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January 18, 2018

**VIA RESS, EMAIL AND COURIER**

Ms. 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-2017-0049 – Response to Procedural Order No. 3**

We are counsel to Hydro One Networks Inc. ("**Hydro One**") in the above-matter and are writing to report on the Joint Session Meeting ("**JSM**") held on January 16, 2018 in accordance with Procedural Order No. 3 in the above-noted matter.

The JSM provided parties active in the EB-2016-0160 proceeding ("**Transmission Proceeding**") with the opportunity to identify non-executive compensation evidence filed in that proceeding and to discuss if there was agreement to have this evidence included in the EB-2017-0049 record ("**Distribution Proceeding**").

For this purpose, Hydro One reviewed the Transmission Proceeding undertakings, interrogatory responses and transcripts. Only interrogatories and undertakings concerning non-executive compensation were identified.<sup>1</sup>

Hydro One provided JSM parties with a Table showing Transmission Proceeding undertakings and interrogatories which it viewed to be relevant to non-executive compensation evidence, organized by requesting party. Hydro One also provided an assessment of whether the answer provided in the Transmission Proceeding remained accurate or whether an updated response would be required for purposes of the Distribution Proceeding given the passage of time and/or given the change in hearing subject-matter.

Hydro One proposed that Transmission Proceeding exhibits not requiring updates are incorporated into the Distribution Proceeding evidentiary record.<sup>2</sup> No party attending the JSM

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<sup>1</sup> The distinction made between executive and non-executive compensation evidence was based on application of the executive compensation reduction determined in the Transmission Proceeding. This reduction affected Hydro One's "Corporate Management Costs". On December 12, 2017 Hydro One also revised its pre-filed application evidence in this proceeding to consistently apply a \$3.2 million reduction to Corporate Management Costs applicable to Distribution. This cost category concerns compensation for the executive positions of CFO, CEO, CLO and Board of Directors.

<sup>2</sup> Where Transmission Proceeding Interrogatory Requests contained a mixture of Corporate Management Costs and non-executive compensation questions (i.e. interrogatories involving multiple parts), only those responses addressing non-executive compensation would be filed in the Distribution Proceeding record.

objected to this proposal. If this is acceptable to the Board, Hydro One will proceed and have these undertakings and interrogatories filed as part of the Distribution Proceeding record.

With respect to Transmission Proceeding evidence identified as requiring updates, Hydro One proposed that parties originally requesting the information should determine whether updates are required or not. If updates are not requested, then it is understood that the Transmission Proceeding response cannot be relied on as Hydro One's evidence in the Distribution Proceeding. No party attending the JSM objected to this approach.

The rationale for updated responses was discussed at the JSM. In addition to the passage of time that has happened since the Transmission Proceeding evidence was prepared, Hydro One also noted preparation of its next Transmission Rates Case is underway and is expected to be filed with the Board in the second quarter of 2018. The outcome of the EB-2016-0160 proceeding will inform the content and evidence submitted as part of the next Transmission Rates Case. As it concerns compensation evidence, Hydro One explained that third party independent expert benchmarking reports are in the process of being prepared and will be filed as part of the next Transmission Rates Case. Similar to how the Board took into account Mercer Study evidence in the Transmission Proceeding<sup>3</sup>, Hydro One expects that new expert evidence prepared for the next Transmission Rates Case may be relevant and available while the Distribution Proceeding is being considered. JSM parties questioned Hydro One on the timing and availability of this new evidence. Hydro One confirms it will use all reasonable efforts to have all new independent compensation reports available by March 15, 2018.

The final issue discussed concerned incorporation of Transmission Proceeding transcripts.

Hydro One's Transmission Proceeding pre-filed non-executive compensation evidence was the responsibility of two witness panels. Mr. Georges Soare and Mr. Ryan Resch appeared on the first panel ("Expert Compensation Panel") and each testified to questions regarding their authored reports. Mr Soare's Report was limited in scope and addressed CFO and CEO Benchmarking results (the "Huggessen Report"). Mr. Resch's Report presented benchmarking results for all other employee categories (the "Willis Towers Watson Report"). The second witness panel ("The Finance Panel") comprised senior employees of Hydro One's Management Team. Their responsibilities and testimony touched upon topics broader than non-executive compensation.

Given these circumstances, Hydro One proposed that only Mr. Resch's transcribed testimony is incorporated into the Distribution Proceeding record. The Willis Towers Watson Report filed and testified to by Mr. Resch in the Transmission Proceeding is the same report filed in the Distribution Proceeding. As the content of the Report has not changed, Hydro One accepts that Mr. Resch's earlier testimony remains accurate. If revisions or updates are made to the Willis Towers Watson Report in the future, then it would be reasonable for the witness to be asked additional questions on those updates and in context of the pre-filed Report and prior testimony.

With respect to Finance Panel testimony, Hydro One does not propose having this evidence incorporated into the Distribution Proceeding Record. The responsibilities of the Finance Panel extended beyond the topic of non-executive compensation. Hydro One is mindful that parties to the Distribution Proceeding may avail themselves to reviewing these transcripts and asking Hydro One witnesses questions regarding previous testimony. However, placing prior

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<sup>3</sup> Recall the Mercer Study filed in the Transmission Proceeding was prepared as a result of Hydro One's last Distribution Rates Case and was not prepared specifically for the Transmission Proceeding. Nonetheless it was given consideration in the Transmission Proceeding. Hydro One expects new compensation evidence filed in the next Transmission Rates Case (in Q2 2018) will be available while the Distribution Proceeding is underway. Given this timing, Hydro One expects this to be filed in the Distribution Proceeding as Additional Evidence.

statements into context with the current proceeding should occur. Witnesses should be afforded the opportunity to understand how a prior statement is intended to be construed by the questioning party. If Finance Panel testimony is incorporated into the record and no follow-up questions occur, it is not clear what weight could be given to this evidence as Hydro One's witnesses would have had no opportunity to testify on its relationship to the current proceeding.

Hydro One believes that all parties attending the JSM were in agreement with this approach.

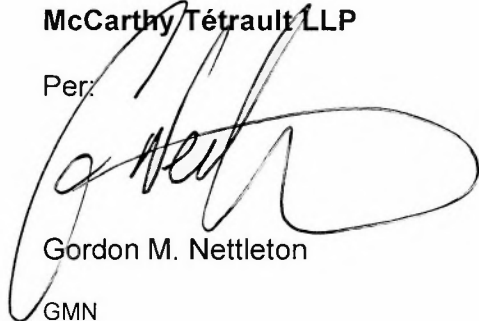
Attached to this Report is a copy of the document Hydro One circulated during the JSM. It has been revised to include two additional exhibits identified and received by Energy Probe.

We trust the foregoing is of assistance to the Board.

Yours truly,

**McCarthy Tétrault LLP**

Per:

A large, stylized handwritten signature in black ink, appearing to read 'G. Nettleton', is written over the 'Per:' text and extends to the right.

Gordon M. Nettleton

GMN

cc: EB-2017-0049 All Parties

Enclosure

**EB-2017-0049**  
**Procedural Order No. 3 Joint Session of Parties – January 16, 2018**

The purpose of this Joint Session Meeting is to identify compensation evidence filed in the EB-2016-0160 Transmission Proceeding record that may be relevant to Distribution Proceeding record (EB-2017-0049) and with the objective of avoiding of unnecessary duplication.

Provided below is a table showing Hydro One Networks Inc ("HONI") Interrogatory Responses and Undertakings filed in the EB-2016-0160 Transmission Proceeding that concern the scope of compensation evidence relevant to the EB-2017-0049 proceeding as per Procedural Order No. 3. For greater certainty, excluded from this list are Interrogatories addressing Corporate Management Costs (i.e. CFO, CLO, CEO and Board of Director compensation) as these positions pertain to the compensation to which the \$3.2 million reduction applies, as filed on December 12, 2017.

The table is organized by requesting party to show Transmission Proceeding Interrogatory Responses where the Response filed by HONI remains accurate ("Same Answer") or requires updating ("Requires Answer"), given the passage of time or the change in hearing subject-matter (Transmission vs Distribution rates).

Hydro One proposes that Interrogatory Responses listed by exhibit number under the "Same Answer" column are, by consent, incorporated by reference into the EB-2017-0049 Record. Transmission Proceeding Interrogatory Exhibits listed in the "Requires Update" Column are excluded from the EB-2017-0049 record. Questions must be re-asked if updated responses are required.

<b>EB-2016-0160 Requesting Party</b>	<b>Same Answer</b>	<b>2016 Interrogatories Requiring Updates</b>
AMPCO	I-003-006	1-03-067 TCJ1.12 J9.7 J9.8 J9.9
SEC	I-06-055 I-06-061	I-06-054 I-06-058 I-06-059 I-06-062 J10.3
SEP	I-08-010 I-08-011 I-08-012 I-08-013 I-08-014 I-08-015 I-08-016 I-08-017 I-08-018	I-08-019 TCJ1.25 TCJ1.26
CME	I-09-014	TCJ1.6
ENERGY PROBE	I-11-020 I-11-021 I-11-022 I-11-026	I-11-029 I-11-031 I-11-025 I-11-028 J.10.35
VECC	I-12-020 I-12-021	
CCC	I-13-021 (excluding Huggessen Report)	
PWU		J10.1
OEB Staff	TCJ2.1	