cannot be reasonably forecasted during the cost-based applications. Frequent use of a DVA to adjust the material change due to improved information/evidence of a cost component in cost-based applications during the rate term, especially to the benefit of the utility rather than to the benefit of the customers, would undermine the rates set under the current rate-setting mechanism.

OEB staff acknowledges that from time to time, OEB may approve DVAs to allow the utilities to adjust due to material errors or updated information. However, OEB is of the view that Milton Hydro's request may not be comparable to these precedent cases. Further analysis of the precedent cases is in the section below.

¹⁸ Interrogatory Responses, CCC-2, d) and e)

¹⁹ Interrogatory Responses, CCC-3, e)

Precedent Cases

Milton Hydro stated that the use of a variance account during an Incentive Rate-setting Mechanism (IRM) term is appropriate to address a material understatement identified via improved information and consistent with OEB's prior practice.²⁰ Milton Hydro noted that Halton Hills Hydro Inc.'s 2018 IRM application²¹ is comparable to Milton Hydro's current request, as both involve a material impact on revenue requirement on the utility during the IR term that could impair its ability to earn a fair return. Milton Hydro also referenced Oakville Hydro Electricity Distribution Inc.'s Accounting Order application,²² noting both cases involve a third-party review addressing shared allocations and the use of an accounting order to establish a variance account during an IR term.^{23 24}

OEB staff submits that the precedent cases referenced by Milton Hydro are not applicable to its current request. In Halton Hills Hydro's DVA application, the OEB approved the establishment of a new DVA in the IRM proceeding as an exception, due to a material error in depreciation expense identified in Halton Hills Hydro's last rebasing application.²⁵ In contrast, Milton Hydro's request does not involve correcting an error. In response to an interrogatory question,²⁶ Milton Hydro confirmed it is not asserting that its financial accounting records were inaccurate before the changes to its corporate cost allocation methodology. Milton Hydro is also not suggesting that it was non-compliant with the OEB's ARC prior to the update.

The Oakville Hydro Electricity Distribution Inc. accounting order case is not comparable to Milton Hydro's current request. In that proceeding, Oakville Hydro sought two key items of relief: (i) an accounting order to establish a variance account to record the difference between occupancy charges for rental revenues Oakville Hydro charged its affiliate approved in the utility's 2014 rates and amounts determined to be appropriate in subsequent reviews; and (ii) the approval of Oakville Hydro's 2016 and 2017 distribution rates on a final basis. That proceeding related in turn to Oakville Hydro's 2014 Cost of Service proceeding, in which the OEB-approved settlement proposal provided that an independent third-party would conduct a study of the cost allocation between Oakville Hydro and one of its unregulated affiliates. "The settlement agreement stipulated that Oakville Hydro would file the Study with its 2016 IRM application and that the OEB would then determine how to proceed."²⁷ Oakville Hydro did not file the study with its 2016 IRM application, so the OEB approved Oakville Hydro's 2016 rates on an interim basis. Subsequently, the subject affiliate was sold to an independent third party, and Oakville Hydro underwent an OEB review of the cost allocation practices between

²⁰ IRR-CCC-2(e)

²¹ EB-2017-0045, Halton Hills Hydro Inc., Decision and Rate Order, April 26, 2018, Section 8

²² EB-2017-0202, Oakville Hydro Electricity Distribution Inc., Decision and Order, October 26, 2017, p. 4

²³ Manager's Summary, pp. 4-5

²⁴ Interrogatory Responses, CCC-3, a) and b)

²⁵ EB-2017-0045, Halton Hills Hydro Inc., Decision and Rate Order, April 26, 2018, pp. 19-20

²⁶ IRR-Sec-3

²⁷ EB-2017-0202, Oakville Hydro Electricity Distribution Inc., Decision and Order, October 26, 2017, p. 2

Oakville Hydro and its affiliates, and Oakville Hydro's 2017 rates were also declared interim.²⁸

As the OEB noted in the accounting order decision, Oakville Hydro determined that it had undercharged its affiliate for occupancy dating from May 1, 2014 through December 31, 2016. The OEB allowed the establishment of the accounting order to enable Oakville Hydro to return the amounts by which Oakville Hydro's customers had been overcharged.

Unlike the settlement proposal that predated the Oakville Hydro accounting order application, Milton Hydro's settlement proposal included an agreed-upon value for other revenues. There was no agreement to file the cost allocation report prior to the next rebasing application. The allocations were not subject to potential adjustment based on the third-party report – the third-party report was to be brought forward at the next rebasing, but there was no provision for an adjustment to the revenue requirement established in the settlement proposal. Finally, the Oakville Hydro accounting order application involved the return of money to customers, and not the recovery of money from them.

OEB staff notes that there is an OEB precedent case with similarities to Milton Hydro's DVA request in this application. This is Toronto Hydro's 2023 Custom IR update application,²⁹ in which Toronto Hydro requested a new DVA to record the impact from an updated depreciation study that was agreed to be filed in its next cost-based application. However, the requested DVA was asymmetrical to the benefit of Toronto Hydro's customers. The OEB approved the DVA in that application. Milton Hydro's request is the opposite – it seeks a DVA for later recovery from customers, not for reimbursement to them. OEB staff reiterates that it would not be appropriate to allow Milton Hydro to reopen an isolated element of the settlement agreement approved by the OEB three years ago for this purpose.

Eligibility Criteria for the Establishment of the CCAVA

While OEB staff opposes the establishment of the requested DVA for the reasons set out above, OEB staff has also considered the OEB's criteria for the establishment of DVAs, and notes that the requested CCAVA does meet the causation and materiality criteria but not the prudence criterion as set out in the Chapter 2 of the Filing Requirements.³⁰

²⁸ EB-2017-0202, Oakville Hydro Electricity Distribution Inc., Decision and Order, October 26, 2017, p. 4

²⁹ EB-2022-0065, Toronto Hydro-Electric System Limited, Decision and Rate Order, December 8, 2022, pp. 21 - 22

³⁰ [Chapter 2 Filing Requirements for Electricity Distribution Rate Applications](#), December 9, 2024, S.2.9.2, pp. 68-69

Causation and Materiality

OEB staff agrees with Milton Hydro that the criterion for Causation is met. OEB staff notes the proposed annual fixed amount of \$369,851 is not included in Milton Hydro's 2023 rate base because this amount represents the cost difference between the previously approved shared services and corporate costs of \$882,593³¹ and the updated amount of \$512,742 pursuant to the Atrium Economics Report.³²

OEB staff submits that the Materiality criterion has been met as the proposed annual fixed amount of \$369,851 exceeds Milton Hydro's materiality threshold of \$114,696³³ based on the base revenue requirement approved in its 2023 CoS application.

Prudence

Under the Prudence criterion, the OEB requires that the nature of the amounts and forecasted 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.

Milton Hydro stated in its application that the prudence criterion has been met as it demonstrated good governance by advancing the review early (before its next rebasing application). The review was conducted by a reputable and experienced consultant, and the resulting report provides clear justification for updates to the corporate cost allocation methodology. Milton Hydro noted that the third-party report follows the requirements of OEB's ARC and aligns with the principle of fully allocated cost-based pricing. Milton Hydro also confirmed that its proposed draft accounting order was prepared in accordance with the OEB Accounting Procedures Handbook and Chapter 2 of the Filing Requirements.

OEB staff does not agree that the proposed DVA is prudent. As part of the OEB-approved settlement proposal³⁴ related to Milton Hydro's revenue requirement, the Parties agreed that "the other revenue calculations, as presented in this Settlement Proposal, are appropriate and have been determined in accordance with OEB policies and practices." This aligns with Milton Hydro's response to an interrogatory question, where it confirmed that it is not asserting that its financial accounting records were inaccurate before the changes to its corporate cost allocation methodology, nor was the cost allocation methodology out of compliance with the OEB's ARC prior to the

³¹ EB-2022-0049, Decision and Rate Order, November 29, 2022, Draft Rate Order 2023 Revenue Requirement Workform, Appendix 2-N

³² Manager's Summary, Appendix 2 Atrium Economics Report, Table 1

³³ 0.5% of Milton Hydro's 2023 approved base revenue requirement of \$22.94 million

³⁴ EB-2022-0049, Decision and Order, Settlement Proposal, October 13, 2022, p.5 and Schedule A, p.22

update.³⁵ However, the updated cost allocation now used to support the DVA is inconsistent with the OEB-approved cost allocation methodology.

OEB staff submits that the prudence criterion for establishing the CCAVA has not been met. The proposed annual fixed amount relies on an updated cost allocation that deviates from the previously approved methodology, which Milton Hydro confirmed remains appropriate and compliant with the ARC.

Proposed ROE Guardrail

While Milton Hydro has proposed what it refers to as a binary ROE guardrail to protect its ratepayers, it is likely to under-earn during the IR term (thus triggering a disposition of the accrued balance in this variance account), partly due to the treatment of the PILs smoothing adjustment from the OEB-approved 2023 CoS Settlement.³⁶ Additionally, in its response to an interrogatory question, Milton Hydro demonstrated that the ROE impact from the updated methodology would reduce its 2024 ROE by 0.61% to 10.96% from the ROE under the previously approved shared allocation methodology of 11.57%.³⁷ The ROE impact from the updated methodology further supports that the CCAVA proposal is not cost-effective for ratepayers.

Moreover, OEB staff notes that Milton Hydro confirmed that it has implemented the changes resulting from the updated cost allocation methodology and updated its shared services and corporate cost allocations in its 2024 fiscal year audited financial statements.³⁸ Not only does this assume a change in methodology that was not OEB-approved, but based on Milton Hydro's application, it would not be booking variances into the account until 2025, so it is not clear to OEB staff why Milton Hydro is taking this approach. OEB staff submits that Milton Hydro should file a copy of its 2024 Reporting and Record-keeping Requirements (RRR) form 2.1.5.6, excluding the impact from the updated cost allocation methodology.

OEB staff submits that, should the OEB approve the DVA, the ROE guardrail should include a deadband of 300 basis points to enhance ratepayer protection. Under this approach, Milton Hydro would only be permitted to record in the account (hence potentially recover from its ratepayers) the proposed annual cost differential amount if its actual ROE of the year within the period falls more than 300 basis points below the approved ROE over the period from January 1, 2026, to December 31 of the last audited fiscal year immediately preceding the next rebasing year. This deadband provides a balance between safeguarding ratepayers and maintaining Milton Hydro's financial viability.

³⁵ IRR-Sec-3

³⁶ Manager's Summary, p.4

³⁷ Interrogatory Responses, Staff-1, a)

³⁸ Manager's Summary, p.4

Proposed Draft Accounting Order

OEB staff has reviewed the proposed Draft Accounting Order provided by Milton Hydro, and OEB staff submits that the effective date of this variance account should be the beginning of the 2026 rate year since the 2025 rates have been set on a final basis in Milton Hydro's 2025 IRM application. OEB staff notes that Milton Hydro has requested to apply transactions on and after January 1, 2025, with annual recognition entries on each December 31 for the years from 2025 to the year immediately preceding the next rebasing year.³⁹

Evaluation of Allocation Methodology and Resulting Changes

Milton Hydro's updated corporate and shared cost allocation methodology incorporates a multi-factor allocation approach, using equal weighting of capital, labour, and revenue. OEB staff notes that this approach has been accepted in prior proceedings⁴⁰ and is appropriate where direct assignment is not feasible. The rationale provided by Milton Hydro demonstrates that alternatives were considered and rejected based on practicality and cost causation.⁴¹

The updated methodology results in a reduction of \$369,851 in costs allocated to affiliates for the 2023 test year. Milton Hydro stated in its application that the previous methodology overallocated costs to affiliates, effectively subsidizing ratepayers.

OEB staff notes that Atrium Economics relied on Milton Hydro's internal accounting data, budgeted costs, and organizational structure to develop the updated cost allocation methodology. The report states that Atrium Economics did not independently audit the accounting balances for the 2023 OEB-approved amounts or the 2024 amounts, and accepted the data provided by Milton Hydro as accurate and complete.⁴²

While the proposed updated methodology is well-documented and appears consistent with regulatory principles, the lack of independent verification of input data represents a limitation. OEB staff notes that relying on unaudited internal data introduces a degree of uncertainty, which is a particular concern for a proposed methodology that would materially affect revenue requirement. However, OEB staff acknowledges that the use of interviews, time surveys, and cost causation principles may provide a reasonable basis for the allocations.

OEB staff submits that the methodology appears transparent and repeatable, and the allocation drivers may be objectively verifiable in future years. At this time, however, OEB staff is unable to take a definitive position on the accuracy of the updated

³⁹ IRR, Schedule B

⁴⁰ Hydro One (EB-2021-0110) and Enbridge Gas Inc. (EB-2022-0200)

⁴¹ IRR-Staff-1(a), IRR-Staff-1(b)

⁴² EB-2025-0241, Atrium Economics Report, p. 5, p. 7

methodology. OEB staff recommends that Milton Hydro consider third-party validation of key inputs in future updates to the methodology.

Water Billing

The report by Atrium Economics recommended a change in the allocation methodology for water billing costs, shifting from a meter-count basis to a bills-rendered basis. Milton Hydro stated that this change more accurately reflects cost causation, as billing-related activities are more closely tied to the frequency of bills issued rather than number of meters. The result is a reduction to costs allocated to water billing and a corresponding increase to electricity operations, which Milton Hydro has implemented prospectively. OEB staff takes no issue with the proposed modification to water billing allocation and submits that the use of the updated allocation methodology for water billing may more accurately reflect cost causation and avoid cross-subsidization.

Milton Hydro issued a request for information (RFI) and proposals for water billing services from third-party vendors and did not receive any responses.⁴³ Milton Hydro confirmed that a public RFI was issued, with no responses received.⁴⁴ OEB staff accepts that this process was a reasonable effort to test market availability and supports the conclusion that a competitive market does not exist for water billing services. Accordingly, the application of section 2.3.4 of the ARC, which provides fully allocated cost-based pricing in the absence of a market, may be appropriate in a future cost allocation report.

~All of which is respectfully submitted~

⁴³ EB-2025-0241, Atrium Economics Report, p. 25

⁴⁴ IRR-Staff-4