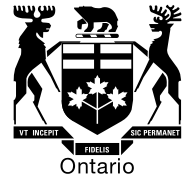


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**BY E-MAIL**

May 28, 2018

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Hydro One Networks Inc.  
Application for Rates  
OEB File Number EB-2017-0049**

In accordance with Decision on Confidentiality and Procedural Order No. 6 (the Procedural Order), please find attached the Ontario Energy Board staff interrogatories on the Willis Towers Watson Report titled "Hydro One Management and Non-Represented Role Benchmarking and 2018 Compensation Structure Recommendations" of November 28, 2017, filed on April 20, 2018 as part of Hydro One's additional compensation evidence, related to the above referenced application.

The Procedural Order also stated that parties were to file any submissions they may have on the appropriate process related to the pole attachment issue by today's date. The Procedural Order noted that on March 9, 2018, the OEB had issued Procedural Order No. 4 which, among other matters, acknowledged the February 27, 2018 motion by Rogers Communications Inc. (Rogers), an intervenor in the proceeding, in which it advised that it intended to file expert evidence related to Hydro One's proposed pole attachment rate. The OEB confirmed that it expected to address matters related to pole attachments following the outcome of the OEB's consultation on pole attachment charges<sup>1</sup> and that Rogers would not be required to file expert evidence by the April 6, 2018 deadline applicable to OEB staff and Anwaatin Inc.

OEB staff also makes its submissions in the context of both the issuance of the "Report of the Ontario Energy Board Wireline Pole Attachment Charges"<sup>2</sup> (Pole Attachment Report) on March 22, 2018 and the commencement of the oral hearing stage of this proceeding, which is currently scheduled to begin on June 11, 2018.

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<sup>1</sup> EB-2015-0304

<sup>2</sup> EB-2015-0304

OEB staff believes that whichever approach the OEB adopts to move forward on this matter, a number of steps would potentially be required. First, it would be necessary for Hydro One to review its current pole attachment proposal in the context of the Pole Attachment Report to determine whether or not it believes any changes to its proposal are necessary in light of the findings in this report. It is possible that if Hydro One determined that such changes were necessary and revised evidence was filed, interrogatories on any revised proposal might also be necessary.

However, even, if Hydro One were to determine that no changes were necessary, Rogers has indicated that it intends to file expert evidence on this matter.<sup>3</sup> Assuming that Rogers' intention remains unchanged, time would have to be allowed for Rogers to prepare such evidence, and then for parties to ask interrogatories and for Rogers to respond to any such interrogatories. After this stage is completed, there would also be subsequent potential steps such as a technical conference and/or a settlement conference and, if a settlement conference was unsuccessful or not undertaken, the possibility of an oral hearing on this matter.

Given the present status of this matter as outlined above, OEB staff would see two possible options as to how the OEB could move forward on pole attachment issues:

The first such option would be to maintain the review of Hydro One's pole attachment rate as part of the present proceeding. This would require the establishment of very tight deadlines for the filing of evidence and interrogatories in order to allow for an oral hearing on this evidence at the end of the current hearing, which is currently scheduled to run until the end of June.

OEB staff notes in this context that parties would now have the Pole Attachment Report as a basis for assessing such evidence, which may help expedite matters. In addition, parties would not be reviewing a proposal from Hydro One that would be entirely new, given the evidence on this matter that is already on the record in this proceeding. A concern that OEB staff would see with this option is that the very tight timeframes would likely mean that there would be no opportunity to allow for a settlement conference if the pole attachment issues were to be dealt with at the end of the current oral hearing.

The second option would be review this matter as part of a separate process with longer timelines. The OEB may wish to consider this option if it prefers to have a more focused examination of this issue, while also allowing for a settlement conference. Such a process could start now and run contemporaneously with the oral hearing in order to avoid unnecessary delay.

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<sup>3</sup> Letter dated February 26, 2018

*Original Signed by*

Martin Davies  
Project Advisor, Major Applications  
Applications Division

Attachment

cc: Parties to EB-2017-0049

Ontario Energy Board Staff Interrogatories  
Willis Towers Watson Report of November 28, 2017  
Distribution Rate Application 2018-2022  
Hydro One Networks Inc. (Hydro One)  
EB-2017-0049  
May 28, 2018

**Note that the short form of frequently referenced reports in the following interrogatories is as follows:**

**Willis Towers Watson “Management and Non-Represented Role Benchmarking and 2018 Compensation Structure Recommendations,” November 28, 2017, Filed April 20, 2018 as Additional Compensation Evidence (WTW current study)**

**Mercer (Canada) Limited “Compensation Cost Benchmarking Study Hydro One Networks Inc.,” April 4, 2018, Filed April 20, 2018 as Additional Compensation Evidence (Mercer current study)**

**Towers Watson “Hydro One Executive Compensation Benchmarking,” October 16, 2015, Filed in Updated: 2017-06-07 EB-2017-0049 Exhibit C1-2-1 Attachment 1 (TW 2015 executive compensation study)**

**Towers Watson “Hydro One Competitive Compensation Review,” October 16, 2015, Filed in Updated: 2017-06-07 EB-2017-0049 Exhibit C1-2-1 Attachment 2 (TW 2015 competitive compensation review)**

**F40-Staff-S1**

Please state why the WTW current study was filed with the Mercer current study and how the two studies are interrelated. Please also discuss why the WTW current study was not filed earlier in the current proceeding given that it is dated November 28, 2017.

**F40-Staff-S2**

Ref: WTW Current Study, p. 2

At the above reference, it is stated that:

“Willis Towers Watson was engaged by Hydro One to benchmark salary structures including director level LTIP eligibility. The recommendations reflect the continued transition of the management compensation program, in accordance with the principles established in 2015.”

- a) Please state which principles established in 2015 are being referenced.

- b) Please discuss how the WTW current study relates to the TW 2015 executive compensation study and TW 2015 competitive compensation review. Please include in the discussion whether the purposes and mandates of the 2015 and current reports were the same or different and, if so, how.
- c) Please state whether or not the WTW current study was by the same author as the 2015 reports, or if not who the author(s) of the current report is/are and describe their qualifications.

#### **F40-Staff-S3**

Ref: WTW Current Study, p. 2

At the above reference, the evolution of Hydro One's compensation structure is discussed and it is stated that:

"Between 2015-2016, the following compensation structures and programs were introduced to support the transition to a new ownership structure, industry practice, and current business priorities:

- a new compensation philosophy
- an updated Short Term Incentive Plan (STIP)
- a Long Term Incentive Plan (LTIP) for executives (VP and above) and phased introduction for directors (≈50% eligibility at a value of 20% of salary)
- a more rigorous and detailed job level framework to better reflect progressive job scope and complexity
- a segmented approach to competitive benchmarking and salary structures, reflecting market differences while considering career progression of talent from bargaining unit levels."

- a) For each of the compensation structures and programs listed, please state which of the referenced factors, i.e. transition to a new ownership structure, industry practice, or current business priorities was the key driver in their introduction, or if more than one was a key driver which ones, and why this was the case.
- b) Please provide the implementation status of each of the structures and programs referenced above.

#### **F40-Staff-S4**

Ref: WTW Current Study, p. 3

At the above reference, background on the level structure and distribution of incumbents is provided and it is stated that:

"Full implementation of the segmented salary structures was not possible before aligning all jobs to the more structured and rigorous level framework. Using a consistent year-over-year sample, the distribution of incumbents by the new levels, compared to the legacy band structure is summarized below."

Two graphs are then shown, one labelled “Legacy Band Structure Distribution” and the other “Current Level Structure Distribution.”

Please clarify how these graphs should be interpreted. For instance for the “Legacy Band Structure Distribution” at the EVP level, the numbers shown are 2 and 5. The “Current Level Structure Distribution” for the EVP level shows equivalent numbers of 11 and 5. Please provide an explanation of the differences between these two graphs that will make clear how these four numbers for all levels shown should be interpreted including what the significance is of the colour bars on each side of the graphs.

**F40-Staff-S5**

Ref: WTW Current Study, p. 4

At the above reference, it is stated that:

“Programs must also enable attraction and retention of the talent needed to operate a regulated utility and support the growth mandate. This includes providing opportunities for career progression and supporting promotion from within, particularly within the Operations segment.”

- a) Please state whether or not WTW believes Hydro One’s programs prior to the implementation of the programs discussed in the WTW current study, were sufficient to attract and retain talent and what the basis of this conclusion is.
- b) Please discuss the indicators that demonstrate that a program of this kind is, or is not, allowing for the attraction and retention of the necessary talent and what these indicators suggest about the situation confronting Hydro One prior to and subsequent to the implementation of the WTW proposals.

**F40-Staff-S6**

Ref: WTW Current Study, p. 5

At the above reference, 2018 proposed compensation structure changes are discussed including proposed base salary structure changes and proposed LTIP eligibility and vehicle mix for directors.

- a) Please state whether or not these changes have been implemented and incorporated into the 2018 forecast. If some or all have not, please state which ones have not been implemented and why.
- b) For each of the changes listed on this page, please provide the estimated total cost increase to Hydro One on an annual basis and how this estimate was derived.

**F40-Staff-S7**

Ref: WTW Current Study, p. 7

At the above reference, the statement is made that: “Increased eligibility for LTI at the director levels continues the pay mix evolution in favour of shareholder alignment and retention,”

Please explain the meaning of this statement including a discussion of whether or not and how rate impacts were factored into this analysis and, if not, why not.

**F40-Staff-S8**

Ref: WTW Current Study, p. 8

At the above reference, the impact of salary structure changes and the proposed 2018 merit budget is discussed and it is stated that:

“With the transition from broad salary ranges for all management and non-represented employees to a segmented approach, approximately 78 Core Services employees at entry level management roles (4 and 5) will be above maximum of their respective salary range. This transition represents a potential retention risk, particularly for high performing and high potential employees identified as successors. Specific programs to manage compression will need to be targeted over time.”

- a) Please discuss what is meant by the transition to a segmented approach, including why Hydro One’s current salary ranges would not also be considered a segmented approach.
- b) Please state whether under the existing salary structure, non-management employees promoted to management positions have been above the maximum of their respective salary ranges. If this has been the case, please state how many employees were in this position for the years 2013 to 2017, how Hydro One approached this matter and to what extent there was a problem retaining such employees.
- c) Please discuss any programs that WTW is aware of that have been used to deal with the compression issue by other organizations and to what extent salaries for affected employees have been positioned above market. Please discuss whether there are any characteristics of such programs other than salary levels that such programs would need to have to be successful.

**F40-Staff-S9**

Ref: WTW Current Study, p. 10

At the above reference, the comparator group approach and criteria are discussed for the operations, core services and executive (non-ELT) segments.

- a) Please state how the different comparator group selection criteria were determined.
- b) Please state what the stated “year-over-year peer group changes” are with reference to and how such changes were determined
- c) Please state whether or not there are any methodological differences in the approach to determining peer groups in the current study versus the 2015 studies and if so what they are and why they were made.

**F40-Staff-S10**

Ref: WTW Current Study, p. 15

At the above reference, the compression analysis methodology is discussed and is stated as including the following:

“We have reviewed the assumed compensation of the feeder roles relative to the Total Target Cash compensation midpoint of the proposed Management Group structures to understand any potential barriers to entry

In order to ensure a holistic compensation, the following elements were considered in the compensation definition:”

- a) With respect to the approach to the assumed compensation review, please elaborate on what is meant by “to understand any potential barriers to entry.”
- b) With respect to the second sentence above, please explain what is meant by “a holistic compensation.”