

**Hydro One Transmission  
2017 and 2018  
Revenue Requirement and Rates**

**EB-2016-0160**

**OEB Staff Compendium for Panel 8 – Finance**

**December 8, 2016**

1 of Skilled Workers (CUSW) and other casual building trade unions. In 2015,  
2 approximately 57% of the total transmission capital work was performed by casual,  
3 unionized employees.

#### 4 5 **11.1 Casual Workers (Construction Employees)**

6  
7 The construction workforce utilized to work on transmission assets has a favourable  
8 compensation cost structure, in that this workforce:

- 9 • is paid an industry standard wage ( for building trades governed by EPSCA  
10 Collective Agreements) or wages that are either competitive and in some cases less  
11 than other rates in the industry;
- 12 • does not join the Hydro One pension plan;
- 13 • does not join the Hydro One group benefit plan;
- 14 • does not have entitlement to sick leave benefits;
- 15 • does not have paid scheduled vacation time off;
- 16 • is more easily deployed to work throughout the province;
- 17 • is more easily dismissed when work load fluctuates; and
- 18 • is accessed through the union hiring halls to perform specific work programs and laid  
19 off when it is no longer required.

20  
21 Hydro One negotiates directly with CUSW and through EPSCA, Hydro One is bound to  
22 collective agreements negotiated for the other seventeen Building Trade Unions. In 2015,  
23 Hydro One negotiated a three year collective agreement with CUSW (May 1, 2014 to  
24 April 30, 2017). Negotiated wage increases include a 1% base wage adjustment in each  
25 year. CUSW wage rates are generally lower than paid to similar classifications  
26 represented by the International Brotherhood Electrical Workers (IBEW) as shown in  
27 Table 2.

28  
Witness: Jon Rebick

**Table 2: CUSW Rates versus IBEW Rates – 2015 \$**

Union	Base Wage (\$)	Total Base Package (\$) <sup>4</sup>
<b>CUSW ( Hydro One)</b>	40.98	54.33
<b>IBEW Windsor</b>	37.84	59.99
<b>IBEW Port Hope</b>	42.78	59.81
<b>IBEW Ottawa</b>	42.99	59.94
<b>IBEW Sudbury</b>	42.99	59.94
<b>IBEW Thunder Bay</b>	44.29	59.22
<b>IBEW South</b>	42.85	61.28
<b>IBEW Hamilton</b>	41.16	60.61
<b>IBEW Sarnia</b>	46.10	60.80

Wages paid to the remaining Building Trade Unions are the industry wage paid by all employers in the electrical power systems sector when performing work on Ontario Power Generation, Bruce Power and Hydro One property in Ontario.

## **11.2 Power Workers' Union (PWU)**

The current collective agreement provides for negotiated wage increases and annual employee progressions within salary ranges. Negotiated wage increases include a 1% base wage adjustment and a 1.0% lump sum payment on April 1, 2015, a 1% base adjustment and a 2.0% lump sum payment on April 1, 2016 and a 1% base adjustment on April 1, 2017. Negotiated lump sum adjustments are an effective way to restrain compensation costs as lump sum payments are not built into an employee's base rate.

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<sup>4</sup> Total Wage package includes Base Pay, Vacation & Statutory Pay, Welfare, Pension and Union Fund

Witness: Jon Rebick

1 Compensation restraint is achieved because other forms of compensation such as  
2 premium time for overtime, shift allowances and pensionable service are not impacted by  
3 lump sum payments.

### 5 **11.3 The Society of Energy Professionals (The Society)**

6  
7 The current collective agreement provides for negotiated wage increases and annual  
8 employee step progressions. Negotiated wage increases include a 0.5% base salary  
9 adjustment on April 1, 2016, April 1, 2017 and April 1, 2018. A 1% lump sum payment  
10 will be made on April 1, 2016 and a 2% lump sum payment will be made on April 1,  
11 2017.

### 13 **11.4 Share Grants – PWU and Society**

14  
15 As part of the collective bargaining settlements with the PWU and Society, represented  
16 employees will be eligible to receive shares of Hydro One Limited. The introduction of  
17 share grants as part of the compensation package for represented employees is a  
18 significant paradigm shift that will benefit Hydro One, employees and ratepayers.

19  
20 Previously, both unions were focused more on achieving base wage increases that were at  
21 least in line with industry norms. The philosophical shift to a compensation model that  
22 provides for below average base wage increases, combined with lump sum payments and  
23 share grants reduces the overall cash portion of compensation. Compensation cost  
24 escalation is further restrained as other compensation items such as overtime premiums,  
25 allowances and pension benefits are not impacted as much as would be the case if higher  
26 base wages were negotiated. Awarding share grants also instils a sense of ownership in  
27 the employees. Aligning company interests with employee interests has produced  
28 consequential ratepayer benefits.

Witness: Jon Rebick

1 The first grant day for eligible PWU represented employees is April 1, 2017. Additional  
2 shares will be granted in each of the following eleven years. The last share grant date is  
3 April 1, 2028. The first grant date for eligible Society represented employees is April 1,  
4 2018, with additional shares granted for the following eleven years. The last share grant  
5 date is April 1, 2029. In order to be eligible for share grants, employees must remain  
6 employed with Hydro One.

7  
8 **12. COMPENSATION COSTS**  
9

10 The Payroll Table 2013 to 2018 in Attachment 1 to this exhibit provides actual year end  
11 compensation costs for Hydro One Networks (Transmission and Distribution) from 2013  
12 to 2015 and forecasted year end compensation cost for the bridge year 2016 and test  
13 years 2017 and 2018. Figure 7 represents a segment of Attachment 1 and depicts the total  
14 compensation trend for regular employees over the 2013 to 2018 time period. The  
15 attachment does not reflect the revenue requirement for compensation for this  
16 Application. Over this period, total year end compensation for regular employees  
17 increased by 1.27% per year. The Company believes that the modest increase in these  
18 costs is reasonable in light of the steadily increasing transmission and distribution work  
19 programs since 2007 and the annual rate of inflation over this period.  
20

Witness: Jon Rebick

**Ontario Energy Board (Board Staff) INTERROGATORY #128**

**Reference:**

Exhibit C1/Tab 4/Sch1, p. 24

**Interrogatory:**

Hydro One indicates that collective bargaining has resulted in share grants as part of total compensation packages for the PWU and the Society. These share grants were offset by below average base wage increases. Please specifically define the 'below average' wage increases and indicate what the total increase in compensation would be when share grants are accounted for on April 1, 2017 for the PWU and April 1, 2018 for the Society.

**Response:**

In 2015, Hydro One negotiated lower than norm base wage adjustments with both the PWU and Society as part of an overall package that contained share grants for some PWU and Society represented employees. Specifically,

	<b>2015</b>	<b>2016</b>	<b>2017</b>
PWU	1% base adj.	1% base adj.	1% adj.
Society	0.5% base adj.	0.5% base adj.	0.5% base adj.

Survey data for Forecast and Actual Base wage adjustment:

<b>Survey</b>	<b>2015 Forecast</b>	<b>2015 Actual</b>	<b>2016 Forecast</b>	<b>2016 Actual</b>	<b>2017 Forecast</b>
Conference Board	2.0%	1.8%	1.9%	-	-
Canadian General Industry	3.0%	2.6%	2.7%	2.4%	2.6%
Ontario based Organizations	2.9%	2.6%	2.6%	2.4%	2.6%
Canadian Energy Sector	2.8%	2.2%	1.2%	1.5%	1.4%

The share grant costs for 2017 and 2018 are:

2017: \$3,540,302

2018: \$ 4,745,181 for both PWU and Society Share Grants

Witness: Jonathan Rebick

**Energy Probe INTERROGATORY #029**

**Reference:**

Exhibit C1, Tab 4, Schedule 1, Attachment 1, Pages 1 -6

**Interrogatory:**

- a) Please provide a copy of the Payroll Tables that includes Executive Compensation with revised Totals.
- b) For 2017 and 2018 as applicable, include columns that show additional compensation costs, such as ESOP and Share Grants.

**Response:**

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) Share Grants are only applicable to eligible PWU and Society employee. Forecasted cost for share grants are:

Share Grant Cost		
	2017	2018
PWU	1,601,153	1,585,853
Society	NA	560,225
<b>Total</b>	<b>1,601,153</b>	<b>2,146,078</b>

Currently, only MCP employees are eligible for ESOP. ESOP is a voluntary program that allows MCP employees to purchase Hydro One Limited stock through payroll deductions. Hydro One will match the employee contribution 50% up to a maximum set amount. The forecasted cost of this program is \$1.8M per year.

Witness: Keith McDonell

**UNDERTAKING – TCJ2.1**

**Undertaking**

To provide a percentage increase in total compensation for PWU and Society staff, including base rate increase, as well as the increase in the share grants.

**Response**

The PWU Shares are not issued to eligible PWU members until 2017. On April 1, 2017, there is a 1% base wage adjustment and eligible PWU employees will receive their 1<sup>st</sup> installment of Hydro One Limited shares equal to 2.7% of their April 1, 2015 base rate/ by IPO share price. An increase to pension contributions of on average 0.7% will also be implemented, which brings the total pension contribution increase on average to 2.7% since April 1 2015.

The Society Shares are not issued to eligible Society members until 2018. On April 1, 2018, there is a 0.5% base wage adjustment and eligible Society employees will receive their 1<sup>st</sup> installment of Hydro One Limited shares equal to 2.0% of their September 1, 2015 base rate/ by IPO share price. An increase to pension contributions of 0.5% will also be implemented, which brings the total pension contribution increase to 1.75% above the contribution rate in effect on September 1, 2015.



## PAYROLL TABLE 2013 TO 2018

2013

REPRESENTATION	TOTAL NO. EMPLOYEES	TOTAL WAGES	Base Pay	Overtime (Incl. Premium)	Incentive	Other Allowances	Average Base Pay
PWU Reg	3,321	360,796,279	281,875,202	63,863,013	5,000	15,053,064	84,877
SOCIETY Reg	1,260	137,310,153	127,597,867	6,218,672	18,650	3,474,964	101,268
MCP Reg	600	82,939,240	70,290,362	176,885	8,229,068	4,242,924	117,151
<b>Total Reg</b>	<b>5,181</b>	<b>581,045,672</b>	<b>479,763,431</b>	<b>70,258,571</b>	<b>8,252,718</b>	<b>22,770,952</b>	<b>92,601</b>
PWU Temp	205	6,751,607	6,520,851	189,533	0	41,224	31,809
Society Temp	46	3,144,574	2,911,798	115,174	0	117,602	63,300
MCP Temp	25	1,221,374	1,175,065	1,172	0	45,138	47,003
<b>Total Temp</b>	<b>276</b>	<b>11,117,556</b>	<b>10,607,714</b>	<b>305,878</b>	<b>0</b>	<b>203,963</b>	<b>38,434</b>
CASUAL	1,781	127,813,187	98,482,627	14,650,054	11,000	14,669,505	55,296
<b>TOTAL</b>	<b>7,238</b>	<b>719,976,414</b>	<b>588,853,773</b>	<b>85,214,503</b>	<b>8,263,718</b>	<b>37,644,421</b>	<b>81,356</b>

**2014**

<b>REPRESENTATION</b>	<b>TOTAL NO. EMPLOYEES</b>	<b>TOTAL WAGES</b>	<b>Base Pay</b>	<b>Overtime (Incl. Premium)</b>	<b>Incentive</b>	<b>Other Allowances</b>	<b>Average Base Pay</b>
PWU Reg	3,271	370,778,651	289,722,800	65,829,127	21,363	15,205,361	88,573
SOCIETY Reg	1,290	148,807,143	137,143,088	7,665,451	40,600	3,958,004	106,312
MCP Reg	584	81,578,789	67,757,213	185,789	7,192,909	6,442,879	116,023
<b>Total Reg</b>	<b>5,145</b>	<b>601,164,583</b>	<b>494,623,100</b>	<b>73,680,367</b>	<b>7,254,872</b>	<b>25,606,244</b>	<b>96,137</b>
PWU Temp	160	4,641,750	4,545,582	71,729	0	24,439	28,410
Society Temp	53	2,999,247	2,850,420	49,519	0	99,308	53,782
MCP Temp	27	1,597,893	1,527,837	0	0	70,056	56,587
<b>Total Temp</b>	<b>240</b>	<b>9,238,889</b>	<b>8,923,838</b>	<b>121,248</b>		<b>193,803</b>	<b>37,183</b>
CASUAL	1,951	146,895,649	111,501,232	18,773,141	0	16,621,276	57,151
<b>Total</b>	<b>7,336</b>	<b>757,299,121</b>	<b>615,048,171</b>	<b>92,574,755</b>	<b>7,254,872</b>	<b>42,421,323</b>	<b>83,840</b>

2015

<b>REPRESENTATION</b>	<b>TOTAL NO. EMPLOYEES</b>	<b>TOTAL WAGES</b>	<b>Base Pay</b>	<b>Overtime (Incl. Premium)</b>	<b>Incentive</b>	<b>Other Allowances</b>	<b>Average Base Pay</b>
PWU Reg	3,350	368,449,119	293,565,741	57,001,053	14,000	17,868,324	87,632
SOCIETY Reg	1,285	148,539,224	137,568,561	6,732,360	2,000	4,236,303	107,057
MCP Reg	585	84,289,003	71,950,517	66,188	8,326,449	3,945,849	122,992
<b>Total Reg</b>	<b>5,220</b>	<b>601,277,346</b>	<b>503,084,819</b>	<b>63,799,601</b>	<b>8,342,449</b>	<b>26,050,477</b>	<b>96,376</b>
PWU Temp	154	4,604,443	4,379,175	142,105	0	83,162	28,436
Society Temp	56	3,370,167	3,185,769	30,148	0	154,250	56,889
MCP Temp	34	1,858,713	1,780,187	28,392	0	50,134	52,358
<b>Total Temp</b>	<b>244</b>	<b>9,833,322</b>	<b>9,345,132</b>	<b>200,645</b>	<b>0</b>	<b>287,546</b>	<b>38,300</b>
CASUAL	1,819	140,242,277	109,059,885	15,359,842	0	15,822,550	59,956
<b>TOTAL</b>	<b>7,283</b>	<b>751,352,945</b>	<b>621,489,835</b>	<b>79,360,089</b>	<b>8,342,449</b>	<b>42,160,572</b>	<b>85,334</b>

**2016**

<b>REPRESENTATION</b>	<b>TOTAL NO. EMPLOYEES</b>	<b>TOTAL WAGES</b>	<b>Base Pay</b>	<b>Overtime (Incl. Premium)</b>	<b>Incentive</b>	<b>Other Allowances</b>	<b>Average Base Pay</b>
PWU Reg	3,411	384,766,692	307,771,694	58,619,373	0	18,375,625	90,229
SOCIETY Reg	1,241	145,544,065	134,898,018	6,534,345	0	4,111,703	108,701
MCP Reg	596	88,255,656	75,502,535		8,652,675	4,100,445	126,682
<b>Total Reg</b>	<b>5,248</b>	<b>618,566,413</b>	<b>518,172,247</b>	<b>65,153,717</b>	<b>8,652,675</b>	<b>26,587,773</b>	<b>98,737</b>
PWU Temp	230	6,945,533	6,605,730	214,357	0	125,446	28,721
Society Temp	51	3,084,606	2,915,832	27,593	0	141,180	57,173
MCP Temp	26	1,427,650	1,388,546		0	39,104	53,406
<b>Total Temp</b>	<b>307</b>	<b>11,457,788</b>	<b>10,910,108</b>	<b>241,951</b>	<b>0</b>	<b>305,730</b>	<b>35,538</b>
CASUAL	1,971	153,480,870	119,354,922	16,809,781	0	17,316,167	60,556
<b>TOTAL</b>	<b>7,526</b>	<b>783,505,072</b>	<b>648,437,277</b>	<b>82,205,449</b>	<b>8,652,675</b>	<b>44,209,670</b>	<b>86,160</b>

2017

<b>REPRESENTATION</b>	<b>TOTAL NO. EMPLOYEES</b>	<b>TOTAL WAGES</b>	<b>Base Pay</b>	<b>Overtime (Incl. Premium)</b>	<b>Incentive</b>	<b>Other Allowances</b>	<b>Average Base Pay</b>
PWU Reg	3,319	386,516,917	310,849,411	57,608,700	0	18,058,806	93,658
SOCIETY Reg	1,212	145,551,630	135,102,376	6,413,557	0	4,035,698	111,471
MCP Reg	593	89,567,644	76,624,939		8,781,304	4,161,402	129,216
<b>Total Reg</b>	<b>5,124</b>	<b>621,636,191</b>	<b>522,576,726</b>	<b>64,022,257</b>	<b>8,781,304</b>	<b>26,255,905</b>	<b>101,986</b>
PWU Temp	221	6,740,488	6,410,717	208,029	0	121,742	29,008
Society Temp	49	2,978,459	2,815,493	26,644	0	136,322	57,459
MCP Temp	25	1,400,195	1,361,843		0	38,352	54,474
<b>Total Temp</b>	<b>295</b>	<b>11,119,143</b>	<b>10,588,054</b>	<b>234,673</b>	<b>0</b>	<b>296,416</b>	<b>35,892</b>
CASUAL	2,106	165,633,191	128,805,216	18,140,747	0	18,687,228	61,161
<b>TOTAL</b>	<b>7,525</b>	<b>798,388,525</b>	<b>661,969,995</b>	<b>82,397,677</b>	<b>8,781,304</b>	<b>45,239,549</b>	<b>87,969</b>

**2018**

<b>REPRESENTATION</b>	<b>TOTAL NO. EMPLOYEES</b>	<b>TOTAL WAGES</b>	<b>Base Pay</b>	<b>Overtime (Incl. Premium)</b>	<b>Incentive</b>	<b>Other Allowances</b>	<b>Average Base Pay</b>
PWU Reg	3,278	385,559,650	310,079,546	57,466,023	0	18,014,080	94,594
SOCIETY Reg	1,177	142,055,149	131,856,909	6,259,488	0	3,938,751	112,028
MCP Reg	587	90,434,623	77,366,637	0	8,866,303	4,201,682	131,800
<b>Total Reg</b>	<b>5,042</b>	<b>618,049,421</b>	<b>519,303,092</b>	<b>63,725,512</b>	<b>8,866,303</b>	<b>26,154,514</b>	<b>102,995</b>
PWU Temp	215	6,623,064	6,299,037	204,405	0	119,621	29,298
Society Temp	49	2,993,351	2,829,571	26,777	0	137,003	57,746
MCP Temp	25	1,428,199	1,389,080		0	39,119	55,563
<b>Total Temp</b>	<b>289</b>	<b>11,044,614</b>	<b>10,517,688</b>	<b>231,182</b>	<b>0</b>	<b>295,744</b>	<b>36,393</b>
CASUAL	2,158	171,420,129	133,305,447	18,774,553	0	19,340,128	61,773
<b>TOTAL</b>	<b>7,489</b>	<b>800,514,164</b>	<b>663,126,228</b>	<b>82,731,247</b>	<b>8,866,303</b>	<b>45,790,385</b>	<b>88,547</b>

**Ontario Energy Board (Board Staff) INTERROGATORY #127**

**Reference:**

Exhibit C1/Tab 4/Sch1, p. 22

Hydro One indicates that in 2015, approximately 57% of the total transmission capital work was performed by casual, unionized employees.

**Interrogatory:**

- a) Can Hydro One provide an estimate of the savings that are generated by this level of casual labour?
- b) What are the additional costs, if any, to Hydro One for employing this level of casual labour (both financial and operational)?
- c) Will Hydro One continue to increase this percentage in the 2017 and 2018 test years?

**Response:**

- a) Hydro One is obligated through collective agreements to assign work to the various unions based on their work jurisdiction entitlements. Since there are no options to assign work to another union, there are no savings.
- b) See response to part a).
- c) See response to part a).

**Ontario Energy Board (Board Staff) INTERROGATORY #075**

**Reference:**

Exhibit B1/Tab3/ Sch 10 p. 1

**Interrogatory:**

This section of the application acknowledges that in April 2010 the OEB had accepted a methodology proposed by Black & Veatch (BV) that derived an overhead capitalization rate for Hydro One Distribution's common corporate costs. This accepted methodology was used in the 2013-14 and 2015-16 transmission rate applications. Hydro One indicates that this methodology continues to be a reasonable method of distributing common corporate costs to capital projects for transmission rates in 2017-2018.

- a) Please file a copy of the review of capitalization filed in the EB-2012-0031 proceeding.
- b) Please outline the analysis that Hydro One undertook to support its statement of the continued reasonableness of the BV methodology?
- c) How would the nature and quantum of the costs being capitalized under the current methodology be impacted if the capitalization guidance prescribed by IAS 16 was followed?

**Response:**

- a) Attached please find a copy of the review of capitalization filed in the EB-2012-0031 proceeding.
- b) The methodology review has been undertaken by Black & Veatch to assess the reasonableness and conformity to the OEB-accepted methodology. As stated in the instructions provided to Black & Veatch, which can be seen on page 15 of Exhibit B1-3-10, Attachment 1 and as stated in the expert evidence statement, which can be found on page 16 of Exhibit B1-3-10, Attachment 1, a review and update of the accepted methodology has been done as part of this study.
- c) It is expected that under IAS 16 total capitalization on a consolidated basis at the Hydro One Limited level would decrease by approximately \$310 million.



**Ontario Energy Board (Board Staff) INTERROGATORY #131**

**Reference:**

Exhibit C1/Tab 4/Sch2, p. 2 – Table 1 Cash Pension Cost

**Interrogatory:**

- a) Please reconcile the total cash pension cost for the test years to the annual funding requirements outlined in the June 9, 2016 Willis Towers Watson actuarial valuation provided in Exhibit C1/Tab 4/Sch 2, Attachment 1 (p.19).
- b) Hydro One Transmission has historically recovered OPEBs in rates on an accrual basis:
- i) Please complete the table below to illustrate the delta between recovering on an accrual basis compared to the actual cash benefit payments made in the given years.
- ii) Please describe what Hydro One Transmission has done with any recoveries in excess of cash benefit payments.
- iii) How are OPEB costs allocated between the Transmission and Distribution operations?
- iv) How are OPEB costs allocated between OM&A and Capital?
- v) Please provide the actuarial valuation to support the amounts being claimed in the test years as noted in above graph.

**Response:**

a)

	2017	2018
Normal actuarial cost	79,932	77,446
Going concern payments	9,119	9,119
Solvency amortization payments	15,586	15,586
Updated total cash pension cost	104,637	102,151

Subsequent to the filing of the blue page update, Hydro One completed a detailed reconciliation of the various components of the Pension costs and compared to the interim valuation information. As a result, it is updating the Pension cost information for the test years resulting in a further decrease to the plan's operating expenses. The update is outlined below:

Witness: Samir Chhelavda

<b>2017 - Forecast</b>					
<b>Corporate Pension Costs</b>		<b>Transmission</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
OM&A	\$M	18	26	4	48
Capital	\$M	31	25		57
	<b>\$M</b>	<b>49</b>	<b>52</b>	<b>4</b>	<b>105</b>
<b>2018 - Forecast</b>					
<b>Corporate Pension Costs</b>		<b>Transmission</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
OM&A	\$M	16	24	4	44
Capital	\$M	30	28		58
	<b>\$M</b>	<b>46</b>	<b>52</b>	<b>4</b>	<b>102</b>

In test years 2017 and 2018, OM&A is reduced by \$0.4M and \$1.9M, respectively, relative to the filed Blue Page update.

b)  
i.

<b>OPEBs</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Amounts included in rates:</b>						
OM&A	25	28	23	20	23	21
Capital	28	29	28	23	29	30
<b>Sub-total</b>	<b>53</b>	<b>57</b>	<b>51</b>	<b>44</b>	<b>52</b>	<b>50</b>
<b>Paid benefit amounts</b>	<b>19</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>24</b>	<b>26</b>
<b>Net excess amount included in rates greater than amounts actually paid</b>	<b>34</b>	<b>37</b>	<b>31</b>	<b>21</b>	<b>27</b>	<b>25</b>

ii. Recoveries in excess of cash benefit payments form part of Hydro One's working capital, which is invested in capital and OM&A work programs.

iii. OPEB costs are allocated between Transmission and Distribution as well as between OM&A and capital based on the work programs of the Transmission and Distribution businesses which includes the allocation between the type of work involved (capital vs OM&A).

iv. See response to (iii) above.

Witness: Samir Chhelavda

- v. Hydro One does not have an actuarial valuation for OPEB expense. However Hydro One does have a projected cost report from Willis Towers Watson and has summarized the costs in the table below:

	2017	2018
Expected Benefit Cost	95,079	96,635
Expected Benefit Cost	6,489	6,373
Expected Benefit Cost	8,040	8,189
	109,608	111,197

Please note the portion of consolidated expense allocated to Transmission OM&A and Capital are noted below for 2017 and 2018.

2017	2018
21% OM&A	19% OMA
27% Capital	27% Capital

The relevant tables from the report supporting the costs above have been provided in the tables below.

Figures in \$000s	Projections	
	2017	2018
<b>Components of Benefit Cost</b>		
Employer service cost	32,583	32,516
Interest cost	61,109	63,150
Expected return on plan assets	-	-
Net prior service (credit)/cost amortization	-	-
Net (gains)/loss amortization	1,387	969
Curtailments	-	-
Settlements	-	-
Special/contractual termination benefits	-	-
Disclosed benefit cost	95,079	96,635

**Components of Benefit cost**

Employer service cost	1,352	1,242
Expected letter of credit fee	390	390
Interest cost	4,231	4,307
Expected return on plan assets	0	0
Net prior service cost amortization	10	0
Net loss/(gain) amortization	506	434
Curtailments	0	0
Settlements	0	0
Special/contractual termination benefits	0	0
Net expense (income)	<u>6,489</u>	<u>6,373</u>

1

**Components of Benefit Cost**

Employer service cost	5,776	5,905
Interest cost	2,264	2,284
Expected return on plan assets	-	-
Net prior service (credit)/cost amortization	-	-
Net (gains)/loss amortization	-	-
Curtailments	-	-
Settlements	-	-
Special/contractual termination benefits	-	-
Disclosed benefit cost	<u>8,040</u>	<u>8,189</u>

2

pensionable earnings for all of Hydro One employees. The method of allocation of the pension cost is consistent among all shared services costs, for operating and capital costs, and is consistent with the methodology reviewed during RP-2005-0020/EB-2005-0378, EB-2006-0501, EB-2007-0681 and EB-2008-0272, EB-2009-0096, EB-2010-0002, EB-2012-0031 and EB-2014-0140.

In 2014 and 2015, actual contributions were \$174 million and \$177 million, respectively. For the Transmission business, the annual charges sought for recovery through rates for the test years 2017 and 2018 are provided in the Transmission column in table below:

**Table 1: Cash Pension Cost (millions, Updated)**

**2017 Cash pension cost (millions)**

<b>Pension Costs</b>		<b>Transmission</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
OM&A	\$M	18	27	6	52
Capital	\$M	33	27		59
	<b>\$M</b>	<b>51</b>	<b>54</b>	<b>6</b>	<b>111</b>

**2018 Cash pension cost (millions)**

<b>Pension Costs</b>		<b>Transmission</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
OM&A	\$M	18	26	6	50
Capital	\$M	32	31		63
	<b>\$M</b>	<b>50</b>	<b>57</b>	<b>6</b>	<b>113</b>

**CALCULATION OF REVENUE REQUIREMENT**

HYDRO ONE NETWORKS INC.  
TRANSMISSION  
Calculation of Revenue Requirement  
Year Ending December 31  
(\$ Millions)

<b>Line No.</b>	<b>Particulars</b>	<b>2017</b>	<b>2018</b>
		<b>(a)</b>	<b>(b)</b>
	Cost of Service		
1	Operating, maintenance & administrative	\$ 413.1	\$ 411.2
2	Depreciation & amortization	435.7	470.7
3	Capital taxes	0.0	0.0
4	Income taxes	81.3	90.4
5	Cost of service excluding return	\$ <u>930.1</u>	\$ <u>972.3</u>
6	Return on capital	671.5	710.3
7	AFUDC recovery on Niagara Reinforcement Project	4.6	4.6
8	Total revenue requirement	\$ <u><u>1606.3</u></u>	\$ <u><u>1687.2</u></u>

**Table 1: CCFS Costs (\$ Millions)**

Description	Historic Years				Bridge Year	Test Years		TX Allocation	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
Corporate Management	5.0	4.9	5.5	5.4	11.1	22.3	22.1	7.2	7.1
Finance	35.2	41.9	41.0	40.4	42.2	41.0	38.6	21.9	19.4
People and Culture	9.9	11.1	13.1	13.9	16.0	14.8	14.2	7.6	7.3
Corporate Relations	11.3	15.0	19.6	17.4	17.5	17.3	19.4	8.7	9.9
General Counsel and Secretariat	8.8	9.6	9.3	9.3	10.5	10.4	10.5	5.5	5.6
Regulatory Affairs	20.6	20.6	23.1	24.4	25.8	25.4	25.9	9.6	9.8
Security Management	3.1	3.4	3.5	4.2	5.1	4.7	4.8	2.2	2.3
Internal Audit	3.5	3.4	4.0	4.3	6.0	6.3	6.4	3.3	3.4
Real Estate and Facilities	54.6	54.1	53.6	60.0	60.1	59.6	60.7	32.2	32.7
<b>Total CCF&amp;S Costs</b>	<b>152.0</b>	<b>164.0</b>	<b>172.8</b>	<b>179.4</b>	<b>194.2</b>	<b>201.8</b>	<b>202.7</b>	<b>98.3</b>	<b>97.6</b>

Total CCFS costs increase by \$23.3 million from 2015 to 2018 primarily due to the following factors:

- higher Corporate Management costs due to increases in compensation;
- higher Internal Audit costs resulting from making rotational staff permanent and an increased staffing requirement to address an expanding work program;
- higher Regulatory Affairs costs reflecting an aggressive regulatory agenda and, beginning in 2015, the inclusion of business performance management costs previously included in Finance costs; and
- higher General Counsel and Corporate Secretariat costs to address an increasing workload and greater complexity in the company's legal matters.

Witness: Glenn Scott

**Ontario Energy Board (Board Staff) INTERROGATORY #121**

**Reference:**

Exhibit C1/Tab 3/Sch3, p. 2 (Table 1)

Table 1 provides the Tx allocation for the CCFS costs for the 2017 and 2018 test years only.

**Interrogatory:**

- a) Please provide the Tx allocation for the 2012 to 2016 period as well.
- b) Please provide similar breakdown for Exhibit C1/Tab3/Sch4 pg. 2 Table 1.
- c) Please provide similar breakdown for Exhibit C1/Tab3/Sch5 pg. 1 Tables 1-7.
- d) Please provide similar breakdown for Exhibit C1/Tab3/Sch7 pg. 1 Tables 1-2.

**Response:**

- a) Please see the requested table for Exhibit C1, Tab 3, Schedule 3 below.

**Table 1: CCFS (\$ Millions) 2012-2016**

<b>Description</b>	<b>TX 2012</b>	<b>TX 2013</b>	<b>TX 2014</b>	<b>TX 2015</b>	<b>TX 2016</b>
Corporate Management	2.5	2.1	2.7	2.8	4.0
Finance	20.7	25.1	23.2	22.9	23.3
People and Culture	6.0	6.5	7.0	6.8	8.4
Corporate Relations	5.3	6.5	9.4	7.7	8.7
General Counsel	4.9	5.4	4.9	5.0	5.5
Regulatory Affairs	9.0	10.3	9.9	10.5	10.2
Security Management	1.5	1.6	1.7	2.0	2.4
Internal Audit	2.3	2.1	2.4	2.6	3.2
Real Estate and Facilities	28.3	28.0	31.8	35.5	33.1
<b>Total CCF&amp;S Costs</b>	<b>80.5</b>	<b>87.7</b>	<b>93.1</b>	<b>95.7</b>	<b>98.9</b>



b) Please see the requested table for Exhibit C1, Tab 3, Schedule 4 below.

**Table 1: Planning Expenditures (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
System Investment	26.3	25.2	26.1	21.1	25.4
Asset Stewardship & Strategies	6.1	6.5	6.5	9.9	11.1
<b>Total</b>	<b>32.3</b>	<b>31.8</b>	<b>32.6</b>	<b>31.0</b>	<b>36.6</b>

c) Please see the requested tables for Exhibit C1, Tab 3, Schedule 5 below. (Note that Table 3 contains a description of strategic information technology systems and no cost information.)

**Table 1: Information Technology Summary of OM&A Expenditures (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
Sustainment	35.5	33.4	31.6	30.6	32.0
Development	3.7	4.1	3.2	5.3	7.2
Business Telecom	10.6	11.0	9.5	8.3	9.9
IT Security	-	-	-	-	-
IT Management & Project Control	10.5	11.9	10.5	10.9	12.3
Cornerstone	0.4	0.7	0.4	0.0	-
<b>Total</b>	<b>60.7</b>	<b>61.1</b>	<b>55.2</b>	<b>55.1</b>	<b>61.4</b>

**Table 2: OM&A Sustainment of Information Technology (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
Base IT Sustainment Services	29.5	26.8	24.7	23.8	23.8
3rd Party Contracts	6.0	6.6	6.9	6.8	8.2
<b>Total</b>	<b>35.5</b>	<b>33.4</b>	<b>31.6</b>	<b>30.6</b>	<b>32.0</b>

**Table 4: Development Expenditures (\$Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
Enhancements	2.0	2.5	1.7	2.0	2.4
Upgrades	1.7	1.6	1.5	2.7	3.1
Impact of Capital Projects	-	-	0.0	0.6	1.7
<b>Total</b>	<b>3.7</b>	<b>4.1</b>	<b>3.2</b>	<b>5.3</b>	<b>7.2</b>

**Table 5: IT Security (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
IT Security	-	-	-	-	-

**Table 6: Business Telecom OM&A Expenditures (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
Operations and Carrier Management	3.3	4.2	3.9	3.6	4.0
Field Services	1.6	1.4	1.3	0.9	0.9
Voice and Data Network Services	5.7	5.4	4.3	3.8	4.5
Mobility Services <sup>1</sup>	-	-	-	-	0.5
<b>Total</b>	<b>10.6</b>	<b>11.0</b>	<b>9.5</b>	<b>8.3</b>	<b>9.9</b>

<sup>1</sup> Mobility Services costs moved to IT from each business division's non-labour costs starting in 2016

**Table 7: IT Management & Project Control Expenditures (\$ Millions) 2012-2016**

	TX	TX	TX	TX	TX
Description	2012	2013	2014	2015	2016
IT Management	10.0	11.3	10.0	10.3	11.5
Project Support and Control	0.5	0.6	0.5	0.6	0.8
<b>Total</b>	<b>10.5</b>	<b>11.9</b>	<b>10.5</b>	<b>10.9</b>	<b>12.3</b>

d) The tax and payment information in Tables 1 and 2 represent a 100 % allocation to transmission. Please refer to Exhibit C1, Tab3, Schedule 7.

1 **London Property Management Association (LPMA) INTERROGATORY #012**

2  
3 **Reference:**

4 Exhibit C1, Tab 6, Schedule 1 & EB-2013-0416 Exhibit C1, Tab 5, Schedule 1

5  
6 **Interrogatory:**

7 Please explain the significant increase in total CCF&S costs shown in the current evidence of  
8 \$201.8 for 2017 and \$202.7 for 2018 in Tables 1 and 2 with the figures in Tables 3 and 4 in  
9 Exhibit C1, Tab 5, Schedule 1 in EB-2013-0416 of \$175.3 (Table 3) for 2017 and \$179.2 (Table  
10 4) for 2018.

11  
12 **Response:**

13 The most significant increase from the costs reflected in EB-2013-0416 is in the Corporate  
14 Management costs. A large part of this increase is due to the inclusion of \$6.3 million of costs  
15 that are not recoverable from transmission or distribution customers. These costs were not  
16 included in the summaries in previous years. These are costs associated with: (a) “value growth”  
17 team engaged in acquisitions; (b) corporate donations; and (c) investor relations. The balance of  
18 the increase is largely due to increased salaries in this group. As Hydro One has been evolving,  
19 the company has hired several new senior executives at market rates. See Exhibit I, Tab 11,  
20 Schedule 23 for details.

21  
22 A revised view of Table 1: CCF&S Costs (\$ Millions) is provided below, isolating these costs  
23 and showing the Corporate Management costs exclusive of value growth, corporate donations,  
24 and investor relations.

**Table 1: CCF&S Costs (\$ Millions)**

Description	Historic Years				Bridge Year	Test Years		TX Allocation	
	2012	2013	2014	2015	2016	2017	2018	2017	2018
Corporate Management	5.0	4.9	5.5	12.5	23.4	22.3	22.1	7.2	7.1
Value Growth					5.9	4.2	4.2	0.0	0.0
Corporate Donations					1.1	1.1	1.1	0.0	0.0
Investor Relations					1.8	1.0	1.0	0.0	0.0
Corporate Management (excluding 3 groups above)					14.5	16.0	15.7	7.2	7.1
Finance	35.2	41.9	40.0	39.1	42.1	41.0	38.6	21.9	19.4
Human Resources	9.9	11.1	12.8	13.6	16.2	14.8	14.2	7.6	7.3
Corporate Communications & Services	11.3	15.0	19.5	17.3	17.5	17.3	19.4	8.7	9.9
General Counsel and Secretariat	8.8	9.6	8.7	8.6	10.3	10.4	10.5	5.5	5.6
Regulatory Affairs	20.6	20.6	23.0	24.1	26.4	25.4	26.0	9.6	9.8
Security Management	3.1	3.4	3.5	4.2	5.1	4.7	4.8	2.2	2.3
Internal Audit	3.5	3.4	3.6	4.2	6.2	6.3	6.4	3.3	3.4
Real Estate & Facilities	54.6	54.1	53.6	60.0	60.1	59.6	60.7	32.2	32.7
Total CCF&S Costs	<b>152.0</b>	<b>164.0</b>	<b>170.3</b>	<b>183.6</b>	<b>207.3</b>	<b>201.8</b>	<b>202.6</b>	<b>98.3</b>	<b>97.5</b>

Human resources costs have also increased by approximately \$2 million. The period 2013 to 2015 saw an increase in training costs for: (a) a larger new graduate population; and (b) existing employees, specifically on the topic of the “craft of management”, with a focus on managers and supervisors. Some of the costs can also be attributed to on-campus recruitment and marketing.

Between 2016 and 2018, with Hydro One’s move to a more commercially-oriented culture, the People and Culture organization now requires resources and skills to meet new requirements. Examples include: (a) building and sustaining new compensation structures, such as the long-term incentive plan, the short-term incentive plan, and the employee stock option plan; (b) a renewed focus on performance management, which required building and sustaining a new talent management tool; and (c) a renewed focus on change management intended to maximize the value of corporate change initiatives.

Witness: Glenn Scott

1 Regulatory Affairs' costs have also increased by approximately \$3.9 million in 2017 and \$2.7  
2 million in 2018 for the reasons explained in Exhibit C1, Tab 3, Schedule 3. There is a planned  
3 staffing reduction based on a computer system upgrade that will enable automatic reporting,  
4 which is currently performed manually, but this has been delayed beyond the rate period.

5  
6 Internal Audit costs have also increased by \$2.7 million for the reasons explained in Exhibit C1,  
7 Tab 3, Schedule 3.

**Energy Probe INTERROGATORY #023**

**Reference:**

Exhibit C1, Tab 4, Schedule 1, Pages 17/18

**Interrogatory:**

Preamble: To recruit a new Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), Hugessen Consulting provided advice to the Hydro One Board on an appropriate compensation framework and more broadly, to provide advice on a new compensation structure to be established in 2016.

- a) Please provide the Hugesson Consulting Report.
- b) Please provide the Recommendations made to the Government and the Hydro One Board based on the Report.
- 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.
- 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.

**Response:**

- a) Please see Exhibit I, Tab 6, Schedule 57, Attachment 1. Hugessen Consulting prepared the report *Preliminary CEO/CFO Pay Benchmarking* in April 2015 for the purposes of establishing CEO and CFO compensation. As per the part (d) of this interrogatory response, annually, Hydro One's Board of Directors will review the compensation level of these executives.
- b) Please see Attachment 1 to this response.
- c) 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 <sup>(1)</sup> . . .	90% of base salary	19%	60% of base salary	20%
Long Term Incentive <sup>(2)</sup> . . .	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) In 2014, Hydro One's CEO compensation was \$745,208, including benefits, and Hydro One's CFO compensation was \$521,635, including benefits. 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 were needed. The individuals with these skills have been added to Hydro One's leadership team 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

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



**Ontario Energy Board (Board Staff) INTERROGATORY #123**

**Reference:**

Exhibit C1/Tab3/Sch3/p. 20

Hydro One shows an increase in Internal Audit and Risk Management costs in the range of 50% from 2015 to 2018. The rationale provided is that rotational resources were made permanent and increased need for Internal Audit capabilities.

**Interrogatory:**

- a) Which originating departments reduced costs as resources were transferred to Internal Audit and what were the reductions in cost?
- b) Why did Internal Audit capabilities need to be increased? Please provide specific examples.

**Response:**

- a) For the most part, a few temporary resources were made into permanent positions and new permanent positions were created to fulfill the resource needs. Temporary positions are budgeted at lower cost than permanent positions as they do not have the long-term burdens associated. One position was moved from the Corporate Controller group, reducing its budget by approximately \$230,000.
- b) Resource increases were needed to address a backlog in audit work and complete the total number of audits planned.