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December 8, 2016

VIA RESS AND COURIER

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

RE: EB-2016-0160 Hydro One Networks Inc. (“Hydro One”) Transmission Rates Application – Consolidated Business Plan and Scorecards

I am writing to you in respect of the exchanges that occurred today relating to the content of Hydro One’s Consolidated Business Plan as well as the status of the Individual Performance Scorecards.¹ I have been advised by my client on these matters and can provide the following update.

Consolidated Business Plan

With respect to the disclosure of content found in its Consolidated Business Plan, Hydro One is not prepared to disclose the entirety of that plan, as it is a bottom-up consolidation of all of the Company’s regulated and non-regulated businesses. As such, it would require substantial redaction to protect material, non-public information and information that is not otherwise relevant to Hydro One’s Transmission business.

That said, Hydro One understands that the matters of concern to the Panel relate to common corporate costs, and in order to provide the information that will be of use to the Board, Hydro One is prepared to file the following three sections of its Consolidated Business Plan: (i) strategy; (ii) customer; and (iii) common corporate costs.

These sections will demonstrate the alignment of the Consolidated Corporate Business Plan with the Transmission Business Plan approved on December 2, 2016 (Exhibit K8.1), and will provide visibility into the corporate cost profile of the company consistent with the Transmission Business Plan and Hydro One’s application in this proceeding. This material is enclosed.

¹ Day 9 Transcript, Page 71, Line 9 to Page 73, Line 11; Day 9 Transcript, Page 215, Line 19 to Page 216, Line 20.

Should the Panel wish to recall Mr. Vels on Monday or Tuesday (December 12, 2016 or December 13, 2016), he would be pleased to discuss these sections of the Consolidated Business Plan and answer any additional questions.

Status Update on Individual Performance Scorecards

With respect to the status of the individual executive performance scorecards, Hydro One believes that the appropriate course of action is for this matter to be discussed with Ms. McKellar during her appearance on the Finance Panel in this proceeding.

To the extent that the Panel wishes Mr. Vels to (i) supplement the information provided by Ms. McKellar relating to finalizing and having Hydro One's Human Resources Committee approve the Individual Performance Scorecards; and/or (ii) describe how the metrics in the Executive Leadership Team Individual Performance Scorecards relate to and are informed by the Tier 1, 2 and 3 productivity metrics in this application, Mr. Vels would be pleased to speak to these matters on Monday or Tuesday as well.

Yours truly,

McCarthy Tétrault LLP

Per:



For: Gordon M. Nettleton

GMN



Consolidated Business Plan 2017-2022

December 2, 2016

INTERNAL and CONFIDENTIAL

Strategy

The strategy and business goals set out below are consistent with and included in the business plans for Hydro One's Ontario-based transmission and distribution businesses. A statement of the company's vision, goals, and business objectives that includes non-Ontario growth, innovation, and other strategic imperatives is under development and will be presented to the Board in April 2017.

Hydro One's strategic vision for its Ontario-based, rate-regulated transmission and distribution businesses is the following: Hydro One is transforming to achieve its **vision** of becoming a best-in-class, customer-centric commercial entity, with a culture of continuous improvement and excellence in execution. To achieve this vision, Hydro One will execute on its **strategy** to transmit and distribute electricity safely and reliably in a manner that produces the greatest value for customers. Hydro One seeks to be excellent in every facet of its operations, to the benefit of customers, employees and shareholders.

Hydro One's **commercial** orientation means that the company will be focused on customers, demonstrate corporate accountability for performance outcomes, and drive company-wide efficiency and productivity. Understanding customers' needs and preferences and delivering transmission system outcomes that are valued by customers are critical to Hydro One's future success.

Hydro One's vision and strategy reflect **values** that are integral to the well-being of communities:

- Maintaining a safe workplace;
- Caring for customers;
- Operating as one company;
- Being people-powered; and
- Executing with excellence.

Hydro One's executive leadership and Board of Directors are committed to building a strong performance management culture and the ability to measure and track performance is essential to this vision.

Hydro One's vision, strategy and values inform everything the company does, as it works to align three competing but equally important factors: customer needs and preferences, responsible stewardship of its transmission system, and customer rates.

The key outcomes that the Company expects from its strategy are as follows:

- Improved levels of customer satisfaction;
- Minimizing the long-term cost of maintaining the reliability of the Transmission and Distribution systems;

- Maintain top quartile reliability in the Transmission system and continually improve reliability in the Distribution system by mitigating risk arising from asset deterioration;
- Achieve an injury free workplace and a safe environment for the public;
- Compliance with all regulatory and reliability standards; and
- Responsible environmental stewardship.

Customer Expectations

Hydro One will be a customer centric commercial entity that provides service to its customers that meets their needs and preferences while ensuring that the system continues to deliver safe, reliable energy. This customer focus requires that Hydro One have a strong understanding of customer's expectations for Hydro One. These expectations evolve and change over time which is why it is necessary for Hydro One to conduct formal customer engagement activities at regular intervals to ensure that Hydro One's business objectives and investment planning outcomes are appropriate, supplementing ongoing customer feedback and interaction. It also allows us to have focused discussions on system investment plans prior to rate filings.

Hydro One's Transmission and Distribution businesses have very different classes of customers that were segmented and engaged using a variety of consultation methods including but not limited to one-on-one sessions, online surveys and focus groups. The results of the engagement showed contrasting priorities between the two businesses. Transmission customers' top priority was reliability maintenance or improvement and they were willing to accept a small rate increase to achieve that outcome. In addition, energy quality was a significant factor for several sophisticated energy users. Distribution customers consistently prioritized low cost and wanted Hydro One to do its best to limit increases in rates. These preferences have guided the development of the investment plan for each business, with Transmission focusing on investments that will improve reliability and quality, and the Distribution investment plan designed to leverage productivity and keep rate impact low while still seeking some improvements in reliability. Both plans have benefited from a significant focus on analytics and cost efficiency plans to continue to reduce our own costs before we ask our customers for increases in rates.

More details on the methodology for customer engagement and detailed results of the findings can be found in the business plans for Transmission and Distribution.

Common Corporate Costs

Hydro One utilizes a centralized shared services model to deliver its common services to its transmission and distribution businesses and to its affiliated companies. Each business and affiliate pays their share of these costs based on a cost allocation methodology developed by Black and Veatch Corporation and approved by the OEB which utilizes a breakdown of activities and drivers based on cost causality principles.

Of the total common costs, 3.5% or \$11 million per year is not allocated to a regulated business as it relates to management of non-regulated activities (for example mergers and acquisitions and non-regulated strategy work).

Total Corporate Common Costs 2016 to 2022

Corporate Common Cost \$M	2016F	2017	2018	2019	2020	2021	2022	CAGR
Audit	\$ 4	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	9.6%
Corporate Management	\$ 20	\$ 23	\$ 23	\$ 24	\$ 24	\$ 24	\$ 24	3.6%
Customer and Corporate Relations	\$ 45	\$ 52	\$ 52	\$ 52	\$ 52	\$ 52	\$ 52	2.5%
Facilities Real Estate	\$ 9	\$ 9	\$ 9	\$ 10	\$ 10	\$ 10	\$ 10	1.6%
Finance Total	\$ 29	\$ 33	\$ 33	\$ 33	\$ 31	\$ 31	\$ 32	1.8%
Finance Inergi	\$ 12	\$ 11	\$ 12	\$ 12	\$ 13	\$ 13	\$ 13	1.7%
General Counsel and Secretary	\$ 9	\$ 10	\$ 10	\$ 10	\$ 10	\$ 11	\$ 11	2.6%
Information Solutions Division	\$ 22	\$ 21	\$ 21	\$ 21	\$ 21	\$ 22	\$ 22	0.2%
Network Operating	\$ 49	\$ 49	\$ 49	\$ 50	\$ 50	\$ 51	\$ 51	0.9%
Operations COO Office	\$ 3	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	3.4%
People & Culture	\$ 14	\$ 16	\$ 16	\$ 16	\$ 17	\$ 17	\$ 17	3.5%
Planning	\$ 49	\$ 52	\$ 52	\$ 52	\$ 52	\$ 52	\$ 53	1.3%
Regulatory Affairs	\$ 23	\$ 23	\$ 23	\$ 19	\$ 19	\$ 19	\$ 21	-1.4%
Strategic Services	\$ 1	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	10.4%
Total	\$ 288	\$ 313	\$ 312	\$ 310	\$ 312	\$ 315	\$ 320	1.8%

	OM&A	Capital
Transmission Portion	19.0%	30.0%
Distribution Portion	26.4%	19.4%
Other Allocated	5.2%	

Over the planning period between 2016 and 2022, corporate common expenditures are expected to rise by approximately 11% with a compounded annual growth rate of less than 2%, but still in excess of the expected price cap factor of 1.3%. Planned productivity savings and cost efficiencies play an integral role in capping the costs and, in some cases, fully offsetting required increases. From 2018 onwards the costs stabilize and annual increases are mostly due to inflationary pressures.

Main cost drivers and major initiatives within the business planning period are as follows:

- In 2017, Internal Audit will be assuming responsibility for the company's ICFR (Bill 198) program and the associated personnel resulting in increased costs, and in 2016 the new

management made a decision to increase both the talent and the scope of internal audit activities.

- People and Culture work requirements are growing over the business planning period, principally an investment in technology to introduce Employee Central and Workforce Analytics. This will allow for faster data extraction in generating reports and the ability to create customized dashboards for managers, and will result in better workforce planning based on attrition and workforce demand.
- The scope of work for Regulatory Affairs has increased significantly due to new requirements outlined in the OEB's Renewed Regulatory Framework (including the new customer engagement process) and new development projects and growth initiatives. Total costs for 2018 and beyond are as a result of efficiencies arising from the recent merging of the Reliability Compliance Assurance group with the Regulatory Compliance group.
- The 2017 to 2022 Customer and Corporate Relations group business plan allows Hydro One to deliver value to our customers and improve customer satisfaction while ensuring compliance with Ontario Energy Board regulations. Increased customer focus results in higher costs required to develop, implement and oversee initiatives leading to improved customer satisfaction results. Initiatives currently underway include improving First Call Resolution within the call centre, new technology that allows customers to interact with Hydro One through the channels of their choice, accommodated through various technology enhancements. Remote Disconnect technology will reduce disconnection volumes in the field since fewer truck-rolls will be required, resulting in approximately \$3 million of annual OM&A savings over the planning period.