EB-2026-0057

Milton Hydro Distribution Inc.

Application for electricity distribution rates and other charges effective January 1, 2027

VECC Submissions October 29, 2026

Milton Hydro Distribution Inc. (Milton Hydro) filed an incentive rate-setting mechanism application with the Ontario Energy Board (OEB) on August 10, 2026, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the rates that Milton Hydro Distribution charges for electricity distribution, beginning January 1, 2027. Milton Hydro Distribution has also requested funding for an Incremental Capital Module ICM) for the Palermo Transformer Station Upgrade and Feeder Expansion Project.

VECC's submissions relate to the ICM Project.

ICM: Palermo TS Project

The Palermo Transformer Station Upgrade and Feeder Expansion Project (Palermo TS Project) has a total project cost of $13,198,024 consisting of:

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

Table 1: Total Project Cost

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**

The incremental revenue requirement associated with the ICM funding request of $13,198,024 is $965,769.[1]

ICM Criteria

An ICM is a mechanism for a distributor to collect additional revenue from customers to fund capital expenditures in the years between cost of service applications. In order to qualify for ICM funding, a distributor must satisfy the OEB's eligibility criteria of materiality, need and prudence as follows:[2]

Materiality	A capital budget will be deemed to be material, and as such reflect eligible projects, if it exceeds the OEB-defined materiality threshold. Any incremental capital amounts approved for recovery must fit within the total eligible incremental capital amount (as defined in this ACM Report) and must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing. 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.
Need	The distributor must pass the Means Test (as defined in the ACM Report). Amounts must be based on discrete projects and should be directly related to the claimed driver. The amounts must be clearly outside of the base upon which the rates were derived.
Prudence	The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

[1] Manager's Summary p.29
[2] OEB Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014 p.17

Need & Prudence

The project involves Hydro One's replacement of the existing end-of-life transformers at Palermo Transformer Station with upgraded 75/100/125 MVA units previously identified in Regional Infrastructure Plans, thereby increasing the total capacity by 70 MW. The need for additional capacity was identified through the IESO-led GTA West regional planning process.[3]

Milton Hydro will secure 35 MW of the new 70 MW of capacity created by the Palermo TS upgrade, and will update its existing 2013 collaborative capacity-sharing arrangement with Oakville Hydro to provide Milton Hydro with permanent access to 40 MW of existing capacity at Glenorchy Municipal Transformer Station. Oakville Hydro will obtain the other 35 MW of capacity created by the Palermo TS upgrade. The Palermo TS upgrade and the revised capacity-sharing arrangement with Oakville Hydro will provide Milton Hydro with permanent access to approximately 75MW of capacity. Milton Hydro indicates the project is required to accommodate future load growth, meet customer connection obligations, and defer the need for a future transformer station.[4]

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.[5]

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 at Appendix D. The Palermo Project represents a discrete and material capital investment that is not reflected in current rates.

VECC reviewed the analysis of alternatives and agrees the Palermo TS Project represents the most cost-effective, lowest-risk, and most prudent solution available to address Milton Hydro's near- and medium-term capacity requirements.[6]

VECC submits the Palermo TS Project meets the OEB's need and prudence criteria.

Need - 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

[3] Appendix D, page 9; Appendix M

[4] Appendix D pp.5-7
[5] Staff-6
[6] Appendix D pp.23-25

incremental capital project would not be allowed.

Milton Hydro's 2025 actual ROE was 9.34%, which is within 300 basis points of the 8.66% deemed ROE approved in its 2023 cost of service application. VECC agrees Milton Hydro meets the Means Test.

Materiality

The ICM materiality threshold formula serves to define the level of capital expenditures that a distributor should be able to manage within current rates.

As shown in Table 2 below, Milton Hydro calculates the maximum eligible incremental capital amount as $15,214,766. The calculation subtracts the ICM materiality threshold of $11,708,420 for 2027, from the 2027 forecast capital of $26,923,187. With its current capital forecast in 2027, Milton Hydro is eligible to seek recovery of 100% of the Palermo TS costs.

Table 2: Maximum Eligible Incremental Capital

Eligible Incremental Capital		Capital Expenditures
2027 Forecasted CAPEX	$	26,923,187
Less: Materiality Threshold	$	11,708,420
Maximum Eligible Incremental Capital	**$**	**15,214,766**
Maximum Allowed Eligible Incremental Capital	**$**	**13,198,024**

VECC has concerns regarding Milton Hydro's 2027 capital forecast used in the calculation in that it substantially exceeds the 2027 forecast in the 5-year DSP (2023-2027), as well as historical spending, excluding the Palermo TS project.

VECC is not persuaded from the evidence that the level of current planned capital spend, excluding the Palermo TS Project in 2027, is critical to be undertaken in 2027. In VECC's view, some of the capital work could be reasonably deferred in the near-term to 2028 and beyond as part of the next rebasing application, in order to accommodate this significant ICM spend in 2027. Certain project deferrals would be the prudent route for the utility to take, and in the best interest of customers from a pacing and affordability perspective. In light of this significant project that Milton Hydro has chosen and prioritized to undertake, in order to align with the timing of Hydro One's upgrade to the Palermo TS, Milton Hydro should have curtailed spending on projects of lesser priority and significance in 2027.

In the DSP, Milton Hydro's 2027 forecast net capital spend was $9.24 million. As shown in Table

3 below, the current 2027 capital forecast is $16.56 million. This represents an increase of $7.32 million or close to 80% over the DSP, excluding the $10.36 million related to the Palermo TS in 2027.

Table 3: Comparison of 2027 Capital: Forecast vs DSP

Capital Category	2027 Forecast	2027 DSP
System Access	14,950,981	$5,510,945
System Renewal	$4,784,118	$2,686,780
System Service	12,385,774	$1,829,412
General Plant	1,255,292	$1,756,500
Total Gross Capital	$33,376,165	$11,783,637
Capital Contributions	-6,452,978	-$2,541,914
Total Net Capital	$26,923,187	$9,241,723
Palermo TS Project	10,362,156	
Total Net Capital (excluding Palermo TS	16,561,031	

Had Milton Hydro maintained its 2027 capital forecast in the DSP, the maximum eligible incremental capital amount would be $7,895,459 (see Table 4).[7]

Table 4: Recalculated Maximum Eligible Incremental Capital

2027 Forecasted Capex	$19,603,879
Less: Materiality Threshold	$11,708,420
Maximum Eligible Incremental Capital	$7,895, 459
Maximum Allowed Eligible Incremental Capital	**$7,895,459**

In the years 2025 and 2026, Milton Hydro's actual/forecast capital spending is 23% and 31% more than the DSP, respectively. However, the forecast in 2027 is 80% higher than the DSP which dwarfs the overspending in these other years.[8] Milton Hydro's proposed capital plan for 2027 is extremely excessive compared to the DSP and significantly more than 2025 actuals (65% more) and the 2026 forecast (37% more), and serves to increase the amount of allowed eligible incremental capital in the formula. There is an inherent incentive in the ICM formula to inflate 2027 capital amounts.

[7] $9,241,723 (2027 DSP forecast) + $10, 362,156 (Palermo TS 2027 cost) = $19,603, 879.
[8] Appendix A

Milton Hydro indicates 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.[9] Milton Hydro assigned a high priority to the Palermo Project and included it in its 2026 and 2027 capital expenditure forecasts.[10] In doing so, it seems to VECC that in order to accommodate this new priority, other projects of less urgency could be reprioritized as part of the asset management process.

VECC submits the OEB should not accept Milton Hydro's capital forecast for 2027; the increased amount relative to the DSP and 2025 and 2026 is not reasonable. It is too high, does not reflect certain projects that could be deferred and an amount in line with historical spending in 2025 and 2026 should be used in the ICM calculation, thereby reducing the Maximum Allowed Eligible Incremental Capital by approximately 30%.

Examples of capital work in 2027 that could potentially be deferred to 2028 and beyond includes automation, asset replacements, proactive meter replacement, and municipal road widening and relocation projects which have been delayed in previous years should be further examined.[11]

Summary

VECC does not object to the OEB approving ICM funding for the Palermo TS Project. However, VECC does not agree the full amount of the project should receive funding. VECC does not accept that the 2027 capital forecast is reasonable (excluding the ICM project) when compared to the 2027 capital forecast in the DSP and spending levels in 2025 and 2026. In VECC's view, the 2027 capital forecast used in the ICM formula is too high, and certain 2027 projects could reasonably be deferred to 2028 and beyond to accommodate the significant priority investment ($10.362 million) required in 2027 for the Palermo TS project.

[9] Staff-11d
[10] Staff-11
[11] VECC-7c

Appendix A
2025-2027 Capital: Actual/Forecast Compared to DSP

		2025	2026	2027	2027 vs 2025	2027 vs 2026
	Actual/Forecast	**Actual**	**Forecast**	**Forecast**		
	(Manager Summary p.25)					
1	System Access	$7,030,675	$10,265,187	14,950,981		
2	System Renewal	$3,422,144	$3,077,541	$4,784,118		
3	System Service	$2,231,014	$2,790,123	12,385,774		
4	General Plant	$3,503,636	$2,089,609	1,255,292		
5	Total Gross Capital	$16,187,469	$18,222,460	$33,376,165		
6	Capital Contributions	-$4,691,172	-$5,145,881	-6,452,978		
7	Total Net Capital	$11,496,297	$13,076,579	$26,923,187		
8	Upgrate Palermo TS	$1,468,494	$988,166	10,362,156		
9	Net Capital Less TS	$10,027,803	$12,088,413	$16,561,031	65%	37%
		2025	**2026**	**2027**		
	DSP	**DSP**	**DSP**	**DSP**		
	(VECC-6)					
10	System Access	$4,341,789	$6,576,025	$5,510,945		
11	System Renewal	$2,574,647	$2,630,200	$2,686,780		
12	System Service	$1,784,083	$1,806,523	$1,829,412		
13	General Plant	$1,594,500	$1,075,900	$1,756,500		
14	Total Gross Capital	$10,295,019	$12,088,648	$11,783,637		
15	Capital Contributions	-$2,137,071	-$2,876,844	-$2,541,914		
16	Total Net Capital	$8,157,948	$9,211,804	$9,241,723		
		2025	**2026**	**2027**		
	Variance	**Variance**	**Variance**	**Variance**		
17	System Access	$2,688,886	$3,689,162	$9,440,036		
18	System Renewal	$847,497	$447,341	$2,097,338		
19	System Service	$446,931	$983,600	$10,556,362		
20	General Plant	$1,909,136	$1,013,709	-$501,208		
21	Total Gross Capital	$5,892,450	$6,133,812	$21,592,528		
22	Capital Contributions	-$2,554,101	-$2,269,037	-$3,911,064		
23	Total Net Capital	$3,338,349	$3,864,775	$17,681,464		
24	Upgrate Palermo TS	$1,468,494	$988,166	10,362,156		
25	Net Caoital Less TS	$1,869,855	$2,876,609	$7,319,308		
26		23%	31%	79%		