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December 21, 2017

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. 2 – Compensation Evidence

This letter is written on behalf of Hydro One Networks Inc. (“**Hydro One**”) in response to submissions received regarding Procedural Order No. 2 and as it concerns compensation evidence filed in this proceeding and its relationship to the evidence in EB-2016-0160 (the “Transmission Proceeding”).

The issue identified in Procedural Order No. 2 is the extent to which the Ontario Energy Board (“**OEB**”) should consider compensation evidence from the Transmission Proceeding in this proceeding.¹

Procedural Order No. 2 requested Hydro One to address the following questions:

1. Explain the differences among what it proposed for compensation in the transmission proceeding (i.e. EB-2016-0160) and what the OEB decided in the transmission proceeding; and
2. What is in Hydro One’s compensation evidence in the current distribution rates proceeding.

Hydro One’s December 12, 2017 filing addressed the substance of these questions in detail.²

Board staff’s submission dated December 18, 2017 provided an accurate chronology of Hydro One’s filings made in the Transmission Proceeding and in this Application. Board Staff has noted that Hydro One’s October 11, 2017 submission explained that methodologies for reporting compensation in the distribution proceeding had changed relative to the information and evidence relied on in the Transmission Proceeding. Board Staff observed that pension and OPEB costs were only included in the Transmission Proceeding when Hydro One filed its response to Undertaking J10.2. As such, this information was not tested or included as part of

¹ EB-2017-0049 Decision on Issues List, Interim Rates and Procedural Order No. 2, December 1, 2017 at page 5

² Filed as Exhibit C1/Tab2/Schedule1/Attachment7 in the EB-2017-0049 proceeding

the pre-filed evidence in the Transmission Proceeding. Material differences in pension and OPEB costs form part of Hydro One's pre-filed evidence in this proceeding.

Hydro agrees with Staff's characterization that the compensation evidence filed in the present distribution proceeding is materially different from the compensation evidence in the Transmission Proceeding. Hydro One submits that the evidence filed in this proceeding should be reviewed on its merits.

With respect to executive compensation, the December 12, 2017 filing explains Hydro One's intention of filing a further update to reflect a reduction in Corporate Management expenses. In the Transmission Proceeding Decision, the Board found that "transformation-related costs" associated with the initial public offering were not recoverable in transmission rates. In the present proceeding, Hydro One is proposing to reduce the initially applied-for levels of Corporate Management expenses by \$3.2 million in order to address these concerns and as they relate to distribution executive compensation. Specifically, this amount is based on inflation adjusted reductions between the pre and post IPO transaction levels for CEO, chief financial officer, the chief legal officer and Board of Director costs.

In view of these circumstances, Hydro One agrees with Board staff's position that the evidence relied upon in the Transmission Proceeding filed in support of the full recovery of transformation-related costs need not be reheard. Instead, the new issue in this proceeding concerns the quantum of the proposed reduction to Corporate Management expenses. Hydro One submits that this issue is within the scope of the existing compensation issues described in the Issues List. Additions or amendments to the Issues List are therefore not required.

In its December 18, 2017 submissions, the School Energy Coalition proposes that parties and Board staff meet to jointly assess whether specific evidence filed in the transmission proceeding may, by way of consent, be included in the record of this proceeding.

Hydro One supports the Board adopting procedural steps intended to expedite the regulatory processing of this Application. Meetings convened for the purpose of reducing and/or streamlining the consideration of issues set down for hearing (as proposed by SEC) would appear to have some merit and may in fact allow delineation of issues requiring testing through cross-examination versus issues that might be addressed via written final argument.

We trust the foregoing is satisfactory

Yours truly,

McCarthy Tétrault LLP

Per:



Gordon M. Nettleton

GMN

cc: EB-2017-0049 All Parties