



BY EMAIL and RESS

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2300 Yonge Street
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December 18, 2017
Our File: EB20170049

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2017-0049 – Hydro One Dx 2018-2022 – SEC Comments re: PO No. 2

We are counsel to the School Energy Coalition ("SEC"). Pursuant to Procedural Order No. 2, these are SEC's comments on how the Board should scope the review of the compensation issue in this proceeding.

Hydro One's EB-2016-0160 Reconciliation

In its December 12th letter to the Board in response to Procedural Order No. 2 (the "Compliance Filing"), Hydro One Networks Inc. ("Hydro One") referenced comments it made during the Presentation Day regarding a plan to file an update to the application which will include an adjustment to its proposed compensation costs based on the comments made in the *Decision and Order* in EB-2016-0160 ("Transmission Decision"). Hydro One's update will reduce its 2018 Corporate Management expenses request from \$5.7M to \$3M, and an increase in its "Other OM&A – Other Costs" credit from \$10.5 to \$11.8M.¹ This has a total effect of reducing the proposed 2018 OM&A by \$3.2M. These changes appear to be centered around the Board's findings in the Transmission Decision that its corporate management costs were unreasonable.

SEC notes Hydro One has not proposed any changes to OM&A costs reflecting the bulk of the reductions made in this area in the Transmission Decision. In that decision the Board reduced the 2018 transmission OM&A costs by \$15M a year to reflect concerns it had not only with Hydro One's corporate management costs, but also with respect to the rest of its compensation costs:

The OEB is also concerned that Hydro One's progress towards bringing its total compensation levels down to the market median has now reversed. The Mercer Report indicates that a reduction in compensation amounts of about \$12.5 million is required to bring compensation levels to that median. Moreover the OEB agrees that Hydro One's total compensation amounts are likely understated because not all items of Hydro One compensation were included therein. The OEB accepts that there is likely some overlap between the estimates made by Mercer and WTW, as Hydro One suggests, but probably

¹ SEC understands this to be how Hydro One accounts for the capitalization of its labour costs. Hydro One includes the entire compensation amount in OM&A and then provides offsetting credit for the capitalized portion.

not a great deal of overlap because of the different categories of employees that were considered in each report.²

Hydro One has not proposed to make any changes to its compensation costs related to the non-corporate costs findings of the Board in the Transmission Decision. As Hydro One's counsel said at the Presentation Day, "at this stage is that it's still within the application."³ It is not clear why Hydro One is proposing to make adjustments to its OM&A request to reflect certain comments made by the Board's in the Transmission Decision but not others.

Scope of Compensation Issue

In Procedural Order No. 2, the Board commented that since Hydro One's compensation costs are dealt with on a consolidated basis, with the allocation done formulaically, "it does not intend to rehear the same evidence related to compensation in this distribution proceed that it did in the transmission proceeding".⁴

SEC interprets this direction to mean that the Board does not want to have unnecessary discovery (oral or written) and cross-examination, on compensation evidence that was already tested in the EB-2016-0160 proceeding. This interpretation is because the evidence is still required in this proceeding to allow the Board able to make its own findings on the compensation components of the distribution revenue requirement.

SEC proposes the best way to accomplish the Board's direction is for Hydro One, Board Staff, and the intervenors who were also participants in the EB-2016-0160 proceeding, to work together to agree to place on the record in this proceeding, interrogatories response, technical conference and oral hearing transcripts, and undertakings that related to duplicative compensation evidence. This would allow for the common parties to the two proceedings to avoid the need to ask additional interrogatories, and cross-examine witnesses on duplicative evidence.

For example, Hydro One has re-filed three expert compensation studies that are identical to the ones filed in the EB-2016-0160 (Hugessen Consulting regarding the CEO/CFO⁵ and two Towers Watson studies regarding executive compensation⁶ and non-executive management compensation⁷). From SEC's perspective, if the evidence and transcripts from the EB-2016-0160 proceeding were imported into this proceeding, there would be no additional need to ask additional interrogatories or to cross-examine those experts on their evidence again. The evidentiary and transcript references, as needed, can be referenced in argument.

With respect to non-strictly duplicative compensation evidence, the Board should avoid restricting how it will hear that evidence in this proceeding for a number of reasons.

First, compensation costs are a function of two general components, number of FTEs, and the level of compensation of those FTEs. With the exception of Hydro One's Common Cost category, the EB-2016-0160 proceeding and the resulting decision did not considered the appropriate number of FTEs that were reasonable for the distribution business. The appropriate number of FTEs is largely a function of the distribution specific OM&A programs and activities that will be subject to the review in this proceeding.

² Decision and Order (EB-2016-0160 – Hydro One Tx 2017-18), September 28 2017, Revised November , p.58

³ Presentation Day Transcript, December 7 2017, p.98

⁴ Hydro One December 12 2017, Letter to Ms. Walli, Re: Filing Additional Compensation Evidence ("Compliance Filing"), p.5

⁵ C1-2-1, Attachment 3

⁶ C1-2-1, Attachment 1

⁷ C1-2-1, Attachment 2



Second, as detailed in its Compliance Filing, Hydro One has made a number of methodological changes to its compensation costs tables from what was considered in the EB-2016-0160 proceeding. Some of those changes are not entirely clear, and the completeness and accuracy of the information has not been tested.⁸

Finally, some of the compensation evidence that is common between the two proceedings only arose during or after the EB-2016-0160 oral hearing and so there was limited review and testing of it. For example, J10.2 was an oral hearing undertaking filed after the close of cross-examination and so was never tested. Similarly, the Mercer compensation benchmarking study referred to in the Transmission Decision⁹ was not the entire report that has been filed in this proceeding, but a summary slide presentation with an accompanying Hydro One narrative. Those documents were filed in the middle of the EB-2016-0160 oral hearing.¹⁰ Due to the late date the information was filed, there was neither pre-hearing discovery, nor was a Mercer witness presented to be cross-examined.

Yours very truly,
Shepherd Rubenstein P.C.

Original signed by

Mark Rubenstein

cc: Wayne McNally, SEC (by email)
Applicant and Intervenors (by email)

⁸ Compliance Filing, p.4

⁹ Decision and Order (EB-2016-0160 – Hydro One Tx 2017-18), September 28 2017, Revised November , p.58

¹⁰ EB-2016-0160, See Letter to Ms. Walli, Re: Mercer Total Cost Benchmarking Study: December 5 2016