Staff-1

Reference(s):

1. Rate Generator Model, Tab 3, Continuity Schedule

Preamble:

On September 14, 2026, the OEB published Q4 2026 prescribed accounting interest rates applicable to the carrying charges of deferral, variance and construction work in progress accounts of natural gas utilities, electricity distributors and other rate-regulated entities.

Question(s):

a. Please update Tab 3 (Continuity Schedule) as necessary to reflect the Q4 2026 OEB-prescribed interest rate of 2.87%.

Response:

Milton Hydro confirms that Tab 3 (Continuity Schedule) of the 2027 IRM Rate Generator Model has been updated to reflect the OEB-prescribed interest rate of 2.87% for Q4 2026, as published by the OEB on September 14, 2026. The updated rate has been applied in the calculation of carrying charges on deferral and variance account balances.

The updated 2027 IRM Rate Generator Model has been filed separately in live Excel format (A2_MILTON_HYDRO_EB-2026-0057_2027_IRM_RATE_GENERATOR_MODEL_10152026.xlsb).

Staff-2

Reference(s):

1. OEB Accounting Guidance Related to Commodity Pass-Through Accounts 1588 & 1589 (Accounting Guidance), April 28, 2025

2. Updated Illustrative Commodity Model, April 28, 2025

Preamble:

The OEB issued final updates to the Accounting Guidance and the updated Illustrative Commodity Model related to the implementation of the Independent Electricity System Operator (IESO)'s Market Renewal Program (MRP), effective May 1, 2025. Page 11 of Ref. 1 states that:

In Tab "Variances in ac 1588" of the updated Illustrative Commodity Model, two new tables are added to quantify the energy variances that are included in Account 1588 for records-keeping purposes. While the quantification tables are not required to be filed with the OEB at this time, these tables assist the distributors in explaining the 1% threshold test in Account 1588.

Ref. 2 introduced two new reconciliation tables under the "Variances in ac 1588" tab to quantify energy cost variances arising from the implementation of MRP. In Page 11 of Reference 1, the OEB stated that these tables are intended for record-keeping purposes and are not required to be filed with the OEB. However, these two reconciliation tables may assist the distributors in explaining the 1% threshold test in Account 1588 where applicable.

Question(s):

a. Has Milton Hydro utilized Table 42 and/or 43 of Ref. 2 to track or quantify the MRP-related energy variances recorded in Account 1588?

    i. If so, please explain whether the variances recorded in Table 42 and Table 43 were material in 2025, respectively. Please provide the corresponding quantum of the variances if the variance(s) are material.

    ii. If not, please explain why not.

Response:

Milton Hydro confirms that it utilizes both Table 42 and Table 43 of Ref. 2 to track and quantify the MRP-related energy variances recorded in Account 1588. The tables are completed on a monthly basis.

Milton Hydro further confirms that the variances recorded in Table 42 and in Table 43, respectively, were not material in 2025. For the period of May to December 2025, the cumulative net variance was approximately $4,744 in Table 42 and approximately $2,076 in Table 43.

Staff-3

Question(s):

a. In the instance the OEB releases any updated rates/charges (e.g., 2027 preliminary Uniform Transmission Rates) before Milton Hydro provides its responses to OEB staff's questions, please update the Rate Generator Model, as applicable. If any updates are made, please identify the rate and/or charge that have been updated.

Response:

Milton Hydro confirms that the 2027 IRM Rate Generator Model has been updated to include the 2027 preliminary uniform transmission rates and Hydro One sub-transmission rates.[1] Milton Hydro continues to use 2026 OEB-approved rates for RPP rates and Oakville Hydro embedded distributor network and connection service rates.

Milton Hydro further acknowledges that, should the OEB approve updated RPP rates or host distributor rates, OEB or Milton Hydro staff will update the 2027 IRM Rate Generator Model to reflect those approved rates, in accordance with Chapter 3 Filing Requirements.

[1] EB-2026-0246, OEB Letter, 2027 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, October 14, 2026.

Staff-4

Reference(s):

1. 2027 IRM Application, Rate Generator Model, Tab 3, Continuity Schedule, Columns BG and BL.

Preamble:

OEB staff notes that for certain deferral and variance accounts listed below, the closing principal balances as of December 31, 2025 are recorded as credit balances, while the corresponding closing interest balances as of December 31, 2025 are debit balances.

Account Description	Account Balance	Closing Principal Balance as of Dec 31, 2025	Closing Interest Balance as of Dec 31, 2025
RSVA - Global Adjustment	1589	(805,353)	7,235
Disposition and Recovery/Refund of Regulatory Balances (2023)	1595	(127,164)	147,494
Disposition and Recovery/Refund of Regulatory Balances (2024)	1595	(278,687)	281,258
Disposition and Recovery/Refund of Regulatory Balances (2025)	1595	(129,258)	108,446

Question(s):

a. For each of the accounts identified in the table above, please explain why the closing interest balance as of December 31, 2025 is debit while the corresponding closing principal balance is in a credit position.

Response:

Account 1589 - RSVA Global Adjustment

As reported in Milton Hydro's RRR 2.1.7 Trial Balance filing, Account 1589 had a debit principal balance of $1,397,098 and a debit interest balance of $104,667 as of December 31, 2024. Of these amounts, a principal balance of $611,673 and an interest balance of $91,367 were approved for disposition in 2025 rates and were transferred to Account 1595 (2025) in January 2025. Following the transfer, a debit interest balance of $13,300 relating to 2024 remained in Account 1589.

The credit principal balance as of December 31, 2025 is attributable to 2025 activity. Milton Hydro bills the Global Adjustment at the IESO's first estimate rate, which, over the year as a whole, was higher than the actual rate. Milton Hydro notes, however, that the first estimate rate was higher than the actual rate in seven months and lower in five months. As a result, the principal balance fluctuated between a debit and a credit position during the year. Carrying charges are calculated monthly on the principal balance of the previous month and, accordingly, also fluctuated between debits and credits, which were largely offsetting. The net carrying charge recorded for 2025 was a credit of $6,065, resulting in a closing debit interest balance of $7,235.

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2023)

In accordance with the OEB's Accounting Procedures Handbook, Milton Hydro maintains separate sub-accounts for the approved principal, the approved carrying charges, the amounts recovered or refunded through the rate riders, and the carrying charges on the net principal. All amounts recovered or refunded through the rate riders are recorded against principal.

The balances approved for disposition were, on a net basis, $1,466,249 of principal and $40,925 of carrying charges, both of which were debits. As the rate riders recover both amounts, and all recoveries are recorded against principal, the recoveries exceeded the approved principal and the principal balance was in a credit position by December 31, 2024. The interest balance was not reduced by the recoveries and continues to include the approved carrying charges.

Carrying charges are calculated monthly on the opening net principal balance, being the approved principal less recoveries to date. The net principal was a debit throughout 2023 and for most of 2024, and the carrying charges recorded in those years were accordingly debits. In 2025, the net principal was a credit and the carrying charges recorded were accordingly credits.

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2024)

The explanation provided above in respect of Account 1595 (2023) applies equally to Account 1595 (2024).

The balances approved for disposition were $3,281,953 of principal and $215,898 of carrying charges, both of which were debits. As the rate riders recover both amounts, and all recoveries are recorded against principal, the recoveries exceeded the approved principal and the principal balance was in a credit position by December 31, 2024. The interest balance was not reduced by the recoveries and continues to include the approved carrying charges.

Carrying charges are calculated monthly on the opening net principal balance, being the approved principal less recoveries to date. The net principal was a debit for most of 2024, and the carrying charges recorded in that year were accordingly debits. In 2025, the net principal was a credit and the carrying charges recorded were accordingly credits.

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2025)

The explanation provided above in respect of Account 1595 (2023) applies equally to Account 1595 (2025).

The balances approved for disposition were transferred into this account in January 2025 and were $1,039,678 of principal and $99,961 of carrying charges, both of which were debits. As the rate riders recover both amounts, and all recoveries are recorded against principal, the recoveries exceeded the approved principal and the principal balance moved to a credit position in November 2025. The interest balance was not reduced by the recoveries and continues to include the approved carrying charges.

The carrying charges recorded from February to November 2025 were debits. Only the carrying charge recorded for December 2025 was a credit.

In preparing this response, Milton Hydro identified that $4,880 of the approved carrying charges was presented as principal in the Continuity Schedule as filed. Milton Hydro notes that this is a matter of presentation only and does not affect the total balance of the account or the proposed rate riders. Milton Hydro has corrected the presentation in the updated Rate Generator Model.

The updated 2027 IRM Rate Generator Model has been filed separately in live Excel format.

b. Please identify and explain the specific transactions, adjustments, re-classifications, or disposition-related entries that gave rise to the positive closing interest balances in each account.

Response:

The entries giving rise to the closing interest balance in each account are set out in Tables 1 to 4 below. Credit amounts are shown in parentheses. Please refer to the response to Staff-4(a) for an explanation of these entries.

Milton Hydro confirms that no amounts were re-classified between principal and interest in the general ledger in respect of any of the accounts identified. Other than the entries set out in Tables 1 to 4, no adjustments affected the closing balances.

Account 1589 - RSVA Global Adjustment

Table 1 below sets out the entries giving rise to the closing interest balance in Account 1589 as of December 31, 2025.

Table 1: Account 1589 - RSVA Global Adjustment

	Principal	Interest	Total
RRR 2.1.7 Trial Balance Filing (As of Dec 31, 2024)	**$1,397,098**	**$104,667**	**$1,501,765**
Transfer to Account 1595 (2025) of balances approved for disposition in 2025 rates	($611,673)	($91,367)	($703,040)
Balance remaining after the transfer	*$785,425*	*$13,300*	*$798,725*
2025 transactions (principal) and carrying charges on opening principal balances (interest)	($1,391,938)	($6,065)	($1,398,003)
RRR 2.1.7 Trial Balance Filing (As of Dec 31, 2025)	**($606,513)**	**$7,235**	**($599,278)**
Principal adjustments per Commodity Accounts Analysis Workform (not recorded in G/L as of Dec 31, 2025)	($198,840)	$—	($198,840)
Closing balance, December 31, 2025	**($805,353)**	**$7,235**	**($798,118)**

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2023)

Table 2 below sets out the entries giving rise to the closing interest balance in Account 1595 (2023) as of December 31, 2025.

Table 2: Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2023)

	Principal	Interest
OEB-approved balances transferred in	$1,466,249	$40,925
2023: rate rider recoveries and refunds; carrying charges	$19,556	$69,928
2024: rate rider recoveries and refunds; carrying charges	($1,574,481)	$40,525
Balance, December 31, 2024	**($88,676)**	**$151,378**
2025: rate rider recoveries and refunds; carrying charges	($38,488)	($3,884)
Balance, December 31, 2025	**($127,164)**	**$147,494**

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2024)

Table 3 below sets out the entries giving rise to the closing interest balance in Account 1595 (2024) as of December 31, 2025.

Table 3: Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2024)

	Principal	Interest
OEB-approved balances transferred in	$3,281,953	$215,898
2024: rate rider recoveries and refunds; carrying charges	($3,486,115)	$73,909
Balance, December 31, 2024	**($204,162)**	**$289,807**
2025: rate rider recoveries and refunds; carrying charges	($74,525)	($8,549)
Balance, December 31, 2025	**($278,687)**	**$281,258**

Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2025)

Table 4 below sets out the entries giving rise to the closing interest balance in Account 1595 (2025) as of December 31, 2025.

Table 4: Account 1595 - Disposition and Recovery/Refund of Regulatory Balances (2025)

	Principal	Interest
OEB-approved balances transferred in (January 2025)	$1,039,678	$99,961
2025: rate rider recoveries; carrying charges	($1,173,816)	$13,365
General ledger balance, December 31, 2025	**($134,138)**	**$113,326**
Approved carrying charges presented as principal in the Continuity Schedule as filed - revised in updated RGM	$4,880	($4,880)
Continuity Schedule closing balance, as filed	**($129,258)**	**$108,446**

Incremental Capital Module – Palermo TS Upgrade and Feeder Expansion Project (Palermo Project)

Staff-5

Reference(s):

1. Milton Hydro 2027 ICM Model, Tab 3
2. 2027 IRM Application Rate Generator Model, Tab 4

Preamble:

OEB staff has verified the total metered kW and kWh values reported in Ref. 2 against the supporting Reporting and Record-keeping Requirements (RRR) data. However, OEB staff was unable to reconcile the corresponding total billed kW and billed kWh values reported in Ref. 1 with the verified values in Ref. 2.

Question(s):

a. Please explain the differences between the total billed kW and billed kWh values reported in Ref. 1 and those reported in Ref. 2.

Response:

The billed kWh values reported in Ref. 1 for the Residential, General Service Less Than 50 kW, and Unmetered Scattered Load rate classes were inadvertently entered on a loss-adjusted basis, using Milton Hydro's Total Loss Factor of 1.0385. The billed kWh values reported in Ref. 2 are metered kWh for all rate classes. This accounts for the difference in total billed kWh between Ref. 1 and Ref. 2.

The total billed kW reported in Ref. 1 agrees with the total billed kW reported in Ref. 2 to the nearest kW. Any difference is attributable to rounding.

b. Please confirm whether the values reported in Ref. 1 are correct.

Response:

Not confirmed. The billed kWh values reported in Ref. 1 for the Residential, General Service Less Than 50 kW, and Unmetered Scattered Load rate classes were reported on a loss-adjusted basis, for the reason set out in the response to Staff-5(a). The billed kWh values reported in Ref. 1 for the remaining rate classes, and the billed kW values reported in Ref. 1, are correct.

c. If any values in Ref. 1 require revision, please provide an updated ICM Model and identify all resulting impacts on the application.

Response:

Milton Hydro has filed an updated ICM Model in which the billed kWh and billed kW values in Tab 3 agree with the Total Metered kWh of 1,011,434,023 and the Total Metered kW of 1,227,258 reported in

Tab 4 of the Rate Generator Model. The updated ICM Model has been filed separately in live Excel format (A3_MILTON_HYDRO_EB-2026-0057_2027_ACM_ICM_MODEL_1.0_10152026.xlsm).

As a result of this update:

- the growth factor changes from 2.38% to 2.20%;
- the threshold value for 2027 changes from 258.49% to 252.46%;
- the threshold capital expenditure value for 2027 changes from $11,708,420 to $11,435,607; and
- the maximum eligible incremental capital changes from $15,214,766 to $15,487,580.

The proposed ICM capital of $13,198,024 remains within the maximum eligible incremental capital, and the proposed ICM capital and the incremental revenue requirement of $965,769 are unchanged.

The resulting changes to the monthly bill impacts by rate class are set out in Table 1 below.

Table 1: Change to Bill Impacts from Revised Consumption Figures

	Original	Revised	**Difference**	
	Monthly ICM Rate Rider before HST	**Monthly ICM Rate Rider before HST**	**Monthly ICM Rate Rider before HST**	**% Change**
Residential	$1.33	$1.33	**$—**	— %
General Service < 50 kW	$2.62	$2.62	**$—**	— %
General Service 50 kW - 999 kW	$26.22	$26.30	**$0.08**	0.31 %
General Service 1,000 kW - 4,999 kW	$214.80	$215.43	**$0.63**	0.29 %
Large Use	$510.00	$511.45	**$1.45**	0.28 %
Unmetered Scattered Load	$0.71	$0.71	**$—**	— %
Sentinel Lights	$0.55	$0.55	**$—**	— %
Street Lighting	$972.73	$974.98	**$2.25**	0.23 %

Milton Hydro notes that the Street Lighting values in Table 1 have been presented on the same basis as Tab 21 of the Rate Generator Model, being 2,890 connections and 1,185 kW. Table 14 of the Application presented the fixed rate rider on a single-connection basis and, accordingly, the "Original" Street Lighting value in Table 1 differs from that shown in Table 14. This change in presentation does not affect the proposed rates.

The update also changes the customer class bill impacts summarized in Table 15 of the Application (page 34). The revised bill impacts, which also reflect the 2027 preliminary uniform transmission rates and Hydro One sub-transmission rates described in the response to Staff-3(a), are set out in Table 2 below.

Table 2: Revised Customer Class Bill Impact Summary

Rate Classes/ Categories	Units		Sub-Total A		Total Total Bill	
	kWh	kW	$	%	$	%
RESIDENTIAL SERVICE CLASSIFICATION - RPP	750	0	$2.46	6.56%	$2.86	2.00%
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	2,000	0	$4.71	6.57%	$5.41	1.60%
GENERAL SERVICE 50 TO 999 KW SERVICE CLASSIFICATION - Non-RPP (Other)	50,000	150	$48.49	6.56%	($434.64)	(4.50%)
GENERAL SERVICE 1,000 TO 4,999 KW SERVICE CLASSIFICATION - Non-RPP (Other)	1,265,000	1,800	$397.24	6.56%	$694.79	0.30%
LARGE USE SERVICE CLASSIFICATION - Non-RPP (Other)	2,400,000	5,400	$943.16	6.56%	$2,737.11	0.60%
UNMETERED SCATTERED LOAD SERVICE CLASSIFICATION - RPP	405	0	$1.33	6.50%	$1.43	1.90%
SENTINEL LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	50	0	$1.02	6.58%	$1.17	4.50%
STREET LIGHTING SERVICE CLASSIFICATION - Non-RPP (Other)	440,624	1,185	$1,789.19	6.58%	($2,626.21)	(2.50%)
RESIDENTIAL SERVICE CLASSIFICATION - RPP	375	0	$2.46	6.56%	$2.53	2.90%
RESIDENTIAL SERVICE CLASSIFICATION - Non-RPP (Retailer)	750	0	$2.46	6.56%	($4.53)	(2.60%)
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - Non-RPP (Retailer)	2,000	0	$4.71	6.57%	($14.86)	(3.50%)
GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION - RPP	2,500	0	$5.51	6.57%	$6.43	1.50%

The amounts in Table 1 and the Sub-Total A amounts in Table 2 are before HST, whereas the Total Bill amounts in Table 2 include HST. The amounts in both tables are rounded to the nearest cent, and differences may not calculate exactly due to rounding.

Staff-6

Reference(s):

1. 2027 IRM application, section 3.3.2, Incremental Capital Module Request, pp. 18-31;
2. EB-2026-0057, appendix D, Palermo TS Upgrade Business Case, Sections 5, 6 and 7.

Preamble:

Milton Hydro is seeking ICM funding for the Palermo Project to secure additional long-term system capacity. The evidence indicates that the Palermo TS upgrade and the revised capacity-sharing arrangement with Oakville Hydro will provide Milton Hydro with permanent access to approximately 75 MW of capacity. Milton Hydro states that the project is required to accommodate future load growth, meet customer connection obligations, and defer the need for a future transformer station. The evidence also indicates that the project will be funded through rates paid by existing customers.

Question(s):

a. Of the approximately 75 MW of additional capacity secured through the Palermo TS and Glenorchy MTS arrangements, please identify:

i. the amount of capacity expected to be utilized upon project in-service;

Response:

Milton Hydro expects that approximately 31 MW of the approximately 75 MW of capacity secured through the Palermo TS and Glenorchy MTS arrangements will be utilized at the in-service date of the Palermo Project, based on the low growth scenario set out in Figure 2 of Appendix D (page 13).

ii. the amount of capacity expected to remain unused in each year from 2027 through 2035; and

Response:

Milton Hydro provides in Table 1 below the estimated available capacity for each year from 2028 through 2035, based on the low growth scenario set out in Figure 2 of Appendix D (page 13), as adjusted for the Palermo TS and Glenorchy MTS arrangements. Tables 1 to 3 begin in 2028, the first full year following the expected in-service of the Palermo Project in 2027, so that each year reflects a full year of the additional capacity.

Table 1: Estimated Remaining Unused Capacity at Palermo TS, 2028 to 2035 (MW)

Allocated Palermo TS Unused Capacity (MW)	2028	2029	2030	2031	2032	2033	2034	2035
Total Capacity	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
Utilized Capacity	5	10	13	15	18	20	23	25
Remaining Capacity	**30**	**25**	**22**	**20**	**17**	**15**	**12**	**10**

Table 2: Estimated Remaining Unused Capacity at Glenorchy MTS, 2028 to 2035 (MW)

Allocated Glenorchy MTS Unused Capacity (MW)	2028	2029	2030	2031	2032	2033	2034	2035
Total Capacity	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**
Utilized Capacity*	40	40	40	40	40	40	40	40
Remaining Capacity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

*Note: includes operating reserve.

Milton Hydro notes that the operating reserve identified at Glenorchy MTS includes approximately 10 MW of capacity that is reserved for contingency and reliability purposes. This capacity is not considered available for normal load growth or customer connections, as it is maintained to preserve operational flexibility and support the reliable operation of the distribution system under contingency conditions.

iii. the percentage utilization of the additional capacity in each year.

Response:

Milton Hydro provides in Table 3 below the estimated percentage utilization of the additional capacity for each year from 2028 through 2035, prepared on the same basis as Table 1 and 2.

Table 3: Estimated Utilization of Additional Capacity, 2028 to 2035 (%)

Utilization of Additional Capacity (%)	2028	2029	2030	2031	2032	2033	2034	2035
Palermo TS	14%	29%	37%	43%	51%	57%	66%	71%
Glenorchy MTS	100%	100%	100%	100%	100%	100%	100%	100%
Total	**60%**	**67%**	**71%**	**73%**	**77%**	**80%**	**84%**	**87%**

Milton Hydro notes that utilization at Glenorchy MTS reflects the operating margin described in the response to Staff-6(a) ii.

b. Please discuss the extent to which the Palermo Project is intended to serve:

i. existing customers; and

Response:

The replacement & upgrade of end-of-life transformers, transfer of feeder egress to the new switchyard, and transfer of ownership of the Hydro One poles will serve to provide direct benefits to existing customers by allowing load growth attributed to electrification & electric vehicles, improving system reliability and reducing long-term costs.

ii. future customer growth.

Response:

The Palermo Project will support future customer growth through two complementary investments: upgrading the TS transformers to increase available station capacity and expanding the distribution system through the feeder build out to deliver that capacity to areas where new customer load is expected to connect. Please refer to the response to Staff-13(c) for the evidence supporting Milton Hydro's forecast growth.

c. Please quantify the proportion of the Palermo Project costs that would be recovered from existing customers through the proposed ICM rate riders and explain why it is appropriate for current customers to fund capacity that may not be utilized until future years.

Response:

The proposed ICM rate riders would recover the annual incremental revenue requirement of $965,769 (Application, page 29, Table 11) in each of the 2027 and 2028 rate years, prior to the rebasing of Milton Hydro's rates for the 2029 rate year. The components of that recovery are set out in Table 4 below.

Table 4: ICM Rate Rider Recovery, 2027 and 2028 Rate Years ($)

Component	2027	2028	Total
Amortization	$306,482	$306,482	**$612,964**
Return on Rate Base	$729,763	$729,763	**$1,459,526**
Grossed-up PILs	($70,476)	($70,476)	**($140,952)**
Total	$965,769	$965,769	**$1,931,538**

Of the total, amortization of $612,964, or 4.6% of the ICM capital amount of $13,198,024, relates to recovery of the capital cost of the Palermo Project. The return on rate base and PILs relate to the cost of the capital invested in the years in which the assets are in service. The remaining capital cost would be recovered over the service lives of the assets, in the same manner as Milton Hydro's other distribution assets. The ICM rate riders apply to all customers in each rate class while they are in effect, including customers that connect during the 2027 and 2028 rate years.

Milton Hydro submits that recovery of these costs through the ICM rate riders is appropriate for the following reasons:

- The Palermo Project meets the OEB's ICM eligibility criteria of materiality, need and prudence (Application, pages 21 to 25). The need for additional capacity was identified through the IESO-led GTA West regional planning process (Appendix D, page 9; Appendix M);

- The OEB has previously approved incremental capital funding, through the Incremental Capital Module and the Advanced Capital Module, for capital contributions paid by distributors to Hydro One for transformer station capacity, including Woodstock Hydro Services Inc.'s contribution for Commerce Way TS,[2] Toronto Hydro-Electric System Limited's contributions for Bremner TS,[3] London Hydro Inc.'s contribution for the conversion of Nelson TS[4] and Burlington Hydro Inc.'s payment for additional breaker positions at Tremaine TS,[5] as well as true-up payments under Connection and Cost Recovery Agreements for Pleasant TS,[6] Tremaine TS,[7] Goreway TS,[8] Churchill Meadows TS,[9] and Holland TS (10-year true-up).[10] The OEB has found that payments required under a Connection and Cost Recovery Agreement in accordance with the Transmission System Code are contractually required and prudent.[11] Several of these investments, including those for Commerce Way TS, Bremner TS, Pleasant TS and Tremaine TS, provided transformer station capacity to serve load growth;

- Consistent with these approvals, recovery through the ICM supports the OEB's objective "to regulate the electricity sector in a manner that supports economic growth, consistent with the policies of the Government of Ontario."[12] The Minister's Letters of Direction of November 29,

[2] EB-2011-0207, Woodstock Hydro Services Inc., Decision and Order, March 22, 2012.
[3] EB-2012-0064, Toronto Hydro-Electric System Limited, Partial Decision and Order, April 2, 2013, page 53.
[4] EB-2017-0059, London Hydro Inc., Decision and Rate Order, March 22, 2018.
[5] EB-2018-0021, Burlington Hydro Inc., Decision and Rate Order, March 28, 2019.
[6] EB-2017-0024, Alectra Utilities Corporation, Decision and Order, April 5, 2018 (revised April 6, 2018).
[7] EB-2018-0021, Burlington Hydro Inc., Decision and Rate Order, March 28, 2019.
[8] EB-2020-0002, Alectra Utilities Corporation, Decision and Rate Order, December 17, 2020.
[9] EB-2015-0065, Enersource Hydro Mississauga Inc., Decision and Rate Order, April 7, 2016.
[10] EB-2020-0041, Newmarket-Tay Power Distribution Ltd., Decision and Order, April 22, 2021.
[11] EB-2015-0065, Enersource Hydro Mississauga Inc., Decision and Rate Order, April 7, 2016, page 10; EB-2020-0002, Alectra Utilities Corporation, Decision and Rate Order, December 17, 2020, pages 62 to 63.
[12] Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B, s. 1(1), para. 2.1, as amended by S.O. 2025, c. 22, Sched. 3.

2023 and December 19, 2024 directed the OEB to align distribution system expansion with the province's goal of building 1.5 million homes,[13] and, in that context, the OEB has recognized that the resulting costs "may trigger a need for the OEB to address changes in a distributor's capital needs through existing mechanisms such as the Incremental Capital Module and the Advanced Capital Module."[14] Milton is among the fastest-growing communities in Ontario. The Town of Milton has a provincial target of 21,000 new homes by 2031 and forecasts a population of 400,000 by 2051.[15] The residential, commercial and large customer load growth driving the Palermo Project is set out in Appendix D, Sections 5 to 7, Appendix E, Appendix F and Appendix M;

- Transformer station capacity is added in discrete increments and is sized to meet both near-term and longer-term needs. The Palermo Project is intended to serve the existing and forecast load of Milton Hydro's customers, including growth in the load of existing customers from electrification and electric vehicles, and the connection of new customers (Appendix D, page 14, and the response to Staff-13(c)). The regional planning process identified transformer upsizing at the time of replacement as the most cost-effective means of addressing the capacity needs of the region, and the opportunity to obtain the additional capacity arises only at the time Hydro One replaces the end-of-life transformers at Palermo TS (Appendix D, pages 9 and 23);

- The Palermo Project will be used to serve existing customers when it is placed in service in 2027. The feeder egress works transfer Milton Hydro's two existing Palermo TS feeders, which serve existing customers, to the new switchyard (Appendix D, pages 18 and 19). The acquisition of the existing Hydro One connection assets will result in annual savings to customers through the avoidance of embedded distribution connection charges (Appendix D, page 18). The new feeders will also provide greater ability to manage system loading (Appendix D, page 19), and utilization of the additional capacity is expected to begin in 2027 and to increase in each subsequent year (Table 3, Staff-6(a) iii);

- The cost of the Palermo Project is recovered over the service lives of the assets. The ICM rate riders recover only the costs associated with the years in which the assets are in service, and

[13] Minister of Energy, Letter of Direction to the OEB, November 29, 2023; Minister of Energy and Electrification, Letter of Direction to the OEB, December 19, 2024.
[14] EB-2024-0092, Notice of Proposal to Amend a Code, Proposed Amendments to the Distribution System Code to Facilitate the Connection of Housing Developments and Residential Customers, November 18, 2024, page 7.
[15] Town of Milton, Housing Strategy and Action Plan, November 2025 (Report DS-065-25, Appendix 1, approved by Council December 8, 2025); Town of Milton, Report DS-016-23, Milton's Housing Pledge: 21,000 units by 2031, March 6, 2023.

customers taking service in future years, including customers that connect as the additional capacity is utilized, will contribute to the cost of the assets in those years; and

- Constructing the feeder line extension concurrently with the station upgrade results in a lower overall cost to customers. Deferring the feeder line extension to 2031 is expected to increase Milton Hydro's capital contribution to Hydro One from $3,400,600 to $6,018,600. Please refer to the response to SEC-9(c).

With respect to the timing of recovery, please refer to the response to Staff-6(d).

d. Please explain why recovery through ICM rate riders starting January 1, 2027, is appropriate instead of seeking recovery through Milton Hydro's next rebasing application.

Response:

Milton Hydro submits that recovery through ICM rate riders effective January 1, 2027 is appropriate for the following reasons:

- The timing of the Palermo Project is determined by Hydro One's replacement of the end-of-life transformers at Palermo TS, which is scheduled for completion in 2027. Hydro One advised that it would replace the transformers on a like-for-like basis unless a distributor requested and funded an incremental capacity upgrade (Appendix D, page 9). The opportunity to obtain additional capacity at Palermo TS to meet Milton Hydro's forecast load growth therefore arises only at the time of replacement. The Palermo Project is accordingly forecast to be placed into service, and to be used in serving Milton Hydro's customers, in 2027 (Application, page 28, Table 10). Please refer to the response to Staff-14(c) vii for the alternatives to the Palermo Project;

- Recovery through Milton Hydro's next rebasing application is not a near-term alternative. On September 25, 2026, the OEB granted Milton Hydro's request to defer its 2028 cost of service application and scheduled Milton Hydro for rebasing for the 2029 rate year, and stated that "there is no availability of an Incremental Capital Module for 2028 rates" (Attachment 1 to Staff-18(a)). Absent ICM recovery in 2027, recovery of an investment placed into service in 2027 would not commence until the 2029 rate year. The Palermo Project represents 38.5% of Milton Hydro's total forecast net capital expenditures for 2027 (Application, page 23). As set out at pages 30 and 31 of the Application, funding the project without ICM recovery would place significant pressure on Milton Hydro's capital program and financial flexibility, and would require

the deferral or reprioritization of other planned capital investments, particularly system service and system renewal investments. Such deferrals could adversely affect overall system performance, reliability and operational flexibility;

- Recovery commencing in 2027 is consistent with the OEB's ICM policy. The ACM Report identifies, as an example of a project suited to ICM treatment, a significant investment based on the outcome of a Regional Plan that *"might not have been detailed sufficiently at the time of the DSP and cost of service application, but could become a significant capital project in which the distributor may have to invest during the later period of the IR term. ICM treatment would allow for recovery of costs beginning when the investment is made and goes into service, rather than awaiting the next cost of service application to rebase rates."*[16] The Palermo TS upgrade was identified through the GTA West regional planning process (Appendix F, page 21, Table 6). The ACM Report provides that *"funding shall not commence for any projects that are not forecasted to be in service during the subject IR year."*[17] The Palermo Project is a discrete project that is not funded through Milton Hydro's current rates (Application, pages 24 and 25); and
- As 2027 is not the final year of Milton Hydro's Price Cap IR term, the incremental revenue requirement has been calculated on a full-year basis, consistent with the ACM Report (Application, page 29). Please refer to the response to Staff-18(a).

Staff-7

Reference(s):

1 2027 IRM application, section 3.3.2.1, Table 6, Eligible Capital Project Costs, p. 23.

2 2027 IRM application, appendix D, Tables 6, 7, 8 and 9, p.6-7

[16] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 19.
[17] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 13.

Preamble:

The Palermo Project consists of the following project components and associated costs:

Project Component	Estimated Cost ($)
Capital Contribution for TS Upgrade	3,400,600
TS Feeder Egress	2,694,352
Transfer of Ownership – Hydro One Egress Poles	100,000
Feeder Line Extension	7,003,072
Total Project Cost	**13,198,024**

Milton Hydro states that the Palermo Project represents a prudent and cost-effective solution and references prior OEB-approved incremental capital projects in support of its ICM request.

Question(s):

a. Please provide benchmarking information comparing the Palermo Project, including each of the project components identified above where available, to comparable transmission station upgrade, feeder expansion, and capacity reinforcement projects previously approved by the OEB within the last ten years.

Response:

Milton Hydro is not aware of any projects approved by the OEB within the last ten years that are directly comparable to the Palermo Project. Capital contributions to a transmitter are determined through a project-specific economic evaluation under the Transmission System Code, based on the transmitter's cost and the forecast load of the connecting customer, and are therefore not comparable between projects on a unit-cost basis. Milton Hydro is of the view that benchmarking of the transmission component of the Palermo Project is a more appropriate question for Hydro One, and Milton Hydro is therefore unable to provide unit-cost metrics for comparator projects. The projects referenced at page 23 of the Application were cited in respect of the project-specific materiality assessment and not as cost comparators.

The relevant measure for Milton Hydro's customers is the cost to Milton Hydro of the capacity secured. At an estimated cost of $13,198,024, the Palermo Project, together with the permanent Glenorchy MTS arrangement, which is not subject to this ICM, secures 75 MW of permanent capacity for Milton Hydro, being 35 MW at Palermo TS and 40 MW at Glenorchy MTS. Under Milton Hydro's original four-feeder

Palermo TS concept, Milton Hydro would have secured 70 MW of permanent capacity at an estimated cost of $23,766,000. Both amounts include the $100,000 transfer of Hydro One connection assets (Application, page 19; Appendix D, pages 2 and 16, Table 11). Please refer to the response to Staff-15(a).

Hydro One's estimated total cost of the Palermo TS upgrade of $56,629,000 is not the cost to Milton Hydro. Hydro One is responsible for the cost equal to a like-for-like replacement of Palermo TS. Milton Hydro's 50.0% share of the incremental upgrade cost of $21,640,000 is $10,820,000, and Milton Hydro's estimated capital contribution under the Hydro One economic evaluation is $3,400,600 (Appendix D, pages 5 and 6, Tables 4 and 5).

For context, in EB-2025-0290 (Welland-Thorold Project), Hydro One compared its estimate for station work at Crowland TS with three completed Hydro One projects, each of which replaced an existing operational DESN, as summarized in Table 1 below.[18] After removing site-specific costs and escalating to 2029 dollars, the comparable costs of the three completed projects ranged from $43,184,000 to $52,202,000, and the comparable cost of the Crowland TS station work was $51,930,000. The OEB found Hydro One's project cost estimate, including $76,500,000 for station work, to be reasonable.[19]

The Palermo TS upgrade is not directly comparable to these projects. Hydro One's estimate of $56,629,000 is a total cost that has not been adjusted on the same basis as the comparable costs in Table 1, and the Palermo TS upgrade includes larger 75/100/125 MVA transformers and a new switchyard at an operating station (Application, page 18; Appendix D, page 3, Table 1).

Table 1: Hydro One Transformer Station Projects

Project	Description	In-Service Year	Total Cost	Comparable Cost (2029 Dollars)
St. Isidore TS	Replace existing St. Isidore TS with 230 kV/44 kV 50/83 MVA DESN with 5 feeders	2019	$34,114,000	$47,267,000
Minden TS	Replace existing Minden TS with 230 kV/44 kV 50/83 MVA DESN with 4 feeders	2021	$42,273,000	$52,202,000
Arnprior TS	Replace existing Arnprior TS with greenfield 115 kV/44 kV 25/42 MVA DESN with 2 feeders	2023	$36,766,000	$43,184,000
Crowland TS	Replace existing Crowland TS with 230 kV/27.6 kV DESN with 10 feeders	2029 (est.)	$76,500,000	$51,930,000

[18] EB-2025-0290, Hydro One Networks Inc., Application and Evidence, Exhibit B, Tab 7, Schedule 1, pages 10 and 12, Table 6.
[19] EB-2025-0290, Decision and Order, July 9, 2026, page 15.

Milton Hydro undertook a review, on a best-efforts basis, of OEB decisions on ICM requests within the last ten years that included feeder egress from a distributor-owned station. In Elexicon Energy Inc.'s Seaton TS project, projected feeder egress costs of $1,514,000, for 12 feeders from the station to Taunton Road, formed part of the approved ICM amount of $40,762,000.[20] In Ottawa River Power Corporation's MS-4 project, the project estimate of $1,785,850, including property costs, included $260,000 for 15 kV cables and terminators, riser switches and duct banks for feeders, and the OEB approved ICM funding up to the allowable maximum of $1,603,409.[21] In both cases, the feeder egress costs formed part of the overall station project, and the OEB made no separate findings on feeder egress.

Milton Hydro does not consider these projects to be meaningful cost comparators for the Palermo TS feeder egress, for the following reasons:

- **Station environment:** Seaton TS and MS-4 were new stations. The Palermo TS feeder egress will be constructed within an operating Hydro One station, adjacent to energized 27.6 kV feeder egresses that must remain in service throughout construction to supply customers of Milton Hydro, Burlington Hydro and Oakville Hydro. This requires additional staging, supervision and coordination with Hydro One and the affected utilities to establish and maintain work protection under the Utility Work Protection Code. Please refer to the response to VECC-16(b);

- **Route length and construction type:** The Palermo TS feeder egress requires new pole line and underground cable from the station to the point of connection, comprising 25 poles, 570 m of primary overhead conductor and 1,668 m of primary underground cable (Appendix D, page 7, Table 7, and pages 18 and 19). The Seaton TS feeder egress cost was reported as a single amount, without a breakdown by asset, and the MS-4 cost estimate does not include any distribution poles;

- **Scope of costs:** The Palermo TS feeder egress estimate includes switches, primary metering units, civil works, engineering and access roads required to construct the egress. Please refer to the responses to VECC-16(a) and VECC-16(b). The comparator costs are not stated on the same basis: the Seaton TS amount was a 2020 projection within a total project request, and the MS-4 amounts are line items from a 2018 project estimate; and

[20] EB-2021-0015, Elexicon Energy Inc., Response to SEC-1, PDF pages 274 and 301; Decision and Rate Order, December 16, 2021, page 20.
[21] EB-2018-0063, Ottawa River Power Corporation, 2019 IRM Application, September 25, 2018, page 18; Responses to VECC Interrogatories, December 21, 2018, Appendix 2 (Barkley Technologies Inc., Municipal Substation Planning Report, August 16, 2016), page 37; Decision and Rate Order, March 28, 2019, pages 15 to 16.

- **Number of feeders:** The Seaton TS egress cost and the MS-4 cable, switch and duct bank costs were incurred across 12 and three feeders, respectively, in different station and route conditions. A per-feeder comparison is therefore not meaningful.

The feeder egress is integral to the Palermo Project, as it is required to connect Milton Hydro's existing and new feeders to the new Palermo TS switchyard (Appendix D, pages 18 and 19). Milton Hydro assessed the reasonableness of the estimated costs of the feeder egress and feeder line extension as follows:

- The estimated costs of $2,694,352 for the TS feeder egress and $7,003,072 for the feeder line extension were developed on a project-specific basis from a modified version of one of the routing scenarios assessed in Appendix G, adjusted for the final two-feeder configuration and routing (Appendix D, page 7, Tables 7 and 8), and not from comparator unit costs. The estimates reflect the specific assets to be installed and the site conditions along the route, including construction adjacent to travelled roadways and in proximity to energized circuits that must remain in service during construction. The indicative installed unit costs for poles, overhead conductor and underground cable, and the basis of the estimates, are set out in the responses to VECC-16 and VECC-17;
- The contractor labour for both the TS feeder egress and the feeder line extension was procured through a competitive Request for Proposal process. All four approved contractors invited to bid submitted bids on both projects, and the contractor with the highest evaluated score on each project was selected. Please refer to the response to VECC-18(a); and
- The most similar recent project undertaken by Milton Hydro, and how it differs from the feeder line extension, is described in the response to VECC-17(c).

b. For each comparator project, provide the distributor, project description, approval year, project cost, applicable unit-cost metric, and explain how the Palermo Project costs compare to, and support, a finding that the proposed expenditures are prudent and reasonable.

Response:

Please refer to the response to Staff-7(a).

c. Please confirm whether the following four project components are contingent upon one another:

   i. Capital contribution for the TS upgrade;

   ii. TS feeder egress;

   iii. Feeder line extension; and

   iv. Transfer of selected Hydro One connection assets.

Response:

The capital contribution for the Palermo TS upgrade, the TS feeder egress, and the feeder line extension are contingent upon one another. They are functionally related and collectively form the capacity solution required to increase supply capability and enable load to be served from the upgraded Palermo TS. The transfer of selected Hydro One connection assets is related to the overall project, but the other three components are not contingent upon it.

d. If yes, please explain the nature and extent of the dependency among the four components, including:

   i. whether each component is required for the other components to deliver the forecast capacity benefits;

Response:

The capital contribution for the TS upgrade (i) is required to provide the additional transformation capacity necessary to accommodate the forecast load growth. The TS feeder egress (ii) is required to connect new and transfer existing feeders to the new switchyard, and the feeder line extension (iii) is required to enable Milton Hydro to access and utilize the additional capacity by establishing the necessary distribution feeder infrastructure between the transformer station and Milton Hydro's distribution system. As such, these three components are functionally dependent and are required to achieve the intended capacity benefit of the overall project.

ii. whether any component could proceed independently while still providing operational, reliability, or capacity benefits;

Response:

Each of the three main components are functionally interdependent and are required collectively to establish the complete electrical configuration necessary to accommodate the forecasted load growth, provide the required feeder capacity, and maintain appropriate system reliability and operating flexibility.

Completing an individual component in isolation would therefore not create additional usable capacity or materially improve system reliability or operability. For example, constructing a new feeder or modifying station infrastructure without completing the associated downstream system modifications would not provide a complete electrical path through which the additional capacity could be utilized. Similarly, completing downstream distribution work without the corresponding upstream station and feeder capacity would not address the underlying system constraint.

Accordingly, these components should not be viewed as discrete projects capable of providing standalone benefits. Rather, each represents a necessary element of an integrated system solution, with the operational, reliability, and capacity benefits realized only once the interconnected components are completed and placed in service. The Hydro One asset transfer is the exception because it involves the transfer of ownership of existing assets and can therefore be completed independently without relying on the construction or commissioning of the other project components.

iii. whether a delay in one component would delay, constrain, or otherwise affect the functionality of the remaining components; and

Response:

The components collectively constitute a single, integrated project, with the intended operational, reliability, and capacity benefits realized only once all interconnected components are completed and placed in service. Accordingly, the components should not be viewed as discrete projects. A delay to any one component will delay, constrain, or otherwise negate the functionality and benefits of the overall project.

iv. which component(s), if any, represent critical-path elements for the overall project.

Response:

Milton Hydro considers the feeder line extension to be the critical-path component of the Palermo Project, as it represents the greatest risk to the overall project schedule. The feeder line extension has the longest construction duration and the greatest exposure to the schedule risks identified in Appendix D, including utility conflicts and site conditions and contractor availability, and its completion determines the in-service date of the Palermo Project (Appendix D, pages 4 and 5, Tables 1 and 2).

e. For each component, please describe the operational, reliability, capacity, and financial implications if the component were deferred, cancelled, or placed in service later than currently proposed.

Response:

Capital Contribution for the Palermo TS Upgrade

The Palermo TS upgrade is a non-discretionary investment required to provide the additional capacity needed to meet Milton Hydro's forecast system requirements (Appendix D, page 2). Hydro One is already replacing the end-of-life transformers, with an expected completion date of 2027 (Appendix D, page 18). If this component were deferred, cancelled, or placed in service later than proposed, Milton Hydro would not be able to obtain the planned additional Palermo TS capacity and, as a result, would also not be able to secure permanent Glenorchy MTS capacity through its arrangement with Oakville Hydro.

From a capacity perspective, Milton Hydro would not be able to accommodate forecast near-term customer growth and would ultimately adversely impact Milton Hydro's regulatory obligation to connect new customers, as well as impede service upgrades and electrification within the community. Furthermore, it would not allow Milton Hydro to secure the Glenorchy MTS capacity on a permanent basis, and would result in a significant capacity deficit if the existing Glenorchy MTS arrangement were terminated or not renewed.

From an operational and reliability perspective, Milton Hydro would not obtain the additional flexibility associated with increased supply capacity at Palermo TS, including the ability to redistribute load and better manage loading across its system.

From a financial perspective, deferral could eliminate the opportunity to economically increase the station capacity concurrently with Hydro One's end-of-life transformer replacement. Securing the capacity later would also increase Milton Hydro's capital contribution, as the contribution is determined by Hydro One's economic evaluation of the load connected to the upgraded station. For example, deferring the feeder line extension to 2031 would increase Milton Hydro's capital contribution from $3,400,600 to $6,018,600. Please refer to the response to SEC-9(c). If the Palermo Project were cancelled, Milton Hydro would lose the capacity-sharing arrangement with Oakville Hydro, under which it will secure 75 MW of permanent capacity at an estimated cost of $13,198,024, compared with $23,766,000 under the original four-feeder Palermo TS concept, in each case including the $100,000 transfer of Hydro One connection assets (Appendix D, pages 2 and 16, Table 11).

TS Feeder Egress

The feeder egress is required to connect Milton Hydro's existing and new feeders to the new Palermo TS switchyard. It is a mandatory component because the existing breakers and switchyard equipment will be decommissioned as part of Hydro One's station work. Milton Hydro must therefore complete the egress works before the station upgrade is placed in service to preserve its existing Palermo TS supply and transfer its feeders to the new switchyard (Appendix D, pages 18 and 19).

If the feeder egress were deferred, cancelled, or placed in service later than proposed, Milton Hydro would be unable to complete the required transfer of its existing feeders to the new switchyard in coordination with Hydro One's station commissioning. This could delay Hydro One's station in-service activities or affect Milton Hydro's ability to maintain its existing Palermo TS supply arrangement.

From a capacity perspective, neither the existing supply nor the incremental station capacity could be connected through the intended configuration.

The loss of the existing feeders would significantly impact operational flexibility by constraining the adjacent feeders that would have to take on the load, and would reduce the reliability of the system through the loss of available contingency configurations and redundancy.

Financially, a delay could result in additional construction, contractor, project management, or administrative costs and could leave completed station infrastructure unable to provide its intended benefit until the egress facilities are available.

Feeder Line Extension

The feeder line extension is required to bring the additional Palermo TS capacity into the areas of Milton Hydro's distribution system where it can be used to serve existing and future load (Appendix D, page 19).

If the feeder line extension were deferred, cancelled, or placed in service later than proposed, the incremental capacity created through the station upgrade would be underutilized until the feeder infrastructure was completed. Milton Hydro would have less ability to connect new customers, relieve constrained feeders, transfer load between supply areas, and optimize the use of existing station capacity. It would also reduce the expected operational and reliability benefits of the project, including greater system operating flexibility and improved contingency capability.

Deferring the feeder line extension would also increase Milton Hydro's capital contribution for the station upgrade, because the delayed load additions would reduce the revenue recognized in Hydro One's economic evaluation. As set out in the response to SEC-9(c), deferring the feeder line extension to 2031 would increase Milton Hydro's capital contribution from $3,400,600 to $6,018,600, an increase of $2,618,000. The response to SEC-9(c) also corrects the corresponding amounts shown in Table 12 of Appendix D.

Transfer of Hydro One Connection Assets

Milton Hydro proposes to acquire the existing Hydro One-owned poles, conductors and associated assets serving Milton Hydro's Palermo feeders to remove the existing embedded distributor arrangement and avoid the associated ongoing connection charges.

Accordingly, if the asset transfer were deferred, cancelled, or completed later than proposed, the TS upgrade, feeder egress, and feeder extension could still provide their intended capacity and operational functions, assuming the necessary ownership and operating arrangements remained in place. The principal consequence would be financial, as Milton Hydro and its customers would continue to incur the applicable embedded distributor connection charges for as long as the existing Hydro One ownership arrangement remained in place. The expected customer cost savings from eliminating those charges would therefore be delayed or, if the transfer were cancelled, would not be realized. The operational, reliability, and capacity consequences would be comparatively limited because the assets already exist and are currently in service.

Staff-8

Reference(s):

1. EB-2026-0057, appendix D, 2027 IRM Application, pp. 2-3

Preamble:

Ref. 1 states that the Palermo Project includes two key 2027 in-service milestones: (i) the construction, transfer and energization of Milton Hydro's Palermo TS feeder egresses to the new switchyard by April 30, 2027, aligned with Hydro One's station in-service date; and (ii) the energization of the two new Palermo TS feeders by September 30, 2027.

Task Name	Completion Date
Procurement of Long Lead Equipment (Egress + Line)	August 30, 2026, for Primary Metering Units; September 30, 2026, for Switches
Engineering Design Complete	August 30, 2026
Contractor Selection Completion	September 30, 2026
Construction Start (Line Extension)	March 2027
Construction Start (Egress)	March 2027
Construction Complete (Egress)	April 30, 2027
Energize Existing 2 Feeders Transfer to New Switch Yard	**April 30, 2027**
Construction Complete (Hydro One Palermo Upgrade In-Service)	May 31, 2027
Construction Complete (Line Extension)	September 30, 2027
Energize 2 New Feeders at New Switch Yard (In-Service Date)	**September 30, 2027**

Question(s):

a. Please provide the current status of the Palermo Project, including the completion status of each major project milestone identified in Ref. 1 and any milestones currently underway.

Response:

Milton Hydro provides the current status of the Palermo Project, including the completion status of each major project milestone in Table 1.

Table 1: Palermo Project Milestone Status

Milestone	Completion Date	Current Status	Updated Completion Status / Date
Procurement of Long Lead Equipment – Primary Metering Units	August 30, 2026	Ordered on schedule	Complete
Procurement of Long Lead Equipment – Switches	September 30, 2026	Ordered on schedule	Complete
Engineering Design Complete	August 30, 2026	In progress	October 30, 2026
Contractor Selection Completion	September 30, 2026	Complete	Complete
Construction Start (Line Extension)	March 2027	On track	No change
Construction Start (Egress)	March 2027	On track	No change
Construction Complete (Egress)	April 30, 2027	On track	No change
Energize Existing 2 Feeders Transfer to New Switch Yard	**April 30, 2027**	**On track**	**No change**
Construction Complete (Hydro One Palermo Upgrade In-Service)	May 31, 2027	On track	No change
Construction Complete (Line Extension)	September 30, 2027	On track	No change
Energize 2 New Feeders at New Switch Yard (In-Service Date)	**September 30, 2027**	**On track**	**No change**

b. For milestones not yet completed, please provide the current forecast completion dates and indicate whether they remain consistent with the schedule set out in Ref. 1.

Response:

Please refer to Table 1 in the response to Staff-8(a) for the current forecast completion date of each milestone not yet completed. With the exception of the engineering design, the forecast completion dates remain consistent with the schedule set out in Ref. 1.

Completion of the engineering design is now forecast for October 30, 2026. The engineering design is substantially complete, and the revised date reflects the timing of Hydro One's review of one remaining design item. Milton Hydro does not expect the revised date to affect the forecast March 2027 construction start or the cost of the project.

c. Please explain Milton Hydro's current assessment of its ability to achieve the following milestones:

i. Transfer and energization of the existing Palermo TS feeders to the new switchyard by April 30, 2027; and

ii. Energization of the two new Palermo TS feeders by September 30, 2027.

Response:

Milton Hydro is confident that it will achieve both the April 30, 2027 and the September 30, 2027 milestones. The key pre-construction activities within Milton Hydro's control are complete or substantially complete: long-lead equipment for the feeder egress and feeder line extension has been ordered, the contractor has been selected through a competitive procurement process, and the engineering design is substantially complete, with the one remaining design item under review by Hydro One. Milton Hydro will apply for municipal consents and road occupancy permits in November 2026, in advance of the March 2027 construction start (Appendix D, page 4), and has not identified any matter that is expected to delay either milestone.

Milton Hydro has successfully completed similar work in coordination with Hydro One, including the underground egress of two feeders from Tremaine TS in 2019 and 2020, together with capital contributions to Hydro One in 2018 and 2019 for the associated breaker positions.[22] Milton Hydro is managing the Palermo Project through regular project meetings, schedule updates and milestone tracking with Hydro One, close tracking of procurement activities, and regular monitoring of design progress with its engineering consultants (Appendix D, page 4, Table 2). Milton Hydro also monitors the progress of the station upgrade through regular meetings with Hydro One and their quarterly Project Status Reports (Appendix I).

The current status and forecast completion date of each milestone are set out in the responses to Staff-8(a) and Staff-8(b), the status of municipal permits is described in the response to VECC-13(a), and the contractor procurement process is described in the response to VECC-18(a).

[22] EB-2022-0049, Exhibit 2, pages 65 to 66.

d. If Milton Hydro does not expect to meet either of the above milestones, please explain the reasons for the delay, identify the affected project activities, and quantify the expected impact on project timing, costs, and customer load connections, if any.

Response:

Not applicable. Please refer to the response to Staff-8(c).

e. Please explain what is encompassed by the milestone “Energize Existing 2 Feeders Transfer to New Switch Yard” with an in-service date of **April 30, 2027.** Please describe the specific work to be completed by that date, the assets being placed into service, and how this milestone is associated with the Palermo Project.

Response:

As part of Hydro One's Palermo TS upgrade, new transformers and a new switchyard are being constructed to replace the existing station facilities. At Hydro One's request, Milton Hydro is relocating its two existing 27.6 kV feeders, A4M-1 and A4M-3, to the new switchyard. These feeders will be renumbered A4M-9 and A4M-10, respectively. This work forms part of the feeder egress facilities of the Palermo Project.

To achieve the "Energize Existing 2 Feeders Transfer to New Switch Yard" milestone by April 30, 2027, Milton Hydro will complete the following work:

- Installation of 10 new poles, together with pole line hardware, guying, and anchoring;
- Trenching and installation of conduit;
- Installation of approximately 350 m of 1000 kcmil 28 kV copper cable;
- Installation of approximately 100 m of overhead line, comprising two three-phase circuits and a shared neutral; and
- Installation of riser switches on the new poles to connect the new underground egress to the existing overhead route.

The new construction connects to the existing route, which includes the first eight poles and associated conductors that Milton Hydro will acquire from Hydro One as part of the Palermo Project. The reuse of these existing poles and conductors, together with the existing primary metering units for these two

feeders, reduces the amount of new construction required. Please refer to the responses to Staff-19 and Staff-20 for details of the asset acquisition.

Staff-9

Reference(s):

1 2027 IRM application, Section 3.3.2, Palermo Project, pp. 18-20.

2 EB-2026-0057, appendix D, Section 5, "Investment Need - Project Background & Chronology of Activities", pp. 9-11.

3 EB-2026-0057, appendix D, Table 3, "Historical and Forecasted Capital Expenditures", p. 5.

4 2027 IRM application, Section 3.3.2, Table 8, "Historical and Forecasted Capital Expenditures by Category - System Service", p. 26.

Preamble:

Milton Hydro states that the Palermo TS upgrade/rebuild was identified through regional and distribution planning activities, including the 2021 GTA West Integrated Regional Resource Plan (IRRP). Milton Hydro also indicates that expenditures related to the Palermo Project were incurred prior to the proposed 2027 in-service date and has included historical Palermo TS spending in Ref. 4.

Question(s):

a. Please confirm the date on which the need for the Palermo TS upgrade/rebuild was first identified and the date on which Milton Hydro first initiated investment in the project.

Response:

The end-of-life replacement need for the Palermo TS T3 and T4 transformers was identified through the GTA West regional planning process in 2019, which recommended that the option of upgrading the transformers to a higher rating at end-of-life be considered through an Integrated Regional Resource Plan.[23] The GTA West Integrated Regional Resource Plan issued in July 2021 (Appendix M) subsequently recommended upsizing the Palermo TS transformers at the time of their end-of-life replacement (Appendix D, page 9).

[23] IESO, GTA West Region Scoping Assessment Outcome Report, August 8, 2019, section 3.3.3, pages 12 and 13, and section 4, page 16.

Milton Hydro first incurred capital expenditures in respect of the project in April 2023, when it executed a Connection Cost Estimate Agreement with Hydro One to obtain a budgetary estimate and preliminary engineering for the station upgrade (Appendix D, page 9).

b. Please explain how these dates reconcile with the planning documents referenced by Milton Hydro and the historical Palermo TS expenditures presented in Ref. 4.

Response:

Please refer to the response to Staff-9(a) for the dates on which the need was identified and on which Milton Hydro first incurred capital expenditures in respect of the project.

The actual expenditures for the TS Upgrade – Palermo Station presented in Ref. 4 (Application, page 26, Table 8), and the corresponding activities and planning references, are set out in Table 1 below.

Table 1: TS Upgrade – Palermo Station Actual Expenditures, 2023 to 2025

Year	Amount	Activities	Planning Reference
2023 (Actual)	$230,313	Payment to Hydro One under the Connection Cost Estimate Agreement and internal labour.	Connection Cost Estimate Agreement executed in April 2023 (Appendix D, page 9; see response to VECC-19).
2024 (Actual)	$148,894	Engineering consultants, professional services and internal labour.	2024 Report (Appendix E); planning of distribution-side works (Appendix D, pages 9 and 10).
2025 (Actual)	$1,468,494	Payment to Hydro One under the second Connection Cost Estimate Agreement for a detailed estimate, advance payment to Hydro One for engineering design work to support timely procurement of the transformers, engineering consultants, professional services, and internal labour and capitalized interest.	Connection Cost Estimate Agreement executed in December 2024; pre-CCRA arrangements for long-lead equipment; feeder expansion feasibility and routing assessment (Appendix H); routing assessment (Appendix G); updated capacity needs assessment (Appendix F) (Appendix D, page 10).
Total	**$1,847,701**		

Staff-10

Reference(s):

1 Appendix J, *GTA West Region Scoping Assessment Outcome Report*, p. 7 (Table 1, Regional Planning Status Update).

2 2027 IRM Application, p. 19.

3 Appendix D, *Palermo TS Upgrade Business Case*, pp. 1-2.

4 Appendix D, *Palermo TS Upgrade Business Case*, pp. 9-10.

5 Appendix D, *Palermo TS Upgrade Business Case*, pp. 24-25.

Preamble:

OEB staff notes that Ref. 1 identifies the "Palermo TS transformer replacement with larger-capacity transformers (T3, T4)" project and indicates that the project status is "In Progress" with an expected in-service date of Q4 2027.

OEB staff also notes that the current ICM application seeks recovery of costs associated with the Palermo Project, which includes Milton Hydro's capital contribution toward the Palermo TS upgrade. OEB staff further notes that Appendix D states that planning activities associated with the Palermo TS upgrade began prior to the current application and that historical expenditures were incurred in 2023, 2024 and 2025, including engineering, studies, project development activities and advance payments associated with the station upgrade.

Given the project status identified in Ref. 1 and the historical expenditures identified in Appendix D, OEB staff seeks to better understand the relationship between the project identified in the Scoping Assessment, the Palermo TS upgrade that forms the basis of this ICM application, and the treatment of the project in Milton Hydro's 2023 Distribution System Plan (DSP) in its Cost of Service proceeding[24].

Question(s):

[24] EB-2022-0049

a. Please confirm whether the "Palermo TS transformer replacement with larger-capacity transformers (T3, T4)" identified in Table 1 of the GTA West Region Scoping Assessment Outcome Report is the same project, or a component of the same project, that forms the basis of the Palermo Project for which ICM funding is requested in this proceeding.

Response:

Milton Hydro confirms that the "Palermo TS transformer replacement with larger-capacity transformers (T3, T4)" identified in Table 1 of the GTA West Region Scoping Assessment Outcome Report is the station upgrade that forms one component of the Palermo Project for which ICM funding is requested in this proceeding. It does not, however, comprise the entirety of the Palermo Project.

b. If the projects are the same, or substantially the same, please explain:

i. what the references to T3 and T4 represent;

Response:

T3 and T4 are the equipment identification designations assigned to the two existing transformers at Palermo TS.

ii. the scope of work associated with the T3 and T4 transformer replacement project;

Response:

The GTA West Region Scoping Assessment Outcome Report identifies the project at the regional planning level only, as the replacement of transformers T3 and T4 with larger-capacity units. It does not define the scope of work at the equipment level. The scope of work for the transformer replacement is as described in the Application; please refer to Appendix D, Palermo TS Upgrade Business Case, Section 5 (page 18).

iii. the date on which the project was first initiated;

Response:

Hydro One's Project Status Report identifies a project start date of March 1, 2023 (Appendix I). Milton Hydro executed the Connection Cost Estimate Agreement with Hydro One in April 2023 (Attachment 1 to VECC-19).

iv. the date on which the project status was changed to "In Progress"; and

Response:

The project status reported in Table 1 of the GTA West Region Scoping Assessment Outcome Report was assigned by the IESO. Milton Hydro does not have information on the date on which the status was changed to "In Progress". However this report was finalized by IESO in November, 2024, by which time the project was already in progress by Hydro One.

v. the activities that had been completed, were underway, or had been contractually committed as of the date of the GTA West Region Scoping Assessment Outcome Report.

Response:

Hydro One is the owner of the Palermo TS transformer replacement project. Milton Hydro does not have visibility into all of the activities undertaken by Hydro One and the IESO in relation to the project as of the date of the GTA West Region Scoping Assessment Outcome Report. Accordingly, Milton Hydro is able to speak only to those project activities in which it was directly involved or of which it was made aware.

As of the date of the report, these activities comprised the execution of the applicable CCEAs the Pre-CCRA letter agreement under which Milton Hydro made an advance payment for engineering design work to support the timely procurement of the transformers necessary to meet the planned in-service date, and the associated regional and system planning, engineering, coordination and other project development activities involving Milton Hydro.

c. Please explain why the Palermo Project should be considered incremental and eligible for ICM treatment rather than a project that could reasonably have been identified, planned, and addressed through Milton Hydro's 2023 rebasing application and capital planning framework. Please identify:

i. the specific information that was unavailable at the time of the DSP;

Response:

Milton Hydro's 2023 cost of service application (EB-2022-0049) was filed on April 14, 2022, and the DSP filed with that application is dated March 2022. Only shortly before the cost of service application

was filed, Hydro One's GTA West Regional Infrastructure Plan (Appendix K), issued on February 23, 2022, recommended upsizing the Palermo TS transformers at the time of replacement, but did not establish any capital contribution payable by Milton Hydro (Appendix K, section 7.1.2). The DSP identified the Palermo TS upgrade as a source of additional supply capacity and assumed no capital contribution from Milton Hydro (Appendix L, page 22). The amount of any capital contribution, and the scope and cost of the associated distribution works, had not been determined at that time. The OEB issued its Decision and Order in that proceeding on October 13, 2022.[25] At the time of the DSP, the Palermo Project did not contain sufficient detail to address need and prudence for the purposes of capital funding, which is the circumstance contemplated in the ACM Report.[26] Please refer to the response to Staff-6(d).

The specific information that was not available at the time of the DSP, and the time at which it became available, is as follows:

- **January 2023:** Hydro One's budgetary estimate of the cost of the station upgrade, prepared under the Connection Cost Estimate Agreement executed in April 2023 (Appendix D, page 9);
- **May 2024:** the 2024 Report, which identified a need for additional system capacity within the near-term planning horizon (Appendix D, page 9);
- **2024 and 2025:** the feeder expansion and routing assessments that defined the scope and cost of the feeder egress and feeder line extension (Appendix D, page 10; Appendices G and H);
- **Late 2025 and 2026:** the capacity-sharing arrangement with Oakville Hydro, which established Milton Hydro's share of the additional Palermo TS capacity and permanent access to Glenorchy MTS capacity (Appendix D, page 10);
- **January 2026:** the 2026 Report, which updated the capacity needs assessment (Appendix F); and
- **2026:** Hydro One's economic evaluation under the Connection and Cost Recovery Agreement, which established Milton Hydro's capital contribution of $3,400,600.

[25] EB-2022-0049, Milton Hydro Distribution Inc., Decision and Order, October 13, 2022.
[26] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, pages 18 and 19.

ii. the specific developments that occurred after the DSP filing;

Response:

Multiple key developments occurred after preparation of the 2023-2027 DSP that materially influenced the scope, timing, and need for the Palermo Project.

First, in January 2023, Hydro One provided a budgetary estimate for the Palermo TS station upgrade pursuant to the Connection Cost Estimate Agreement executed in April 2023. This estimate provided Milton Hydro with its first indication of the potential costs associated with the Palermo TS upgrade, but at that time, the distribution infrastructure requirements necessary to access and utilize the additional capacity were not yet determined.

Subsequently, in May 2024, the 2024 Report (Appendix E) identified a need for additional system capacity within Milton Hydro's near-term planning horizon. The assessment provided a more comprehensive evaluation of Milton Hydro's future capacity requirements and highlighted the importance of securing additional capacity at Palermo TS. This represented a material evolution from the planning assumptions available when the DSP and 2023 rebasing application were prepared.

Following the completion of the 2024 Report, Milton Hydro undertook additional engineering and planning activities during 2024 and 2025, including feeder expansion and routing assessments performed by external consultants (Appendices G and H). These studies defined the scope, routing, and cost of the feeder egress and feeder line extension and established that additional distribution infrastructure would be required to bring the incremental Palermo TS capacity into the areas where future customer growth is expected to occur.

In parallel, the Palermo TS/Glenorchy MTS capacity-sharing arrangement began to emerge in late 2025. At that time, it remained uncertain whether Milton Hydro would proceed with a two-feeder or four-feeder Palermo configuration and, therefore, the amount of Palermo TS capacity that might be available for sharing had not been established. Discussions continued through 2026, ultimately resulting in a reciprocal arrangement that established Milton Hydro's permanent access to Glenorchy MTS capacity and defined Milton Hydro's share of the incremental Palermo TS capacity. It was not until mid-2026 that Milton Hydro had sufficient certainty regarding the feeder egress requirements, feeder extension scope, available station capacity, and overall project configuration to finalize its preferred approach.

In January 2026, the 2026 Report (Appendix F) further refined Milton Hydro's understanding of its forecast capacity requirements and reinforced the need to secure additional capacity at Palermo TS.

The updated assessment reflected a more current understanding of the impacts of electric vehicle adoption, charging infrastructure, building and transportation electrification, continued customer and economic growth, and emerging large-load opportunities.

Also in 2026, Hydro One completed its economic evaluation pursuant to the Connection and Cost Recovery Agreement process. That evaluation established Milton Hydro's required capital contribution, providing certainty regarding Milton Hydro's financial obligation associated with the Palermo TS upgrade. Prior to completion of this evaluation, neither the amount nor the basis of the required capital contribution had been finalized.

Accordingly, Milton Hydro's understanding of the need for, timing of, scope of, and cost associated with the Palermo Project evolved materially after preparation of the 2023 rebasing application and underlying DSP. The combination of the January 2023 budgetary estimate, the 2024 Report, the 2024–2025 feeder planning and routing studies, the Palermo TS/Glenorchy MTS capacity-sharing discussions that developed through late 2025 and 2026, the 2026 Report, and the 2026 Hydro One economic evaluation collectively provided information that was not available with the same level of certainty or detail when Milton Hydro established the capital plan underpinning its existing rates.

These developments ultimately defined the project scope, established the required distribution infrastructure, clarified the available capacity arrangements, quantified Milton Hydro's capital contribution obligation, and reinforced the need to advance the Palermo Project in coordination with Hydro One's planned transformer replacement schedule.

iii. the point in time at which Milton Hydro concluded that the project qualified for ICM treatment rather than inclusion in a future Cost of Service application;

Response:

Milton Hydro concluded that the Palermo Project qualified for ICM treatment in 2025. At that time, Milton Hydro's planning concept was to secure the full 70 MW of additional Palermo TS capacity, and the scope and estimated cost of that concept, including the associated feeder works and Milton Hydro's required capital contribution to Hydro One, had become sufficiently defined. Milton Hydro confirmed that conclusion in 2026, following agreement on the revised arrangement with Oakville Hydro and the resulting reduction in the scope and cost of the project (Appendix D, pages 10, 11 and 16).

In both 2025 and 2026, Milton Hydro determined that the Palermo Project represented a discrete and material capital investment that is not reflected in its current rates and was therefore appropriately the

subject of an ICM request, rather than inclusion in a future Cost of Service application. The OEB's ICM policy provides that the ICM is "intended to address the treatment of capital investment needs that arise during the rate-setting plan which are incremental to the materiality threshold,"[27] and maintains the opportunity for incremental capital requests during the IR term "for projects anticipated but for which sufficient rationale was not available at the time of the DSP to establish need and prudence."[28] The Palermo Project is a discrete project and "not part of typical annual capital programs."[29] Sufficient rationale to establish need and prudence became available in 2025, when the scope and estimated cost of the project were defined, as described above.

iv. why the project could not reasonably be deferred until Milton Hydro's next rebasing application.

Response:

Please refer to the response to Staff-6(d).

Staff-11

Reference(s):

1. OEB Report of the Board: Renewed Regulatory Framework for Electricity Distributors
2. Milton Hydro 2023 DSP (Appendix L)
3. 2027 IRM Application, Section 3.3.2, pp. 19-20, 27

Preamble:

Ref. 1 states that distributors are expected to undertake long-term planning that integrates asset needs, system requirements, and investment prioritization in order to deliver value to customers.

Ref. 2 identifies the need for the Palermo TS rebuild and notes that the DSP assumed no capital contribution would be required from Milton Hydro for the incremental capacity solution related to Palermo TS.

[27] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 18.
[28] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 10.
[29] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, page 13.

Ref. 3 indicates that Milton Hydro is seeking ICM funding for the Palermo Project, consisting of the Palermo TS upgrade contribution, feeder egress works, acquisition of Hydro One-owned connection assets, and feeder line extensions, with a total forecast cost of $13.2 million. Milton Hydro also states that the Palermo Project was not included in the DSP forecast and is the primary reason for the approximately $10.6 million increase in forecast 2027 System Service capital expenditures relative to the DSP forecast.

Question(s):

a. Please explain why the Palermo Project, including the feeder egress, feeder extension, and associated station-related investments, was not included in the capital expenditure forecasts contained in Milton Hydro's 2023 Cost of Service DSP.

Response:

Please refer to the response to Staff-10(c) i and ii.

b. Provide the information available at the time the DSP was prepared, regarding:

i. the end-of-life condition of the Palermo TS transformers;

Response:

At the time the DSP was prepared, the information available to Milton Hydro regarding the end-of-life condition of the Palermo TS transformers was that contained in the regional planning documents, as follows:

- The GTA West Region Scoping Assessment Outcome Report, August 2019, identified the end-of-life replacement need for the Palermo TS T3 and T4 transformers and recommended that the option of upgrading the transformers to a higher rating at end-of-life be considered through an Integrated Regional Resource Plan;
- The GTA West Integrated Regional Resource Plan, July 2021 (Appendix M), identified that the Palermo TS transformers would reach end-of-life in 2025. The DSP referred to this finding (Appendix L, pages 21 and 22); and

- Hydro One's Regional Planning Status letter of January 25, 2022, filed with the DSP, identified the refurbishment and upgrade of the Palermo TS transformers, with an expected in-service date of 2026.[30]

Milton Hydro did not have access to Hydro One's underlying asset condition assessments or detailed replacement plans. Please refer to the response to Staff-9(a) for the chronology of the regional planning process.

ii. the potential Palermo TS capacity upgrade;

Response:

At the time the DSP was prepared, the information available to Milton Hydro regarding the potential Palermo TS capacity upgrade was as follows:

- The GTA West Integrated Regional Resource Plan (July 2021) recommended upsizing the Palermo TS transformers at the time of their end-of-life replacement (Appendix D, page 9);
- The GTA West Regional Infrastructure Plan (February 2022) recommended upsizing the T3 and T4 transformers to 75/125 MVA, increasing the station's limited time rating from 110 MW to 180 MW, with a then-targeted in-service date of Q4 2026 (Appendix F, page 21, Table 6); and
- Hydro One had indicated that a capital contribution may be required to address the incremental costs of increasing Palermo TS capacity (Appendix L, page 22). The amount of any capital contribution had not been determined at that time.

iii. Milton Hydro's forecast capacity requirements; and

Response:

Milton Hydro's understanding of its forecast system capacity requirements at the time the DSP was prepared is reflected in the 2023–2027 DSP.[31] The capacity requirements and associated system needs identified in the DSP were based on the load forecasts, system conditions, growth assumptions, and other planning information reasonably available to Milton Hydro at that time.

[30] EB-2022-0049, Exhibit 2, Distribution System Plan, Appendix H.
[31] EB-2022-0049, Exhibit 2, Distribution System Plan, page 32.

iv. the need for feeder infrastructure required to utilize the additional capacity.

Response:

At the time the DSP was prepared, Milton Hydro did not have information identifying the need for feeder infrastructure that would ultimately be required to access and utilize the additional capacity resulting from the Palermo TS upgrade. The scope, configuration, routing, and cost of the required feeder infrastructure were subsequently identified and developed as the station upgrade progressed and Milton Hydro undertook further capacity planning, engineering, and coordination with Hydro One.

c. Please explain what developments, assumptions, or circumstances changed between the filing of the DSP and the current ICM application that resulted in the inclusion of the Palermo Project and the associated ICM funding request.

Response:

The developments and circumstances that arose after the filing of the DSP, and that resulted in the inclusion of the Palermo Project and the associated ICM funding request, are set out in the response to Staff-10(c) i and ii.

d. Please explain how the Palermo Project was evaluated and prioritized within Milton Hydro's asset management and capital planning framework, and indicate whether the project was assessed using the same planning, risk assessment, and investment prioritization criteria described in the DSP.

Response:

The Palermo Project was evaluated and prioritized in a manner consistent with the asset management process and the project selection and prioritization approach described in Milton Hydro's DSP.

The DSP identifies Milton Hydro's desired level of service and mandated deliverables as one of the key drivers of investment.[32] Under the DSP, System Service projects address forecast load changes that constrain the ability of the system to provide consistent service delivery, and are selected and prioritized based on qualitative evaluations of relative need and timing.[33]

The Palermo Project is a System Service investment. Its primary driver is the need to secure additional supply capacity to serve the forecast load of Milton Hydro's existing and future customers (Appendix D,

[32] EB-2022-0049, Exhibit 2, Distribution System Plan, section 5.3.1B, pages 62 and 63.
[33] EB-2022-0049, Exhibit 2, Distribution System Plan, section 5.4.1B, pages 101 and 102.

page 14). Please also refer to the response to Staff-13(c). The need for the project, the alternatives considered, the economic evaluation, and the project risks and associated mitigation measures are set out in the business case (Appendix D).

With respect to timing, the opportunity to obtain additional capacity at Palermo TS arises only at the time Hydro One replaces the end-of-life transformers, and the regional planning process identified transformer upsizing at that time as the most cost-effective means of addressing the capacity needs of the region. Please refer to the response to Staff-6(d).

Having regard to its relative need and timing, Milton Hydro assigned a high priority to the Palermo Project and included it in its 2026 and 2027 capital expenditure forecasts.

e. Please provide any internal planning studies, business cases, asset management assessments, or capital prioritization analyses prepared after the DSP filing that supported the decision to proceed with the Palermo Project and seek ICM funding.

Response:

The planning studies, business case, and assessments prepared after the filing of the DSP that supported Milton Hydro's decision to proceed with the Palermo Project and seek ICM funding are filed in this application, as follows:

- **Business case:** Palermo TS Upgrade Business Case (Appendix D);
- **Capacity needs assessments:** Milton Hydro Capacity Needs Assessment, May 30, 2024 (Appendix E), and Milton Hydro Capacity Needs Assessment, January 2026 (Appendix F), including the non-wires solutions pre-assessment (Appendix F, Appendix B);
- **Feeder routing and cost assessments:** the NBM Study (Appendix G) and the feeder expansion feasibility and routing assessment (Appendix H); and
- **Capital funding considerations:** the impact of the Palermo Project on Milton Hydro's capital program is described at pages 30 and 31 of the Application.

Staff-12

Reference(s):

1. EB-2026-0057, appendix D, Palermo Project Business Case, Section 5 "Investment Need", p. 9
2. EB-2026-0057, appendix E, Milton Hydro Capacity Needs Assessment (Power Advisory LLC), 2024 Report
3. EB-2026-0057, appendix M, Greater Toronto Area West Integrated Regional Resource Plan, July 2021

Preamble:

Ref. 1 indicates that Milton Hydro retained Power Advisory LLC to prepare a Capacity Needs Assessment in 2023. The assessment developed multiple demand forecast scenarios using customer connection requests, municipal and provincial planning information, and electricity planning assessments, including IESO regional planning documents. The assessment also identifies the need for continued coordination with neighboring distributors, Hydro One and the IESO through the GTA West regional planning process.

Ref. 3 indicates that regional planning activities for the GTA West region are led by the IESO in collaboration with Hydro One Transmission and local distribution companies. The regional planning process includes load forecast assessments, identification of system needs, evaluation of alternatives, and development of recommended regional solutions.

Question(s):

a. Please identify the specific information, analyses, forecasts, or planning conclusions developed through the Capacity Needs Assessment that were not otherwise available through the GTA West regional planning process described in Ref. 3.

Response:

The 2024 Report (Appendix E) provided the following Milton Hydro-specific information and analysis, which was not available through the GTA West regional planning process:

- a demand forecast for Milton Hydro's service territory at the transformer station and feeder level, under high growth and low growth scenarios, incorporating population and employment growth, electrification, and the large customer connection requests received by Milton Hydro;
- an assessment of Milton Hydro's share of the capacity at each of its supply stations against that forecast, including the year in which that capacity would be exceeded under each scenario;
- a feeder-level assessment of capacity needs on Milton Hydro's distribution system; and
- an analysis of the Palermo TS upgrade as a means of meeting Milton Hydro's capacity needs, and of the timing of a subsequent new transformer station under each scenario.

The GTA West regional planning process identified the opportunity to upsize Palermo TS at the time of transformer replacement. The 2024 Report assessed Milton Hydro's own need for that capacity and the timing of that need (Appendix D, pages 9 and 11).

b. Please explain how the findings of the Capacity Needs Assessment affected Milton Hydro's assessment of the need, timing, and scope of the Palermo Project relative to the assumptions reflected in its 2023 Cost of Service Application.

Response:

The findings of the Capacity Needs Assessment informed Milton Hydro's assessment of the need, timing and scope of the Palermo Project relative to the assumptions underlying its 2023 Cost of Service Application.

With respect to need, at the time of the 2023 Cost of Service Application, Milton Hydro was aware through the GTA West regional planning process that the Palermo TS T3 and T4 transformers were approaching end-of-life and that Hydro One was considering replacing them with larger-capacity transformers. Milton Hydro's understanding of its own future capacity requirements was based on the

load forecasts and system planning information available when the 2023–2027 DSP was prepared. At that time, the magnitude and timing of additional demand associated with electric vehicle adoption and charging infrastructure, broader electrification, continued economic and residential development, and prospective large-load connections had not been assessed to the extent that they were in subsequent planning work.

The Capacity Needs Assessment (Appendix E) provided a more current and detailed assessment of Milton Hydro's supply and distribution capacity requirements. It assessed forecast growth against the available capacity of Milton Hydro's supply stations and distribution system, and identified where and when capacity constraints could emerge. The Capacity Needs Assessment identified a need for additional system capacity within the near-term planning horizon and supported Milton Hydro proceeding with the Palermo TS upgrade (Appendix D, page 9).

With respect to timing, the Capacity Needs Assessment supported securing additional capacity at the time of Hydro One's planned replacement of the Palermo TS transformers. Deferring the investment would not eliminate Milton Hydro's capacity requirement. Milton Hydro would forgo the opportunity to obtain additional capacity through the Hydro One station upgrade, and would require alternative capacity solutions at a later date. Milton Hydro's updated assessment in 2026 (Appendix F) continued to confirm that additional long-term capacity remained necessary and that the Palermo TS upgrade was still required (Appendix D, page 10).

With respect to scope, additional transformation capacity at Palermo TS must be capable of being delivered from the station into the portions of Milton Hydro's distribution system where future load connections are required. Following the Capacity Needs Assessment, Milton Hydro began planning the feeder infrastructure necessary to access and utilize the additional station capacity, including the feeder egress and the feeder line extension (Appendix D, page 10).

The Capacity Needs Assessment did not first identify the opportunity to increase capacity at Palermo TS, which was already known through the regional planning process. It provided a more current assessment of the magnitude, timing and location of Milton Hydro's forecast growth, and of Milton Hydro's requirement for that capacity.

c. Please identify the extent to which the projected capacity requirements underlying the current ICM request are dependent upon:

i. regional planning assumptions;

Response:

The GTA West regional planning process identified that the existing Palermo TS transformers were approaching end-of-life, that the station was fully utilized, and that replacing the T3 and T4 transformers with larger-capacity units represented an opportunity to increase station capacity (Appendix D, page 9). Regional planning therefore identified the means by which additional supply capacity could be made available to Milton Hydro.

Milton Hydro's requirement for that capacity is based on the forecast of Milton Hydro's customer and system load prepared by Power Advisory in the 2026 Report (Appendix F), which used current regional planning inputs (Appendix D, page 10). Regional planning assumptions affect the availability, configuration and timing of the Palermo TS capacity solution. The forecast of Milton Hydro's load establishes the need for that capacity.

ii. large customer connection requests;

Response:

The projected capacity requirements underlying the current ICM request are not dependent upon any single large customer connection request. Milton Hydro's capacity requirement reflects broader growth across its service territory. The 2026 Report indicates that growth related to large customer connections through the 2020s is mainly at Halton TS and Tremaine TS, and that urban development trends lead to more load growth in the area currently served by Palermo TS and Glenorchy MTS (Appendix F, page 17). Large-load connections represent an important source of potential incremental demand and may accelerate the utilization of available capacity, but the underlying capacity need also reflects residential and commercial development, electrification, economic growth and other sources of increasing demand, as explained further in the response to Staff-12(c) v.

iii. electrification-related demand growth;

Response:

Electrification is an emerging source of demand that was not a material component of Milton Hydro's historical load growth. It includes electric vehicle adoption and associated charging infrastructure, building electrification, and transportation and fleet electrification.

This demand is incremental to historical growth rates, and vehicle electrification is expected to contribute to sustained long-term growth (Appendix F, pages 16-17). The timing and magnitude of electrification-related demand are uncertain. The Low, Reference and High scenarios in the 2026 Report apply different assumptions for electric vehicle adoption to account for that uncertainty. Electrification therefore contributes to, but is not the sole basis for, the projected capacity requirements.

iv. municipal growth forecasts; and

Response:

Municipal growth forecasts include anticipated residential, commercial, employment and industrial development in the Town of Milton. This development results in additional electricity demand on Milton Hydro's system, and the municipal growth forecasts are used in forecasting that demand. Municipal planning and development information is used to determine the expected magnitude of growth and where that growth is expected to occur, which is relevant to the assessment of feeder and station capacity requirements. Figure 4 of Appendix D (page 15) shows current areas of development in relation to the service boundaries of Milton Hydro's supply stations.

v. other forecast drivers.

Response:

Other factors considered in assessing system capacity requirements include organic customer growth, economic development, changes in customer consumption patterns, distributed energy resources, energy efficiency, demand management, the ability to transfer load between stations, and the utilization of existing system capacity. These factors are considered in assessing the timing, location and magnitude of future capacity requirements.

Not all of these factors are independent drivers of load growth. Some are planning considerations that may increase, reduce or defer forecast capacity requirements, or affect how those requirements can be addressed.

d. Please identify any regional coordination alternatives, load transfer arrangements, shared infrastructure solutions, or other joint planning options that were considered to address forecast capacity requirements and explain why such alternatives were not selected.

Response:

The Palermo Project is a regional coordination and shared infrastructure solution. Under the arrangement with Oakville Hydro, the additional Palermo TS capacity is shared between the two distributors, and Milton Hydro secures permanent capacity at Oakville Hydro's Glenorchy MTS (Appendix D, pages 10 and 11). The arrangement makes use of existing regional infrastructure across multiple transformer stations in advance of additional capacity investments.

Arrangements of this type allow Milton Hydro to balance load among supply points and to defer or reduce the need for incremental infrastructure where sufficient capacity and appropriate interconnections are available. They are dependent on factors outside Milton Hydro's control, including the availability of surplus capacity at neighbouring stations, the needs of the host utility, the location of the available capacity relative to Milton Hydro's load, and the technical and commercial arrangements required to access that capacity.

Milton Hydro has also previously pursued access to capacity at Halton Hills MTS, as identified in its DSP. To date, Milton Hydro has not secured an arrangement that would provide access to that capacity.

Accordingly, Milton Hydro has considered and pursued regional and shared-capacity solutions where feasible. The availability of such solutions is limited by technical, capacity, geographic and commercial considerations, and they are not a substitute for the additional capacity required to meet Milton Hydro's forecast system needs.

e. Please explain whether any portion of the capacity requirements supporting the current ICM request reflects regional planning needs that extend beyond Milton Hydro's service territory. If yes, please quantify the extent to which regional needs contributed to the identification of the proposed investment.

Response:

No. The capacity requirements relied upon by Milton Hydro to support the current ICM request are based on Milton Hydro's own forecast system needs, and not on an allocation of regional capacity requirements to Milton Hydro.

The Palermo TS upgrade was identified through the GTA West regional planning process, which contributed to the selection and timing of the station solution. It did not establish the Milton Hydro load forecast underlying the ICM request. The ICM request is limited to Milton Hydro's capital contribution for its 35 MW share of the additional Palermo TS capacity. The remaining capacity will be used by Oakville Hydro, under a separate Connection and Cost Recovery Agreement with Hydro One (Appendix D, pages 10 and 11). Milton Hydro is not seeking ICM funding for capacity required to serve customers outside its service territory.

Staff-13

Reference(s):

1. 2027 IRM Application, Appendix D, Business Case: Palermo TS Upgrade, "Project Background & Chronology of Activities."
2. 2027 IRM Application, Appendix E, *Milton Hydro Capacity Needs Assessment* (2024), prepared by Power Advisory in collaboration with Electric Power Engineers.
3. 2027 IRM Application, Appendix F, Updated Capacity Assessment (2025).
4. Appendix E, 2024 Capacity Needs Assessment (Power Advisory LLC and Electric Power Engineers), p. 7

Preamble:

Milton Hydro states that it retained Power Advisory, in collaboration with Electric Power Engineers, to complete the *Milton Hydro Capacity Needs Assessment* in 2024. Milton Hydro further states that in 2025 it retained Power Advisory to update the assessment using revised economic assumptions,

updated large customer information, and current regional planning inputs. According to the application, the updated assessment refined the projected growth outlook and continued to support the need for additional long-term system capacity and the Palermo Project.

Ref. 4 states:

"MHDI's demand growth requires upstream transmission capacity investments that cannot be funded through base rates. The timing of these investments does not align with MHDI's rate schedule so it must use alternate recovery mechanisms to recover its costs or contributions to Hydro One. The Palermo TS upgrade is needed by 2027, which will require an Incremental Capital Module application to fund. The Palermo TS upgrade will serve MHDI's organically growing load and will provide some capacity to new customers before New Milton TS is completed.

If organic growth is lower than forecast prior to completion of the project, MHDI would be responsible for a higher contribution to Hydro One by way of a lower deposit refund. Additionally, the contribution would be spread to a lower number of customers and/or billed loads which would increase distribution rates. In the longer run, the lower growth may defer the need of New Milton TS. If growth is low such that one or more of the new Large User class customers can be served without New Milton TS, a portion of Palermo TS capacity could be assigned to the new Large User class customers and contributions would be made to Palermo TS, offsetting the revenue requirement impacts."

Question(s):

a. Please explain whether Milton Hydro assessed the risk that actual growth may be materially lower than forecast. If such an assessment was performed, please describe any mitigation measures considered to address the potential for underutilized capacity, including alternative project timing or phasing, capacity-sharing arrangements, regional planning solutions, or other mechanisms that could reduce the risk of existing customers funding capacity that may not be utilized as forecast.

Response:

Yes. Milton Hydro assessed the risk of lower-than-forecast growth through the development and evaluation of Low, Reference and High forecast scenarios, which provide a range of potential load growth outcomes and allow Milton Hydro to assess the planning risk associated with uncertainty in the timing and magnitude of future demand. The Low scenario represents a reasonable lower-bound planning case. Even under the Low scenario, the forecast indicates an ongoing requirement for

additional capacity, although that capacity becomes fully utilized later than under the Reference and High scenarios (Appendix D, page 10). Please refer to the responses to Staff-13(c) and Staff-13(d).

Milton Hydro also considered the broader growth characteristics of its service territory, including continued residential and commercial development, economic growth, prospective large-load connections, electric vehicle adoption and charging infrastructure, and increasing electrification. On this basis, Milton Hydro considers the risk that the additional capacity will remain materially underutilized over the longer term to be limited.

Milton Hydro mitigated the risk of underutilized capacity through the capacity-sharing arrangement with Oakville Hydro. Under that arrangement, Milton Hydro will receive two of the four new Palermo TS feeders and is responsible for 50% of the incremental station upgrade cost, rather than the full incremental capacity and cost contemplated in the original concept (Appendix D, pages 6, 10 and 11). Milton Hydro also considered alternative timing for the feeder line extension. Deferring the feeder line extension to 2031 is expected to increase Milton Hydro's capital contribution to Hydro One from $3,400,600 to $6,018,600. Please refer to the response to SEC-9(c) and Staff-12(d) for the regional planning and coordination alternatives considered.

b. For each key assumption used in the *Capacity Needs Assessments*, please provide the supporting evidence relied upon, including any municipal growth forecasts, population forecasts, development forecasts, customer connection forecasts, regional planning studies, electrification forecasts, large-customer information, or other relevant sources.

Response:

Milton Hydro provides in Tables 1 and 2, the key assumptions used in the 2024 Report (Appendix E) and the 2026 Report (Appendix F), and the source relied upon for each. Where the source is a public document, a link is provided. Where the assumption is based on Milton Hydro's system operating data or customer connection and development information provided to Power Advisory for the assessments, the source is identified as "Provided by Milton Hydro".

Table 1: Key Assumptions and Sources – 2024 Report (Appendix E)

Index	Assumption	Report Title	Link
1	Population and employment forecasts	Halton Region, Regional Official Plan Review – Appendix A: Land Needs Assessment (February 2022)	https://edmweb.halton.ca/OnBaseAgendaOnline/Documents/DownloadFile/Attachment%20_1a%20-%20Appendix%20A%20-%20Land%20Needs%20Assessment.pdf.pdf?documentType=1&meetingId=4287&itemId=121671&publishId=71638&isSection=False&isAttachment=True
2	Population and employment forecasts; intensification areas	Halton Region, Regional Official Plan Amendment No. 49 (adopted June 2022; approved with modifications November 4, 2022)	https://ero.ontario.ca/public/2022-11/Halton%20Region%20ROPA%2049%20-%20Signed%20Decision%20-%20November%204%202022.pdf
3	Active development applications	n/a	Provided by Milton Hydro
4	Population and employment forecasts; Milton Education Village	Town of Milton, Milton Education Village Secondary Plan	https://calendar.milton.ca/meetings/Detail/2020-09-21-1900-Council-Meeting/009589bf-a294-44c6-976f-ad2500fee994
5	Municipal energy planning context	Town of Milton, Community Energy Plan (2018)	https://www.milton.ca/en/town-hall/resources/Community-Energy-Plan.pdf
6	2023 Base Year station demand	n/a	Provided by Milton Hydro
7	Load and growth of other distributors at shared stations (Halton TS, Palermo TS, Tremaine TS, Glenorchy MTS); regional needs and recommendations	Hydro One, GTA West Regional Infrastructure Plan (February 2022)	https://www.hydroone.com/abouthydroone/CorporateInformation/regionalplans/gtawest/Documents/RIP-Report-GTA-West-2022.pdf
8	Load and growth of other distributors at Fergus TS	Hydro One, Kitchener-Waterloo-Cambridge-Guelph Regional Infrastructure Plan	https://www.hydroone.com/abouthydroone/CorporateInformation/regionalplans/kitchenerwaterloocambridgeguelph/Documents/RIP_Report_KWCG.pdf

Index	Assumption	Report Title	Link
9	Residential consumption by housing type	IESO, 2021 Annual Planning Outlook – Demand Forecast Module Data (Figure 6)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/Dec2021/Demand-Forecast-Module-Data.xlsb
10	Historical demand and energy for Large User customers	OEB, Electricity Reporting and Record Keeping Requirements (RRR) Section 2.1.5.4 – Demand and Revenue	https://www.oeb.ca/open-data/electricity-reporting-record-keeping-requirements-rrr-section-2154-demand-and-revenue
11	Energy efficiency improvement per household and per employee	IESO, 2022 Refresh of the 2019 Achievable Potential Study – Appendix 1: Forecast Potential and Consumption	https://www.ieso.ca/-/media/Files/IESO/Document-Library/conservation/APS/APPENDIX-1-Forecast-Potential-and-Consumption-2022.xlsx
12	Electrification: EV adoption (share of sales)	Government of Canada, Electric Vehicle Availability Standard (regulated targets for zero-emission vehicles), December 2023	https://www.canada.ca/en/environment-climate-change/news/2023/12/canadas-electric-vehicle-availability-standard-regulated-targets-for-zero-emission-vehicles.html
13	Electrification: medium- and heavy-duty EVs consumption	IESO, 2022 Annual Planning Outlook – Demand Forecast Module	https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/Dec2022/Demand-Forecast-Module.pdf
14	Electrification: EV peak impact per vehicle	ISO-NE, 2023 Capacity, Energy, Loads, and Transmission (CELT) Report	https://www.iso-ne.com/static-assets/documents/2023/05/2023_celt_report.xlsx
15	Electrification: EV peak impact per vehicle	Energy Systems Integration Group, Grid Planning for Vehicle Electrification (2024)	https://www.esig.energy/wp-content/uploads/2024/01/ESIG-Grid-Planning-Vehicle-Electrification-report-2024.pdf
16	Large customer connection requests	n/a	Provided by Milton Hydro

Index	Assumption	Report Title	Link
17	Regional planning: Palermo TS context	IESO, GTA West Integrated Regional Resource Plan (July 2021)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/GTA-West/gta-west-IRRP-Report-July2021.ashx
18	Regional planning: T38B/ T39B load security need	IESO, Northwest GTA Integrated Regional Resource Plan (April 2015)	https://www.hydroone.com/abouthydroone/CorporateInformation/regionalplans/gtawest/Documents/2015-Northwest-GTA-IRRP-Report.pdf

Table 2: Key Assumptions and Sources – 2026 Report (Appendix F)

Index	Assumption	Report Title	Link
19	Forecast methodology reference	IESO, 2025 Annual Planning Outlook, Demand Forecast Methodology	https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/2025/Demand-Forecast-Methodology.pdf
20	Population and employment forecasts	Town of Milton, Addendum #1 to the October 24, 2024 Phase 1 – Residential and Non-Residential Needs Analysis (presented March 17, 2025 in support of Official Plan Amendment 92)	https://pub-milton.escribemeetings.com/filestream.ashx?DocumentId=11379
21	Population forecasts (near-term adjustment)	Government of Canada (IRCC), Government of Canada reduces immigration (News release, October 24, 2024)	https://www.canada.ca/en/immigration-refugees-citizenship/news/2024/10/government-of-canada-reduces-immigration.html
22	Population forecasts (near-term adjustment)	Statistics Canada, Table 17-10-0009-01, Population estimates, quarterly	https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901
23	Population and employment forecasts (long-term adjustment)	Halton Region, Regional Official Plan (Office Consolidation, May 16, 2024)	https://www.halton.ca/repository/rop-office-consolidation-text
24	Population and employment forecasts (long-term adjustment)	Ontario Ministry of Finance, Population Projections (Ontario Data Catalogue)	https://data.ontario.ca/dataset/population-projections/resource/31376797-1e4c-4426-ba75-0d93f4bb9f45

Index	Assumption	Report Title	Link
25	Historical residential customer count	n/a	Provided by Milton Hydro
26	Information on large residential developments	Town of Milton, Report DS-055-21, Halton Balanced Growth Concepts (posted to the Environmental Registry of Ontario)	https://ero.ontario.ca/public/public_uploads/2023-12/DS-055-21%20Halton%20Balanced%20Growth%20Concepts%20Report.pdf
27	Additional information on large residential developments provided by developers	n/a	Provided by Milton Hydro
28	2025 Base Year station demand	n/a	Provided by Milton Hydro
29	Transformer station demand and CDM forecasts for other distributors at shared stations	IESO, GTA West IRRP Draft Forecasts – Forecast Methodology Data Table 1 (June 2, 2025)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/GTA-West/GTA-West-20250602-Forecast-Methodology-Data-Table-1.xlsx
30	Energy efficiency forecast for Ontario	IESO, 2025 Annual Planning Outlook	https://www.ieso.ca/-/media/Files/IESO/Document-Library/planning-forecasts/apo/2025/Demand-Forecast-Module-Data.xlsb
31	Historical ZEV registrations	Statistics Canada, Table 20-10-0025-01, New motor vehicle registrations, quarterly	https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=2010002501
32	Electrification: Review of long-term federal EV targets	Prime Minister of Canada, Backgrounder: Prime Minister Carney launches new measures to protect, build, and transform Canadian strategic industries (September 5, 2025)	https://www.pm.gc.ca/en/news/backgrounders/2025/09/05/prime-minister-carney-launches-new-measures-protect-build-and
33	Large customer connection requests	n/a	Provided by Milton Hydro
34	Regional planning context: Palermo TS needs	Hydro One, GTA West Needs Assessment (3rd cycle, August 30, 2024)	https://www.hydroone.com/abouthydroone/CorporateInformation/regionalplans/gtawest/Documents/Needs-Assessment-GTA-West-2024.pdf

Index	Assumption	Report Title	Link
35	Regional planning context: Palermo TS transformer replacement in progress	IESO, GTA West Region Scoping Assessment Outcome Report (November 28, 2024)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/GTA-West/gta-west-20241128-Scoping-Assessment-Outcome-Report.pdf
36	Regional planning context: Palermo TS needs	Hydro One, GTA West Regional Infrastructure Plan (February 2022)	https://www.hydroone.com/abouthydroone/CorporateInformation/regionalplans/gtawest/Documents/RIP-Report-GTA-West-2022.pdf
37	Regional planning context: Palermo TS needs	IESO, GTA West Integrated Regional Resource Plan (July 2021)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/GTA-West/gta-west-IRRP-Report-July2021.ashx
38	Regional planning context: Palermo TS needs	IESO, GTA West Scoping Assessment Outcome Report (August 8, 2019)	https://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/GTA-West/GTA-West-Scoping-Assessment-Outcome-Report-20190808.pdf
39	Milton Hydro feeder capability and load transfer agreement information	n/a	Provided by Milton Hydro

c. Please summarize the evidence supporting the forecast growth outlook and explain how that evidence supports the conclusion that additional long-term system capacity is required.

Response:

Milton Hydro's peak demand is forecast to continue to increase and to exceed the station capacity currently available to Milton Hydro, based on the supporting evidence set out in the response to Staff-13(b), and explained in the 2026 Report (Appendix F). The evidence is summarized below.

- **Historical growth:** Milton Hydro's system peak has grown by an average of 4.3 MW per year over the last ten years, representing 25.8% system growth over that period (Appendix D, page 14).
- **Forecast growth:** Total summer peak demand is forecast to increase from 207 MW in 2025 to between 234 MW and 293 MW by 2030 under the Low and High scenarios, respectively (Appendix F, page 3). The forecast reflects population, employment and housing growth, based on the Town of Milton's Residential and Non-Residential Needs Analysis and adjusted downward to reflect the Ontario Ministry of Finance's 2025 projections for Halton Region and indicators of slower near-term growth (Appendix F, pages 7 and 8), and customer connection requests received by Milton Hydro, which Power Advisory derated and delayed to varying degrees by scenario to reflect uncertainty (Appendix F, pages 14 and 15).
- **Scenarios:** The 2026 Report includes Low, Reference and High scenarios to account for uncertainty in the timing and magnitude of future demand (Appendix F, page 5).

This forecast growth exceeds the capacity of the existing system. Palermo TS was fully utilized with no remaining capacity for growth (Appendix D, page 9), and Milton Hydro's access to 40 MW of capacity at Glenorchy MTS was not permanent (Appendix D, page 12). The limited time rating of Palermo TS prior to the upgrade is 110 MW (Appendix F, page 23), while the June 2025 draft GTA West IRRP forecasts, which include all distributors served by the station, show Palermo TS demand of 148 MW in 2028, increasing to 171 MW by 2031 (Appendix F, Table 8). The need for additional capacity at Palermo TS has also been consistently identified in GTA West regional planning (Appendix F, Table 6). As stated in the 2026 Report (Appendix F, page 20):

> *Power Advisory's assessment of MHDI's distribution system, grounded in three demand forecasts and corresponding supply needs, corroborates the regional planning direction taken by the IESO and Hydro One to upgrade Palermo TS. […] Power Advisory's findings are*

consistent with, and supportive of, proceeding with the Palermo TS upgrades on the timeline and scope outlined in these plans.

Forecast demand continues to grow after the Palermo TS upgrade is in service. The need for additional long-term system capacity arises under all three scenarios in the 2026 Report, between 2032 and 2039 depending on the scenario (Appendix D, page 10). Figure 1 of Appendix D (page 12) compares forecast demand with available system capacity. Without the Palermo Project, and if the existing Glenorchy MTS arrangement were terminated, Milton Hydro would have a capacity need as early as 2029 in the Reference scenario (Appendix D, page 10). Please refer to the response to Staff-12(c) for the drivers of the capacity requirement.

Please refer to Sections 1 and 2 of Appendix F for further detail.

d. Ref. 4 indicates that Power Advisory assessed the potential impacts of lower-than-forecast growth and identified circumstances under which New Milton TS could be deferred and a portion of the Palermo TS capacity could be assigned to future Large User customers to mitigate revenue requirement impacts. Please explain how these potential mitigation measures were considered in determining the timing, scope and prudence of the Palermo Project, including the basis for proceeding with the project in 2027 despite the possibility of lower-than-forecast growth outcomes identified in Ref. 4.

Response:

The Capacity Needs Assessment (Appendix E) expressly concludes that the Palermo TS upgrade is required in 2027 under both the High and Low Growth Scenarios. Under the Low Growth Scenario, without the Palermo TS upgrade, the combined load-serving capability of Halton TS, Palermo TS and Tremaine TS is exceeded in 2027. With the Palermo upgrade in service, adequate load-serving capability is maintained until 2031 (Appendix E, page 5). Accordingly, the need for the Palermo Project is not dependent on achieving the higher growth forecasts or on the timing of new Large Use customer connections.

The lower-growth mitigation identified in Ref. 4 relates primarily to the timing and cost recovery implications of New Milton TS. The report identifies New Milton TS as a subsequent capacity investment whose timing varies by growth scenario, with an in-service date of 2030 under the High Growth Scenario and 2032 under the Low Growth Scenario (Appendix E, page 7). By contrast, the Palermo TS upgrade is identified as a near-term requirement. The report states that large customer

connections are the largest source of forecast uncertainty and that the Low Growth Scenario assumes only 50% of the forecast demand associated with large new customers materializes (Appendix E, page 4). It nevertheless concludes that the Palermo TS expansion is required to serve organic demand growth associated with increasing customer numbers, population, employment and electrification, and that the Palermo upgrade would be necessary and prudent even without the new Large Use customers (Appendix E, page 44).

Therefore, in determining the timing, scope and prudence of the Palermo Project, Milton Hydro did not rely on the forecast timing of New Milton TS or assume that all forecast Large Use customer demand would materialize. The 2027 Palermo investment is supported independently under the lower-growth case. The longer-term effect of lower-than-forecast growth identified in Ref. 4 is to defer the subsequent need for New Milton TS. It does not eliminate or defer the capacity requirement that the Capacity Needs Assessment identified for the Palermo TS upgrade in 2027.

Staff-14

Reference(s):

1 2027 IRM Application, Section 3.3.2, *Incremental Capital Module*, pp. 18-20.

2 EB-2026-0057, appendix D, *Palermo TS Upgrade Business Case*, pp. 11-14.

3 EB-2026-0057, appendix D, *Palermo TS Upgrade Business Case*, p. 18.

4 EB-2026-0057, Appendix D, section 5, Investment Needs, p. 10

Preamble:

Ref. 1 states that the Palermo TS upgrade involves replacing the existing 50/66.7/83.3 MVA transformers with 75/100/125 MVA transformers, resulting in an increase of approximately 70 MW of station capacity. The application further states that Milton Hydro will secure 35 MW of the new Palermo TS capacity while Oakville Hydro will secure the remaining 35 MW.

The application also states that Milton Hydro will obtain permanent access to 40 MW of capacity at Glenorchy MTS. Together, the Palermo TS upgrade and the permanent Glenorchy MTS capacity rights are expected to provide Milton Hydro with approximately 75 MW of additional supply capacity and defer the need for a future transformer station until approximately 2037 under the reference growth scenario.

Ref. 4 states that Milton Hydro and Oakville Hydro entered into a capacity-sharing arrangement whereby Milton Hydro will receive two of the four new Palermo TS feeders and permanent rights to the existing Glenorchy MTS feeders, while Oakville Hydro will receive the remaining Palermo TS capacity and two feeders. Milton Hydro states that this arrangement allows it to achieve the same long-term planning objective through a more efficient combination of Palermo TS and Glenorchy MTS capacity while reducing capital contribution requirements and feeder build-out costs relative to the original Palermo-only concept.

OEB staff notes that the permanent Glenorchy MTS capacity arrangement is not part of the ICM request. However, the application relies on the benefits of that arrangement in support of the need, prudence, and cost-effectiveness of the Palermo Project. OEB staff further notes that, even with both the Palermo TS upgrade and the permanent Glenorchy MTS capacity arrangement, Milton Hydro forecasts that a future transformer station investment will still be required by approximately 2037 under the reference growth scenario.

Question(s):

a. Please confirm whether Oakville Hydro is making any direct capital contribution or other financial consideration to Milton Hydro as part of this capacity-sharing arrangement. If yes, please provide details of the costs, payments, and allocation of project expenditures between the parties. If no, please explain the consideration provided by each party under the arrangement.

Response:

Milton Hydro confirms that Oakville Hydro is not making any direct capital contribution or other financial consideration to Milton Hydro under the capacity-sharing arrangement.

The consideration provided by each party is the reciprocal access to system capacity. Oakville Hydro will provide Milton Hydro with permanent access to 40 MW of existing capacity at Glenorchy MTS, which was previously subject to an initial term expiring in 2032 and could be terminated earlier by Oakville Hydro on two years' notice. In consideration, Oakville Hydro will obtain 35 MW of the 70 MW of capacity created by the Palermo TS upgrade, including two of the four new feeder positions (Application, page 19; Appendix D, page 10). Milton Hydro and Oakville Hydro are each responsible for 50% of the incremental station upgrade cost through separate Connection and Cost Recovery Agreements with Hydro One (Appendix D, page 18).

b. Please explain the relationship between the permanent Glenorchy MTS capacity arrangement and the Palermo TS upgrade, including the extent to which the need, timing, and economics of the Palermo Project depend on the Glenorchy MTS arrangement.

Response:

At the time Milton Hydro committed to the Palermo TS upgrade, no other LDC had expressed an interest in obtaining a share of the incremental capacity at Palermo TS and Milton Hydro proceeded on the basis that it would need to secure the available incremental capacity to address its forecast capacity requirements. This decision also considered the uncertainty associated with Milton Hydro's existing access to capacity at Glenorchy MTS, as the existing arrangement was time-limited, was terminable on two years' notice, had no firm commitment regarding renewal beyond 2032, and did not provide Milton Hydro with a permanent entitlement to that capacity (Appendix D, page 12). At that time, Milton Hydro was unable to secure permanent capacity from Oakville Hydro.

Oakville Hydro's requirement for additional capacity at Palermo TS emerged subsequently in late 2025, by which time Milton Hydro had already committed to the full Palermo TS upgrade and the associated incremental capacity. Accordingly, the subsequent allocation of a portion of the Palermo TS capacity to Oakville Hydro was not a factor in Milton Hydro's original decision to proceed with the Palermo Project. Rather, it represented a subsequent regional coordination opportunity that arose after Milton Hydro had committed to the investment.

The subsequent arrangement with Oakville Hydro was developed in conjunction with securing a permanent capacity arrangement at Glenorchy MTS for Milton Hydro. A permanent Glenorchy arrangement became achievable through a reciprocal capacity-sharing arrangement under which Milton Hydro would make comparable capacity available to Oakville Hydro with Oakville Hydro making its own capital contribution to Hydro One at Palermo TS. This arrangement provides both utilities with greater certainty regarding their respective long-term capacity requirements while making more efficient use of available capacity across the two transformer stations. The economic effect of the capacity-sharing arrangement on the Palermo Project is set out in Appendix D, Table 11 (page 16).

Accordingly, the Palermo TS and Glenorchy MTS capacity-sharing arrangements are contingent upon and interdependent with one another. Milton Hydro's commitment to make capacity available to Oakville Hydro at Palermo TS is directly linked to Oakville Hydro's commitment to provide Milton Hydro with permanent access to capacity at Glenorchy MTS. Neither arrangement should therefore be considered in isolation, as the capacity rights and consideration provided under one arrangement form the basis for

the reciprocal rights and obligations under the other. Taken together, the arrangements also demonstrate Milton Hydro's efforts to pursue regional coordination and shared-capacity solutions where technically and commercially feasible, while optimizing the utilization of existing and planned transformer station capacity across neighbouring service territories.

c. Please provide Milton Hydro's assessment of a scenario in which it secures permanent 40 MW Glenorchy MTS capacity rights but defers the Palermo TS upgrade and associated Palermo Project investments. In its response, please:

   i. identify the forecast year in which Milton Hydro would first experience a capacity shortfall under this scenario and quantify the magnitude of that shortfall;

   ii. explain whether the permanent Glenorchy MTS capacity rights could reasonably allow Milton Hydro to defer the Palermo TS upgrade and rely on a future transformer station investment when required;

   iii. if the response to part (ii) is no, explain why the Palermo TS upgrade remains necessary notwithstanding the availability of permanent Glenorchy MTS capacity rights;

   iv. discuss whether customer connection obligations, system reliability requirements, and planning criteria could continue to be met if the Palermo Project were deferred by: (i) one year and (ii) two years;

   v. quantify the expected capacity shortfall, if any, associated with a one-year and two-year deferral of the Palermo Project;

   vi. explain how a one-year or two-year deferral would affect the forecast timing and need for a future transformer station; and

   vii. provide any analysis performed by Milton Hydro comparing:

      - proceeding with the Palermo TS upgrade as proposed;
      - securing permanent Glenorchy MTS capacity rights and deferring the Palermo Project; and
      - securing permanent Glenorchy MTS capacity rights and proceeding directly to a future transformer station investment when required.

Response:

The proposed scenario rests on an incorrect factual assumption inconsistent with the evidentiary record, namely that Milton Hydro could obtain permanent Glenorchy MTS capacity rights without proceeding with the Palermo Project. The proposed scenario is not plausible.

The record shows that Oakville Hydro agreed to make the arrangement permanent only in exchange for 35 MW of additional Palermo TS capacity that had been initially allocated to Milton Hydro (Application, page 19; Appendix D, page 10). Milton Hydro's access to the Glenorchy MTS capacity was time-limited because Oakville Hydro required that capacity for its own needs. The permanent Glenorchy MTS capacity rights and the Palermo Project are therefore a single exchange of capacity, and one could not be obtained without the other.

The original Glenorchy MTS capacity-sharing agreement was intended to be a temporary arrangement and was established on the basis that Oakville Hydro had capacity available in excess of its own forecast requirements at the time. That arrangement delivered meaningful ratepayer benefits by enabling Milton Hydro to use existing regional capacity and defer the capital outlay otherwise required for additional capacity investments for several years.

However, the agreement was not originally established as a permanent solution to Milton Hydro's long-term capacity needs. Rather, access to the Glenorchy MTS capacity remained contingent on Oakville Hydro continuing to have surplus capacity available beyond its own system requirements. As a result, the arrangement did not provide Milton Hydro with long-term certainty regarding access to that capacity and could not be relied upon as a permanent capacity solution for future growth.

The subsequent Palermo TS/Glenorchy MTS arrangement differs from the original agreement in that it establishes a permanent and reciprocal capacity-sharing arrangement between the two utilities. In exchange for Oakville HydroI being able to access 35 MW of capacity at Palermo TS, Milton Hydro obtained capacity at the Glenorchy MTS on a long-term basis. This provides Milton Hydro with greater certainty regarding future access to Glenorchy MTS capacity while also supporting Oakville Hydro's capacity requirements at Palermo TS. Consequently, the new arrangement not only preserves the benefits of regional coordination and capacity sharing but also provides a more sustainable and long-term foundation for both utilities' capacity planning needs.

Despite the question's incorrect factual premise and the fact that the scenario is not viable, Milton Hydro has nevertheless assessed the scenario as described. Under that scenario, Milton Hydro would forgo, rather than merely defer, the additional capacity at Palermo TS, for the following reasons:

- The additional capacity at Palermo TS is created at the time Hydro One replaces the station's end-of-life transformers. That replacement is under way, with an expected completion date of 2027 (Appendix D, page 18). As set out at page 9 of Appendix D, Hydro One advised that it would replace the transformers on a like-for-like basis unless a distributor requested and funded an incremental capacity upgrade;

- Under the arrangement described in the Application, the additional 70 MW of capacity is to be shared equally between Milton Hydro and Oakville Hydro (Appendix D, page 18), and Oakville Hydro obtains its 35 MW in consideration for making the capacity-sharing arrangement at Glenorchy MTS permanent (Application, page 19). Milton Hydro cannot speak to the decisions that Oakville Hydro or Hydro One would make if Milton Hydro did not proceed, and it would have no assurance that additional capacity at Palermo TS would be available to it at a later date;

- The permanent Glenorchy MTS capacity rights were obtained as part of the same arrangement. Previously, Milton Hydro's access to the Glenorchy MTS capacity was terminable on two years' notice, with no firm commitment regarding renewal beyond 2032 (Appendix D, page 12). Milton Hydro's original planning concept, which assumed that the Glenorchy MTS arrangement would expire in 2032 (Appendix D, page 10), was to secure the full 70 MW of additional Palermo TS capacity at an estimated cost of $23,766,000, compared with $13,198,024 under the revised arrangement, in each case including the $100,000 transfer of Hydro One connection assets (Appendix D, pages 2 and 16, Table 11). As set out at pages 19 and 20 of the Application, the revised arrangement avoids duplicative infrastructure investments and reflects and advances the OEB's and the Government of Ontario's objectives of promoting utility collaboration, regional planning and asset optimization;[34,35,36] and

- The capacity analysis supporting the Application already reflects the 40 MW of capacity at Glenorchy MTS. The need for the Palermo Project has been assessed after taking that capacity into account.

[34] EB-2016-0003, Notice of Amendments to Codes to Facilitate Regional Planning, Amendments to the Transmission System Code and the Distribution System Code and Notice of Proposal to Amend a Code, Supplemental Proposed Amendment to the Distribution System Code, December 18, 2018.
[35] EB-2020-0176, Notice of Amendments to Codes to Facilitate Optimal Investments in the Regional Planning Process, August 2, 2023.
[36] Ministry of Energy and Mines, News Release, "Ontario Launches Expert Panel to Strengthen Local Electricity Distribution", October 27, 2025, https://news.ontario.ca/en/release/1006663/ontario-launches-expert-panel-to-strengthen-local-electricity-distribution.

Accordingly, in Milton Hydro's assessment, the alternative to the Palermo Project under this scenario is not a later upgrade of Palermo TS, but a new transformer station. Milton Hydro's responses to parts i. to vii. are provided below on that basis.

i. Under this scenario, Milton Hydro's system capacity would remain at its current level. On that basis, Milton Hydro's forecast system peak would first exceed its system capacity in 2032 under the reference scenario (Appendix D, page 12, Figure 1). However, this response does not consider the fact that some existing feeders are beyond their planning limits and have no spare capacity. An important aspect of system planning is considering the geographic location of system constraints and forecasted load.

ii. No. The additional Palermo TS capacity would be forgone, not deferred, and Milton Hydro would be required to rely on a new transformer station. As set out at page 24 of Appendix D, the capital investment for a new transformer station was estimated at between $69,300,000 and $94,500,000, with a capital contribution of $38,728,247, and a new transformer station may require five years or more to be placed into service. By comparison, Milton Hydro's capital contribution for the Palermo TS upgrade is $3,400,600, and the cost of the Palermo Project as a whole is $13,198,024 (Appendix D, page 2).

iii. Please refer to the response to Staff-14(c) ii. As set out at page 23 of Appendix D, the IESO's regional planning process identified transformer upsizing at the time of replacement as the most cost-effective means of addressing future regional capacity needs, and deferring the upgrade to a future date would require duplicative construction activities and may result in stranded investments associated with the like-for-like replacement of the transformers. In addition, the 2026 Report (Appendix F) continued to confirm that additional long-term capacity remains necessary (Appendix D, page 10). Milton Hydro notes that additional capacity must be secured in advance of the need arising, as a new transformer station may require five years or more to be placed into service (Appendix D, page 24).

iv. The Palermo TS upgrade, and with it Milton Hydro's capital contribution and the feeder egress, cannot be deferred by Milton Hydro by one year or two years. The timing of the Palermo TS upgrade is determined by Hydro One's replacement of the transformers, which is scheduled for completion in 2027 (Appendix D, page 18). The deferral of the feeder line extension is addressed in response to Staff-14(c) vii, and its consequences for Milton Hydro's ability to connect customers and the reliability benefits of the project are described in the response to

Staff-7(e). A deferral of the Palermo TS capacity will result in Milton Hydro forgoing that additional capacity as the end of life transformers would just be replaced by Hydro One in-kind. There is significant schedule and forecast risk that Milton Hydro would not be able to meet forecasted demand if it beginning planning for the construction of a new TS now. A new transformer station may require five years or more to be placed into service. In Milton Hydro's view, deferral is not be a viable alternative from a system planning perspective.

v. As set out in the response to Staff-14(c) iv, the Palermo TS upgrade cannot be deferred by Milton Hydro by one year or two years. Accordingly, Milton Hydro has not quantified a capacity shortfall associated with such a deferral.

vi. As set out at page 14 of Appendix D, the Palermo Project, together with the permanent Glenorchy MTS arrangement, defers the requirement for a future transformer station to 2037 in the Reference scenario. Under the scenario described, the requirement for a future transformer station would arise earlier. Milton Hydro has not assessed the effect of a deferral of one year or two years on that timing.

vii. The analysis performed by Milton Hydro is set out in Section 7 of Appendix D (pages 23 to 25) and is summarized below with respect to each of the three options identified:

- **Proceeding with the Palermo TS upgrade as proposed:** Milton Hydro interprets "as proposed" as referring to the Palermo Project as proposed in the Application, under which Milton Hydro secures the permanent Glenorchy MTS capacity rights and proceeds with the Palermo Project. This is the preferred alternative described at page 25 of Appendix D;

- **Securing permanent Glenorchy MTS capacity rights and deferring the Palermo Project:** Milton Hydro has not performed an analysis of this option, as the timing of the Palermo TS upgrade is determined by Hydro One's replacement of the transformers and is not within Milton Hydro's control. The feeder line extension is the only component of the Palermo Project that could potentially be deferred, and Milton Hydro assessed its deferral to 2031 (Alternative 2, Appendix D, pages 23 and 24). As set out in the response to SEC-9(c), that deferral is expected to increase Milton Hydro's capital contribution to $6,018,600 and the total project cost to $16,543,033, an increase of $3,345,009, or 25.3%. Milton Hydro concluded that this alternative is not economically prudent, as the

station capacity cannot be effectively utilized without the feeder line extension and the deferral would result in a higher overall cost to customers (Appendix D, page 24); and

- **Securing permanent Glenorchy MTS capacity rights and proceeding directly to a future transformer station:** in Milton Hydro's assessment, this is the practical consequence of the scenario described. Milton Hydro assessed the like-for-like replacement of the Palermo TS transformers (Alternative 1, Appendix D, page 23) and the construction of a new transformer station (Alternative 3, Appendix D, pages 24 and 25), and concluded that neither was cost-effective relative to the Palermo Project.

d. Please quantify the incremental benefits attributable to the Palermo TS upgrade that would not be achieved through the permanent Glenorchy MTS capacity arrangement alone, including any additional capacity, reliability, operational flexibility, customer connection capability, and deferral of future infrastructure investments.

Response:

As noted in response to Staff-14(c), deferral of the Palermo TS upgrade and obtaining permanent Glenorchy MTS capacity is not a realistic scenario based on the factual record in this proceeding.

Nevertheless, Milton Hydro's response to Staff-14(c) addresses the scenario in which Milton Hydro secures the permanent Glenorchy MTS capacity arrangement without proceeding with the Palermo Project. Milton Hydro's capacity analysis already reflects the 40 MW of permanent capacity at Glenorchy MTS (Appendix D, pages 12 and 13, Figures 1 and 2). That arrangement secures existing capacity delivered through Milton Hydro's two existing Glenorchy MTS feeders, but does not add capacity, feeders or station capability. Palermo TS is also better located than Glenorchy MTS to serve the areas of Milton Hydro's service territory where load growth is forecast, and serving that growth from Glenorchy MTS would be less efficient (Appendix D, page 14, Figure 4). Relative to that scenario, the incremental benefits of the Palermo Project are as follows:

- **Additional capacity:** the Palermo Project provides 35 MW of additional permanent transformer station capacity at Palermo TS, increasing the overall transformer station supply capacity available to Milton Hydro (Application, page 19);

- **Load redistribution:** As shown in Table 2 of the response to Staff-6(a) ii, the Glenorchy MTS capacity available to Milton Hydro is fully utilized, including operating reserve. The Palermo feeders will provide an opportunity to relieve loading on the Glenorchy feeders through strategic

load transfers as demand continues to grow. By enabling load to be redistributed between supply areas, the Palermo Project will improve Milton Hydro's ability to balance system loading, maximize the utilization of available station capacity, and maintain appropriate reliability and contingency margins across the distribution system. The Palermo feeders not only provide additional capacity to serve future growth, but also enhance operational flexibility by reducing reliance on the heavily loaded Glenorchy feeders and creating additional capacity headroom within the broader system;

- **Deferral of future infrastructure investment:** with the permanent Glenorchy MTS arrangement alone, Milton Hydro's forecast system peak would first exceed its system capacity in 2032 under the Reference scenario (Staff-14(c) i). With the Palermo Project, the requirement for a future transformer station is deferred to 2037 under the Reference scenario (Appendix D, page 14). The Palermo Project therefore defers by five years a new transformer station investment estimated at between $69,300,000 and $94,500,000, including a capital contribution of $38,728,247 (Appendix D, page 24). Regional planning also identified that the Palermo TS upgrade defers the need for a second transformer unit at Halton TS and for relief at Tremaine TS (Appendix K, section 7.1.1);

- **Customer connection capability: t**he Palermo Project adds two new feeders that bring the additional capacity to areas of current and future load growth, allowing Milton Hydro to connect new customers and transfer load from more heavily loaded feeders (Appendix D, pages 19 to 21, Figures 4 and 5). The permanent Glenorchy MTS arrangement alone provides no additional feeders;

- **Reliability and operational flexibility:** the additional Palermo TS feeders, located between Halton TS, Tremaine TS and Glenorchy MTS, provide the ability to transfer load between supply areas, improve contingency capability, and provide additional options for system operations during planned maintenance and unplanned outages (Appendix D, page 22). The larger transformers also reduce fault current levels at Palermo TS, removing the existing restriction on connecting distributed energy resources to feeders supplied from the station (Appendix K, section 7.1.2); and

- **Cost of power savings:** the transfer of the Hydro One connection assets, identified with Hydro One in the course of the Palermo TS upgrade, eliminates the embedded distributor arrangement at Palermo TS, which is expected to reduce cost of power for Milton Hydro's customers. For

illustrative purposes, using 2025 actual charges, the avoided Hydro One low voltage charges would have been $370,220, partially offset by higher transmission charges of $239,204, for net savings in cost of power of $131,016. Please refer to the response to SEC-3.

- **Capital Cost Avoidance:** The Palermo/Glenorchy capacity-sharing arrangement provides a significant capital cost avoidance benefit by eliminating the need to construct two additional Palermo feeders that would have been required under the original four-feeder Palermo TS concept. This allows Milton Hydro to achieve functionally similar system capacity through regional coordination, shared infrastructure, and optimized utilization of existing station capacity, resulting in a lower-cost solution for customers while continuing to provide the capacity, reliability, and operational flexibility needed to support future growth.

Benefits attributable to the Palermo TS upgrade that would not be achieved through the permanent Glenorchy MTS capacity arrangement alone. Taken together, these benefits demonstrate that the Palermo Project is not simply a transformer upgrade, but an integrated capacity, reliability, and system optimization investment that supports Milton Hydro's long-term growth and performance objectives. Milton Hydro has not assigned a monetary value to the reliability and operational flexibility benefits.

Staff-15

Reference(s):

1 2027 IRM application, appendix D, *Palermo TS Upgrade Business Case*, pp. 16-17.

2 2027 IRM application, appendix D, Table 11, *Cost Comparison with Oakville Hydro Capacity Exchange*, p. 16.

Preamble:

In Ref. 1 Milton Hydro describes the evolution of the proposed Palermo TS solution from an original concept under which Milton Hydro would receive all four new Palermo TS feeder positions and the full incremental station capacity, to the preferred alternative involving a capacity-sharing arrangement with Oakville Hydro. Under the preferred arrangement, Milton Hydro would receive two new Palermo TS feeders and permanent capacity rights to two existing Glenorchy MTS feeders, while Oakville Hydro would receive the remaining Palermo TS capacity and two feeder positions.

Ref. 2 shows that the estimated total project cost of the original four-feeder Palermo TS concept was approximately $23.7 million, compared to approximately $13.1 million under the preferred arrangement, representing estimated savings of approximately $10.6 million, or 44.7%.

OEB staff notes that the comparison appears to focus primarily on the relative costs of the two alternatives. However, it is not clear whether the two alternatives provide equivalent capacity, operational flexibility, planning benefits, or long-term supply capability.

Question(s):

a. Please explain whether the original four-feeder Palermo TS concept and the preferred Palermo TS/Glenorchy MTS arrangement provide equivalent supply capacity to Milton Hydro over the planning horizon.

Response:

The preferred Palermo TS/Glenorchy MTS arrangement provides Milton Hydro with approximately 75 MW of permanent supply capacity, compared with approximately 70 MW of permanent supply capacity under the original four-feeder Palermo TS concept (Application, page 19). The preferred arrangement therefore provides approximately 5 MW of additional permanent supply capacity. Under the original concept, Milton Hydro would also have continued to have access to 40 MW at Glenorchy MTS on a non-permanent basis until 2032, or earlier if terminated by Oakville Hydro on two years' notice. The principal distinction between the alternatives is not the adequacy of system capacity over the planning horizon, as both address Milton Hydro's forecast capacity requirements, but rather the manner in which that capacity is provided and distributed across Milton Hydro's feeders.

b. Please provide the total supply capacity available to Milton Hydro under:

i. the original four-feeder Palermo TS concept; and

Response:

Please refer to the response to Staff-15(a).

ii. the preferred Palermo TS/Glenorchy MTS arrangement.

Response:

Please refer to the response to Staff-15(a).

c. Please quantify any differences between the two alternatives with respect to:

i. available capacity;

Response:

Please refer to the response to Staff-15(a).

ii. load-serving capability;

Response:

The preferred arrangement provides Milton Hydro with approximately 75 MW of permanent supply capacity through two new Palermo TS feeders and two existing Glenorchy MTS feeders, compared with approximately 70 MW of permanent supply capacity through four new Palermo TS feeders under the original concept (Application, page 19). Please refer to the response to Staff-15(a).

iii. operational flexibility;

Response:

Operational flexibility is not readily quantifiable. Under the preferred arrangement, Milton Hydro's permanent supply capacity is provided from two transformer stations, Palermo TS and Glenorchy MTS, rather than from Palermo TS alone, which provides greater ability to transfer load between supply points.

iv. reliability benefits; and

Response:

Please refer to the response to Staff-15(c) iii. Permanent supply from two transformer stations reduces Milton Hydro's reliance on a single station for its additional supply capacity.

v. expected deferral of future supply investments.

Response:

The timing of the need for a future transformer station is not materially different between the two alternatives (Appendix D, pages 10 and 14).

d. If the two alternatives do not provide equivalent benefits, please explain why Milton Hydro considers the cost comparison presented in Ref. 2 to be an appropriate basis on which to conclude that the preferred arrangement results in approximately 44.7% savings.

Response:

For the purpose of the cost comparison, the preferred arrangement provides equivalent, if not greater, benefits than the original concept while achieving cost savings. Please refer to the responses to Staff-15(a) and Staff-15(e).

e. Please provide any analysis, studies, economic evaluations, or planning assessments relied upon by Milton Hydro to determine that the preferred arrangement provides an equivalent or superior planning outcome relative to the original four-feeder Palermo TS concept.

Response:

In determining that the preferred Palermo TS / Glenorchy MTS arrangement provides an equivalent or superior planning outcome relative to the original four-feeder Palermo TS concept, Milton Hydro relied on the following analysis set out in the Application:

- **Cost:** the preferred arrangement materially reduces Milton Hydro's estimated capital contribution and feeder build-out cost relative to the original four-feeder concept (Appendix D, page 16, Table 11);
- **Capacity and the timing of a future transformer station:** the 2026 Report (Appendix F), as reflected in Appendix D. Under both the original concept and the preferred arrangement, the need for a future transformer station is deferred to 2037 under the Reference scenario (Appendix D, pages 10 and 14); and
- **Feeder routing and cost:** the routing assessment evaluated the feasibility and cost of adding new circuits along the feeder corridor from Palermo TS under multiple configurations, and the estimated costs of the feeder egress and line extension are based on a modified version of one of the assessed scenarios for two feeders (Appendix G; Appendix D, page 7, Tables 7 and 8).

On that basis, Milton Hydro concluded that the preferred arrangement achieves the same long-term planning outcome as the original four-feeder concept at a lower cost (Appendix D, pages 16 and 17). Milton Hydro also notes that the preferred arrangement reflects and advances the OEB's and the

Government of Ontario's objectives of promoting utility collaboration, regional planning and asset optimization (Application, pages 19 and 20).

Staff-16

Reference(s):

1. 2027 IRM application, appendix D, Section 8, "Consideration of Non-Wires Solutions", pp. 26-29

Preamble:

Milton Hydro states that it screened a range of Non-Wires Solutions (NWS), including energy efficiency, demand response, solar generation, battery energy storage, and distributed generation, and concluded that none are capable of providing the magnitude, certainty, geographic applicability, or long-term capacity required to address Milton Hydro's identified system needs. Ref. 1 further concludes that NWS is "Not Viable" and that the Palermo Project represents the preferred solution.

Question(s):

a. Please provide all evaluations and assumptions relied upon by Milton Hydro to conclude that NWS alternatives are not viable.

Response:

The evaluations and assumptions relied upon by Milton Hydro are set out in the NWS pre-assessment prepared by Power Advisory (Appendix F, Appendix B, pages 30 to 32) and in Section 8 of Appendix D (pages 26 to 29). Consistent with the OEB's Non-Wires Solutions Guidelines for Electricity Distributors (March 2024), the pre-assessment is the first step in the evaluation of NWS. As the pre-assessment determined that NWS could not address the identified need, a benefit-cost analysis was not undertaken.

The pre-assessment determined that the maximum feasible NWS contribution in the Reference scenario is 5.0 MW at the 2027 need date, increasing to 6.4 MW in the fifth year (Appendix F, page 32, Table 18), which is insufficient to defer the identified capacity need. Solar and dispatchable generation were screened out due to insufficient development lead time and anticipated connection limitations (Appendix F, page 32).

In addition, the existing Palermo TS transformers are being replaced by Hydro One because they have reached end-of-life. NWS would not avoid or defer that replacement, and the additional capacity is being obtained at the time of that replacement, as described in the response to Staff-6(d).

b. For each NWS alternative considered (including conservation and energy efficiency, demand response, distributed generation, solar generation, battery energy storage, and any combination thereof), please provide:

i. the estimated capacity relief (MW) that could reasonably be achieved;

ii. the implementation timeline;

iii. the forecast capital and operating costs;

iv. the expected service life;

v. the degree of capacity certainty and reliability assumed; and

vi. the reasons the alternative was rejected, based on the factors identified in items i–v.

Response:

Milton Hydro retained Power Advisory to conduct an NWS pre-assessment for the Palermo TS capacity need. The process and outcomes are set out in Appendix B of the 2026 Report (Appendix F). As described in that appendix, the OEB's NWS Guidelines and Benefit-Cost Analysis Framework establish a two-step process: a pre-assessment to determine whether an NWS could reasonably address the identified need, and a full benefit-cost analysis where the pre-assessment indicates potential feasibility. As the pre-assessment concluded that the feasible NWS capacity was insufficient to defer the Palermo TS need, a full benefit-cost analysis was not undertaken.

i. The maximum contribution of each NWS type for the first five years of the need is set out in Table 18 of the 2026 Report (Appendix F, page 32). Energy efficiency, demand response and storage could provide up to 5.0 MW of peak shaving capacity at the 2027 need date in the Reference scenario, increasing to 6.4 MW in the fifth year. Solar generation and dispatchable generation were screened out in the pre-assessment and no capacity relief was estimated for them.

ii. As a full benefit-cost analysis was not undertaken, Milton Hydro is unable to provide an implementation timeline for each alternative. Solar generation and dispatchable generation were

screened out due to insufficient development lead time and anticipated connection limitations (Appendix F, page 32).

iii. As a full benefit-cost analysis was not undertaken, Milton Hydro is unable to provide forecast capital and operating costs for each alternative. Indicative capital costs for solar generation and battery storage, in the range of $1,800/kW to $3,100/kW, are provided at pages 27 and 28 of Appendix D.

iv. As a full benefit-cost analysis was not undertaken, Milton Hydro is unable to provide the expected service life of each alternative.

v. As a full benefit-cost analysis was not undertaken, Milton Hydro is unable to provide a quantified degree of capacity certainty and reliability for each alternative. The pre-assessment considered known reliability risks as a screening criterion (Appendix F, Appendix B), and the certainty of each alternative is addressed qualitatively in Section 8 of Appendix D.

vi. The reasons each alternative was not selected are set out in Section 8 of Appendix D (pages 26 to 29). In addition, as additional capacity at Palermo TS can be obtained only at the time of Hydro One's replacement of the transformers in 2027, an NWS would need to defer Milton Hydro's capacity need until an alternative source of capacity could be placed into service. A new transformer station may require five years or more to be placed into service (Appendix D, page 24). The maximum NWS contribution identified in the pre-assessment is 6.4 MW in the fifth year of the need (Appendix F, page 32, Table 18), which is not sufficient to defer the need over that period.

c. Please provide any cost-benefit, lifecycle cost, net present value, benefit-cost ratio, or similar economic analyses comparing the Palermo Project to the NWS alternatives considered.

Response:

As set out in the response to Staff-16(a) and Staff-16(b), the pre-assessment concluded that the feasible NWS capacity was insufficient to defer the Palermo TS need, and a full benefit-cost analysis was not undertaken. Accordingly, Milton Hydro is unable to provide a cost-benefit, lifecycle cost, net present value, benefit-cost ratio or similar economic analysis comparing the Palermo Project to the NWS alternatives considered.

d. Please confirm whether Milton Hydro conducted any quantitative assessment of a portfolio approach consisting of multiple NWS alternatives (e.g., conservation, demand response, battery storage, and distributed generation) rather than evaluating each measure individually. If so, please provide the results of that assessment. If not, please explain why not.

Response:

Yes. Milton Hydro relied on the NWS pre-assessment in the 2026 Report, which quantified the combined contribution of energy efficiency, demand response and storage. In the Reference scenario, the maximum combined contribution is 5.0 MW at the 2027 need date, increasing to 6.4 MW in the fifth year (Appendix F, page 32, Table 18). Solar and dispatchable generation were screened out at an earlier stage of the assessment (Appendix F, page 32).

Consistent with the two-step process in the OEB's NWS Guidelines, further analysis was not undertaken once the pre-assessment determined that the combined NWS contribution was insufficient to defer the capacity need. A portfolio of NWS measures would remain dependent on customer participation in conservation and demand response, the location and availability of distributed generation, and the scale, siting and duration requirements of battery storage, and would not provide firm capacity equivalent to the transformation and distribution capacity provided by the Palermo Project.

e. Please explain why NWS alternatives were deemed incapable of addressing Milton Hydro's near-term capacity requirements, given that the application indicates the Palermo Project is expected to defer the need for a new transformer station until approximately 2037 under the reference growth scenario.

Response:

Milton Hydro notes that the two dates relate to different needs. The 2037 date is the date on which further transformation capacity is forecast to be required under the Reference scenario after the Palermo Project is in service (Appendix D, page 10). It is not the date of the need that the Palermo Project addresses. The NWS pre-assessment addressed that need, using a need date of 2027, and found that NWS alternatives could provide up to 5.0 MW, which is insufficient to address it (Appendix F, Appendix B).

Staff-17

Reference(s):

1. 2027 IRM Application, Section 3.3.2, *Incremental Capital Module Request*, pp. 18-20.
2. Appendix D, *Palermo TS Upgrade Business Case*, Section 5, "Investment Need - Project Background & Chronology of Activities", pp. 9-11.
3. Appendix M, *Greater Toronto Area West IRRP*.

Preamble:

The application mentions that the need for additional system capacity and the Palermo TS Upgrade was identified through regional planning activities, including the GTA West regional planning process involving the IESO, Hydro One, and local distribution companies. The application also indicates that the Palermo TS transformer replacement involves Hydro One's replacement of the existing transformers with larger-capacity units, while Milton Hydro is seeking ICM funding for the associated Palermo Project, including its capital contribution, feeder egress facilities, feeder extensions, and other related distribution infrastructure.

Question(s):

a. Please confirm whether OEB staff's understanding is correct that, irrespective of Milton Hydro's proposed Palermo Project, Hydro One would proceed with the like-for-like replacement of the existing Palermo TS transformers as part of its asset replacement program. If OEB staff's understanding is not correct, please explain.

Response:

Confirmed. Milton Hydro's understanding, based on the information provided to it by Hydro One, is consistent with that of OEB staff.

b. Please identify the entity responsible for each major component of the Palermo Project and describe the respective roles and responsibilities of Milton Hydro, Hydro One, the IESO, Oakville Hydro, and any other involved parties with respect to project planning, approvals, design, construction, scheduling, cost management, risk management, and decision-making.

Response:

Responsibility for the Palermo Project is divided among Milton Hydro, Hydro One, the IESO, Oakville Hydro, and other parties depending on the particular project component. Unless otherwise specified, each party's responsibilities are limited to the project components within its ownership, control, or area of responsibility.

1. Palermo TS Transformer Upgrade and Milton Hydro Capital Contribution

Hydro One is the owner of the Palermo TS transformer upgrade and is responsible for the station side project. The underlying Hydro One project involves the replacement of the end-of-life transformers with larger-capacity units.

As project owner, Hydro One is responsible for the detailed engineering and design, procurement, construction, station outage planning, commissioning, project scheduling, cost estimating and management, and management of risks associated with the Hydro One-owned station facilities. Hydro One performs the economic evaluation and calculates the applicable capital contribution, which Milton Hydro reviews and incorporates into its project planning.

Milton Hydro's responsibilities relate principally to coordinating its requirements with Hydro One, providing the information required for the connection and economic evaluation processes, reviewing the connection arrangements relevant to Milton Hydro, executing the applicable agreements, paying its required capital contribution, and coordinating its distribution side works with Hydro One's station schedule.

2. TS Feeder Egress

The feeder egress facilities represent the interface between Hydro One's new station configuration and Milton Hydro's distribution system. Milton Hydro is responsible for the Milton Hydro distribution infrastructure associated with connecting its feeders to and extending them from the new Palermo TS switchyard, subject to the respective ownership boundaries and connection requirements established with Hydro One.

Milton Hydro's responsibilities include planning and coordinating the required distribution configuration, engineering and design for its applicable scope, procurement and construction, contractor management, cost management, and coordination of the work necessary to meet Hydro One's station commissioning and cutover schedule.

Hydro One is responsible for the corresponding station-side interfaces, access requirements, station configuration and coordination of the feeder connection points within its ownership and control. The feeder egress is closely coordinated with Hydro One's station schedule because Milton Hydro's existing feeders must ultimately transition to the new station configuration. Consequently, scheduling and outage/cutover coordination are shared interface responsibilities even though each utility remains responsible for delivering its respective assets.

3. Feeder Line Extension

Milton Hydro is responsible for the feeder line extension. This is a Milton Hydro distribution system investment required to deliver the additional capacity available at Palermo TS to locations within Milton Hydro's distribution system where that capacity can be utilized.

Milton Hydro is therefore responsible for the planning, approvals within its responsibility, engineering, routing, design, procurement, construction, scheduling, cost control, project risk management, and ultimate operation and maintenance of the feeder extension. Milton Hydro is also responsible for obtaining permits from road authorities.

Milton Hydro also retains the planning responsibility for determining how the additional feeder capacity is integrated into its distribution system, including the use of load transfers and feeder reconfiguration to address capacity requirements and optimize utilization across its system. Regional planning operates at the transmission/regional supply level, whereas distribution planning addresses needs at the local distribution level and is led by the applicable LDC.

4. Transfer of Selected Hydro One Connection Assets

Responsibility for the transfer of selected Hydro One connection assets is shared between Milton Hydro and Hydro One from a transaction and coordination perspective.

Hydro One, as the existing owner, is responsible for the matters necessary to transfer the applicable assets from its ownership. Milton Hydro is responsible for completing its assessment of the assets, satisfying its applicable approval and transaction requirements, and assuming ownership and the

associated future operational, maintenance, and asset-management responsibilities following completion of the transfer.

5. IESO

The IESO does not own, design, construct, or directly manage the individual Palermo Project assets. Its role relates principally to regional electricity system planning.

The GTA West IRRP was prepared by the IESO on behalf of the GTA West Technical Working Group, which includes regional LDCs, including Milton Hydro and Oakville Hydro, as well as Hydro One. The Working Group gathers data, identifies near- to long-term regional needs, develops recommended actions and develops implementation plans for the recommended options (Appendix M, pages 8 and 9).

Accordingly, the IESO's involvement in the Palermo Project relates to identifying and evaluating the regional need and the Palermo TS upsizing opportunity. The station upgrade is also subject to the IESO's connection assessment process, which includes a System Impact Assessment.

6. Oakville Hydro

Oakville Hydro's role relates to the subsequent Palermo TS/Glenorchy MTS capacity-sharing arrangement. Oakville Hydro's requirement for Palermo capacity arose after Milton Hydro had committed to the Palermo upgrade and therefore was not a driver of Milton Hydro's original decision to proceed with the project.

Under the subsequent arrangement, Milton Hydro agreed that Oakville Hydro would obtain a portion of the Palermo TS capacity that Milton Hydro would otherwise have secured, in exchange for Milton Hydro obtaining permanent access to agreed capacity at Glenorchy MTS. The two capacity arrangements are therefore reciprocal and interdependent.

Oakville Hydro is not making a direct capital contribution or other financial payment to Milton Hydro for the Palermo TS capacity. Rather, Oakville Hydro is responsible for its own financial obligations to Hydro One under its separate CCRA and associated Hydro One economic evaluation.

c. Please identify the entity responsible for overall project governance, coordination, and delivery of the Palermo Project. If no single entity has overall responsibility for the project, please explain how project decisions are coordinated among participating organizations and how accountability is established for project scope, schedule, and cost outcomes.

Response:

No single entity has overall governance, coordination, and delivery responsibility for the entire Palermo Project. Rather, each participating organization retains responsibility and accountability for the project components, assets, contractual obligations, costs, schedules, and risks that fall within its respective ownership and control.

Project coordination occurs through the applicable connection agreements, the capacity-sharing arrangement, project meetings, engineering interfaces, construction schedules, and ongoing project communications.

Accountability for project scope, schedule and cost outcomes follows asset ownership and contractual responsibility. Hydro One is accountable for the delivery of the Palermo TS transformer upgrade and associated station facilities. Milton Hydro is accountable for the delivery of its distribution system investments, including the feeder egress and feeder line extension components, as well as the management of its obligations under its CCRA with Hydro One. Oakville Hydro remains accountable for the obligations arising from its own CCRA and the capacity-sharing arrangement.

Staff-18

Reference(s):

1. 2027 IRM Application, section 3.3.2, incremental capital module, pp. 29-30.
2. Rebasing deferral application filed on August 10, 2026.

Preamble:

Milton Hydro states that it has filed a request that its next Cost of Service rebasing application be deferred from 2028 to 2029. Milton Hydro further states that, should the requested deferral be approved, it has not applied the half-year rule adjustment to depreciation or capital cost allowance in its ICM application.

Question(s):

a. If the rebasing deferral application is not approved by the OEB, please explain how Milton Hydro would apply the half-year rule in its ICM calculation.

Response:

On September 25, 2026, the OEB granted Milton Hydro's request to defer its 2028 cost of service application and scheduled Milton Hydro for rebasing for the 2029 rate year. The OEB's letter is provided as Attachment 1 to this response. As a result, 2027 is not the final year of Milton Hydro's Price Cap IR term. Section 7.1.1 of the ACM Report provides that the half-year rule "should not apply so as not to build a deficiency for the subsequent years of the IR plan term", and that the half-year rule applies in the final year of the Price Cap IR plan term.[37] Consistent with that guidance, Milton Hydro has not applied the half-year rule in its ICM calculation (Application, page 29). Accordingly, the circumstance contemplated in this question does not arise.

[37] EB-2014-0219, Report of the Board, New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, section 7.1.1, page 23.

b. Please provide an updated ICM revenue requirement calculation and rate rider impacts reflecting application of the half-year rule, and identify the difference from the amounts currently proposed in this application.

Response:

Not applicable. Please refer to the response to Staff-18(a).

Staff-19

Reference(s):

1 2027 IRM application, Appendix D, Tables 6 and 9, pp. 6-7.

2 2027 IRM application, Appendix D, pp. 17-18.

Preamble:

Milton Hydro proposes to acquire certain Hydro One-owned connection assets associated with its Palermo TS feeders, including eight poles, associated conductors and guying, for an estimated purchase price of $100,000. Milton Hydro states that the acquisition will eliminate the embedded distributor arrangement at Palermo TS and result in ongoing savings through the avoidance of embedded distribution connection charges.

Question(s):

a. Please provide the age, condition assessment, remaining useful life, and most recent inspection results for the poles, conductors, and associated assets proposed to be acquired from Hydro One.

Response:

Milton Hydro provides in Tables 1 and 2 below the information provided by Hydro One for the poles and conductors proposed to be acquired from Hydro One.

Table 1: Poles Proposed to be Acquired from Hydro One

Pole	Age	Height	Class
1	2009	50'	3
2	1987	45'	4

Pole	Age	Height	Class
3	1973	50'	4
4	1973	50'	4
5	1973	50'	4
6	1982	50'	4
7	2011	55'	3
8	2011	45'	3

Table 2: Conductors Proposed to be Acquired from Hydro One

Conductor	Size	Type	Length
M1	556.6 kcmil	Al	750m
M3	556.6 kcmil	Al	750m
Neutral	556.6 Kcmil	Al	250m

The associated assets also include approximately 30 m of span guying.

Hydro One advised that it typically assumes a useful life of 50 years for distribution poles. Condition assessment and inspection records for these assets are held by Hydro One, which owns, operates, maintains and inspects them. Following acquisition, the assets will be inspected and managed under Milton Hydro's asset management programs, including its pole inspection and testing program.

Milton Hydro notes that the acquisition of these assets will remove Milton Hydro's two existing Palermo TS feeders from the embedded distributor arrangement with Hydro One (Appendix D, page 18).

b. Please explain how the proposed purchase price of $100,000 was determined and provide any valuation, engineering, or asset condition information relied upon in establishing the purchase price.

Response:

The transfer price of $100,000 was provided by Hydro One on the basis of its own valuation (Appendix D, page 6, Table 6). Milton Hydro assessed the acquisition on the basis of the benefits of owning the connection assets, rather than on the residual value of the assets alone. As set out at page 18 of Appendix D, the acquisition will remove Milton Hydro's Palermo TS feeders from the embedded distributor arrangement, resulting in annual savings to Milton Hydro's customers through the avoidance of embedded distribution connection charges. For illustrative purposes, the avoided Hydro One low voltage charges in 2025 would have been $370,220, partially offset by higher transmission charges of $239,204, for net savings in cost of power of $131,016 annually. Please refer to the response to SEC-3.

c. Please explain whether Milton Hydro evaluated alternatives to acquiring these assets and how the condition and remaining life of the acquired assets were considered in determining that the acquisition represents the most prudent option for customers.

Response:

Milton Hydro considered the alternative of leaving the assets under Hydro One's ownership and continuing the current embedded distributor arrangement, including the associated ongoing charges. Milton Hydro did not identify a practical alternative that would achieve the same outcome as acquiring the assets. The assets are already installed and in service as part of Milton Hydro's connection to Palermo TS, and constructing duplicate facilities in order to avoid acquiring them would not be a reasonable economic alternative.

Milton Hydro's determination that the acquisition is the prudent option for customers is based on the estimated transfer price of $100,000 relative to the expected ongoing savings from the avoidance of embedded distribution connection charges (Appendix D, page 18). That determination does not depend on attributing a specific remaining life or residual value to the individual assets.

Staff-20

Reference(s):

1. 2027 IRM application, Appendix D, p. 18
2. Section 86(1)(b) of the *Ontario Energy Board Act, 1998*

Preamble:

In Ref. 1, Milton Hydro mentions that, as part of the Palermo Project, it plans to purchase the first eight poles and associated conductors from Hydro One and transfer ownership of these assets to Milton Hydro. OEB staff notes that section 86(1)(b) of the *Ontario Energy Board Act, 1998* requires Board approval for the sale, lease, or other disposition of a transmission or distribution asset that is necessary in serving the public.

OEB staff further notes that, in a similar transaction involving the sale of poles and overhead conductors by Hydro One to InnPower Corporation, Hydro One filed a section 86(1)(b) application with the OEB[38]. Given the apparent similarities between that transaction and the proposed transfer of assets

[38] EB-2023-0315.

from Hydro One to Milton Hydro, OEB staff seeks clarification regarding the regulatory approvals associated with the proposed asset transfer.

OEB staff is not aware of any application filed under section 86(1)(b) of the *Ontario Energy Board Act, 1998* in respect of the proposed transfer of the first eight poles and associated conductors from Hydro One to Milton Hydro.

Question(s):

a. Does Milton Hydro continue to seek capital funding for the purchase of the poles from Hydro One, even though Hydro One has not filed an application under section 86(1)(b) of the *Ontario Energy Board Act, 1998* for the proposed transfer of the first eight poles and associated conductors from Hydro One to Milton Hydro. Please explain.

Response:

Yes. The acquisition of the existing Hydro One connection assets forms part of the Palermo Project and will remove Milton Hydro's two existing Palermo TS feeders from the embedded distributor arrangement with Hydro One (Appendix D, page 18). As the owner of the assets, Hydro One is required to obtain OEB approval for the transfer under section 86(1)(b) of the OEB Act, and the transfer is subject to that approval.

The OEB's performance standard for Section 86 applications in the "No Notice" category is a Total Cycle Time of 90 days, which "represents the calendar days from issuance of completeness letter to final decision."[39] The OEB's schedule for these applications notes that it "is generally used for the sale of specific distribution or transmission assets from one distributor or transmitter to another, or to a large consumer who is served by the same assets."[40] On this basis, Milton Hydro considers it reasonable that the transfer could be approved and completed in 2027, in coordination with the in-service timing of the Palermo Project.

While this is the stated service standard for ordinary 86 applications, Milton Hydro notes that a secondary delegated employee may authorize the transaction under part 11 of the Delegated Powers and Duties - Licences, Codes, Rules and Associated Approvals. This could further improve OEB's

[39] OEB, Performance Standards for Processing Applications, Updated Performance Standards for Consolidation Applications (April 1, 2025), https://www.oeb.ca/applications/how-file-application/performance-standards-processing-applications#updatedperformancestandards.
[40] OEB, Mergers, Acquisitions, Amalgamations and Divestitures, Section 86 No Notice, Appendix A (revised 2025), https://www.oeb.ca/sites/default/files/MAADS_No%20Notice_revised%202025_App%20A.pdf.

performance standard for total cycle time. Regardless, there is ample time to obtain OEB approval of the transaction before rate implementation.

The acquisition represents $100,000 of the $13,198,024 cost of the Palermo Project (Appendix D, page 7, Table 9).

b. Please discuss the potential impacts on the timing, scope, cost, and implementation of the Palermo Project should the required approval(s) for the asset transfer not be obtained prior to project execution.

Response:

Milton Hydro does not expect the timing of the required approval(s) for the asset transfer to affect the timing, scope or implementation of the other components of the Palermo Project. The asset transfer is not a prerequisite to the construction or commissioning of the Palermo TS upgrade, the feeder egress works or the feeder line extension. The assets proposed for transfer are existing facilities that are in service, and they would remain under Hydro One's ownership and operation until the required approval(s) are obtained and the transfer is completed.

With respect to cost, Milton Hydro would continue to incur the applicable charges under the existing arrangement until the transfer is completed, and the expected savings to customers would be deferred for that period.

Amortization and Capital Cost Allowance (CCA) of Palermo Project

Staff-21

Reference(s):

1. Milton Hydro 2027 ICM Model, Tab 9b. Proposed ACM ICM Projects
2. 2027 IRM Application

Preamble:

OEB staff notes that in both Ref. 1 and Ref. 2, Milton Hydro did not identify the applicable CCA class(es), CCA rate(s), and useful life used to calculate amortization expense and CCA amounts included in Ref 1.

Question(s):

a. Please identify the useful life, applicable CCA class(es), and corresponding CCA rate(s) used to calculate the amortization expense and CCA for the Palermo Project by asset category, if applicable.

Response:

The useful lives, CCA classes and CCA rates used to calculate the amortization expense and CCA for the Palermo Project, by asset category, are set out in Table 1 below. As stated at page 29 of the Application, the useful lives are consistent with those filed in Milton Hydro's 2023 Cost of Service application (EB-2022-0049).

Table 1: Useful Life, CCA Class and CCA Rate by Asset Category

Asset Category	Useful Life (Years)	CCA Class	CCA Rate
1609	40	14.1	5%
1840/1845	40	47	8%
1830/1835	45	47	8%

b. Please provide, in excel format, the detailed calculations supporting the amortization expense and CCA amounts included in Ref. 1 for the Palermo Project by asset category, if applicable, including all formulas and assumptions used in the calculations.

Response:

Please refer to Attachment 1 to this response for the calculation of the amortization expense and CCA for the Palermo Project by asset category, including the formulas used, and a reconciliation of the amounts by asset category to the Palermo Project cost of $13,198,024 (Appendix D, page 7, Table 9).

The calculations apply the useful lives, CCA classes and CCA rates set out in Table 1 in the response to Staff-21(a) to the cost of each asset category. Amortization expense is calculated on a straight-line basis over the useful life of each asset category, and CCA is calculated by applying the applicable CCA rate to the cost of each asset category.

c. Please revise and re-file Ref. 1 to include the formulas used to calculate amortization expense and CCA for the Palermo Project.

Response:

Milton Hydro has revised Tab 9b (Proposed ACM ICM Projects) of the updated ICM Model to include the formulas used to calculate the amortization expense and CCA for the Palermo Project, by asset category. The updated ICM Model has been filed separately in live Excel format (A3_MILTON_HYDRO_EB-2026-0057_2027_ACM_ICM_MODEL_1.0_10152026.xlsm).