

ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998* (“Act”);

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an order or orders made pursuant to section 78 of the Act approving rates for the transmission of electricity.

**Energy Probe Research Foundation
Compendium
Compensation Panels**

December 3, 2016

<u>Exhibit Kx.x Energy Probe Compendium- Executive Total Compensation Bands 1-4</u>		
Reference	Description	Compendium
<i>Expert Compensation Panel: Hugesson Consulting and Towers Watson</i>		
Energy Probe Exhibit Kx.x	Comparison Table Peer Groups for Total Compensation Studies Bands 1-4	Page 3
EB-2016-0160 Technical Conference Transcript Vol 2 Pages 10-12	Extract of discussion on Compensation Peer Group Comparisons	Page 4
EB-2013-0416 C1 T3 S2 Table 2 Page 7	2013 Mercer Report on Total Compensation - Peer Group	Page 5
EB-2016-0160 I-06-057 Attachment 1	Hugesson Consulting 2015 Report Hydro One Total Compensation CEO and CFO Pages 8 & 17	Pages 6 , 7 & 8
EB-2016-0160 I-06-057 Attachment 2	Towers Watson 2015 Report Hydro One Total Compensation Bands 1-2 and 3-4 Pages 2 & 5	Pages 9 and 10
EB-2016-0160 TCJ1.8	Attachment 2 TSX Second Quarter 2016 Earnings Teleconference August 12, 2016	Page 11
<i>Hydro One Finance Panel-Compensation</i>		
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<u>EB-2016-0160 Exhibit I Tab 11 Schedule 29 part a</u>	Response to Energy Probe IR 29 part a) re Executive Compensation Costs	Page 16
<u>EB-2016-0160 Exhibit I Tab 11 Schedule 23 parts b), c and d)</u>	Responses EP IRR regarding 2016 Total Compensation for CEO and CFO	Page 18
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I Expert Compensation Panel: Hugesson Consulting and Towers Watson

EB-2016-0160 Hydro One Transmission 2017-18 Rates			
Exhibit Kx.x : Energy Probe TC Peer Group Comparison 2012-18 Executive Bands 1-2			
TC Study	Date/Purpose	Peer group(s)	Summary CEO and CFO (Bands 1-2) Total Compensation¹
Mercer	2013/ Regulatory	Participants²: Hydro Quebec, BC Hydro, OPG, EPCOR, ENMAX, Toronto Hydro, Enbridge Gas, Transalta, Bruce Power, Manitoba Hydro, SaskPower, NB Power, PowerStream, Enersource, Horizon.	Not Specifically Identified, (included in Non-Represented)³
Hydro One	IPO 2015	<u>Utility Peer Group (8)</u> Alta Gas ATCO, Emera, Fortis , Inter Pipeline, Keyera, Pembina, Transalta <u>TSX 60 Smallest 30 (not specified)</u>	CEO P50 of Exec Peer Group TC \$3.6 million⁴ CFO P50 of Exec Peer Group TC \$1.4 million
Hugesson Consulting	2016/ Hydro One Board	Primary Group⁵: <u>TSX Large Utilities</u> (Fortis, ATCO, Emera, Transalta) <u>TSX Pipeline/Storage Companies</u>	CEO P75 of Peer Group TC \$4 million⁶ CFO P75 of Peer Group TC \$1.5 million
Towers Watson	2016/Hydro One	<u>Utility Peer Group</u> Alta Gas ATCO, Emera, Fortis , Inter Pipeline, Keyera, Pembina, Transalta <u>Executive Peer Group⁷</u> Agrium, AltaGas, ATCO, Bombardier, CNR, CPR, Canadian Tire, Capital Power, CGI Group, Emera, Enbridge, Fortis, Intact Financial, Inter Pipeline, Keyera, Pembina Pipeline, Rogers, SNC, Telus, Transalta, TransCanada	CEO P50 of Utility Group TC \$3.6 million⁸ CFO P50 of Utility Group TC \$1.4 million CEO P50 of Exec Peer Group TC \$4.0 million CFO P50 of Exec Peer Group TC \$1.5 million
Mercer 2016	2016/ 2017 Regulatory	Hydro One Indicates Similar Peer group to 2013⁹	

¹ Total Compensation, including Benefits, but excluding Executive Share Option Plan participation

² EB-2013-0416 Exhibit C1-3-2Attachment 1- Mercer Cost Benchmarking Study

³ EB-2016-0160 Exhibit I Tab11 Schedule 23 HO indicates: “In 2014, Hydro One’s CEO compensation was \$745,208, including benefits,

Hydro One’s CFO compensation was \$521,635, including benefits”.

⁴ EB-2013-0416 Exhibit C1-3-2Attachment 1- Mercer Cost Benchmarking Study Page 7

⁵ EB-2016-0160 Exhibit I-06-057 -01 Hugesson Consulting Report Page 8

⁶ Ibid Pages 17/18

⁷ EB-2016-0160 Exhibit I-06-057 -02 Towers Watson Report Page 2

⁸ Ibid Page 5

⁹ EB-2016-0160 TC Transcript Vol 2 Page 21EB-2016-0160 TC Transcript Vol 2 Page 21

TECHNICAL CONFERENCE VOLUME 2 **Pages 10-12**

MR. McDONELL: So I believe the primary peer group for Hugessen was given by Hugessen itself. Hugessen is a compensation expert consultant to the Hydro One board of directors, so we would be relying upon that advice to assist us in developing the peer group. There probably was some conversations between the parties, but Hugessen, being a compensation expert, would be providing the advice.

MR. HIGGIN: Okay. So then can you tell me why the comparison peer group is not the same as that recommended by Hydro One for the IPO?

MR. NETTLETON: No, Mr. Higgin, we are now venturing into the area of cross-examination. These questions you may very well want to bring up at the hearing, but that's not a question that related to clarifying the evidence.

The interrogatory that you pointed to was a question (a), part (a), as I understand it, which asked to please provide the Hugessen consulting report. We have done that, we have provided it.

You have now asked the question about who had responsibility for the peer group; we've provided that response.

But when you get into the area of questioning that you are now asking about inconsistencies in evidence, that is a matter of cross-examination. That is not a matter that's appropriate for this technical conference. So I instruct the witness not to answer the question.

MR. HIGGIN: Okay. Well, I will go to my next question is: Can you explain or compare -- I will use the word compare -- the primary peer group to the current Willis Towers Watson peer group, which is in the evidence and that's another report that you referred to in other interrogatories.

MR. NETTLETON: Again my answer is the same as I provided before, Mr. Higgin. This is an area of cross-examination. You are now comparing and contrasting evidence. These are not questions of clarification relating to interrogatory responses.

Market Sample

Summarized below are the participating organizations in the compensation benchmarking.

Table 2

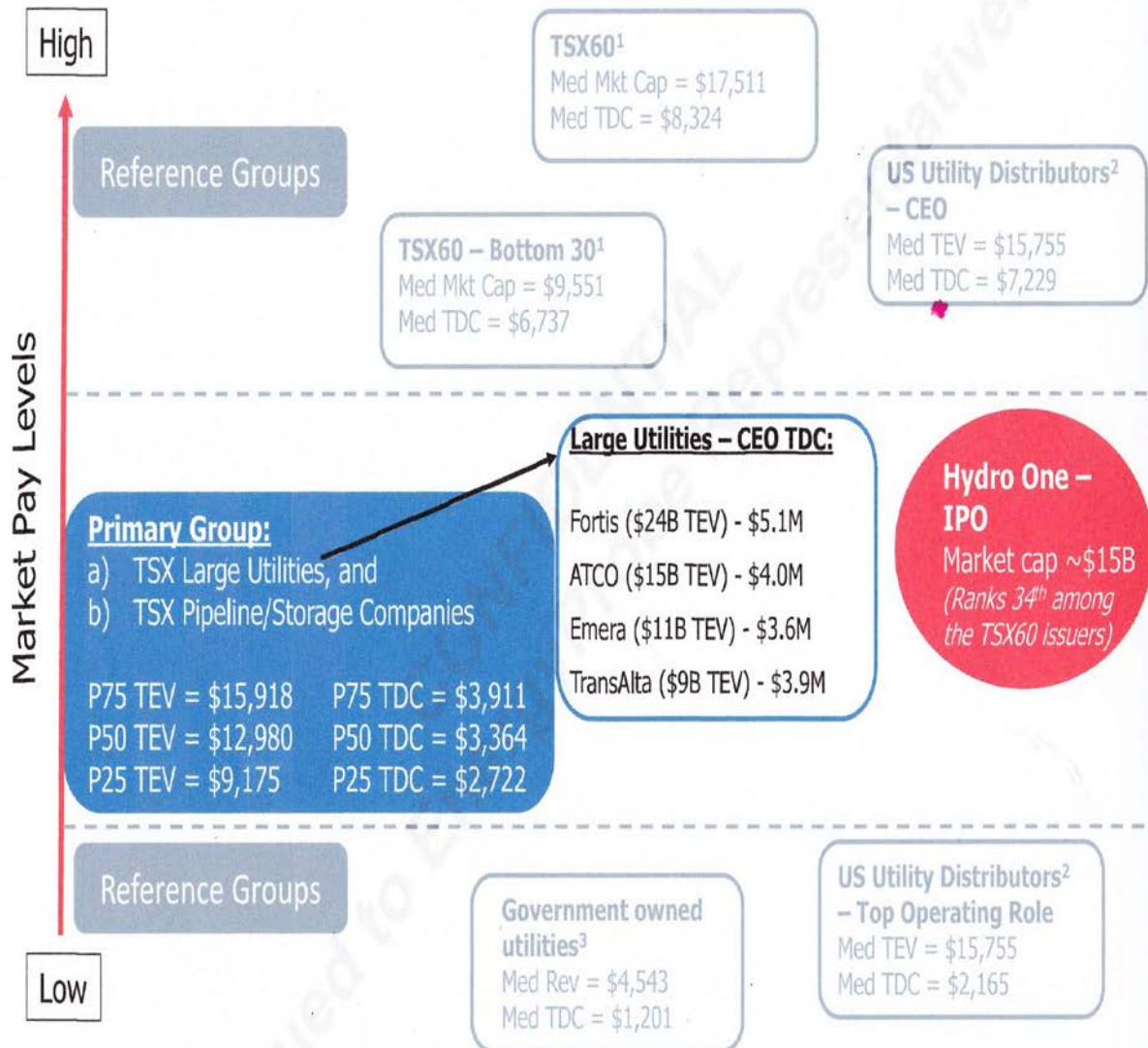
Company Name	Revenue ¹	# of Employees ^{1,2}
Hydro-Québec	\$12,228.0	21,000
BC Hydro Power & Authority	\$4,898.0	5,862
Ontario Power Generation Inc.	\$4,732.0	10,691
EPCOR Utilities Inc.*	\$4,036.0	4,036
ENMAX Corporation	\$3,160.1	1,840
Toronto Hydro Electric System Ltd.	\$2,852.0	1,526
Enbridge Gas Distribution Inc.	\$2,400.0	2,200
TransAlta Corporation	\$2,262.0	3,140
Bruce Power L.P.*	\$2,103.7	4,200
Manitoba Hydro	\$1,902.0	6,637
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New Brunswick Power	\$1,697.0	2,361
PowerStream Inc.	\$1,029.0	541
Enersource Corporation*	\$822.0	374
Horizon Utilities Corporation*	\$570.6	404
75th %ile	\$3,598.1	5,031
50th %ile	\$2,262.0	3,000
25th %ile	\$1,779.5	1,683
Average	\$3,103.6	4,521
Hydro One	\$5,728.0	5,337

¹ Data as reported by survey participants in CAD (\$MM)

² Representative of full-time employees and equivalents only

* New participants in 2013

Preliminary Peer Groups (cont'd)



Source: S&P Capital IQ; All financial figures are in CAD \$M; all pay figures are in CAD \$000s

1. 2013 Target TDC as per Hugessen TSX60 proxy analysis
2. Approximated target values using most recent actuals - converted to CAD
3. Latest proxy data and Annual Information reports

Straw Model CEO & CFO Alternatives (cont'd)

Straw Model CEO Alternatives

Target Pay	Low Case	Mid Case	High Case
Positioning	Between P25 and P50 of peer group, below large utilities	P75 of peer group, close to median of large utilities	High end of large utilities (i.e. Fortis CEO is ~\$5M), low end of Bottom Half TSX60
Salary	\$800,000	\$850,000	\$850,000
STIP (% of Salary)	\$720,000 90%	\$765,000 90%	\$765,000 90%
LTP (% of Salary)	\$1,480,000 185%	\$2,385,000 281%	\$3,385,000 398%
TDC	\$3,000,000	\$4,000,000	\$5,000,000
Pension	DC SERP	DC SERP	DC SERP

Straw Model CEO & CFO Alternatives (cont'd)

Straw Model CFO Alternatives

Target Pay	Low Case	Mid Case	High Case
Positioning	P50 of peer group, low end of large utilities	Above P75 of peer group, high end of large utilities (i.e. ATCO CFO ~\$1.5M)	Above P75 of peer group and large utilities, but low end of bottom half TSX60; this could be warranted if size of role is beyond that of a "typical" CFO
Salary	\$400,000	\$500,000	\$550,000
STIP (% of Salary)	\$240,000 60%	\$300,000 60%	\$330,000 60%
LTIP (% of Salary)	\$610,000 153%	\$700,000 140%	\$1,120,000 204%
TDC	\$1,250,000	\$1,500,000	\$2,000,000
Pension	DC SERP	DC SERP	DC SERP

1) Introduction

- Hydro One engaged Towers Watson to complete a competitive market assessment of its total rewards package for management compensation plan (MCP) employees. This benchmark review focuses on executive roles (Bands 1-4)
 - Our analysis is based on Hydro One's current organizational structure and role responsibilities, and will need to be refreshed as it transitions to an autonomous publicly-traded company. As such, use of this data and any program changes it informs should be paced with the evolution of the organization
- In the prospectus, Hydro One outlined the use of a primary reference group of eight utility/energy companies ("**Utility Peer Group**") along with a secondary reference group of the 30 smallest members of the S&P/TSX 60 index
- While the primary reference group likely provides sufficient market data for the CEO and CFO, a larger sample will be needed for the rest of the executive team (approximately 25 incumbents in total). This is to account for different executive roles that may exist within each company and to capture the broader labour market for Hydro One's executives
- An expanded peer group of 21 companies was developed and approved by the HR Committee at the August 24, 2015 meeting ("**Executive Peer Group**"). The criteria used to establish this "asset intensive" group of companies includes:
 - Inclusion of 8 companies in the primary reference group (Utility Peers)
 - Canadian publicly-traded (excluding mining and oil & gas)
 - Revenue between 1/3x to 3x Hydro One
 - Assets between \$10 billion and 3x Hydro One
- The chart on the following page provides further details on Hydro One's positioning relative to the two peer groups. Further scope details (including market capitalization, net income, geographic complexity, # of employees) are outlined in **Appendix I**

3) Comparing Peer Group Compensation Levels

- The market compensation data for the Utility Peer Group tends to be positioned lower than the Executive Peer Group (i.e., the 75th percentile of the Utility Peer Group is aligned with the 50th percentile of the Current Peer Group), except for the 3rd-5th highest paid executives where the 50th percentile for the Utility Peer Group is higher
- The difference for the CEO/CFO appears to be correlated with the smaller size of the Utility Peer Group relative to the Executive Peer Group



Equity Market Cap Overview

hydroOne

- Equity market capitalization of ~\$15 billion and public float of ~\$4.5 billion
- Average daily trading volume of approximately 1.3 million shares
- Equity market capitalization amongst the top 30 of all listed Canadian companies
- Secondary offerings by Province increase liquidity without diluting public shareholders
- Equity index inclusions to date:

S&P/TSX Composite Index

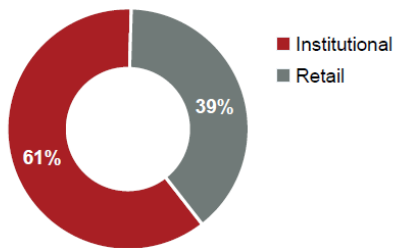
S&P/TSX Utilities Index

Dow Jones Canada Select Utilities

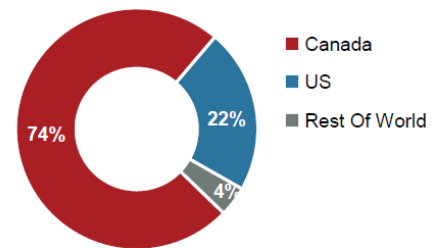
FTSE All-World (Canada)

MSCI World (Canada)

Approximate Ownership of Public Float



Approximate Geographic Dispersion of Public Float



II Finance Panel- Compensation

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¹³ EB-2013-0416 Exhibit C1-3-2Attachment 1- Mercer Cost Benchmarking Study Page 7

¹⁴ EB-2016-0160 Exhibit I-06-057 -01 Hugesson Consulting Report Page 8

¹⁵ Ibid Pages 17/18

¹⁶ EB-2016-0160 Exhibit I-06-057 -02 Towers Watson Report Page 2

¹⁷ Ibid Page 5

¹⁸ EB-2016-0160 TC Transcript Vol 2 Page 21EB-2016-0160 TC Transcript Vol 2 Page 21

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² Representative of full-time employees and equivalents only

* New participants in 2013

MR. HIGGIN: Okay. So now let's go to another response, and again it's peer group related, and that is: Can you inform us how -- what is the peer group for the current Mercer underway study, the current 2016 study.

Can you inform us about what is the peer group? We haven't got the evidence yet, but can you inform us about that?

MR. McDONELL: Yes, I can help you out on that. The peer group for the Mercer study, you may recall from past compensation Mercer studies we have provided --

MR. HIGGIN: Yes, the 2012; I have got the 2012.

MR. McDONELL: Correct. One of the things we have been doing and directed by the Board here was to try and be consistent, so we can show trending within the total compensation that Mercer provided.

So by and large the peer group will be the same from the previous three studies. Now, we have tried to add a couple of other peer groups just to provide a little bit more data, **but by and large it would be the same peer groups for MCP, PW, and Society jobs.**

Hydro One did not provide sufficient evidence in support of its proposed compensation spending. The company did not demonstrate that the market requires the level of compensation proposed in order to attract and retain the necessary employees. In the absence of such evidence the OEB will use the market median as a reference point for the percentage of compensation costs that will be included in the rates paid by Hydro One's customers.

While the OEB recognizes the progress that Hydro One has made over the last few years in getting closer to the market median, the OEB does not find that it is fair that ratepayers pay for a 10% premium over the market median. The OEB, however, will not disallow the entire 10% premium. Rather, the OEB will require efficiency from Hydro One by disallowing half of that amount from the revenue requirement, or \$7.7 million per year, each year for 2015, 2016 and 2017. The OEB still expects Hydro One to accomplish the work programs as outlined.

In addition, the OEB directs Hydro One, in its next rates application, to file a compensation study similar to the one filed in this proceeding so that the OEB can continue to benchmark Hydro One's compensation against that paid by comparable companies.

a)

MCP - Executive (MCP Bands 1-4)						
Year	TOTAL NO. EMPLOYEES	TOTAL WAGES	Base Pay	Short Term Incentive	Long Term Incentive	Other Allowances
2013	16	6,585,916	4,642,504	1,640,750	-	302,662
2014	18	6,313,609	4,641,630	1,255,204	-	416,775
2015	19	7,709,128	5,261,183	1,725,000	-	722,945
2016	24	10,958,387	5,891,365	2,801,617	2,079,903	185,502
2017	24	16,200,873	6,941,417	3,921,159	5,149,085	189,212
2018	24	19,553,320	7,080,245	4,038,793	8,241,284	192,997

b) Please provide the Recommendations made to the Government and the Hydro One Board Based on the Report.

See Attachment

AND THAT the total direct pay for Mr. Schmidt for the year 2016 is hereby approved as follows:

	Base Salary	Target STIP	Target LTIP	Target Total Direct Compensation
Chief Executive Officer	\$850,000	\$765,000	\$2,385,000	\$4,000,000

THAT the total direct pay for Michael Vels, Chief Financial Officer of Hydro One Inc., for the year 2016 is hereby approved as follows:

	Base Salary	Target STIP	Target LTIP	Target Total Direct Compensation
Chief Financial Officer	\$500,000	\$300,000	\$700,000	\$1,500,000

c) Please provide the Total Compensation breakdown for the CEO and CFO for 2016 and projected for 2017-2018 list all relevant assumptions related to the projections.

Compensation assumptions are based on the Hugesson Report provided in Exhibit I, Tab 6, Schedule 57. Details on the compensation structure are provided below. A 2% escalator was applied to the salary portion in 2017 and in 2018.

Compensation Mix

For the Chief Executive Officer and Chief Financial Officer, target total direct compensation will consist of the elements noted below. Determinations for the other NEOs have not yet been made.

	Chief Executive Officer		Chief Financial Officer	
	Target	Percentage total direct compensation	Target	Percentage of total direct compensation
Base Salary	\$850,000	21%	\$500,000	33%
Short Term Incentive ⁽¹⁾ . . .	90% of base salary	19%	60% of base salary	20%
Long Term Incentive ⁽²⁾ . . .	280% of base salary	60%	140% of base salary	47%

Notes:

- (1) Each of the Chief Executive Officer and the Chief Financial Officer may elect to receive up to 100% of his annual incentive bonus as deferred share units.
- (2) In addition to its general discretion with respect to long term incentive awards, the Board has the discretion to vary the actual award level for the long term incentive from 75% to 125% of the target award level based on a range of factors, including individual executive performance and company performance.

d) Compare the Compensation for the New Positions to the Compensation provided in 2014 and 2015 for similar positions. Indicate the basis of the current and former comparisons used to establish compensation.

In 2014, Hydro One's CEO compensation was 4 \$745,208, including benefits, and Hydro One's CFO compensation was \$521,635, including benefits.

Exhibit I Tab 11 Schedule 23 parts b), c) and d) (Cont)

The new CEO and CFO positions attract higher compensation than the former CEO/CFO due to the need for a different skill set. As described in response (a) in Exhibit I, Tab 1, Schedule 1, Hydro One's Independent Board of Directors determined that in order to improve the performance of the company, it was necessary to increase the commercial orientation of the organization; that is, increase the company's focus on customers, create greater corporate accountability for performance outcomes and drive company-wide increases in efficiency and productivity.

In order to achieve these commercial objectives, the Independent Board of Directors determined that senior managers with proven track-records of delivering these targets were¹⁵ needed. The individuals with these skills have been added to Hydro One's leadership team¹⁶ and have been empowered by the Independent Board of Directors to achieve these commercial objectives.

The successful achievement of these objectives will be evident in all facets of Hydro One's businesses, which as of the date of this application are 99% rate regulated (by revenue).

Hugessen Consulting was engaged to undertake a competitive market assessment for the new CEO and CFO appointments. Given certain challenges in benchmarking the CEO and CFO positions, Hugessen considered and benchmarked these positions against a few comparator groups.

Based on these market assessments, the CEO total direct compensation was positioned close to the average (P50) of four other larger Canadian utilities and is in the fourth quartile of the bottom 30 companies making up the S&P/TSX 60 Index, and the CFO's total direct compensation is also in the bottom quartile of the S&P/TSX 60 Index.

Exhibit TCJ1.10

Page 2 of 5

LPMA TCQ 2

Exhibit I, Tab 4, Schedule 12: Table 1 provided in the response shows the change in CCF&S costs by department. The response also indicates that between 2016 and 2018 the move to a more commercially-oriented culture is one of the drivers of the increased costs. Please provide the total costs associated with the move to a more commercially-oriented culture that are included in Table 1 for 2016, 2017, 2018 and for the TX allocation for 2017 and 2018.

Response:

As outlined in Board Staff #1 (I-1-1), the ongoing costs associated with Hydro One becoming a publicly traded entity and the move to a more commercially-oriented culture, are related solely to the company's new governance structure.

To improve the performance of the company, the new Board of Directors determined that it was necessary to increase the commercial orientation of the organization by hiring senior managers with proven track-records of delivering on targeted commercial objectives. The new senior managers, whose costs are reflected in Hydro One's current application are the new CEO and CFO costs.

The compensation of the new CEO and CFO functions is detailed in Attachment 1 to Exhibit I, Tab 11, Schedule 23. The 2014 costs for the CEO and CFO functions are provided in paragraph d) of the same Exhibit. Applying an inflation assumption of 2% to those 2014 figures, the aggregate cost increase for the two functions in 2017 is approximately \$4.0 million, of which \$1.6 million is allocated to Hydro One's transmission business.

The immediate benefits associated with the new senior management team are reflected in: (a) a reduction in the originally proposed revenue requirement occasioned by the CFO's decision to accelerate a pension valuation report, which reduced costs as discussed in Exhibit I, Tab 1, Schedule 131; and (b) the projected savings discussed in Exhibit I, Tab 13, Schedule 9 and Exhibit TCJ1.17.

2017-2018 Transmission Rate Application
Hydro One Networks Inc.
Presentation Day
September 8, 2016

Execution and Performance

June 2016 Hydro One Team Scorecard

Strategic Objectives	Definition	Measure	Year-to-Date			Full Year	
			Actual	Budget	Last Year	Budget	Target
Safety (10%)	Recordable Incidents	Incidents per 200,000 hours	1.3	1.6	1.8	1.6	1.5
Customer (25%)	Tx Satisfaction Note 1	% satisfied of total surveyed	n/a	n/a	n/a	80%	82%
	Dx Satisfaction	% satisfied of total surveyed	68%	73%	70%	73%	79%
	Tx Customer Commitments	% of commitments kept made to Tx Customers	90%	74%	n/a	74%	81%
	Dx Customer IT Enablement	Provide Customers tools and technology (3 projects initiated)	Note 2	Note 2	n/a	2	3
Net Income (40%)	Net Income to Common Shareholders	\$M	360	381	359	Note 3	Note 3
Work Program (25%)	Dx Pole Replacement	# of Poles	8,273	6,404	7,334	12,000	12,600
	Dx Line Clearing	KM Controlled	5,952	5,207	5,669	11,000	12,100
	Tx In Service Capital	\$M	230	266	225	+3% or -5%	910
	Dx In Service Capital	\$M	294	313	288	+3% or -3%	622

Note 1: The Tx Satisfaction survey results will be received in Q3

Note 2: We are on track to deliver three projects this year to benefit communication and interaction with customers

Note 3: As we are a public company, we cannot communicate full year net income budgets widely