Consumers Council of Canada (CCC) INTERROGATORY #001

Reference:

Ex. A/T3/S1/p. 3

Interrogatory:

The evidence states that Hydro One (HON) is in the process of devising new approaches relating to serving its customers, forming its investment plans, and operating and maintain its assets, while maintaining a strong commitment to safety and the environment. Please elaborate on the nature of these new initiatives. Please identify where the costs and savings related to these initiatives are included in the forecasts for 2017 and 2018.

Response:

Reference is made to the Chapter 2 filing requirements issued by the Board on February 11, 2016, which states:

> Transmitters continue to have the option, for their first application after these filing requirements are issued, to apply to have their revenue requirement set for one or two years through a cost of service application for those applicants where significant adjustments to business processes and planning activities would be required prior to embarking on a new five year rate plan.

Hydro One has been making significant changes to integrate the principles of the OEB's *Renewed Regulatory Framework for Electricity Distributors* ("RRFE") into its business and planning process. The most notable changes are detailed below.

1. Customer Engagement

For the investment plan reflected in the current application, Hydro One made its first concentrated effort to engage its transmission customers in a discussion that was intended to inform its planning process, as described in Exhibit B1, Tab 2, Schedule 2. The feedback Hydro One obtained helped shape its understanding of its customers' needs and preferences which, in turn, shaped the investment plan that forms the basis of the current application. Hydro One intends to continue engaging with its customers in the future to receive their input in the development of future investment plans.

2. Productivity and Key Performance Indicators

Hydro One is developing a more comprehensive performance management culture, which is reflected by the performance scorecard and metrics described in Exhibit B2, Tab 1, Schedule 1. The internal key performance indicators described in that Exhibit are designed to promote increased efficiency and deliver value to customers. Hydro One has also benchmarked its total cost performance relative to similar companies and will continue to do so.

Hydro One has demonstrated its commitment to reducing costs in the current application through its declining OM&A costs. In addition, specific examples of reduced OM&A and capital expenses have been provided. Programs such as the “Integrated Capital Investments” (described in Exhibit B1, Tab 3, Schedule 2, page 6) has resulted in reduced capital expenditures, operating and maintenance expense and planned outages. Also, productivity savings in supply chain management are reflected in the application and described further in Exhibit I, Tab 13, Schedule 9. Hydro One continues to seek opportunities to improve its efficiencies to the benefit of ratepayers.

3. Asset Needs Assessment - Reliability Risk Model

In an effort to continuously improve its ability to deliver on system reliability objectives, Hydro One has modified its asset management approach to include reliability risk as a leading indicator of future transmission system performance. The reliability risk model and its use are described in Exhibit B1, Tab 2, Schedule 4.

Consumers Council of Canada (CCC) INTERROGATORY #002

Reference:

Ex. A/T3/S1/p. 5

Interrogatory:

The evidence states that based on HON's assessment of its transmission system, a significant portion of its assets have deteriorated to the point where they pose a risk to its business objectives of maintaining current levels of reliability and improving customer satisfaction. Please explain how HON allowed for "a significant portion of its assets" to have deteriorated to the point where they pose such risks. Why should ratepayers now be responsible for the increased capital expenditures required to mitigate these risks?

Response:

Refer to SEC 17 (I-06-17) discussing changes in Hydro One's asset management approach since last application, which addresses part of this IR.

Hydro One has utilized these assets as fully as possible, without prematurely replacing them. Eventually assets deteriorate to the point that they need to be replaced and Hydro One is now informing the Board that these assets have now reached that point. Utilizing the assets as fully as possible has not created additional burden on rate payers, rather it has allowed for smaller rate increases in the past compared to what would have been required if these assets had been replaced earlier. Avoiding premature asset replacement has been to the benefit of the rate payer, not a detriment.

Consumers Council of Canada (CCC) INTERROGATORY #003

Reference:

Ex. A/T3/S1/pp. 5-6

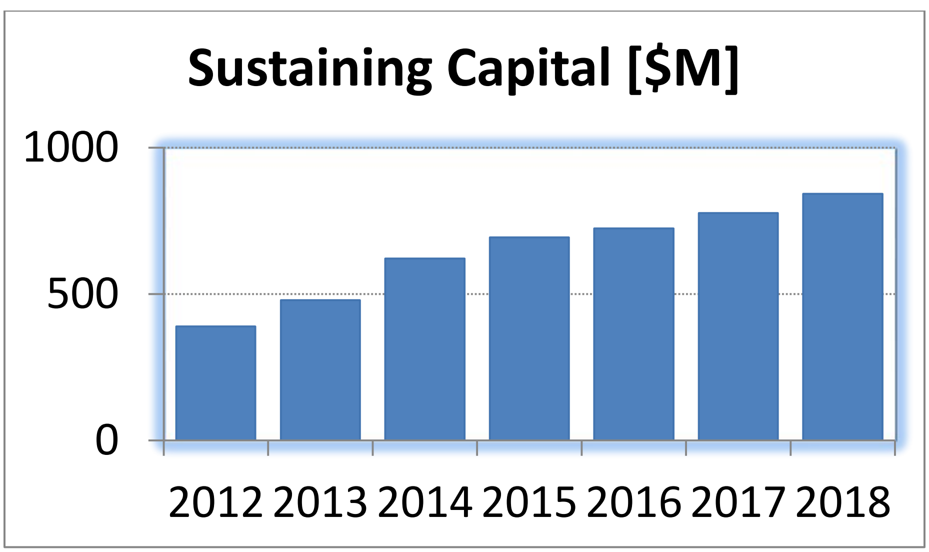
Interrogatory:

The evidence states that between 2009 and 2012 HON invested heavily in system development in order to comply with government policies related to the connection and integration of renewable energy generation and the retirement of coal-fired generation. As a result system renewal needs have increased to the point of creating risk to current reliability levels. Why did HON not focus on system renewal during the 2013-2016 period?

Response:

Please refer to Exhibit I, Tab 6, Schedule 17, which discusses changes in Hydro One's asset management approach since the last application, which addresses part of this IR.

Hydro One has focused on renewing its system in 2013-2016, which is evident by the increasing sustaining capital expenditures in these years, as shown in the table below. As noted throughout the application more assets in Hydro One's transmission system are reaching end of life where significant deterioration has set in and higher levels of sustaining capital are required to ensure safe and reliable operation of the transmission system.



Consumers Council of Canada (CCC) INTERROGATORY #004

Reference:

Ex. A/T3/S1/p. 13/Table 5

Interrogatory:

Please recast Table 5 to include the forecast capital budget amounts for the years 2012-2016.

Response:

Please refer to Exhibit I, Tab 3, Schedule 46 for years 2012-2015. Please see the table below for the year 2016.

Description	**2016 Bridge**	**2016 Approved**
Sustaining	724.3	548.6
Development	166.0	211.8
Operations	30.1	37.4
Common Corporate Costs Capital	83.5	68.5
Total	**1003.8**	**866.3**

Consumers Council of Canada (CCC) INTERROGATORY #005

Reference:

Ex. A/T5/S2

Interrogatory:

Please provide all materials presented to the HON Board of Directors related to this Application.

Response:

Please see the confidential response to Exhibit I, Tab 6, Schedule 1.

Witness: Michael Vels

Consumers Council of Canada (CCC) INTERROGATORY #006

Reference:
Ex. A/T8/p. 3

Interrogatory:
In the 2015 Annual Report the President and CEO refers to the fact that HON has undertaken a strategic planning process to define its future. Please provide the most recent HON Strategic Plan.

Response:
Hydro One's strategic planning process is not yet complete. As such, a new strategic plan is not yet in place.

Consumers Council of Canada (CCC) INTERROGATORY #007

Reference:

Ex. A/T8/S1/S1/p. 29

Interrogatory:

Please provide an update on the Class Action Lawsuit regarding HON billing issues. Could the outcome of this lawsuit impact transmission rates in any way? If so, please explain how.

Response:

Please see Exhibit I, Tab 9, Schedule 3. The outcome of this lawsuit will have no impact on the 2017 and 2018 budgets in Hydro One's current application.

Consumers Council of Canada (CCC) INTERROGATORY #008

Reference:
Ex. B2/T1/S1/p. 1

Interrogatory:
Provide all key performance indicators for the years 2012-2016. Please provide a complete list of metrics currently tracked and those that will be tracked going forward for 2017 and 2018. Please explain why HON is not proposing targets for its proposed metrics.

Response:
All key performance indicators are provided in Exhibit B2, Tab 1, Schedule 1, Table 2. Please also see response to Exhibit I, Tab 1, Schedule 92, part b).

Consumers Council of Canada (CCC) INTERROGATORY #009

Reference:

Ex. B2/T1/S1

Interrogatory:

Please indicate whether HON has explicitly built in productivity into is 2017 and 2018 budgets. If not, please explain why not. Please explain why HON is not proposing a price cap approach to determining rates for 2018.

Response:

Hydro One Networks has explicitly built productivity into the 2017 and 2018 budgets. For example, Supply Chain will launch a series of sourcing initiatives using a competitive bid process over the next two years that is intended to drive increased competition between suppliers and result in reduced costs in specific purchase categories.

Below illustrates the budgeted saving estimates for four purchase categories, in millions of dollars:

Category	**2017**	**2018**
Equipment Rentals	$1.31	$3.31
General Hardware	$1.80	$1.80
Construction Services	$1.68	$1.68
Construction Materials	$1.22	$2.35
Total	**$6.01**	**$9.14**

These budgeted savings translate into the following impacts to transmission work programs.

	2017	**2018**
Capital	$5.28	$8.25
OM&A	$0.73	$0.89
Total	**$6.01**	**$9.14**

The OEB provided in its Filing Requirements for Electricity Transmission Applications dated February 11, 2016, that it will not immediately require all existing electricity transmitters to apply under Custom IR or a Revenue Cap index methodology for their first application after the issuance of the Filing Requirements, on the basis that applicants may need to make significant adjustments to business processes and planning activities prior to embarking on a new five year rate plan. As such Hydro One has applied for a two-year cost of service application that fulfills the February 11, 2016 Filing Requirements. As indicated on page 3 of Exhibit A-3-1 and discussed in the response to CCC #1 (Exhibit I, Tab 13, Schedule 1), Hydro One is in the process of devising new approaches relating to serving its customers, forming its investment plans, and operating and maintaining its assets, while maintaining a strong commitment to safety and the environment, all in anticipation of the requirement to file a 5-year rate plan that is fully compliant with the OEB's RRFE for rates commencing January 1, 2019.

Consumers Council of Canada (CCC) INTERROGATORY #010

Reference:

B2/T1/S1/p. 12

Interrogatory:

The evidence states that as part of recent activities commissioned by the Company's new board and management, a number of initiatives have been identified that are expected to drive greater efficiency and productivity in HON's programs, leading to lower OM&A costs. Please provide all documents related to these initiatives.

Response:

Please refer to response (a) in Exhibit I, Tab 1, Schedule 94.

Consumers Council of Canada (CCC) INTERROGATORY #011

Reference:

Ex. B2/T1/S1/p. 25

Interrogatory:

The evidence states that the company's management team and Board of Directors have an ongoing commitment to invest in system, people and tools to ensure that KPIs and measurements of progress and outcomes are a critical element of how the company manages its transmission business. Please explain how the KPI and metrics relate to compensation plans. What are the implications if metrics do not demonstrate improvements in productivity? What happens if Hon does not demonstrate continuous improvements in its operations.

Response:

For non-represented employees, "at risk" or "incentive" compensation is a core feature of the MCP compensation plan. Short term incentive payments are dependent upon achieving corporate scorecard results and individual performance targets. Each employee has three to four performance goals that are linked to outcomes and consistent with that employee's work responsibilities, and also includes the corporate score card outcomes. Poor corporate results or poor individual performance will have a negative impact on compensation. Improvements in cost metrics will be included in incentive performance goals.

Consumers Council of Canada (CCC) INTERROGATORY #012

Reference:
Ex. B1/T2/S3

Interrogatory:
Please explain in detail how the Regional Planning Process has impacted the 2017 and 2018 capital budgets. Are all of those expenditures subject to a prudence review through this application? If not, please explain why not.

Response:
The projects supported by the Regional Planning Process that impact the 2017 and 2018 capital budgets are provided in the table below. Only the projects that are expected to be in-service in 2017 or 2018 are subject to review in this application. Please refer to Exhibit B1, Tab 3, Schedule 11 Investment Summary Documents for further details on these projects.

Ref #	Project Name	Gross Capital ($M)		I/S Year
		2017	2018	
D06	Galt Junction: Install In-Line Switches on M20D/M21D Circuits	3.6	0.1	2017
D07	York Region: Increase Transmission Capability for B82V/B83V Circuits	22.6	0.2	2017
D08	Hawthorne TS: Autotransformer Upgrades	8.0	5.8	2018
D13	Ear Falls TS to Dryden TS: Upgrade 115kV Circuit E4D*	10.0	5.9	2018
D14	Supply to Essex County Transmission Reinforcement*	33.0	31.4	2018
D15	Horner TS: Build 230/27.6kV Transformer Station*	16.0	13.0	2018
D17	Seaton MTS: Provide 230kV Line Connection*	3.3	3.0	2018
D09	Brant TS: Install 115kV Switching Facilities*	5.0	6.0	2019
D10	Riverdale Junction to Overbrook TS: Reconfiguration of 115kV Circuits*	2.4	4.2	2019
D18	Hanmer TS: Build 230/44kV Transformer Station*	9.5	18.5	2019
D19	Runnymede TS: Build 115/27.6kV Transformer Station and Reconductor 115kV Circuits*	23.0	17.0	2019
D21	Enfield TS: Build 230/44kV Transformer Station*	10.0	15.0	2019
D11	Southwest GTA Transmission Reinforcement	0.9	5.0	2020
D12	Barrie TS: Upgrade Station and Reconductor E3B/E4B Circuits	4.0	20.0	2020
D05	Milton SS: Station Expansion and Connect 230kV Circuits	2.0	5.0	2022

** These projects will be recoverable through incremental revenue from the appropriate rate pool and capital contribution from the customers.*

Note: Project D16 the "Lisgar TS: Transformer Upgrades" was identified in the Greater Ottawa Area regional plan, but as per the letter from Hydro Ottawa dated August 16, 2016 (refer to Exhibit I, Tab 1, Schedule 74) the project has since been cancelled.

Consumers Council of Canada (CCC) INTERROGATORY #013

Reference:

Ex. C1/T2/S1/p. 2

Interrogatory:

Please recast Table 1 – Summary of Transmission OM&A Expenditures to include forecast amounts for the years 2012-2016. Please explain the methodology used to develop the OM&A budgets for 2017 and 2018. Is this methodology consistent with how the budgets have been developed in the past? If not, please explain what has changed. Please provide copies of all documents, directives etc. that were provided to employees as a part of the 2017 and 2018 budgeting process.

Response:

Please see Exhibit I, Tab 13, Schedule 25 for the requested forecast amounts. The methodology to develop the OMA budgets for 2017 and 2018 is detailed in Exhibit B1, Tab 2, Schedule 7. This methodology is consistent with how budgets have been developed in the past.

Please see Exhibit I, Tab 6, Schedule 2 for the requested budget guidance materials.

Consumers Council of Canada (CCC) INTERROGATORY #014

Reference:

Ex. C1/T2/S3/p. 1

Interrogatory:

Please provide a complete list of the Research Development and Demonstration projects and the budgets associated with these projects. What process does HON undertake to determine which projects to undertake?

Response:

A list of the Research, Development, and Demonstration project categories and the forecast expenditures in the test years are provided in the table below.

	OM&A Forecast ($K)	
	2017	**2018**
Operational Investment Areas		
Power System Equipment	600	600
Knowledge Transfer / Tools	300	300
Asset Management	400	400
Power Quality	200	200
Health & Safety	300	300
Field Demonstration	260	300
Strategic Investment Areas		
Disruptive Technologies	40	100

Research, Development and Demonstration needs and associated potential projects are identified by groups across Hydro One. The proposed projects are reviewed to assess the potential benefits which may accrue in such areas as improved system performance and productivity, as well as providing benefits to customers. Projects are prioritized based on how the project supports or contributes to Hydro One's corporate strategic objectives.

Consumers Council of Canada (CCC) INTERROGATORY #015

Reference:

Ex. C1/T3/S2/p. 1

Interrogatory:

On March 1, 2015, HON entered into a new services arrangement with Inergi that has a 58-month term. Why was a 58-month term chosen? What is the annual cost of the contract for 2015-2018? How does this compare to the cost of the same services in 2012-2014?

Response:

a) Hydro One chose the 58-month term given that market trends have shifted towards shorter outsourcing contract terms, as well as on the advice of its external advisor on the outsourcing agreement re-tendering project. A 58-month term was also chosen because of Hydro One's preference to transition to a calendar contract year-end.

b) Please refer to Table 1 in Appendix B of Exhibit C1, Tab 3, Schedule 2 for the annual summary of contract fees and the subtotal for base services for 2013-2018. The 2012 subtotal for Base Services was $148,059,871.

Consumers Council of Canada (CCC) INTERROGATORY #016

Reference:

Ex. C1/T3/S2/p. 5

Interrogatory:

On January 1, 2015, HON entered into a new services agreement with Brookfield Global Integrated Solutions. Why was a 10-year term selected? What is the annual cost of the contract 2015-2018? How does this compare to the cost of the same services in 2012-2014?

Response:

The 10-year term was selected to provide for stable, defined market level services by leveraging industry best practices. The agreement offers significant potential to increase work accomplishments and internal customer satisfaction as a result of this work being BGIS's core business. Based on Hydro One's experience and market feedback received during the RFPQ/RFP process, a 10-year contractual period plus options for extensions was deemed most appropriate.

The annual contract costs are as follows:

- 2015 – $24.6 million (actual)
- 2016 – $29.3 million
- 2017– $28.8 million
- 2018– $28.4 million

The projected net savings as result of the contract are estimated to be at approximately 14.9% to Hydro One's base cost after net present value adjustment. Through the agreement, Hydro One expects to realize costs savings in excess of $80 million over the 10-year term of the agreement, as compared against Hydro One's historical OM&A spend.

Consumers Council of Canada (CCC) INTERROGATORY #017

Reference:
Ex. C1/T3/S2/p. 3

Interrogatory:
Overall Corporate Management Costs have more than doubled from 2015 to 2016. They are more than doubling from 2016 to 2017. The evidence indicates these costs are increasing because of changes in compensation. Please provide a detailed break-out of these costs each year for the period 2015-2018. Please provide a detailed explanation for these increases.

Response:
Please refer to Exhibit I, Tab 4, Schedule 12 for the requested break-out of CCF&S costs and the requested explanation.

Consumers Council of Canada (CCC) INTERROGATORY #018

Reference:

Ex. C1/T3/S3/p. 3

Interrogatory:

For each year 2012-2018 please provide the actual and forecast Corporate Management Costs specifically related to the Board of Directors.

Response:

The table below summarizes the total compensation (in $ millions) for the Board of Directors, including the Chair of the Board.

	2012		2013		2014		2015		2016	2017	2018
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Plan	Plan	Plan
Board of Directors	1.7	1.5	1.7	1.5	1.6	1.9	3.7	1.9	4.2	3.4	3.4
Hydro One Chair	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	1.7	1.8

Witness: Glenn Scott

Consumers Council of Canada (CCC) INTERROGATORY #019

Reference:

Ex. C1/T3/S3/p. 12

Interrogatory:

Please provide a detailed budget for the Corporate Relations Function for 2017 and 2018. Please explain why ratepayers should be responsible to fund initiatives related to "corporate brand identity".

Response:

The budget for Corporate Relations is split, approximately, equally between direct labour costs and non-labour costs. The non-labour costs are mostly earmarked for consultants to assist with initiatives where Hydro One does not have the required expertise within the staff group. Rather than hire to fulfill these needs, consultants can cost effectively perform the services as required. Corporate brand identity is important to Hydro One's relationship with its customers. A strong corporate brand identity promotes clarity and certainty for customers about who can help them when they have service or other related issues.

Consumers Council of Canada (CCC) INTERROGATORY #020

Reference:

Ex. C1/T3/S3/p. 21

Interrogatory:

Please explain why Real Estate and Facilities Costs increased significantly from $53.6 million in 2014 to $60 million in 2015.

Response:

The change in costs from 2014 to 2015 is explained by, approximately:

(a) $3 million in higher costs attributable to an increased volume of projects and maintenance in the field spread over 150 sites;

(b) $2 million representing a combination of contract costs to Brookfield and the transitional cost of retaining impacted Hydro One staff, pending retirements and job transfers; and

(c) $1 million increase in fixed operating costs (i.e. cost of space including utilities).

Consumers Council of Canada (CCC) INTERROGATORY #021

Reference:

Ex. C1/T4/S1/p. 16

Interrogatory:

Please provide all documentation related to the Willis Towers Watson and Hugessen Consulting engagements. Were these contracts the subject of an RFP process? If not, why not?

Response:

See Exhibit I, Tab 06, Schedule 57, Attachments #2 and #3 for the Willis Towers Watson reports and Attachment #1 for the Hugessen report.

Hugessen Consulting was awarded a contract following a RFP process in 2008. No formal RFP was issued for the Willis Towers Watson study although Hydro One did speak with two other leading consulting firms and Willis Tower Watson was subsequently engaged to complete these benchmarking studies.

Consumers Council of Canada (CCC) INTERROGATORY #022

Reference:

Ex. C1/T4/S1/p. 17

Interrogatory:

Please provide all documentation related to the Short Term Incentive Plan and Long Term Incentive Plans.

Response:

See Attachment #1 for documentation on the Short Term Incentive Plan.
See Attachment #2 for documentation on the Long Term Incentive Plan.

. . . STIP

How we recognize and reward your in-year efforts

Team Performance (weighted) + Individual Performance (weighted) × Eligible STIP (% of salary) × Salary = STIP Payout

- Team Performance
- Individual Performance
- STIP Eligibility
- Salary
- STIP Payout

. . . STIP

Team and Individual components plus STIP % eligibility by Band

Band	Team Performance (weighted)	Individual Performance (weighted)	Eligible STIP (% of salary)
B3	80%	20%	40%
B4	80%	20%	30%
B5	70%	30%	20%
B6	70%	30%	15%
B7	70%	30%	10%
B8-9	50%	50%	7%
B10	50%	50%	5%

Eligible % has been adjusted

. . . STIP: Team Performance

Team Performance (weighted)

2016 Team Scorecard					
	Weight	Threshold	Target	Maximum	Description
Net Income	**40%**	X	Y	Z	$M
Customer Sat.	**25%**	X	Y	Z	% Customer Satisfaction
Work Program	**25%**	X	Y	Z	% Work Program Compete
Safety	**10%**	1.7	1.6	1.5	Recordable Rate per 200,000 Hrs.

Threshold – minimum level of performance to receive STIP (50%)
Target – expected level of performance (100%)
Maximum – substantially exceeding expectations (200%)

. . . STIP: Team - Example

Team Performance (weighted)

2016 Team Scorecard						
	Weight	Threshold	Target	Maximum	Multiplier*	
Net Income	**40%**				X 2.0	**80**
Customer Sat.	**25%**				X 1.0	**25**
Work Program	**25%**				X 0.5	**12.5**
Safety	**10%**				X 2.0	**20**
STIP (Team Performance)				**=**		**137.5**

Threshold – 50% / Target – 100% / Maximum – 200%

*Multiplier

Performance can fall between levels and provide a payout based on a **straight line calculation** (eg. Mid point between Target and Maximum provides a 150% payout)

. . . STIP: Individual- Example

Individual Performance (weighted)

Individual 2016 Scorecard						
	Weight	Threshold (Satisfactory*)	Target (Meets Expectations*)	Maximum (Substantially Exceeds Expectations*)	Multiplier	Score
Goal # 1	**25%**				X 1.0	**25**
Goal # 2	**25%**				X 0.5	**12.5**
Goal # 3	**25%**				X 2.0	**50**
Goal # 4	**25%**				X 1.0	**25**
	100%					**112.5**

**Individual Performance falls in three distinct levels:*
– Satisfactory, Meets Expectations or Substantially Exceeds Expectations
– Does not provide a straight line calculation. A distinct level must be selected.
– Needs Improvement or Unsatisfactory have no payout value

. . .STIP: Manager’s Discretion

Individual Performance (weighted)

Individual 2016 Scorecard						
	Weight	Threshold (Satisfactory)	Target (Meets Expectations)	Maximum (Substantially Exceeds Expectations)	Multiplier	Score
Goals Result	**100%**					**112.5**
Reduction in score to add Manager’s Discretion					X 0.8	**90**
Manager’s Discretion	20%	50	100	200	X 1.0	**20**
STIP (Individual Performance)					**=**	**110**

Total Score is reduced to 80% to allow for the addition of Manager’s Discretion regarding how the employee achieved the results.

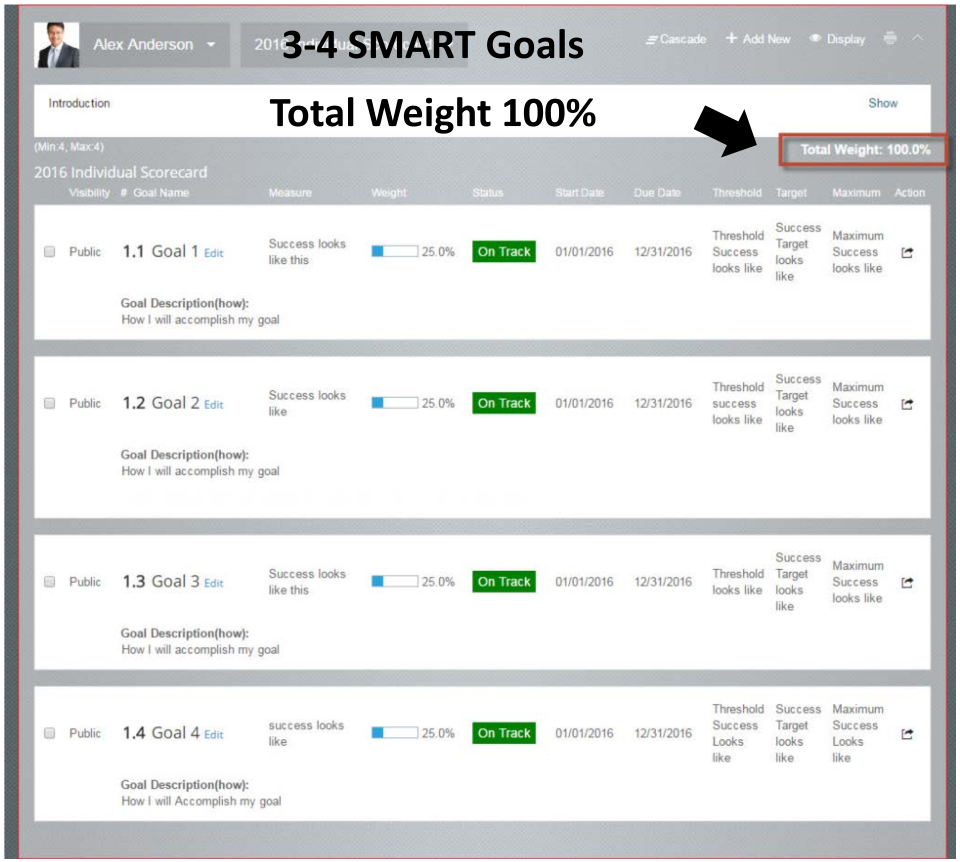
. . . Manager's Discretion

Individual Performance (weighted)

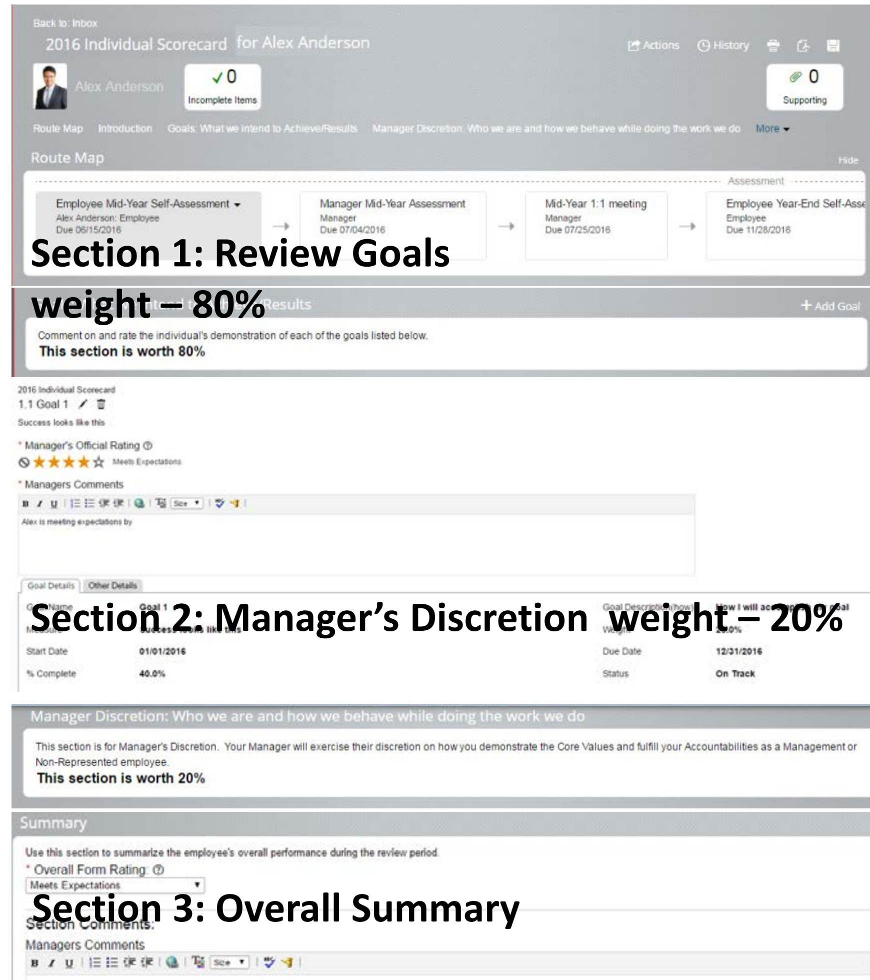
Manager's Discretion						
Criteria	**Definition**	**Below Threshold**		**Threshold**	**Target**	**Maximum**
Balance the What and the How	Balances the "What" and the "How" of work execution in accordance with our Core Values. • Safety • Customer • One Company • People • Business Excellence	**1 - Unsatisfactory**	**2 – Needs Development/ Improvement**	**3 – Satisfactory**	**4 – Meets Expectations**	**5 – Sustainably Exceeds Expectations**
Effectiveness in Role	**People Manager:** Fulfills the core accountabilities associated with managing people at Hydro One including: • Selecting the right person for the job • Setting context • Assigning work • Coaching and mentoring • Managing performance • Providing recognition • Developing staff • Planning for succession **Individual Contributor:** • Does the right thing, the right way, every time, even when nobody's looking. • Works within Policy					
Impact on Team	**People Manager:** • Brings out the best in people to achieve the company's goals. **Individual Contributor:** • Brings their full commitment on work assigned by their Manager • Provides best advice to Manager					
	Total of Individual =	**20%**				

. . . Talent Management Tool

Goals Module



Performance Module



. . . STIP: Individual Performance

Payout Example – Using a Band 7 Employee

Team Performance (weighted) + Individual Performance (weighted) × Eligible STIP (% of salary) × Salary = STIP Payout

70%
<u>137.5</u>
96.25

+

30%
<u>110</u>
33

(96.25+33)
129.25

. . . STIP: Individual Performance

Payout Example – Using a Band 7 Employee

Team Performance (weighted) + Individual Performance (weighted) × Eligible STIP (% of salary) × Salary = STIP Payout

70%
<u>137.5</u>
96.25

+

30%
<u>110</u>
33

(96.25+33)
129.25

×

<u>(STIP%)</u>
10%

(129.5 X10%)
13%

. . . STIP: Individual Performance

Payout Example – Using a Band 7 Employee

Team Performance (weighted) + Individual Performance (weighted) × Eligible STIP (% of salary) × Salary = STIP Payout

70%
137.5
96.25

+

30%
110
33

(96.25+33)
129.25

×

(STIP%)
10%

(129.5 X10%)
13%

×

Salary
110,000

(129.5X10%)
129.25

=

Payout
14,300

. . . STIP: Individual Performance

What does Maximum look like?

Team Performance (weighted) + Individual Performance (weighted) × Eligible STIP (% of salary) × Salary = STIP Payout

70%
$\underline{200}$
140

+

30%
$\underline{200}$
60

(140+60)
200

×

$\underline{\text{(STIP\%)}}$
10%

200 X10%)
20%

×

$\underline{\text{Salary}}$
110,000

=

$\underline{\text{Payout}}$
22,000

HYDRO ONE 2016 LONG-TERM INCENTIVE PLAN (LTIP)

DRIVING LONG-TERM PERFORMANCE

Welcome to the Hydro One 2016 Long-Term Incentive Plan (LTIP). LTIP provides a long-term reward opportunity that focuses our collective efforts on achieving our vision and long-term strategic objectives.

By recognizing successful performance with grants that transfer into company shares, the LTIP is designed to drive long-term value creation and a culture of ownership and accountability that aligns with our ratepayer and shareholder interests.

WHAT'S INSIDE:

OVERVIEW OF LTIP

Those participating in Hydro One's 2016 LTIP will be issued a grant comprised of either:

a) 50% Restricted Share Units and 50% Performance Share Units or
b) 100% Restricted Share Units.

Restricted Share Units (RSUs) are units that convert into Hydro One shares after they vest (i.e., you obtain non-forfeitable rights to the shares) at the end of a three year period. In the same way that Hydro One common shares receive dividend payouts each year, these units also accrue dividend equivalents over the three year period that are converted into additional RSU units. So, at the end of the three year vesting period, you will receive your award plus share values equal to the accumulated dividends.

Performance Share Units (PSUs) are units that are similar to RSUs, but vest according to achievement of corporate performance goals. The number of PSUs that vest can range from 0% to 200% of the grant, depending on the actual performance as compared to corporate performance goals. These units also accrue dividend equivalents over the three year period.

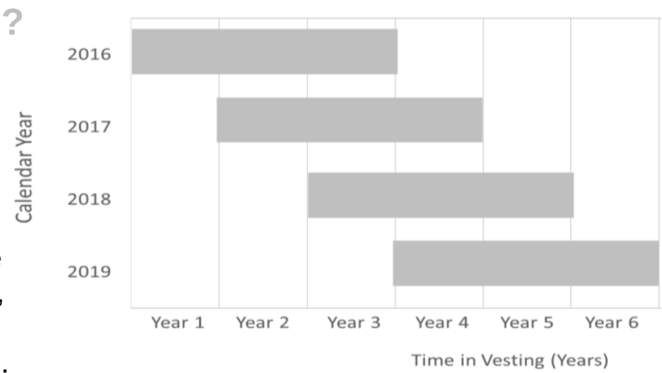
The aim of the Long-Term Incentive Plan is to:

- Reward long-term value creation and foster alignment with shareholder and ratepayer interests;
- Support the achievement of objectives that lead to long-term value creation;
- Encourage teamwork and collaboration across groups and geographies; and,

Attract and retain top talent by aligning high performance with payout opportunities.

HOW OFTEN ARE GRANTS MADE?

LTIP grants are generally made early in each year with the vesting cycle based on a January 1st effective date. The result may be overlapping vesting periods, multiple outstanding grants and annual payouts. For example, in the chart to the right, you'll see how a series of grants might accrue over the first four grant periods. From 2018 onward, grant cycles overlap such that there will be three grants in process, each at various stages of vesting.



WHY AWARD RSUs and PSUs?

As a leader at Hydro One, your hard work and results impact share price performance and the longer-term success of the business. RSUs and PSUs are an important element of our compensation strategy, aligning your rewards with the long-term interest of our shareholders and ratepayers.

The corporate performance goals used in the calculation of awards provide a balanced approach to the complex drivers of long-term shareholder value, including profitability, efficient use of capital, earnings growth and the ability to support dividends. Linking your awards to these measures creates a direct link between your continued contributions as a member of our leadership team, the company's results, and your individual rewards.

HOW IS MY GRANT DETERMINED?

LTIP grants are determined each year by the board of directors, at their discretion. Grants reflect relative contributions of our leaders, and are not guaranteed from year to year as equity participation grants will be made to those who make a significant contribution and will participate in the increasing value of the Company.

The size of the grant is intended to be market competitive and to deliver on our commitment to pay for performance. We regularly review the competitive practice within our approved peer groups of other utility and related companies, and provide individual grants that reflect each individual's performance and potential to drive Hydro One's success.

RESTRICTED SHARE UNITS

WHAT IS A RESTRICTED SHARE UNIT?

Restricted Share Units (RSUs) are units that convert into Hydro One shares after they vest (i.e., you obtain non-forfeitable rights to the shares) at the end of a three year period. In the same way that Hydro One common shares receive dividend payouts each year[1], these units also accrue dividend equivalents over the three year period that, in turn, provide additional RSU units. So, at the end of the three year vesting period, you will receive your award plus share values equal to the accumulated dividends.

THE RSU CYCLE

Year of Grant	3 Years After Grant	
AWARD GRANT	**AWARD VESTING**	**OWNERSHIP**
• Early in the fiscal year, you are granted a number of RSUs • Vesting is counted from January 1st • RSUs are credited with dividend equivalents as of each dividend payment date for the underlying mirrored Hydro One Limited common shares	• All RSUs granted to you in 2016 or credited through dividend equivalents vest on December 31st, 2018	• The vested units are converted to Hydro One Limited common shares and ownership is transferred to the employee early in the next year following vesting

[1] The amount and timing of any dividends payable by Hydro One Limited will be at the discretion of the board of directors.

DIVIDEND EQUIVALENTS

RSUs and PSUs are credited with the same amount as a dividend on an outstanding common share.

An Illustrative Example

You receive a grant of 750 RSUs (representing 750 common shares of Hydro One Limited). For purposes of this illustration, assume the share price is constant at $20.50 (IPO share price) and the quarterly dividend paid on common shares is constant at $0.21 per share.

Growth via Dividend Reinvestment							
Year	**Quarter**	**Starting RSUs**	**Share Price**	**Dividends Paid**	**Dividend Equivalents**		**Ending RSUs**
		[A]	[B]	[C]	[D]	[E]	[A] + [E]
					= [C] x [A]	= [D] / [B]	
Year 1	1	750.000	$20.50	$0	$0	-	750.000
	2	750.000	$20.50	$0.21	$157.50	7.683	757.683
	3	757.683	$20.50	$0.21	$159.11	7.762	765.445
	4	765.445	$20.50	$0.21	$160.74	7.841	773.286
Year 2	5	773.286	$20.50	$0.21	$162.39	7.921	781.207
	6	781.207	$20.50	$0.21	$164.05	8.003	789.210
	7	789.210	$20.50	$0.21	$165.73	8.085	797.295
	8	797.295	$20.50	$0.21	$167.43	8.167	805.462
Year 3	9	805.462	$20.50	$0.21	$169.15	8.251	813.713
	10	813.713	$20.50	$0.21	$170.88	8.336	822.049
	11	822.049	$20.50	$0.21	$172.63	8.421	830.470
	12	830.470	$20.50	$0.21	$174.40	8.507	838.977
Total						88.977	

THREE YEAR VESTING

Grants will vest at the end of the three year period or 100% on December 31st of the third year of the grant.

Here's how an illustrative example of an RSU grant would accrue over the three year period, including dividend equivalents (as estimated in the previous chart):

- Your RSU grant = 750 units (750 x $20.50 = $15,375)
- Total dividends earned over 3 years = 88.977 units
- Total RSUs at vesting = 838.977 (750 units + 88.977 units)
- Total Value of RSUs at vesting* = $17,199 (838.977 x $20.50 = $17,199)

*The total value of the grant at the end of three years, including dividend accrual, have been estimated with no change in Fair Market Value (FMV) of the mirrored Hydro One Limited common share from the grant value. A change in the FMV would alter the total dividends earned over three years and the total value once vested.

PERFORMANCE SHARE UNITS

WHAT IS A PERFORMANCE SHARE UNIT?

Performance Share Units (PSUs) are units that are similar to RSUs, but vest according to achievement of corporate performance goals. The number of PSUs that vest can range from 0% to 200% of the grant, depending on the performance as compared to corporate performance goals. Please refer to Schedule A of your PSU Award Agreement for further information. These units also accrue dividend equivalents over the three year period.

THE PSU CYCLE

Year of Grant	3 Years After Grant	
AWARD GRANT	**AWARD VESTING**	**OWNERSHIP**
• Early in the fiscal year, you are granted a number of PSUs. • The Board communicates the three year Hydro One corporate performance goals that must be met for the grant to be paid out. • PSUs are credited with dividend equivalents as of each dividend payment date for the underlying mirrored Hydro One Limited common shares	• Corporate performance goals against actual performance is assessed. • Actual number of PSUs are determined (0% or a range from 50% to 200% of the total number of accrued PSUs, including the number granted and received as dividend equivalents) based on performance. • The PSUs vest.	• The vested units are converted to Hydro One Limited common shares and ownership is transferred to the employee early in the next year following vesting

PSU CALCULATION

Grant

Your PSU grant + PSUs credited through dividend equivalents

×

Performance Multiplier (0% or a range from 50% to 200%)

Corporate Performance Goals reviewed against actual performance

=

Actual PSUs awarded *

**Actual payout results are subject the Board's review of the audited financial statements and approval of the payout percentage*

Corporate Performance Goals

Each grant year, corporate performance goals will be approved by the Board of Directors. At the end of the three year period, actual performance against these corporate performance goals will be used to calculate the PSU award. The award can be up to 200% of the initial grant, depending on performance. At threshold performance for Average EPS, 50% of the award will vest, up to the maximum of 200%. Below threshold, no units will vest. The resulting number of PSUs that vest are converted to Hydro One Limited common shares. For 2016 the corporate performance measures include: Average Earnings per Share ("EPS") and Dividend Modifier. Details and specific target performance levels are included in your personalized 2016 award grant agreement.

How you can improve Earnings Per Share (EPS)

EPS is the company's profit for the year, divided by the number of outstanding shares. It is a measure of profitability. As a senior leader, you have the ability to improve earnings – and EPS – by managing costs, creating operational and productivity efficiencies, generating new sources of revenue and smart allocation of capital to increase our rate base. Remember, EPS is just one of many performance measures used to manage the business. Decisions to support EPS improvements need to also consider the broader organizational implications and be consistent with our values.

An Illustrative Example

- You receive a grant of 750 PSUs early in the fiscal year. The PSUs vest at the end of the third year.
- PSUs, like RSUs, are credited with dividend equivalents. For purposes of this illustration, let's assume we can use the same calculation outlined under the RSU example with the share price constant at $20.50 (IPO share price) and the quarterly dividend paid constant at $0.21 per share.
- Here's a simplified illustration on how the PSU grant would be calculated:

Grant

Your PSU award
+
PSUs credited through dividend equivalents

Step #1: *Determine the total number of PSUs, including dividend equivalents (estimated for purposes of this mode – see RSU example):*

Your PSU grant	= 750 units
Total dividends earned over 3 years	= 88.977 units
Total PSUs at vesting	= 838.977 (750 units + 88.977 units)

Performance Multiplier (0% or a range from 50% to 200%)

Financial results reviewed against key financial measures

Step #2: *Apply performance modifiers for Average EPS & Dividend Modifier:*

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
831.549 PSUs at vesting				
Average EPS	= Threshold	Target	Maximum	Target
Performance multiplier	= 50%	100%	200%	100%
Total PSUs	= 419.489	838.977	1,677.954	838.977
Dividend modifier	= 100%	100%	100%	0%
Total PSUs	= 419.489	838.977	1,677.954	0
Total Value of PSUs	**= $8,600**	**$17,199**	**$34,398**	**$0**

# of PSUs x FMV at end of three year period - $20.50 (assumed constant share price)

Relative to a grant value of $15,375 (750 x $20.50)

NOTE: For a simplified illustration the Scenarios provided are at the Threshold, Target or Maximum levels of the Average EPS, but performance between the levels would be pro-rated and are calculated on a linear basis. Average EPS below threshold would result in no PSUs vesting.

In addition to the Earnings per Share performance, the PSU vesting criteria require that the Company maintain its dividend at $0.21 per share per quarter. If the dividend modifier falls below that amount, no PSU's will vest regardless of the Earnings per Share performance.

MANAGING YOUR PLAN

During the three year vesting period you will be able to track your shares and dividend equivalents in your Computershare account. It is anticipated your 2016 grants will appear in your Computershare account in Q3 of 2016.

WHAT HAPPENS ONCE THE GRANT VESTS?

The awarded units are settled in shares. When the shares vest to the benefit of the employee, income tax withholdings and remittances ("Tax Remittances") must be made with respect to the fair market value of the shares issued to the employee. Hydro One will provide the employee with options for settlement of these remittance obligations. No shares will be issued to the employee until the employee has provided for the Tax Remittances to Hydro One's satisfaction.

HOW IS MY GRANT SETTLED OR PAID OUT TO ME?

The total value you receive is based on the actual number of RSUs and PSUs (including dividend equivalents) that vest at the end of the vesting period. Both RSUs and PSUs will be settled in Hydro One shares.

WHAT HAPPENS IF I LEAVE THE COMPANY, DIE OR BECOME DISABLED?

If you die or become disabled over the course of the three year period, the next installment of unvested awards will continue to vest on a pro-rata basis and, for PSUs, assuming a target level of performance. The remainder of unvested awards is forfeited. If you resign or are terminated with or without cause, any unvested RSUs and PSUs will be forfeited. If you retire (as defined by the Hydro One Limited Long Term Incentive Plan text "Plan text"), then all unvested awards continue to vest through your retirement.

QUESTIONS

For more information, please feel free to review the Plan Text provided to you with your award agreement. If you have additional questions, please contact Sabrin Lila, Manager, and Compensation & HR Systems.

DISCLAIMER

This summary is intended to provide general information regarding LTIP. The applicable provisions of LTIP are set forth in the Plan text and award agreements (collectively referred to as the "Official Documents"). In the event of a discrepancy between the information in this summary and the Official Documents, the Official Documents will be considered correct and will govern in all cases. No rights accrue by reason of any statements made in this summary.

Consumers Council of Canada (CCC) INTERROGATORY #023

Reference:

Ex. C1/T5/S1/p. 14

Interrogatory:

Please explain why the Fleet Management Services Budget is increasing significantly in the period from 2016-2018 relative to historical levels.

Response:

The increase in the Fleet Management Services budget is due to increased depreciation costs, a higher U.S. dollar, predicted increased fuel costs, the addition of the telematics system and increased labour costs.

Depreciation costs are increasing as a result of recent equipment purchases to support increased field work programs. The higher U.S. dollar has impacted the cost of parts. This amount was calculated to be roughly $1.8 million from 2015 to 2016 which is approximately 10% of total spending on parts. Moving forward, Hydro One has applied a 3.25% year-over-year increase for 2017 and 2018. In 2015, average fuel cost was very low at $1.02/litre. Hydro One forecasts the average fuel cost for 2016 to be $1.08/litre (~6% increase) based on the Ministry of Energy's crude oil price forecasts for 2016. The telematics project described in Exhibit C1, Tab 5, Schedule 1 and Exhibit B1, Tab 3, Schedule 8 began in 2015 and has associated recurring maintenance fees. Labour escalation is addressed in Exhibit C1, Tab 4, Schedule 1.

Consumers Council of Canada (CCC) INTERROGATORY #024

Reference:
Ex. C1/T6/S1/p. 2

Interrogatory:
The evidence indicates that with respect to the Corporate Cost Allocation methodology a time study was conducted within HON's Planning, Operating and Customer Service Groups. That study spanned a four-week period. Why was a four- week period chosen? Is this period of time typical for time studies. Was the Black and Veatch Study subject to an RFP process? If not, why not? What was the cost of the study and how are those costs recovered.

Response:
Please refer to Hydro One's response to OEB Staff interrogatory #76, filed in Exhibit I, Tab 1, Schedule 76.

Yes, the study was subject to an RFP process.

These costs are recovered through Regulatory Affairs costs in Common Corporate Functions and Services OM&A, as described in Exhibit C1, Tab 3, Schedule 3.

Consumers Council of Canada (CCC) INTERROGATORY #025

Reference:

C2/T2/S1/pp. 1-2

Interrogatory:

Please recast the Schedule – Comparison of OM&A Expense by Major Category to include forecasts amounts.

Response:

Please refer to the following table.

Transmission OM&A ($millions)	**Actual 2012**	**Approved 2012**	**Actual 2013**	**Approved 2013**	**Actual 2014**	**Approved 2014**	**Actual 2015**	**Approved 2015**	**Bridge 2016**	**Approved 2016**
Sustaining OM&A										
Transmission Stations										
Land Assessment and Remediation	1.9	1.1	3.1	2.4	3.1	3.3	3.6	3.1	3.0	2.9
Environment Management	11.3	15.4	11.9	13.2	10.7	15.3	9.8	14.9	10.4	16.0
Power Equipment	55.7	66.6	60.2	61.2	61.4	63.2	64.5	60.7	54.3	59.7
Ancillary System Maintenance	10.1	16.5	10.1	11.6	10.0	12.0	9.2	10.0	10.8	10.0
Protection, Control, Monitoring, Metering and Telecommunications	44.9	45.8	49.4	50.9	52.1	52.2	63.9	51.7	61.2	53.7
Site Infrastructure Maintenance	22.7	25.8	25.2	28.8	24.5	30.6	24.0	28.5	25.1	29.3
Total Transmission Stations OM&A	**146.5**	**171.2**	**159.9**	**168.0**	**161.9**	**176.7**	**175.0**	**169.0**	**164.8**	**171.6**
Transmission Lines										
Rights of Way	27.1	28.0	31.1	29.1	35.5	29.5	32.6	32.8	35.8	33.2
Overhead Lines	17.9	22.7	15.7	21.2	17.6	22.9	15.9	20.3	18.0	20.7
Underground Cables	3.6	3.9	3.6	4.8	4.0	4.9	4.1	4.8	5.0	4.9
Total Transmission Lines OM&A	**48.6**	**54.6**	**50.4**	**55.1**	**57.1**	**57.4**	**52.6**	**57.8**	**58.8**	**58.8**
Engineering & Environmental Support	9.5	11.7	10.7	12.6	9.6	12.5	6.0	11.9	4.0	10.8
Total Sustaining OM&A	**204.7**	**237.5**	**221.0**	**235.7**	**228.6**	**246.5**	**233.6**	**238.7**	**227.5**	**241.1**

Transmission OM&A ($millions)	Actual 2012	Approved 2012	Actual 2013	Approved 2013	Actual 2014	Approved 2014	Actual 2015	Approved 2015	Bridge 2016	Approved 2016
Technical	2.5	14.8	3.1	6.3	3.3	7.7	2.8	5.6	3.0	6.0
Research Development and Demonstration	-	-	-	-	-	-	-	-	2.1	-
Customer Power Quality	-	-	-	-	-	-	-	-	0.2	-
Technology Studies	3.5	-	3.2	3.6	2.8	3.6	3.0	3.7	-	3.8
Smart Grid	2.4	4.0	2.2	3.3	1.4	3.3	0.3	3.6	-	3.6
Total Development OM&A	**8.4**	**18.8**	**8.6**	**13.2**	**7.5**	**14.7**	**6.1**	**12.9**	**5.3**	**13.4**
Operations OM&A										
Operations Contracts	21.4	25.6	21.3	24.4	20.9	25.1	22.4	22.9	22.9	23.1
Environmental, Health and Safety	1.3	3.4	1.5	2.4	1.1	2.3	1.1	2.4	1.6	2.6
Operators	32.1	33.3	33.9	31.0	34.6	30.6	35.5	33.1	35.5	33.4
Total Operations OM&A	**54.8**	**62.4**	**56.7**	**57.7**	**56.6**	**58.0**	**59.0**	**58.5**	**60.0**	**59.1**
Customer Service OM&A	**4.4**	**6.7**	**5.3**	**4.9**	**5.4**	**4.7**	**5.1**	**5.5**	**4.1**	**5.5**
OM&A Common Corporate Costs and Other Costs										
Asset Management	32.3	39.1	31.8	35.2	32.6	34.1	31.0	37.2	36.6	35.7
Common Corporate Functions & Services	80.5	83.9	87.7	85.0	93.1	85.6	95.7	96.9	98.9	96.4
Information Technology (including Cornerstone)	60.7	48.7	61.1	61.2	55.2	60.3	55.1	63.5	61.4	63.5
Cost of Sales	11.4	8.5	13.9	10.7	11.1	10.6	8.8	6.7	5.0	6.8
Other	(104.2)	(150.7)	(118.6)	(129.8)	(154.8)	-131.6	(116.8)	(134.0)	(129.6)	(131.1)
Total OM&A Common Corporate Costs and Other Costs	**80.7**	**29.4**	**75.8**	**62.3**	**37.2**	**59.0**	**73.9**	**70.2**	**72.3**	**71.3**

Transmission OM&A ($millions)	**Actual 2012**	**Approved 2012**	**Actual 2013**	**Approved 2013**	**Actual 2014**	**Approved 2014**	**Actual 2015**	**Approved 2015**	**Bridge 2016**	**Approved 2016**
Property Taxes & Rights Payments	**62.1**	**72.2**	**21.2**	**66.0**	**64.1**	**66.8**	**63.9**	**66.3**	**62.9**	**67.0**
Less settlement/decision reduction								(20.0)		(20.0)
Exclusion of B2M								(0.9)		(0.7)
Total Transmission OM&A	**415.1**	**427.2**	**388.4**	**440.0**	**399.5**	**449.8**	**441.6**	**431.2**	**432.1**	**436.8**