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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 – Responses to Undertakings J10.2, J10.4, J11.6, and J11.22**

Hydro One’s responses to Undertakings J10.2, J10.4, J11.6, and J11.22 are enclosed.

Yours truly,

McCarthy Tétrault LLP

Per:



For: Gordon M. Nettleton

GMN

UNDERTAKING – J10.2

Undertaking

Best effort to provide data, re: total compensation.

Response

On a best efforts basis, Hydro One undertook to revise and recalculate the total compensation payroll table (Exhibit C1 Tab 4 Schedule 1 Attachment 1) to reflect total transmission compensation. Also, additional compensation data was requested to be added to the compensation table in order to provide a more comprehensive overview of transmission compensation.

Data limitations in the Hydro One payroll system do not allow compensation to be allocated to specifically its transmission or distribution businesses. Conversely, limitations in the financial system limit the ability to identify specific components of total wages.

Once an employee is paid, the cash distribution is embedded in the payroll system but it is not allocated to the specific segment. However, within the financial system, time is either directly charged to projects for ‘field’ staff, or is allocated using a methodology for ‘Corporate and Common’ staff. A typical ‘field’ employee’s time is charged using standard labour rates as described in Exhibit C1, Tab 5, Schedule 1. ‘Corporate and Common’ staff are allocated using the Black & Veatch methodology as described in Exhibit C1, Tab 6, Schedule 1, Attachment 1.

In order to provide the requested compensation data, a number of assumptions had to be made in order to provide the data in a timely way. These assumptions are detailed below.

- In order to allocated total labour spending embedded in the 2017 and 2018 test years, the same methodology used in the Black & Veatch ‘Review of Overhead Capitalization Rates’ as outlined in exhibit B1, Tab 3, Schedule 10, Attachment 1 will be applied. More specifically, this study uses the Labour Content Method to identify the estimated percentage of labour spending within both transmission OM&A and capital spending.
- Employees often work on both transmission and distribution work activities. To estimate the employee headcount supporting the transmission business activities, a ratio of total transmission compensation: total compensation was applied to the year-end number of regular employees.

Witness: Keith McDonell

1 The total transmission compensation data reflects the growing transmission work
 2 program over time.
 3

1. MCP	2013	2014	2015	2016	2017	2018
Base Pay	33,809,609	33,403,974	34,123,844	34,849,010	36,112,363	35,382,042
Burdens	22,652,438	22,440,789	23,186,431	18,300,538	19,136,366	18,961,872
Other Allowances	1,996,627	3,122,164	1,862,959	1,962,964	2,023,887	1,964,916
Short Term Incentive	4,374,928	4,078,670	4,403,218	7,563,773	7,781,560	7,575,929
Long Term Incentive				941,353	2,763,137	4,271,137
Employee Share Ownership				981,455	991,270	1,001,182
Transmission Total	62,833,601	63,045,596	63,576,452	64,599,092	68,808,583	69,157,078

2. Society	2013	2014	2015	2016	2017	2018
Base Pay	59,219,915	66,479,040	65,846,926	65,888,139	69,476,526	66,432,079
Overtime	2,223,563	3,234,367	2,892,349	1,665,676	2,565,423	2,503,795
Lump Sums				658,568	1,312,146	-
Burdens	39,677,343	44,660,619	44,741,596	34,600,362	36,816,429	35,602,144
Share Grants						974,271
Transmission Total	101,120,821	114,374,026	113,480,871	102,812,746	110,170,524	105,512,289

3. PWU	2013	2014	2015	2016	2017	2018
Base Pay	134,138,104	143,634,042	143,273,208	153,322,467	159,963,690	153,432,958
Overtime	22,835,014	27,775,994	24,488,731	14,942,723	23,043,480	22,986,409
Lump Sums			1,345,306	2,810,715	-	-
Burdens	89,872,530	96,493,350	97,351,119	80,515,447	84,766,642	82,227,477
Share Grants					2,755,969	2,650,016
Transmission Total*	246,845,648	267,903,386	266,458,363	251,591,352	270,529,781	261,296,861

*Growth into test years relates to increasing work program

4. Temps	2013	2014	2015	2016	2017	2018
Casual Trades	44,489,030	52,518,110	50,641,118	57,137,565	62,644,095	62,340,282
MCP	530,830	719,625	826,616	664,724	662,329	649,603
Society	1,315,390	1,342,574	1,479,288	1,395,867	1,369,308	1,323,249
PWU	2,945,762	2,141,011	2,033,436	3,162,294	3,117,836	2,945,744
Overtime	5,347,679	7,972,313	6,685,080	4,346,674	7,350,168	7,602,294
Other Allowances	6,723,983	7,920,057	7,480,599	8,435,951	9,232,648	9,182,714
Burdens	3,889,760	4,610,969	4,467,202	4,837,717	5,462,373	5,548,041
Transmission Total*	65,242,434	77,224,661	73,613,339	79,980,793	89,838,758	89,591,926

*Growth into test years relates to increasing work program

Transmission Total Compensation*	476,042,503	522,547,669	517,129,026	498,983,983	539,347,645	525,558,154
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Labour in Work Program	2013	2014	2015	2016	2017	2018
Estimated Labour in Capital	317,396,377	362,360,860	362,315,956	365,303,753	354,849,786	351,973,855
Estimated Labour in OM&A	158,646,126	160,186,809	154,813,070	133,680,230	184,497,859	173,584,299
Transmission Total	476,042,503	522,547,669	517,129,026	498,983,983	539,347,645	525,558,154

*Consistent with Black & Veatch Methodology described in B1-3-10 attachment 1

*Labour includes fully burdened labour cost (including all wages and benefits)

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Pension / OPEB	2013	2014	2015	2016	2017	2018
Pension	79,000,000	77,000,000	77,000,000	50,000,000	49,000,000	46,000,000
OPEB	53,000,000	57,000,000	51,000,000	44,000,000	52,000,000	50,000,000

*Pension & OPEB embedded within burdens within payroll table above, refer to I-1-131

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1 **UNDERTAKING – J10.4**

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3 **Undertaking**

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5 To provide a fuller response to explain the derivation of the 17.6 percent, and to include
6 the equivalent on capital spend for transmission.

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8 **Response**

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10 The 17.6% allocation represents the transmission OM&A component of the \$71 million
11 difference calculated by Mercer. It was derived using the same Black & Veatch
12 methodology described in the ‘Review of Overhead Capitalization Rates’ report outlined
13 in Attachment 1 to Exhibit B1, Tab 3, Schedule 10. More specifically, this study uses the
14 “Labour Content Method” to identify the estimated percentage of labour spending within
15 both transmission OM&A and capital. (See page 4 of Attachment 1.) This is derived by
16 obtaining the most recent year-end actual splits of labour and non-labour dollars and
17 applying the equivalent allocations to the difference calculated by Mercer.

18
19 Using the same methodology, approximately 31.0% of the \$71 million, or \$22 million,
20 would be allocated to transmission capital.

1 **UNDERTAKING – J11.6**

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3 **Undertaking**

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5 To provide either a summary or the document that explains what the COO feedback was
6 and what the updates were.

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8 **Response**

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10 Following the Chief Operating Officer's (COO) review of the investment plan, the
11 following guidance and considerations were provided:

12
13 **Transmission**

- 14 • Align the Investment Plan's 2016 transmission OM&A budget with the OEB-
15 approved envelope, and limit transmission OM&A increases over the planning
16 period.
17 • Seek to balance the Stations maintenance program over the planning period to
18 minimize volatility and resource impacts.
19 • Identify investment candidates to which funds might be reallocated, if future
20 redirection was necessary.
21 • Confirm that development costs for investments with a variance account (Northwest
22 Bulk, Northwest GTA) are being appropriately captured and accounted for.
23 • Consider an inflationary rate impact scenario for 2017-18; ultimately the Investment
24 Plan must balance rate impacts, work volumes and asset need.
25 • Confirm the proposed transmission capital portfolio can be executed (to be reviewed
26 in September).
27 • Ensure that productivity and efficiency initiatives are documented and embedded
28 within the Investment Plan.

29
30 **Distribution**

- 31 • Review, and revise if necessary, assumptions associated demand-driven distribution
32 work.
33 • Reduce research development and demonstration funding.
34 • Investigate opportunities for cross-functional patrol coordination.
35 • Ensure that productivity and efficiency initiatives are documented and embedded
36 within the Investment Plan.

Witness: Mike Penstone

UNDERTAKING – J11.22

Undertaking

To point to in '17 and '18 where are the reductions reflected in the line items in overall OM&A costs.

Response

Exhibit TCJ 1.17 sets out the savings embedded within the investment plan. Specifically, as it relates to the Information Solutions Division the savings of \$3.4 million and \$4.5 million in 2017 and 2018 respectively are included in the following categories:

Exhibit & Page	Description	2017	2018
C1-3-5, Page 1, Table 1	Sustainment	\$2.9 million	\$4.0 million
C1-3-5, Page 1, Table 1	Business Telecom	\$0.5 million	\$0.5 million