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

BY EMAIL

October 29, 2026

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

Dear Ritchie Murray:

Re: Ontario Energy Board (OEB) Staff Submission
Milton Hydro Distribution Inc.
Application for 2027 Electricity Distribution Rates
OEB File Number: EB-2026-0057

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

Yours truly,

Original Signed By
Urooj Iqbal
Digitally signed by Urooj Iqbal
Date: 2026.10.29 12:46:10 -04'00'
Urooj Iqbal
Advisor, Incentive Rates

Encl.

cc: All parties in EB-2026-0057

ONTARIO ENERGY BOARD

OEB Staff Submission

Milton Hydro Distribution Inc.

2027 Electricity Distribution Rates

EB-2026-0057

October 29, 2026

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Summary

Milton Hydro Distribution Inc. (Milton Hydro) filed its incentive rate-setting mechanism (IRM) application on August 10, 2026, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to its electricity distribution rates and other charges effective January 1, 2027.

Milton Hydro's application is based on a Price Cap Incentive Rate-setting (Price Cap IR) option. Consistent with Chapter 3 of the OEB's *Filing Requirements for Electricity Distribution Rate Applications* (Filing Requirements), Milton Hydro applied the Price Cap IR adjustment factor to adjust the monthly service charge and distribution volumetric rate during the incentive rate-setting years. An inflation factor of 3.0% applies to all IRM applications for the 2027 rate year.[1] The stretch factor assigned to Milton Hydro is 0.0%,[2] resulting in a rate adjustment of 3.0% based on the Price Cap adjustment formula. OEB staff has no concerns with Milton Hydro's proposed price cap adjustment.

Milton Hydro also seeks approval for the disposition of Group 1 Deferral and Variance Account (DVA) balances and updated Retail Transmission Service Rates (RTSRs).[3] OEB staff has no concerns with Milton Hydro's proposed disposition of the Group 1 DVA balances and RTSRs adjustments.

OEB staff has updated Tab 18 of Milton Hydro's 2027 IRM Rate Generator Model to incorporate the Time-of-Use Regulated Price Plan and Ontario Electricity Rebate values issued on October 16, 2026.

Milton Hydro has applied for Incremental Capital Module (ICM) funding to support the Palermo Transformer Station (TS) Upgrade and Feeder Expansion Project (Palermo Project). OEB staff submits that Milton Hydro has adequately demonstrated the need for the Palermo Project and that the project satisfies the ICM prudence criterion. Subject to the outcome of the materiality assessment following Milton Hydro's submission of an updated ICM model, OEB staff supports recovery of $11,250,323, representing approximately 85.2% of the requested funding amount of $13,198,024. OEB staff does not support recovery of $1,947,701, consisting of approximately $1.85 million in historical Palermo Project expenditures incurred between 2023 and 2025 and the proposed $100,000 asset acquisition cost.

In this document, OEB staff makes detailed submissions on the ICM funding request for

[1] OEB Letter, 2027 Inflation Parameters, June 11, 2026
[2] Empirical Research in Support of Incentive Rate-Setting: 2025 Benchmarking Update, Report to the Ontario Energy Board
[3] OEB Letter, 2027 Preliminary Uniform Transmission Rates and Hydro One Sub-Transmission Rates, October 14, 2026

the Palermo Project.

Incremental Capital Funding – Palermo Project

Background

Milton Hydro is requesting ICM funding for the Palermo Project. Milton Hydro submits that the project is required to address increasing electricity demand within Milton Hydro's service territory, driven by population and employment growth, electrification initiatives, and customer connection requirements.

The Palermo TS upgrade has been recommended as a preferred alternative and identified as in-progress in regional and distributor planning processes, including the Independent Electricity System Operator's (IESO) GTA West Integrated Regional Resource Plan (IRRP), Hydro One Networks Inc.'s (Hydro One) Regional Infrastructure Plan, the IESO's GTA West Scoping Assessment Outcome Report. The need for the Palermo TS upgrade was also identified in Milton Hydro's 2022 Distribution System Plan (DSP).

The Palermo Project is a System Service investment with a forecast capital cost of approximately $13,198,024 and an incremental revenue requirement of $965,769.[4] [5]

The project involves Hydro One's replacement of the existing end-of-life transformers at Palermo TS with upgraded 75/100/125 MVA units (currently sized at 50/66.7/83.3 MVA), thereby increasing the total capacity by 70 MW.[6] Milton Hydro will secure 35 MW of the new 70 MW of capacity created.

Separately, Milton Hydro and Oakville Hydro Electricity Distribution Inc. (Oakville Hydro) have agreed to update their existing capacity-sharing arrangement, under which Milton Hydro will receive permanent access to 40MW of existing capacity. In return, Oakville Hydro would receive approximately 35 MW (50%) of the incremental capacity created through the Palermo TS upgrade, including two new feeder positions. While the Glenorchy MTS capacity-sharing arrangement is not the subject of this ICM request, Milton Hydro states that the arrangement complements the Palermo TS upgrade by enabling Milton Hydro to secure a total of 75 MW of permanent capacity and providing a coordinated approach to meeting the long-term capacity requirements of both utilities.[7] [8]

The Palermo Project consists of:

[4] 2027 IRM Application p. 10
[5] Response to Staff-5(c)
[6] 2027 IRM Application, p. 18
[7] 2027 IRM Application, Project Summary, Appendix D, pp. 1-2, August 10, 2026
[8] Response to Staff-14

(i) Milton Hydro's capital contribution to Hydro One for Milton Hydro's share of the incremental upgrade of Palermo TS;
(ii) the construction of feeder egress facilities required to connect Milton Hydro's feeders to the new Palermo TS switchyard;
(iii) the transfer of ownership of certain existing Hydro One-owned connection assets associated with Milton Hydro's Palermo TS feeders; and
(iv) the related feeder line extension works required for Milton Hydro to utilize additional capacity within its distribution system.

Collectively, these investments form an integrated project required to access and use the additional station capacity made available through the Palermo TS upgrade.[9]

OEB Staff Submission

OEB staff makes the following submissions on the issues:

ICM Eligibility Criteria

The OEB's ICM framework, as established in the Report of the Board – New Policy Options for the Funding of Capital Investments: The 2014 Advanced Capital Module (ACM Report) and the 2016 Supplemental Report, provides a mechanism for distributors to seek funding for significant capital investments during the incentive rate-setting period between rebasing applications. To qualify for ICM funding, an applicant must demonstrate that the proposed capital investment satisfies the three established eligibility criteria: Materiality, Need, and Prudence. The onus is on the applicant to provide sufficient evidence to support that each of these criteria has been met.

OEB staff submits that Milton Hydro has generally demonstrated that the Palermo Project meets the ICM eligibility criteria of Need and Prudence and satisfies the project-specific materiality requirements. OEB staff is unable to reach a final conclusion regarding the overall materiality threshold until Milton Hydro files its revised ICM model reflecting OEB's updated ICM model.[10] OEB staff's assessment of each of these criteria, and the evidence supporting that assessment, is discussed in the sections that follow.

Materiality

To satisfy the materiality criterion, a distributor must demonstrate that its ICM request meets three requirements. First, the proposed investment must exceed the OEB's materiality threshold, which establishes the maximum amount of incremental capital eligible for ICM funding. Second, the project must represent more than a minor

[9] 2027 Application, pp. 18-19
[10] The updated ICM Model has been provided as part of this submission.

expenditure relative to the distributor's overall capital program. Third, the requested incremental funding must have a significant impact on the distributor's operations.[11]

Materiality Threshold

The OEB's materiality threshold formula considers both distributor growth and inflation since the distributor's last rebasing year in determining the maximum eligible incremental capital amount. To support ACM and ICM applications, the OEB provides distributors with an Excel-based ICM model that calculates the materiality threshold, maximum eligible incremental capital amount, associated revenue requirement, and applicable rate riders.[12]

Milton Hydro calculated its materiality threshold and maximum eligible incremental capital amount using the version of the ICM model available at the time of filing. However, subsequent to the filing of the application and interrogatory responses, the OEB updated the ACM/ICM model to reflect the use of actual historical Inflation Parameters (IPI) to calculate the materiality threshold, consistent with the OEB's 2027 Filing Requirements.[13] OEB staff has provided the updated ICM model to Milton Hydro together with this submission and requests that Milton Hydro recalculate the materiality threshold and maximum eligible incremental capital amount using the actual historical IPI values and file the resulting calculations as part of its reply submission.

OEB staff notes that, because the updated ICM model has not yet been filed, it is unable to express a final view on whether the materiality threshold has been met. OEB staff submits that the panel should determine whether the materiality threshold is satisfied based on the updated ICM model and the final evidentiary record.

Project Specific Materiality Threshold

The ACM Report addresses the project-specific materiality threshold criterion as follows:

> "Minor expenditures in comparison to the overall capital budget should be considered ineligible for ACM or ICM treatment. A certain degree of project expenditure over and above the [OEB]-defined threshold calculation is expected to be absorbed within the total capital budget."[14]

The total incremental cost that is the subject of this ICM request represents 38.5% of Milton Hydro's total forecasted net capital expenditures for 2027. Milton Hydro submits

[11] ACM Report, p. 16
[12] Updated ACM/ICM Model with actual historical IPIs
[13] Filing Requirements for Electricity Distribution Rate Applications, Chapter 3, Incentive Rate-Setting Application, July 14, 2026, p. 24
[14] ACM Report, p. 17

that this amount is significant in relation to Milton Hydro's overall forecasted capital expenditures for 2027.[15] In response to an interrogatory by the Vulnerable Energy Consumers Coalition (VECC),[16] Milton Hydro explained that the 38.5% is calculated as the forecast 2027 capital expenditures for the Palermo Project of $10,362,156[17] divided by Milton Hydro's total forecast 2027 net capital expenditures of $26,923,187.[18] The $10,362,156 is the portion of the total Palermo Project cost of $13,198,024 that is forecast to be incurred in 2027.

OEB staff submits that the ICM funding request for the Palermo Project constitutes a significant portion of Milton Hydro's 2027 capital expenditures forecast and therefore satisfies the project-specific materiality threshold requirement.

Significant Influence on Operations

The ACM Report states that any approved incremental capital must fall within the total eligible amount and have a significant operational impact on the distributor. Otherwise, such investments should be addressed during rebasing.[19]

As noted above, the Palermo Project accounts for approximately 38.5% of Milton Hydro's forecast 2027 capital expenditures and therefore represents a significant share of Milton Hydro's overall capital program. OEB staff submits that the scale of the project and its associated financial investment are sufficiently material to have a substantial impact on Milton Hydro's operations and financial resources.

Need

To qualify for ICM funding for a particular project, a distributor must demonstrate that there is a need for incremental funding. The OEB's ACM Report requires a three-fold test to demonstrate "need":

i. The distributor must satisfy the Means Test, as defined in the ACM Report.
ii. The amounts must be based on discrete projects and should be directly related to the claimed driver.
iii. The amounts must be clearly outside of the base upon which the rates were derived.[20]

[15] 2027 IRM Application, p. 23
[16] Response to VECC-2
[17] 2027 IRM Application, Table 8, p. 26
[18] 2027 IRM Application, Table 7, p. 25
[19] Report of the OEB - New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 (ACM Report), p.17
[20] *Ibid.*

Means Test

Under the Means Test, if a distributor's most recently available regulated return on equity (ROE) exceeds 300 basis points above the deemed ROE embedded in the distributor's rates, then funding for any incremental capital project would not be allowed.[21]

Milton Hydro's 2025 actual ROE was 9.34%, which is within 300 basis points of the 8.66% ROE as approved in its 2023 cost of service application.[22] Milton Hydro states that as its regulated return does not exceed 300 basis points above the deemed ROE, it meets the Means Test.[23]

OEB staff submits that Milton Hydro passes the Means Test to be eligible for ICM funding, as it has not exceeded its deemed rate of return by 300 basis points.

Discrete Project

The ACM Report indicates that amounts must be based on discrete projects and should be directly related to the claimed driver.[24] [25]

OEB staff submits that the Palermo Project is separate from Milton Hydro's routine annual capital program and is intended to address a specific system service need. The Palermo Project is clearly defined in scope, involving the replacement and upgrading of end-of-life transformers at Palermo TS, the construction of new station egress facilities, and the installation of new feeder circuits to integrate additional capacity into Milton Hydro's distribution system. OEB staff notes that the project is driven by the intent to support future load growth and customer connections, while providing additional operational flexibility and deferring the need for a new transformer station.

OEB staff also notes that the OEB has previously treated major transformer station capacity projects as discrete projects for purposes of the ICM framework, including the Seaton Transformer Station project and the Tremaine Transformer Station project.[26]

OEB staff submits that the Palermo Project is discrete and directly related to the cost drivers.

[21] *Ibid.*
[22] EB-2022-0049
[23] 2027 IRM Application, p. 24
[24] ACM Report, p. 18
[25] The criterion was updated in 2022 beyond discrete projects to also cover ongoing capital programs during extended deferred rebasing periods, February 10, 2022.
[26] EB-2021-0015 Decision and Order, Elexicon Energy Inc., April 28, 2025; EB-2018-0021 Decision and Order, Burlington Hydro Inc., March 28, 2019.

Outside the Base Upon Which Rates were Derived

The ACM report states that the amounts requested through the ICM framework must be clearly outside of the base upon which the rates were derived.

Milton Hydro states that, while the need for the Palermo TS rebuild was identified at Milton Hydro's 2022 DSP, the DSP expressly states that:

> "[t]he DSP assumes there will be no capital contribution required from [Milton Hydro] due to the incremental increase in capacity solution that addresses the Palermo TS end-of-life status."

Milton Hydro further states that the 2027 Palermo TS upgrade project was not included in the capital expenditures approved in Milton Hydro's cost of service application[27]and, as such, is not funded through existing rates.[28]

OEB staff submits that the costs associated with the proposed project are incremental to the investments reflected in current base rates and meet this aspect of the ICM eligibility criteria.

Prudence

The ACM Report describes the "prudence" criterion as follows:

> "The amounts to be incurred must be prudent, meaning the distributor's decision reflects the most cost-effective option for ratepayers, not necessarily the option with the lowest initial cost."[29]

Milton Hydro submits that the Palermo Project is a prudent investment. In response to an OEB staff interrogatory,[30] Milton Hydro states that the appropriate measure is the cost of capacity secured for its customers. Milton Hydro explained that the Palermo Project, together with the permanent Glenorchy MTS arrangement, will secure 75 MW of permanent capacity, consisting of 35 MW at Palermo TS and 40 MW at Glenorchy MTS, at an estimated cost of $13.2 million. By comparison, Milton Hydro's original four-feeder Palermo TS option would have secured 70 MW of permanent capacity at an estimated cost of $23.8 million. Milton Hydro submits that the proposed approach therefore provides greater capacity at a significantly lower cost. Both cost estimates

[27] EB-2022-0049
[28] 2027 IRM Application, pp. 24-25
[29] ACM Report, p. 17
[30] Response to Staff-7

include the $100,000 transfer of Hydro One connection assets.[31] [32] [33] [34]

Milton Hydro also notes that a capacity planning analysis completed by Power Advisory projected that the Palermo Project would defer the need for a future transformer station investment until 2032 under the high-growth scenario, 2037 under the reference-growth scenario, and 2039 under the low-growth scenario.[35]

Capacity-sharing Arrangement at Glenorchy MTS

Milton Hydro submits that the Palermo Project is supported by a reciprocal capacity-sharing arrangement with Oakville Hydro, under which Milton Hydro will receive permanent access to 40 MW of capacity at Glenorchy MTS in exchange for providing Oakville Hydro with approximately 35 MW of the incremental capacity created through the Palermo TS upgrade. Milton Hydro notes that its existing access to Glenorchy MTS capacity was temporary, subject to expiry in 2032 and earlier termination upon two years' notice. According to Milton Hydro, the revised arrangement provides greater certainty regarding long-term capacity needs while optimizing the utilization of existing and planned regional infrastructure.

Milton Hydro also states that it had committed to the Palermo TS upgrade before Oakville Hydro expressed an interest in sharing the incremental capacity and that the subsequent arrangement represented an opportunity to achieve the same long-term planning objectives through regional coordination. Milton Hydro submits that the arrangement reduces its capital contribution requirements and feeder build-out costs relative to the original concept under which Milton Hydro would have secured the full 70 MW of incremental Palermo TS capacity.

Permanent access to Glenorchy MTS capacity alone, as stated by Milton Hydro, would not remove the need for the Palermo Project. According to Milton Hydro, the capacity analysis supporting the application already reflects the availability of the 40 MW of Glenorchy MTS capacity and continues to demonstrate the need for the Palermo Project. Milton Hydro states that, absent the Palermo Project, its forecast system peak would exceed available system capacity by approximately 2032 under the reference growth scenario and that it would ultimately require a new transformer station. Milton Hydro estimates that a new transformer station would cost significantly more than the Palermo Project and require a substantially longer implementation period.

[31] 2027 IRM Application, p. 19
[32] Appendix D, p. 2
[33] Appendix D, Table 11, p. 16
[34] Response to Staff-15
[35] Milton Hydro noted that the analysis assumed the original Palermo TS project concept would proceed and that the Glenorchy MTS agreement would expire in 2032.

In addition to providing 35 MW of new station capacity, Milton Hydro states that the Palermo Project will improve reliability and operational flexibility, facilitate customer connections in growth areas through two new feeders, enable the redistribution of load across the system, and, as mentioned above, defer the need for a future transformer station from approximately 2032 to 2037. Milton Hydro characterizes the Palermo TS upgrade/Glenorchy arrangement as a prudent and cost-effective regional planning solution that supports future growth while minimizing overall costs to customers.[36] [37]

Non-wires Solution (NWS)

OEB staff examined whether NWS could represent a reasonable alternative to the Palermo Project and sought evidence supporting Milton Hydro's conclusion that NWS options – such as conservation and energy efficiency, demand response, battery storage, solar generation, distributed generation, and portfolio-based approaches – were not viable. In response, Milton Hydro states that its NWS pre-assessment determined that the maximum feasible contribution from NWS would be approximately 5.0 MW at the 2027 need date, increasing to 6.4 MW over five years, which was insufficient to address the identified capacity requirement.

Milton Hydro further submits that certain alternatives, such as solar and dispatchable generation, were screened out due to development lead-time and connection constraints, and that NWS measures generally lacked the certainty, scale, geographic applicability, and firm capacity required to meet the system need. Milton Hydro also notes that NWS would not avoid or defer the replacement of the existing end-of-life transformers at Palermo TS and therefore concluded that the Palermo Project remained the most appropriate solution to provide the required capacity and reliability.[38]

Evaluation of Project Alternatives

Milton Hydro evaluated several alternatives to address its forecast capacity needs and submitted that the preferred Palermo TS upgrade, combined with the capacity-sharing arrangement with Oakville Hydro and associated feeder expansion, represents the most prudent and cost-effective solution. Milton Hydro considered a "do-nothing" scenario involving the like-for-like replacement of the existing Palermo TS transformers, deferral of the feeder build-out, and construction of a new transformer station.

Milton Hydro submits that the "do-nothing" alternative would not address future capacity requirements and would expose the utility to potential capacity shortfalls associated with

[36] Response to Staff-14
[37] 2027 IRM Application, p. 29
[38] Response to Staff-16

the temporary nature of the existing Glenorchy MTS arrangement. Milton Hydro further notes that regional planning studies identified transformer upsizing at the time of replacement as the most cost-effective approach and that deferring the upgrade could result in duplicative construction activities and stranded investments.

Milton Hydro also assessed an alternative that would defer construction of the feeder extension while proceeding with the transformer station upgrade. Milton Hydro submits that this option would not be economically prudent because the additional station capacity could not be effectively utilized without the feeder infrastructure. According to Milton Hydro, deferral would increase the overall project cost and capital contribution requirements while delaying the operational, reliability, and customer connection benefits associated with the project.

Milton Hydro further considered the construction of a new transformer station as an alternative means of meeting future capacity requirements. Milton Hydro notes that this option would be significantly more expensive, requiring an estimated investment of between approximately $69 million and $95 million, would require substantial planning and transmission system enhancements, and could take five years or more to place into service. Milton Hydro therefore concluded that a new transformer station would not be a cost-effective solution within the required planning timeframe.

Milton Hydro identified the Palermo TS upgrade, together with the capacity-sharing arrangement with Oakville Hydro and the construction of two new feeder circuits, as the preferred alternative. Milton Hydro states that this approach addresses its capacity needs, reduces capital contribution requirements relative to the original Palermo-only concept, avoids unnecessary infrastructure investment, minimizes stranded asset risk, and aligns with principles of regional planning, utility collaboration, and prudent asset management. Milton Hydro concluded that the Palermo Project is the lowest-cost, lowest-risk, and most prudent alternative available to meet its near- and medium-term capacity requirements.[39]

OEB staff submits that Milton Hydro has demonstrated that the Palermo Project is, in principle, a prudent investment. The evidence shows that the project was identified through regional planning studies as the preferred and most cost-effective approach to address future capacity requirements and that Milton Hydro undertook a reasonable assessment of alternatives. OEB staff notes that Milton Hydro evaluated a number of alternatives, including a like-for-like replacement of the existing transformers, deferral of the feeder build-out, construction of a new transformer station, and non-wires solutions. Based on the evidence on the record, none of these alternatives appear to provide the same level of capacity, reliability, operational flexibility, and customer connection

[39] 2027 IRM Application, pp. 23-26

capability at a lower overall cost.

OEB staff also notes that the Palermo Project is supported by a reciprocal capacity-sharing arrangement with Oakville Hydro that provides Milton Hydro with permanent access to 40 MW of Glenorchy MTS capacity while reducing the capital contribution and infrastructure requirements that would otherwise have been associated with securing the full Palermo TS capacity independently. OEB staff finds that the arrangement is consistent with the objectives of regional planning, asset optimization, and utility collaboration.

OEB staff further notes that the evidence indicates that the Palermo Project will defer the need for a future transformer station and avoid significantly higher costs that could be associated with a new supply solution. OEB staff submits that Milton Hydro has demonstrated the prudence of proceeding with the Palermo Project. However, OEB staff's support for the project does not imply support for all costs proposed for recovery through the ICM request. OEB staff has separately assessed the reasonableness and support for each project cost component and submits that only costs that are adequately supported by the evidence should be approved for recovery.

Components of Palermo Project

Table 1 shows the four project components of the project and their estimated cost.

Table 1: Cost Components of the Palermo Project[40]

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**

In response to an OEB staff interrogatory,[41] Milton Hydro explains that the capital contribution for the Palermo TS upgrade, TS feeder egress, and feeder line extension are contingent upon one another. Milton Hydro further states that each element is 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.

[40] 2027 IRM Application, Appendix D, p.7
[41] Response to Staff-7(c) and Staff-7(d)

i. The capital contribution for the Palermo TS upgrade

The capital contribution for the Palermo TS upgrade is required to provide the additional transformation capacity necessary to accommodate the forecast load growth. Milton Hydro states that the Palermo TS upgrade will be undertaken in conjunction with Hydro One's replacement of end-of-life station assets. The incremental cost associated with upsizing the station to provide additional capacity is estimated at approximately $21.64 million.

Under the proposed arrangement, Hydro One will be responsible for the cost of the like-for-like replacement, while Milton Hydro and Oakville Hydro will each be allocated 50% of the incremental station capacity and corresponding incremental upgrade costs through separate Connection Cost Recovery Agreements (CCRAs).[42] Milton Hydro's notional share of the incremental station upgrade cost is approximately $10.82 million. However, based on Hydro One's economic evaluation and Milton Hydro's load forecast, the utility's estimated upfront capital contribution is $3.4 million. Milton Hydro notes that the remaining portion of its notional share is expected to be recovered through future load growth and remains subject to the true-up provisions of the applicable CCRA.

In response to an SEC interrogatory,[43] Milton Hydro notes that deferring the feeder extension from 2027 to 2031 increases the required capital contribution for the Palermo TS upgrade from $3.4 million to approximately $6.0 million. Milton Hydro states that a deferral would also reduce its ability to utilize the upgraded station capacity, connect new customers, relieve constrained feeders, and realize the anticipated operational and reliability benefits of the project. Milton Hydro concluded that deferring the feeder extension would not be an economically prudent alternative.

OEB staff does not take issue with the prudence of including this upfront capital contribution cost, as it represents Milton Hydro’s share of the costs associated with the upsizing of Palermo TS to accommodate anticipated capacity requirements. OEB staff notes that the capital contribution is governed by the terms of the CCRA between Milton Hydro and Hydro One and that the portion of the investment attributable to future load growth beyond Milton Hydro’s notional share remains subject to the true-up and cost recovery provisions set out in the applicable CCRA.

ii. The TS feeder egress

To utilize the additional capacity available from the Palermo TS upgrade, Milton Hydro proposes to construct feeder egress facilities from the new switchyard and complete associated feeder line extensions within its distribution system. Milton Hydro estimates

[42] Connection and Cost Recovery Agreement between Milton Hydro Distribution Inc. and Hydro One Networks Inc.
[43] SEC-9(c)

the cost of the feeder egress facilities at approximately $2.7 million.

Table 2: Updated Palermo TS Feeder Egress Estimate[44]

Location	New Poles	OH Conductors (m)	UG Cables (m)	Estimated Cost
Egress from TS	25	570 primary / 95 neutral	1,668 primary / 216 neutral	$2,694,352

VECC sought additional information regarding the Palermo TS feeder egress estimate including the average unit costs underlying the estimate, the basis for the estimate, and whether the estimate was informed by comparable projects previously undertaken by Milton Hydro. [45]

In response, Milton Hydro highlights indicative average installed unit costs of $30,000 per pole, $40 per metre of overhead conductor, and $450 per metre of underground cable. Milton Hydro notes that these unit costs relate only to the installation of poles, conductors, and cables, and that the overall estimate also includes other equipment and costs such as transformers, switches, primary metering units, civil works, access roads, engineering, and construction-related activities.

Milton Hydro further explained that the feeder egress estimate was derived from a modified version of Scenario 2 from the NBM Study,[46] adjusted to reflect the final two-feeder configuration and routing. Milton Hydro submits that the installed unit costs reflect the complexity of constructing new facilities within an active station environment adjacent to energized 27.6 kV feeder egresses that must remain in service during construction. According to Milton Hydro, additional construction staging, supervision, coordination with Hydro One and neighbouring utilities, and compliance with Utility Work Protection Code requirements contribute to the overall cost estimate.

With respect to comparable projects, Milton Hydro confirmed that the feeder egress estimate was not developed using costs from previous Milton Hydro projects and instead relies on the methodology described above.[47]

OEB staff takes no issue with the proposed feeder egress facilities and submits that they are a necessary and prudent component of the Palermo Project, as they enable Milton Hydro to access and utilize the additional capacity created through the Palermo TS upgrade. OEB staff further accepts Milton Hydro's evidence that deferring the feeder

[44] Appendix D, p. 7
[45] Response to VECC-16(a)
[46] Appendix G, NBM Engineering Study, p.12
[47] Response to VECC-16(c)

egress work would delay realization of the full benefits of the station investment and could result in higher overall project costs, including increased capital contribution obligations, and therefore supports the inclusion of the feeder egress costs in the ICM request.

iii. Transfer of Hydro One's assets to Milton Hydro

In addition to the station upgrade component, Milton Hydro proposes to purchase certain Hydro One-owned connection assets associated with the Palermo TS feeders for an estimated $100,000. According to Milton Hydro, the asset transfer will eliminate its embedded distributor arrangement at Palermo TS and provide operational and economic benefits over the long term.

Through interrogatories, OEB staff inquired about the proposed transfer of the first eight poles and associated conductors from Hydro One to Milton Hydro, noting that the transaction may require approval under section 86(1)(b) of the *Ontario Energy Board Act, 1998*. OEB staff also noted that no section 86 application had yet been filed.

In response, Milton Hydro confirmed that it continues to seek funding for the asset acquisition, stating that Hydro One, as the asset owner, is responsible for obtaining the necessary section 86 approval. Milton Hydro states that there is sufficient time for the approval process to be completed before the Palermo Project is placed in-service and notes that the asset purchase represents approximately $100,000 of the $13.2 million Palermo Project cost.

Milton Hydro further states that any delay in obtaining approval for the asset transfer would not affect the timing, scope, or implementation of the Palermo TS upgrade, feeder egress works, or feeder line extension, as the transferred assets are not required for construction or commissioning of those project components. However, a delay in the transfer would postpone the customer savings associated with Milton Hydro's ownership of the assets, and Milton Hydro would continue to incur charges under the existing arrangement until the transfer is completed.

OEB staff does not support the inclusion of the proposed $100,000 asset acquisition cost in Milton Hydro's ICM request at this time. OEB staff notes that the proposed acquisition of Hydro One-owned connection assets may require approval under section 86(1)(b) of the *Ontario Energy Board Act, 1998*. While Milton Hydro states that there is sufficient time for the approval process to be completed before the Palermo Project is placed in service and that Hydro One is responsible for obtaining the required approval, no section 86 application has been filed with the OEB to date.

OEB staff acknowledges Milton Hydro's evidence that the proposed asset transfer would provide operational and economic benefits and that any delay in obtaining

approval would not affect the timing, scope, or implementation of the Palermo TS upgrade, feeder egress works, or feeder line extension. In OEB staff's view, however, it would be premature to approve recovery of costs associated with a transaction that remains subject to a separate approval process and for which no application has yet been filed. OEB staff does not support inclusion of the proposed $100,000 asset acquisition cost in the ICM request.

iv. The feeder line extension

The feeder line extension 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. Table 3 below shows the estimated cost of the feeder line extension.

Table 3: Updated Palermo TS Feeder Extension Estimate[48]

Location	New Poles	Overhead Conductors (m)	UG Cables (m)	Estimated Cost
Lower Base Line	30	12,072 primary / 1,334 neutral	None	$1,203,267
First Line	77	36,408 primary / 3,034 neutral	None	$3,878,721
Britannia Rd (West of RR25)	0	8,196 primary / 2,732 neutral	None	$1,043,969
Britannia Rd (East of RR25)	8	4,014 primary / 1,338 neutral	None	$877,115
Total	**115**	**60,690 primary / 8,438 neutral**	**None**	**$7,003,072**

Milton Hydro estimates the Palermo TS feeder extension project will require the installation of 115 new poles, approximately 60,690 metres of primary conductors and 8,438 metres of neutral conductors, with no underground cable component. The feeder extensions are forecast to cost a total of approximately $7.0 million, with the majority of costs associated with the First Line segment. The proposed feeder extensions are intended to connect Palermo TS and facilitate the delivery of additional capacity to support anticipated load growth within Milton Hydro's service territory.

Milton Hydro notes that constructing the feeder extensions concurrently with the Palermo TS upgrade is the most cost-effective approach to utilizing the station’s additional capacity. Milton Hydro further states that concurrent construction would facilitate the timely loading of the upgraded station and support recovery of a larger

[48] Appendix D, p. 7

portion of the station investment through the economic evaluation underpinning the CCRA with Hydro One. Milton Hydro states that deferring the feeder extensions would reduce the forecast load connected to Palermo TS during the initial years of the evaluation period, potentially increasing its capital contribution requirements and resulting in higher costs to customers. Milton Hydro estimates that delaying the feeder extensions from 2027 to 2031 would increase project costs by approximately $3.3 million (25.3%).[49] [50]

VECC requested additional information regarding the Palermo TS feeder extension estimate,[51] including the average unit costs for poles and overhead conductors, the basis for the estimate, and comparable projects supporting the proposed costs. In response, Milton Hydro provides the indicative average installed pole costs shown in Table 4 and indicates an average installed overhead conductor cost of $35 per metre across all project segments.

Table 4: Palermo TS Feeder Line Extension Indicative Average Unit Costs, Poles[52]

Location	Average Installed Pole Cost
Lower Base Line	$20,000 per pole
First Line	$20,000 per pole
Britannia Rd (West of RR25)	N/A (no new poles required)
Britannia Rd (East of RR25)	$15,000 per pole

Milton Hydro notes that the feeder line extension estimate also includes other equipment and costs, including transformers, switches and other equipment. Milton Hydro further explains that the estimate was derived from a modified routing scenario assessed in the NBM Study[53] and adjusted to reflect the final two-feeder configuration. According to Milton Hydro, project costs are influenced by several site-specific factors, including construction adjacent to travelled roadways and work in proximity to energized circuits that must remain in service during construction, requiring additional planning, staging, supervision, safety measures, and work protection.

OEB staff takes no issue with the proposed feeder line extension and submits that it is a prudent and necessary component of the Palermo Project. The feeder extensions are required to connect the upgraded Palermo TS to Milton Hydro's distribution system and enable the utility to access and utilize the additional capacity needed to serve forecast load growth. OEB staff notes that Milton Hydro provided detailed cost estimates,

[49] Appendix D, pp. 20-21
[50] Response to SEC-9(c)
[51] VECC-17
[52] Response to VECC-17(a)
[53] Appendix G

engineering support, and indicative unit costs in response to VECC's interrogatory,[54] and explained that the proposed routing and scope were developed through engineering studies and refined based on the final two-feeder configuration. OEB staff further accepts Milton Hydro's evidence that constructing the feeder extensions concurrently with the Palermo TS upgrade is the most cost-effective approach, as deferring the work would delay realization of the station's capacity benefits, potentially increase the capital contribution payable under Hydro One's CCRA, and result in higher overall project costs. OEB staff submits that the proposed feeder line extension is reasonable and supports recovery of the associated costs as part of the ICM request.

Historical Investment and Project Development

The evidence demonstrates that Milton Hydro began incurring project-related expenditures as early as 2023. Milton Hydro confirmed that it first incurred capital expenditures related to the Palermo Project in April 2023 through the execution of a Connection Cost Estimate Agreement (CCEA) with Hydro One.[55] Milton Hydro's response to an OEB staff interrogatory shows actual Palermo Project expenditures of $230,313 in 2023, $148,894 in 2024, and $1,468,494 in 2025, for a cumulative investment of approximately $1.85 million prior to filing this ICM request. These expenditures included payments to Hydro One under the CCEA, engineering and professional services, feasibility and routing assessments, internal labour, and advance engineering payments associated with the procurement of long-lead equipment.[56]

Milton Hydro further confirmed that Hydro One's project start date was March 1, 2023[57] and that several project development activities had already been completed or were underway by 2024, including the execution of CCEAs, engineering activities, and planning studies.[58] The capital expenditures outlined in Table 5 relate directly to the Palermo Project and illustrate the nature of the project-specific investments incurred.[59]

Table 5: Historical Capital Expenditures by Activities[60] [61]

Year	Amount	Activities
2023 (Actual)	**$230,313**	Payment to Hydro One under the Connection Cost Estimate Agreement and internal labour.
2024 (Actual)	**$148,894**	Engineering consultants, professional services and internal labour.

[54] Response to VECC-17
[55] *Ibid.*
[56] Response to Staff-9(b)
[57] Response to Staff-10(b)(iii)
[58] Response to Staff-10(b)(v)
[59] Response to Staff-9 & 10
[60] 2027 IRM Application, Table 8, p. 26
[61] Response to Staff-9(b)

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.
Total	**$1,847,701**	

OEB staff submits that, following its 2023 cost of service proceeding and before filing the present ICM funding request, the Palermo Project had evolved from a future planning initiative into a project actively advancing through engineering, development, and investment stages. Although key aspects of the project continued to evolve during this period, the evidence demonstrates that Milton Hydro proceeded with project development and incurred material expenditures prior to applying for or obtaining OEB's approval of ICM funding.

OEB staff acknowledges that elements of the final project scope, routing, capacity-sharing arrangement, and capital contribution obligation continued to develop between 2024 and 2026.[62] Nevertheless, OEB staff submits that the relevant issue is not whether all elements of the final project scope had been established, but whether Milton Hydro chose to undertake material project expenditures in advance of obtaining regulatory approval for their recovery. OEB staff submits that Milton Hydro had sufficient evidence of the underlying need, anticipated project direction, and associated investment requirements to seek regulatory approval before substantial project expenditures were incurred, including through Milton Hydro's 2023-2027 DSP, followed by actual expenditures beginning in 2023.

OEB staff submits that the expenditures identified in Table 5 above demonstrate that the Palermo Project had progressed beyond preliminary planning and into active project development during the incentive rate-setting period. OEB staff notes that the historical expenditures relate to identifiable project development activities, including payments to Hydro One under the CCEA, engineering and professional services, internal labour, and advanced engineering work associated with the procurement of long-lead equipment. This evidence demonstrates that Milton Hydro elected to advance the project and incur project-related expenditures before seeking approval for cost recovery through an ICM application.

OEB staff notes that in Lakefront Utilities Inc.'s (Lakefront Utilities) 2025 ICM application,[63] the OEB approved partial recovery of the ICM funding request. In that

[62] Response to Staff-10(i) and (ii)
[63] EB-2024-0038

case, the OEB emphasized that where a distributor proceeds with significant capital investments prior to obtaining regulatory approval, it assumes the risk that such expenditures may subsequently be found not recoverable from ratepayers. The OEB's decision stated that utilities should seek regulatory approval on a timely basis rather than incur material expenditures and subsequently request recovery through rates. OEB staff acknowledges that Milton Hydro has sought ICM funding prior to the proposed in-service date of the Palermo Project. However, OEB staff submits that the principle articulated by the OEB in Lakefront Utilities' 2025 ICM funding request is nevertheless applicable. The relevant consideration is not whether the project has been placed in service, but whether the utility incurred material project expenditures prior to obtaining regulatory approval despite having sufficient information regarding the project's need and anticipated scope.

In OEB staff's view, once a utility proceeds with significant capital investments before seeking OEB approval, it assumes the regulatory risk associated with those expenditures.

OEB staff submits that approximately $1.85 million of historical expenditures incurred between 2023 and 2025 should not be included in the ICM funding request as these expenditures were undertaken prior to obtaining regulatory approval. OEB staff submits that Milton Hydro should bear the associated risk of those early investments. OEB staff therefore supports an adjustment to the ICM capital amount to remove approximately $1.85 million of historical Palermo Project expenditures that had already been incurred before the ICM funding request.

Project In-Service Dates and ICM Rate Rider Implementation

Milton Hydro states that the Palermo Project has two key 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, aligning with Hydro One's Palermo TS in-service date; and (ii) the energization of the two new Palermo TS feeders by September 30, 2027. The anticipated completion dates for the project components are shown in Table 6 below.

Table 6: Project Timeline[64]

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

[64] 2027 IRM Application, Timings, p. 3

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**

Milton Hydro confirmed in its response to an OEB staff interrogatory that it does not anticipate any changes to the two key project milestone dates.[65]

OEB staff takes no issue with the implementation of the approved ICM rate riders effective January 1, 2027. OEB staff further notes that key project components are scheduled to be placed in-service during 2027, with the feeder egress facilities expected to be energized by April 30, 2027 and the new feeder extensions by September 30, 2027. Given the advanced stage of project development, the expenditures already incurred and committed, and the long lead times associated with the project, OEB staff submits that implementation of the ICM rate riders effective January 1, 2027 is reasonable.

Application of Half-Year Rule

Milton Hydro also requested to defer its next rebasing application by one year, from rates effective January 1, 2028 to rates effective January 1, 2029. The OEB approved this request by letter dated September 25, 2026. In its application, Milton Hydro submitted that it has not applied the half-year rule adjustment because, following the approved deferral, 2027 is no longer the final year of its IRM term. Milton Hydro therefore maintains that, consistent with the ACM/ICM policy, the half-year rule should not apply.[66]

OEB staff notes that, prior to the requested and approved deferral, Milton Hydro's rate-setting plan contemplated a rebasing application with rates effective January 1, 2028. Accordingly, 2027 represented the final year of the IRM term when the project was developed and when the associated ICM funding requirement surfaced. However, as Milton Hydro's rebasing application has been deferred, OEB staff submits that it

[65] Response to Staff-8(a)
[66] 2027 IRM Application, p. 29

supports the exception to the half-year rule.

~All of which is respectfully submitted~