Ontario

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2017-0049**	**Hydro One Networks Inc.**
VOLUME:	**Volume 3**	
DATE:	**June 14, 2018**	
BEFORE:	**Ken Quesnelle**	**Presiding Member and Vice-Chair**
	Lynne Anderson	**Member**
	Emad Elsayed	**Member**

EB-2017-0049

THE ONTARIO ENERGY BOARD

Hydro One Networks Inc.

Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Thursday, June 14, 2018,
commencing at 9:30 a.m.

VOLUME 3

BEFORE:

KEN QUESNELLE	Presiding Member and Vice-Chair
LYNNE ANDERSON	Member
EMAD ELSAYED	Member

A P P E A R A N C E S

JAMES SIDLOFSKY	Board Counsel
MARTIN DAVIES KEITH RITCHIE	Board Staff
GORDON NETTLETON GEORGE VEGH	Hydro One Networks Inc. (HONI)
LISA (ELISABETH) DeMARCO JONATHAN McGILLIVRAY	Anwaatin Inc., Energy Storage Canada (ESC)
SHELLEY GRICE	Association of Major Power Consumers in Ontario (AMPCO)
MICHAEL BUONAGURO	Balsam Lake Coalition (BLC) Arbourbrook Estates
TOM BRETT	Building Owners and Managers Association, Toronto (BOMA)
EMMA BLANCHARD ERIN DURANT SCOTT POLLOCK	Canadian Manufacturers & Exporters (CME)
JULIE GIRVAN	Consumers' Council of Canada (CCC)
BRADY YAUCH TOM LADANYI	Energy Probe Research Foundation
VICTORIA CHAI	Ontario Sustainable Energy Association (OSEA)
RICHARD STEPHENSON BODHAN DUMKA	Society of United Professionals
MICHAEL McLEOD	Quinte Manufacturers' Association (QMA)
JAY SHEPHERD MARK RUBENSTEIN	School Energy Coalition (SEC)
RICHARD STEPHENSON	Power Workers' Union (PWU)

APPEARANCES

BOHDAN DUMKA	Society of United Professionals (SUP)
MARK GARNER BEN SEGEL-BROWN	Vulnerable Energy Consumers' Coalition (VECC)

ALSO PRESENT:

JODY McEACHERN STEVEN VETSIS	Hydro One Networks Inc.

I N D E X O F P R O C E E D I N G S

E X H I B I T S

U N D E R T A K I N G S

U N D E R T A K I N G S

Thursday, June 14, 2018

--- On commencing at 9:30 a.m.

MR. QUESNELLE: Good morning, everyone. Please be seated.

Okay. Mr. Vegh, we have a new panel up, but do you have any other matters you want to deal with first?

PRELIMINARY MATTERS:

MR. VEGH: Thank you, sir. Good morning, panel. Just an update on the undertakings. So there were 15 undertakings adopted in the first two days. Hydro One submitted five responses yesterday, and we expect to have almost all of them filed by the end of Friday, but I will keep you up to date.

MR. QUESNELLE: Great. Thank you very much for that.

MR. VEGH: And as you -- no other preliminary matters from us. And as you indicated, we do have a new panel today, so what I thought I would do this morning is just have the witnesses affirmed, provide a bit of an introduction like we did the other day, point you to their CVs, and then we will qualify Mr. Morris as an expert in employee compensation benchmarking, and then Mr. McDonell will have a brief opening statement, followed by a correction to a piece of the evidence.

MR. QUESNELLE: Thank you.

MR. VEGH: We may begin then and have the panel affirmed.

MR. SIDLOFSKY: Before we do. Sorry to interrupt. Just one small preliminary matter. In the transcript from

Day 1, Volume 1 of the transcript, just one small correction during Mr. Ladanyi's cross-examination, at page 21 of the transcript, line 22, there is a reference to a response to Mr. Ladanyi coming from Ms. Anderson. That should have been from Mr. Andre, I believe. Thank you.

MS. ANDERSON: Mr. Vegh, it would be helpful if you actually introduced your panel just so I know which order they are sitting in.

MR. VEGH: Okay. Thank you. So closest to the window is Mr. Keith McDonell. Next to him is Joel Jodoin. And next to him is Samir Chhelavda. And finally, Iain Morris.

MS. ANDERSON: Thank you.

HYDRO ONE NETWORKS INC. - PANEL 2, FINANCE & COMPENSATION

Keith McDonell,

Joel Jodoin,

Samir Chhelavda,

Iain Morris; Affirmed.

EXAMINATION-IN-CHIEF BY MR. VEGH:

MR. VEGH: Thank you, Ms. Anderson. And good morning, panel. So I would like to turn up your CVs, which are included in the June 7 filing of Hydro One, and I will just note for the record that we actually didn't identify this June 7 filing with an exhibit number yet, so perhaps we can do so now.

MR. SIDLOFSKY: We will make that K3.1.

EXHIBIT NO. K3.1: JUNE 7 FILING OF HYDRO ONE CONTAINING PANEL 2 WITNESS CVS.

MR. VEGH: Thank you. 3.1, you said?

MR. SIDLOFSKY: Yes.

MR. VEGH: And in Exhibit 3.1 we have included Exhibit A, tab 9, schedule 2, and at page -- going through the CVs, starting at page 15 of the PDF, we have the CV of Samir Chhelavda.

Mr. Chhelavda, just to identify you for the record, you are currently director, corporate accounting and reporting at Hydro One?

MR. CHHELAVDA: That is correct.

MR. VEGH: And what are your general responsibilities in that area?

MR. CHHELAVDA: My general accountability would be the accountability of a corporate controller function. So it would be external financial reporting, corporate accounting, accounting policy, accounting research, and regulatory accounting.

MR. VEGH: Thank you. And at Exhibit K1.2 there is a draft hearing plan which identifies areas of witness responsibility, and your areas are identified at page 12 and -- pages 12 to 14. There is a reference to a number of exhibits, interrogatories, and undertakings. Do you adopt those materials as your evidence?

MR. CHHELAVDA: I do.

MR. VEGH: Thank you. And so you've adopted those, but perhaps for the benefit of the Panel and the parties can you just identify the general subject matter of your evidence in this proceeding?

MR. CHHELAVDA: Of course. The general subject matter would be accounting information, external financials, pension-OPEB costs, depreciation, capitalized interest, capital structure, over-capitalization, and regulatory accounts.

MR. VEGH: Okay. Thank you, sir.

Turning to you, Mr. Jodoin, again going back to your CV at Exhibit A9-2, I take it you are currently senior -- sorry, Hydro One Networks Inc. senior financial advisor business planning?

MR. JODOIN: That is correct.

MR. VEGH: And what are your general responsibilities in that area?

MR. JODOIN: I would characterize them as financial planning, with a focus on the regulated entities, calculation of revenue requirement, corporate costing, and items like that.

MR. VEGH: Thank you. And again, at Exhibit A9-2 there is a list of pre-filed evidence and interrogatories and undertakings that you are identified as responsible for. Do you adopt this evidence as -- do you adopt this as your evidence in this proceeding?

MR. JODOIN: I do.

MR. VEGH: Thank you. And again, for the benefit of the Panel and the parties, can you identify the basic subject matter of your evidence?

MR. JODOIN: Sure. At a high level my focus would be on corporate cost and associated segmented allocations, the calculation of revenue requirement, the calculation of rate base, as well as the calculation of working capital.

MR. VEGH: All right. Thank you.

Mr. McDonell, turning to you, your CV is up on the screen, Exhibit A9-2. You're currently the director of human resources at Hydro One?

MR. McDONELL: That is correct.

MR. VEGH: And what are your general responsibilities in that area?

MR. McDONELL: My general responsibilities, I -- over the last year I transitioned from overseeing a number of human-resource consultants and managing them to really spending most of my time and focus and energy on OEB hearings, as well as on various mergers and acquisition work.

MR. VEGH: You've got a full-time job, eh? Oh, sorry.

And Mr. McDonell, at Exhibit K3.1 is a list of pre-filed evidence and interrogatory responses and undertakings provided at the -- or responded to from the technical conference. Do you adopt that as your evidence in this proceeding?

MR. McDONELL: I do, Mr. Vegh.

MR. VEGH: Thank you. And for the benefit of the Panel and the parties could you please just identify generally the areas of responsibility in this proceeding?

MR. McDONELL: My testimony will be surrounding compensation and head-count issues, staffing.

MR. VEGH: Thank you. Turning to you, Mr. Morris --

and as I say, Panel, Mr. Morris is an external witness providing evidence on employee compensation and benchmarking, so part of this introduction will be to submit his qualifications to you as an expert in the subject matter of employee compensation and benchmarking.

So Mr. Morris, your CV is on the screen, again as part of Exhibit K3.1, and I am going to just walk through it with you for a minute. So you are currently a partner at Mercer's career business in Toronto?

MR. MORRIS: I am.

MR. VEGH: And you work with companies in implementing total rewards compensation?

MR. MORRIS: I do.

MR. VEGH: And that includes employee compensation?

MR. MORRIS: Correct.

MR. VEGH: And you have been a consultant in this area for over 35 years?

MR. MORRIS: Sadly true.

MR. VEGH: Now, I understand that this is your first time providing oral evidence in a proceeding, but that your evidence has been provided to and relied upon by the OEB in a number of proceedings?

MR. MORRIS: That's correct.

MR. VEGH: And if I could just go through some of them with you, the -- I just want to identify the most recent five Hydro One proceedings where your evidence has been filed and relied upon. First, on the distribution side, you provided evidence with respect to employee compensation benchmarking in the proceedings that set rates for the 2010, 2011 and 2015 to 2019 periods?

MR. MORRIS: That is correct.

MR. VEGH: And with respect to transmission, you provided evidence with respect to the 2009 to 2010 period, the 2015 to 2016 period, and the 2017 to 2018 period?

MR. MORRIS: Correct.

MR. VEGH: You filed evidence in this proceeding. I won't take you to them, but there are two reports for total compensation study. The first is at Exhibit C1, tab 2, attachment 5. Correct?

MR. MORRIS: Correct.

MR. VEGH: The second is a compensation study that was prepared for the transmission proceeding that will be addressed, but we did file it in this proceeding as well as Exhibit K1.1 on April 20th, and that is a 2017 updated compensation study?

MR. MORRIS: Correct.

MR. VEGH: Thank you. Panel, I would like to request that Mr. Morris be qualified as an expert in employee compensation and benchmarking.

MR. QUESNELLE: Thank you. Any submissions from any of the parties on that item? The Panel will recognize Mr. Morris as an expert in this area. Thank you.

MR. VEGH: Thank you, sir. And finally, as I mentioned, Mr. McDonell has a bit of an opening statement and perhaps we could turn to that now. Mr. McDonell?

OPENING STATEMENT BY MR. MCDONELL:

MR. McDONELL: Thank you, Mr. Vegh. Good morning.

With all the compensation evidence on the record, I would like to provide a brief background on the payroll data and the compensation studies that are on the record.

But before I do that, I want to convey that Hydro One has heard very clearly the concerns raised about compensation costs, and we are doing our very best to restrain these costs.

To illustrate this, here are some of the highlights of our management compensation strategy, which balances the need to be market-competitive and deliver value for money in our compensation spend.

Hydro One is focused on pay for performance. Successful outcomes results in financial rewards and failure to achieve goals will not. There are no across-the-board compensation increases for management employees. A significant portion of compensation is variable, or at-risk pay, and the more senior the role in the organization, the greater the percentage of compensation that is variable.

Our compensation programs are based on the independent compensation advice and best practices, and are in line with Hydro One's Board-approved compensation principles. I invite you to review Exhibit I-40, SEC 82-01 for specifics of these principles.

In response in particular to concerns related to our pension plan, we have done a couple things over the last year or so. We have closed the defined benefit pension plan and we have introduced a less costly defined contribution pension plan for all new management employees.

All of our employees are now contributing more to the costs of their pension, and we are making significant progress to reach a 50/50 cost sharing arrangement. As a mater of fact, for two of our groups, we have already obtained a 50/50 cost-sharing level already.

Finally, consistent with our response to the OEB's decision in our last transmission case, in Exhibit Q-1-1, we reduce the rate recoverable transformation or compensation cost for the corporate management group to pre-IPO levels, adjusted only for inflation.

So payroll data; I have a few comments related to our payroll evidence. In past proceedings, parties have raised concerns regarding our payroll evidence, most recently in our last 2017-18 transmission application. For this application that we are hearing, in Exhibit C1-2-1, we have attempted to improve the quality of our payroll evidence and be as transparent as possible in how we show payroll data.

Specifically, we now show total compensation annually by our transmission and our distribution businesses and a consolidated view. We also show year-end compensation annually for our transmission and distribution businesses, and a consolidated view. We have included more cost compensation inputs to better reflect total compensation at Hydro One. We now show head count, full-time equivalence, and year-end head count numbers now. We've refined our methodology for allocating casual employee compensation in order to reflect a more accurate allocation between our transmission and our distribution businesses.

And while this can be quite overwhelming, for sure, we do have an explanation reconciling the different approaches to showing our payroll data, and that is set out in Exhibit C1, tab 2, schedule 1, attachment 7, pages 4 through 8.

Compensation studies; I would like to spend a moment on our compensation studies that are on the record. First of all, I would like to apologize for missing the November 2017 Willis Tower Watson management compensation study that was only filed on April 20th. I thought I had a line of sight of all the compensation studies that the company had commissioned; I was wrong, and I do apologize if that has caused any inconvenience for anybody.

We have filed seven compensation benchmarking exhibits in this filing. We may have created unintended confusion in doing so, but we hope that the studies demonstrate that Hydro One does take compensation costs seriously. With the exception of the Mercer study, which is the result of previous OEB directives, the company has commissioned the other reports in the course of managing our business in order to be better informed of the appropriate compensation levels for talent.

We have filed these studies to be as transparent as possible to assist the parties with understanding the compensation decisions and the challenges that we face. Our goal and our hope is that by providing different snapshots and different views of compensation, it will assist the OEB assessing the overall reasonableness of our compensation strategy.

So if I could just quickly cover off the seven compensation studies that are on the record, we have the Hugessen report that was created in 2015 on executive compensation. That can be found at Exhibit C1-2-1, attachment 3. We also have the Willis Towers Watson studies for executive/non-executive compensation, again a 2015 vintage, Exhibit C1-2-1, attachment 1 and 2.

Most recently, we have the Willis Towers Watson benchmarking study for management and non-represented employees. That's 2017, and that was the study I just referred to a moment ago we filed late, and that was filed on April 20th.

We have the 2016 Mercer total compensation study, which can we found at Exhibit C-1-2, attachment 5. We have the updated Mercer total compensation study for 2017. That was filed on April 20th.

And finally, we have the Willis Towers Watson PWU benchmarking study, and that can be found at Exhibit I-3, SEC-3, attachment 1.

So here are a few of the takeaways from the various reports. The updated Mercer total compensation study shows an improvement towards market median from the 2016 study. Overall, Hydro One has moved from being 14 percent above market median to 12 percent above P50, or market median. I would highlight that the PWU roles within that study have moved from 16 percent above P50 to 12 percent above P50 in this study.

Our compensation costs at Hydro One are generally fixed, and this is particularly true for our unionized employees. Approximately 90 percent of our work force are unionized, and therefore have binding collective agreements that cannot be changed unilaterally by Hydro One. We believe that the improvement in the PWU compensation is particularly notable, given that they represent approximately 65 percent of the employees at Hydro One.

Also, the Willis Towers Watson PWU benchmarking study shows that on a total cash basis, Hydro One is 7 percent above P50. Finally, the Willis Towers Watson study for management and non-represented segments show in 2017, just before a modest adjustment to our salary schedules. Overall, we are 1 percent below P50 and after this adjustment to address certain compensation challenges internally, Hydro One is 3 percent above P50 on a total direct compensation basis.

I hope this has been helpful, and I would be happy to answer any questions you might have. Thank you.

MR. VEGH: Thank you, Mr. McDonell. Finally, Mr. Jodoin, I understand you have a correction to the evidence.

MR. JODOIN: That's correct. One of the undertakings with panel 1 was to clarify how the low income energy assistance program was being accounted for in a table that was provided in a VECC compendium. Now, the table that was included in the compendium was essentially --

MR. VEGH: Sorry, could you please identify the --
MR. JODOIN: Sure.
MR. VEGH: -- table in the undertaking that you are referring to?
MR. JODOIN: Absolutely. It was an original interrogatory, and it was Exhibit I, tab 38, schedule VECC 51, specifically part C. And what that interrogatory asked Hydro One to do was to provide a breakdown of OM&A expenses by sustainment, development, operations, customer, and corporate costs.
Upon review of that interrogatory, Hydro One has noted that we found that the response was incorrect and not mapped correctly amongst the categories of spend. So what we have done to bridge the differences is in response to the undertaking taken from panel 1 -- and that is Exhibit J1.9 -- we have recast the OM&A table for the acquired LDCs for 2017 and '18, showing the proper categories of spend, and what everyone will find is that the spending exists in sustainment and the customer categories. Further, the undertaking does go on to explain some of the details with specifics to customer.
So that's the update. There is no change in total cost of the OM&A spend, as I mentioned, just the category of spend.
MR. VEGH: Thank you, sir.
And with that, with the leave of the Panel, I would like to present this witness panel for questions from the parties and from the Board.

MR. QUESNELLE: Thank you, Mr. Vegh. Mr. Stephenson.

CROSS-EXAMINATION BY MR. STEPHENSON:

MR. STEPHENSON: Thank you, Mr. Chair.

Good morning, panel. My name is Richard Stephenson. I am counsel for the Power Workers' Union. Mr. McDonell, I think most of this is going to be for you. Just to give you a little road map of where I plan to go, I want to talk a little bit about the role of collective bargaining in compensation-setting. I want to talk a little bit about your wages -- your compensation tables that have been filed and trends that are revealed in that. I want to talk about pensions and OPEBs, and then I want to talk a little bit about the Mercer study, which your colleague on the panel may want to say something about as well.

Firstly, Mr. McDonell, you may recollect, this is not the first time you and I have had the opportunity to have this conversation in this setting, correct? We -- the last time, I believe, was in December of 2016 in the transmission case.

MR. McDONELL: That is correct, Mr. Stephenson.

MR. STEPHENSON: Okay. And for what it is worth, I am going to be covering some of that same ground today. Obviously there are related issues. But let me start here. You have indicated, obviously, that a high proportion of your work force is unionized, correct?

MR. McDONELL: About 90 percent are unionized. That is right.

MR. STEPHENSON: And in addition to the proportion of your regular work force, which is unionized, you also have other unions that provide -- have employees that provide services of temporary casual or irregular basis, correct?

MR. McDONELL: That's true. If I can just quickly cover that off, it's actually a fairly large complement, especially on our transmission business. We have approximately 18 different construction unions that we have collective agreements with. The biggest one would be CUSW. And we also have another contingent employee group called the PWU Hiring Hall that does a fair bit of work on our distribution assets.

MR. STEPHENSON: Right. And I am going to be focusing, obviously, on the PWU folks, but I think when we are talking about collective bargaining, for the most part these are general principles, and to the extent they are not, maybe feel free to identify it. But just in terms of compensation trends over time, obviously, I gather, Hydro One is mindful of the fact that it has been criticized from time to time in this forum about the fact that its compensation is, quote, too high. You are aware of that fact?

MR. McDONELL: I am aware of that fact, yes.

MR. STEPHENSON: Okay. And so in terms of looking at what tools are available to Hydro One to address those concerns, let's proceed from there. In terms of collective bargaining with my client and other unions, the starting point in any round of collective bargaining, I take it, is the historical legacy agreements that you have with that particular union. Correct?

MR. McDONELL: That is right. You negotiate from the collective agreement that just expired.

MR. STEPHENSON: And both the employer and the union will have an agenda. There will be a -- each will have a laundry list of items that it wants to address, correct?

MR. McDONELL: That's generally the case, yes.

MR. STEPHENSON: And there are significant resources devoted to this exercise by the parties. Is that fair?

MR. McDONELL: Oh, absolutely. Both parties are very sophisticated parties when it comes to collective bargaining, so it is a very significant exercise to renew a collective agreement.

MR. STEPHENSON: I am not going to get into the details of your most recent round of bargaining with my client. But generally speaking, you know, what was the elapsed time from the time when Hydro One seriously started preparing for that to the time they get to a tentative agreement?

MR. McDONELL: Well, generally speaking, the PWU collective agreement expires March 31st of whatever year the collective agreement expires. So you back that up by a number of months. So probably in the fall of the preceding year, that is when the discussions internally with the management team starts to generate things like a terms of reference and bargaining agenda items, after soliciting items from our lines of businesses. So a lot of work goes in the preparation of the actual collective bargaining.

Collective bargaining itself would typically start in January, February period of time.

Just given the sheer size of the PWU bargaining unit, in order to have a renewed collective agreement in time for the expiry of the previous collective agreement, there is a fairly significant exercise in the ratification process. Typically it takes about a month or so for the PWU to ratify collective agreements.

So in summary, you know, late fall, all the way until April 1st would be the time frame where there would be a lot of concentration on bargaining.

MR. STEPHENSON: And the scope of that agreement encompasses not only wages but also pensions and OPEBs and a bunch of non-monetary items as well, correct?

MR. McDONELL: They're renewing a collective agreement, so anything is open for negotiations.

MR. STEPHENSON: And just as a general principle, at the end of the day, what happens is there is a trade-off as between various items; fair? That this isn't a one-item negotiation. Each side at the end of the day makes a deal based upon items that are of importance to it.

MR. McDONELL: No, I agree with that. As a matter of fact, that is one thing that we tried to explain in our evidence, that collective bargaining in my view is different than a commercial contract. There is a relationship that existed and continues to exist in the future so that the parties are trying to find an agreement that both parties can ratify with their constituents.

MR. STEPHENSON: Okay. One of the things we canvassed the last time around are what I would describe as -- you talked about a concept of rigidity in labour relations, whereby it is difficult in typical circumstances for an employer to extract absolute takebacks from a union, whether in terms of wages or pensions or whatnot. You are familiar with that concept?

MR. McDONELL: I am familiar with the concept of rigidity, in the sense that it is difficult to negotiate clawbacks or rollbacks in terms of benefits or wages, unless, I suppose, unless there is what I would call a burning platform or an organization is in financial distress, and we see that, you know, in other forms where that has been achieved.

But unless you do have that burning platform, it is very, very difficult, especially given our history of bargaining where we came from, from Ontario Hydro. It is very difficult to have rollbacks in wages and benefits.

MR. STEPHENSON: Just lastly on this point, I mean obviously one option which is available to either of the two sides involved in any negotiation is that there is a work stoppage, correct? That is at least a theoretical option that is available in any bargaining situation.

MR. McDONELL: That is always an option and Hydro One, regardless of which union we are bargaining with, we always go into the process recognizing that can be an outcome and we do have a fairly robust contingency planning process to make sure that we have things in place in case there is a work stoppage.

MR. STEPHENSON: Is it -- I think the answer to this question is self-evident. From the company's perspective, there are risks and costs implicit in a work stoppage. It is not -- you don't get that for free, from the company's perspective.

MR. McDONELL: No, you don't. It is very harmful to the relationship.

MR. STEPHENSON: It is problematic to your customers, as well.

MR. McDONELL: It is very problematic. I was just thinking about the last time we had a work stoppage with the PWU; you would have to go back to the 1980s. And in today's world, it would be very, very difficult for us to sustain a work stoppage for any length of time. We would be able to make work safe, but there definitely would be an impact on the parties, including the customer and the ratepayer, very soon after any work stoppage.

MR. STEPHENSON: Is it fair to say that when you are making a decision about what you can agree to at the end of the day in any particular agreement, you are weighing the costs and benefits of whatever that agreement might be relative to the alternative that otherwise would flow, which is no agreement and a potential work stoppage?

MR. McDONELL: No, I would agree with that. I think our philosophy with bargaining is we recognize that it is not practical to be able to have wage rollbacks. Instead, we look for other ways, and I thing we have been fairly successful in finding greater flexibility, or at least constraining costs. In our evidence, I think we give numerous examples of where we have achieved other savings as opposed to a direct wage rollback.

MR. STEPHENSON: I don't think this is going to reveal any corporate secrets at all, but one of the things that the company has done is try to find ways to get the work the company has to do done through a variety of different means that don't necessarily all involve using PWU regular staff, and there may be other lower-cost means of achieving those outcomes.

MR. McDONELL: Yes, I think you are probably referring to contract node or purchase service agreements.

MR. STEPHENSON: PWU Hiring Hall.

MR. McDONELL: The PWU Hiring Hall. You know, there are a variety of different levers that we use in order to accomplish our work in the most efficient way possible.

MR. STEPHENSON: Insofar as you need a deal with the PWU to allow you to implement those kind of things, that is part of -- that all goes into you getting an outcome that is acceptable to the company.

MR. McDONELL: I agree with that.

MR. STEPHENSON: Let me just come back for a moment. Not in the most current round of bargaining, but in the one prior to that -- we had a discussion about this before. This was the bargaining that was done more or less at the same time as the initial discussions about the IPO.

There was a pretty significant deal made with both my client and in fact with the Society in terms of restructuring some aspects of that collective agreement, correct?

MR. McDONELL: Yes. If I could expand upon that a little bit, what we are referring to is the last round of bargaining that happened in 2015 resulting in a three-year collective agreement that just expired. In the evidence, we refer to that as a paradigm shift in our negotiations with, quite frankly, the PWU and the Society.

What I mean by that is that we were able to achieve things that we have never been able to achieve before, namely a lower-than-average base wage increase and lump sums. Traditionally, unions aren't totally in favour of lump sums because it doesn't get put into the base rate. But by being creative and with the assistance of the government, we were able to come up with up with an agreement that did results in that, and in return, which is also an advantage for Hydro One as well, the PWU and the Society members were able to enjoy share grants in the IPO of Hydro One.

MR. STEPHENSON: That collective agreement has now come to an end. What if any continuing benefits for the period of time encompassed by this application does that deal have? Is that all now done, or is that just a historical issue, or is there some continued significance to that in terms of cost control for the period of this application?

MR. McDONELL: One thing that comes to mind is there a residual impact, if you will, on having a lower base-rate increase in that other compensation items, such as overtime, the pension formula, a variety of different allowances that PWU members are entitled to, quite often are based upon the base rate. By having a lower base rate negotiated, there is a multiplier effect in the future for those particular costs.

MR. STEPHENSON: In my recollection -- and I am going to come back to this in a minute -- is there was an important feature about pension rules and contributions that actually doesn't kick in or -- I may be getting this a bit wrong. You will know this, but I don't -- that doesn't kick in actually until some time downstream.

MR. McDONELL: A significant achievement in 2015 was a feature change to our pension plan for PWU members. It does commence in 2025, and what was bargained was that the benefit of the pension has been reduced by increasing the early retirement level from what we call rule of 82 to rule of 85, and as well as the three-year average earning period, which is part of the formula, has been increased to a five-year average earning period. So both of those items will reduce the cost of our pensions.

But as you've pointed out, it is not something that kicks until 2025.

MR. STEPHENSON: This application that we are discussing now obviously contained a whole bunch of assumptions regarding your future compensation costs. The application was put together in 2016 and 2017 and it projects out five years, and so you had to make a bunch of assumptions, right?

MR. McDONELL: Yes. One of those assumptions, and I think fairly conservative, is the escalation factor that we have built into our forecasted wages. For PWU in particular, we have forecasted beyond 2018 a 1 percent escalation, which I think is a fairly conservative number.

MR. STEPHENSON: For the purposes of this question, let's assume that the Board approved your application as asked. The effect of that, because you have got a five-year application and once you've got an approved order, the reality is there is a pretty strong incentive on the company to meet or beat its assumptions regarding any compensation changes, whether it is with respect to the PWU or anybody else, right?

MR. McDONELL: That's true, because if we have not recovered the costs that we think that we are going to incur, the ratepayer doesn't pay.

MR. STEPHENSON: It comes out of the shareholders' pocket.

MR. McDONELL: It comes from the shareholder.

MR. STEPHENSON: Needless to say, that puts some significant -- management has an eye to that when they are making deals, that if they don't meet or beat those objectives that is a big problem.

MR. McDONELL: Just to finish the point in the analogy of wage increases, if we have forecasted a 1 percent increase in the test years, then we negotiate a collective agreement that is more provided than 1 percent, the ratepayer doesn't pay for that. The shareholder does.

MR. STEPHENSON: Okay. Thank you. I just want to turn now to the compensation trends. And I think the best place to deal with this is an SEP -- is it SEP or SEC? I can't remember. I think it is SEC, sorry, Interrogatory 13, which is the expanded version of the compensation tables that contain a bunch of percentage change --

MR. McDONELL: I think it is --

MR. STEPHENSON: Oh, Society.

MR. McDONELL: It is the Society --

MR. STEPHENSON: SEP. All right. Got to give credit where it is due.

Okay. If I can, just starting on page 2 of that chart, and I am looking at the block for distribution PWU represented.

MR. McDONELL: I see that, yes.

MR. STEPHENSON: Okay. And I am focusing on the years 2018 to 2022, and I am looking at the totals, okay? So in 2018 it is 300 million and change. Do you see that?

MR. McDONELL: I do.

MR. STEPHENSON: And then it goes up in 2019, back down in 2020, and then goes down again in '21 and '22, bottom line being, directionally, at least, aggregate PWU compensation is going down over the period of the application, correct?

MR. McDONELL: Or PWU represented, that is true.

MR. STEPHENSON: Yeah, PWU represented. And that is achieved largely through the reduction in the total number of PWU-represented employees. Correct? You can look at that. In the line immediately below you will see there's a -- the FTE numbers.

MR. McDONELL: Let me just respond to your -- I think you had another question for me. I lost it when I was talking to Mr. Jodoin. But partially, yes, the reduction in the compensation is the result of fewer people. But I think it is also important to note that there -- I might need some help on this, but there is some changes in the allocation of compensation from our distribution and our transmission businesses, and what we are seeing is that there is a little higher allocation to the transmission business, and that is reducing the distribution compensation slightly.

MR. STEPHENSON: Okay. Just on this chart, just so I am clear, if you look, there is a line in there called "burdens"?

MR. McDONELL: Yes.

MR. STEPHENSON: And as I understand it, that is where the pension and OPEB costs among others are in that line, correct?

MR. McDONELL: Yeah, it is a fairly large bucket of different types of burdens, statutory obligations like CPP, EI, OPEB, extended health benefits that we pay the province.

MR. STEPHENSON: Pensions and OPEBs are the big ticket --

MR. McDONELL: They're part of it, yes.

MR. STEPHENSON: Right. And those numbers are going down, generally speaking, for the PWU folks.

MR. McDONELL: That is correct, yes.

MR. STEPHENSON: Okay. Let me turn for a moment also on this page, if we go down a little to the bottom of the page, you have got the -- a group called "temporary distribution." Do you see that?

MR. McDONELL: I do.

MR. STEPHENSON: And the first line in that is for something called "casual trades." Do you see that?

MR. McDONELL: I do.

MR. STEPHENSON: And these are your, you know, your construction work forces, et cetera, right? These are all these other 18 unions that you made reference to previously?

MR. McDONELL: That is correct.

MR. STEPHENSON: And so you can see looking here going from 2018 out to 2022 the numbers stayed, you know, relatively constant, but they are not insignificant numbers, around 84 million. Do you see that?

MR. McDONELL: I do.

MR. STEPHENSON: Okay. And just to get a sense of the order of magnitude of those dollars, if you flip back one page to your -- the distribution unrepresented group -- do you see that?

MR. McDONELL: Distribution unrepresented --

MR. STEPHENSON: It's on the first page.

MR. McDONELL: -- management, yes, I do --

MR. STEPHENSON: Yeah, which is, broadly defined, basically management. Correct?

MR. McDONELL: Management and non-represented --

MR. STEPHENSON: Yeah. But, you know, you see their total numbers are sort of around 90 million, give or take. Right?

MR. McDONELL: Correct.

MR. STEPHENSON: So, I mean, this construction group or the casual trades group is almost as much as your management group.

MR. McDONELL: Yes, it is a big part of our work force.

MR. STEPHENSON: And so in view of the magnitude of those costs -- I mean, this is something that I have always wondered about -- why isn't there a benchmarking study that shows how Hydro One is doing with respect to managing those costs relative to its other companies that employ such people?

MR. McDONELL: When you say "those costs" you mean the casual --

MR. STEPHENSON: Yes. Well --

MR. McDONELL: I think the answer to that is really -- lies in how construction labour relations works in Ontario. It is governed by the Ontario Labour Relations Act, and they set out a number of sectors -- sewer, water, ICI -- one of which is the electrical power sector, which we belong to, and any construction work that is done on generation, transmission, or transmission lines follows a province-wide collective agreement.

What is unique to our industry is that we have multi-employer groups that negotiate collective agreements with individual unions. So any contractor that employs a trade employee that is doing work on our property has to pay the same rate that we have to pay. It is a provincial rate.

MR. STEPHENSON: I mean, I get all that. You are under a legislative regime. You are under a legislative regime with my client too, right? It is a different legislative regime, but there's a bunch of rules.

MR. McDONELL: Right.

MR. STEPHENSON: But -- and you're a member. Hydro One is -- participates in the bargaining that leads to these contracts being finalized. Right? You are a participant in --

MR. McDONELL: We are a member of what is called EPSCA, yes.

MR. STEPHENSON: Yeah, and so you had to sign on, right?

MR. McDONELL: We had to -- your term -- sign on, yes. We have to agree being one of the employers.

MR. STEPHENSON: These are really big dollars here, and as far as I can tell, they are not being subject to any kind of the same kind of scrutiny that your other buckets of money are being subject to. Don't you think that that is something that the Board might be interested in?

MR. McDONELL: I would imagine the Board is interested in all our spending. But, I mean, the one thing about the casual work force is that it is probably -- lack of a better word -- a cheaper model for compensation because casual or trade employees don't join our pension plan. They don't have benefits. They are more easily laid off. So compared to our regular work force, they are going to be cheaper from that point of view.

MR. STEPHENSON: Okay. Let me just ask you this question. There is a decline in the number of PWU FTEs over the period of the application. There is a decline, I believe, in the number of Society FTEs over the period. Do you see that?

MR. McDONELL: Maybe if we all look at the same thing. I --

MR. STEPHENSON: Yeah, Society distribution at the bottom of the first page.

MR. McDONELL: Okay. I thought it might be helpful, is Exhibit C1, tab 2, schedule 1, page 9, where we set out our FTEs.

MR. STEPHENSON: Okay. They are going down. Right?

MR. McDONELL: They are.

MR. STEPHENSON: And your unrepresented are also going down?

MR. McDONELL: Correct.

MR. STEPHENSON: Is that a reflection of the size of the business that you are undertaking, or the scope of the work decreasing over the period?

MR. McDONELL: No, I wouldn't say that because actually our work program is in fact increasing considerably over the test period. I think what you are seeing is the effort of Hydro One to reduce its regular complement and use -- we talked about other levers before, other ways in which to get the work, be it using the PWU Hiring Hall or contracting out work, being more productive, finding innovation, for non-represented employees maybe -- you know, someone replaces or leaves and you just don't automatically replace a person, you just give the duties to other members of the team.

So I think it is a whole bunch of different reasons or explanations of how of we could be reducing our FTE, but continue to do a larger work program.

MR. STEPHENSON: Okay. Let me move on to pension for a minute. I don't need you to turn this up, but I understand that as a result of your most recent actuarial report, the Hydro One pension plan is now in a surplus position. Is that correct?

MR. CHHELAVDA: On a going-concern basis, that is correct, yes.

MR. STEPHENSON: Okay. That causes me to wonder about this. I know -- and I don't know the technicalities, and I am sure you do -- that when you have a surplus of some kind and of some magnitude, there is at least the possibility or prospect that the employer may be able to take some form of a contribution holiday. Is that correct?

MR. CHHELAVDA: Typically, that is correct. However, there are new pension rules that have come into play effective this year that may limit the ability of employers to take a funding holiday. The ratios have now changed. So a lot of that is still subject to some debate and discussion.

MR. STEPHENSON: Let's put it this way: Does Hydro One have any anticipation that at any point during the period of time covered by this application, that it will be in a position to take some kind of a funding holiday?

MR. CHHELAVDA: Again, as I mentioned earlier, there are some changes to the rules that have come into place effective this year that may or may not limit the ability to take a funding holiday. To the extent that we could take a contribution holiday, I think we would definitely entertain that idea. However, we would have to still understand what the new rules mean in terms of is it going to be applicable for the -- what is the duration, can you take one, what is the risk. The one risk is you may take a funding holiday only to be clawed back later on. So we have to think about that before making a formal decision.

MR. STEPHENSON: Again without getting too technical about this, let's assume you could. How would that, if at all, flow through to your revenue requirement? I know there is obviously a difference between a cash and accrual and all that stuff.

MR. CHHELAVDA: Right now -- if we follow through on your thoughts, let's assume we take a funding holiday or contribution holiday, currently we have a pension variance account, so it would be tracked through that mechanism. So we would have a build-up in that account to be given back to customers and ratepayers at a future disposition of that account.

MR. STEPHENSON: Lastly on this concept of a potential contribution holiday, I know one of the issues that Board has its eye on is this concept of a 50/50 contribution as between the employer and the employees. A contribution holiday has an effect on that ratio, doesn't it?

MR. CHHELAVDA: A contribution holiday does have that effect. I would point out I believe in the collective agreement, there is a clause that dictates that Hydro One is not able to take a contribution -- the employer portion cannot be zero. To the effect that it is, I believe the unions have a similar reduction as well.

MR. STEPHENSON: Let's put it this way: It can skew to the point where the employee contribution is higher than the employer contribution, the employees are higher than the employers.

MR. CHHELAVDA: Theoretically, I believe that is possible.

MR. STEPHENSON: Let me turn to Mercer.

MR. CHHELAVDA: Let me just add one qualifier to this. In making a decision to take a contribution holiday, you would have to also consider the longer term impacts of taking a contribution holiday.

Are you going to take a contribution holiday today to only have -- to increase funding later on? That has to be weighed into a decision as well.

MR. STEPHENSON: For sure. But on the other side of the point, there is a very significant limit on your ability to allow surpluses to pile up, as well. At some point, the Income Tax Act requires to get rid of the surpluses, or else you risk losing your registered pension plan status, right?

MR. CHHELAVDA: I am not a hundred percent familiar with that, but I believe there are some limitations to surplus build-up, yes.

MR. STEPHENSON: Let me turn to Mercer for a moment. I don't need to spend -- I am not going to get very technical about this, needless to say. Just a couple of things.

This is K1.1, the most recent report that I am focused on, and there's a couple of -- just a couple of items I wanted to touch base on. The first is at page 13 -- I think it is page 13 of the report. It also says page 15 of 32, so I don't know how to read that. It is the one --

MR. MORRIS: It is the large 13? Is that the page you referring to?

MR. STEPHENSON: Yes, the large 13, the one with table 4 on it.

MR. MORRIS: Correct.

MR. STEPHENSON: At the bottom of that page, you set out the drivers that have led to the difference between this report and prior reports, correct?

MR. MORRIS: Correct.

MR. STEPHENSON: Bullet point No. 3 there is -- you say one of the drivers is "highly competitive base wages, especially for the most highly-skilled power workers' jobs trade and technical group."

When you say highly competitive base wages, do you mean they are essentially the same? Is that what you mean by highly competitive?

MR. MORRIS: That they would be higher than the market median. So highly competitive is, frankly, above the market median to a certain extent.

MR. STEPHENSON: But as I look at base wages for the PWU group, which I think I am looking at on page 17.

MR. MORRIS: Yes.

MR. STEPHENSON: I have it on this chart -- I am looking at the row 2017 weighted average trade and technical. The weighted average is 3 percent above median is that --

MR. MORRIS: It is somewhat above the median.

MR. STEPHENSON: And then if we go to total cash, you are one percent over, which is basically at the median.

MR. MORRIS: Very close.

MR. STEPHENSON: That is within -- I don't know if the concept of margin of error actually applies here or not. But for the purposes of the Board, 1 percent doesn't mean anything for these studies. Is that fair?

MR. MORRIS: I think that is fair.

MR. STEPHENSON: Okay. And so again, just on this page, we do see that you wind up when you have total comp there is a variance there of 12 percent. Correct?

MR. MORRIS: Correct.

MR. STEPHENSON: Okay. So what that is telling me when I compare the 1 percent to the 12 percent is that the variance between the Hydro One PWU represented group and your comparators is really coming from, for the lack of a better word, the non-cash component. Fair?

MR. MORRIS: That is correct.

MR. STEPHENSON: Okay. So that -- and that is largely pensions and OPEB, right? Is that what we are talking about?

MR. MORRIS: Benefits programs in general as well.

MR. STEPHENSON: Right. Okay. So just on that point, and I am -- this is a point that my friend, I believe, Mr. Dumka is responsible for identifying. And I confess, this is something that I did not understand when I read your report.

But when you do pensions at least, and maybe OPEBs as well, for the purposes of this report, as I understand it what you are comparing is in effect the dollar value of the benefit to the employees of the various groups as distinct from the employer cost for those benefits. Is that right?

MR. MORRIS: We use a relative value of the pension, which takes into account a standard set of actuarial assumptions and a standard set of demographic assumptions for the work force, and those are projected forward to derive a total pension value, and from that amount is deducted the portion of that benefit that is paid for by the employees themselves. So it is not a current cost, if that is what you are asking. It is projected over, you know, a long period of time, and so it doesn't reflect today's pension costs in particular.

MR. STEPHENSON: So one of the things we have heard about is that in recent years both my clients' members and members of the Society have -- there has been a cost-shifting in the overall cost of pensions from -- whereby the employees have taken an increased share of the cost and the employer has taken a, relatively speaking, decreased share of the cost. And as I understand it, that doesn't affect your analysis here. Is that right?

MR. MORRIS: To the extent that the employees' costs are deducted from the value of the pension, in fact, that change of ratio would be reflected in this analysis. So the cost sharing is deducted.

MR. STEPHENSON: Well, I wasn't planning on getting into this, and I am sorry. There is an interrogatory response. It is SEP number 10. Exhibit I, tab 40, SEP number 10. And Hydro One was asked in part A:

> "For Hydro One incumbents in the 2016 Mercer study what were the assumed Hydro One annual pension contributions?"

And there were two different numbers because there was a change, and the response was:

> "Mercer did not use Hydro One's actual pension contributions when conducting a compensation study."

And then you proceed to say:

"The Mercer study is a compensation report that estimates the pension value as a percentage of the base salary to be comparable to other elements of compensation. The pension value is calculated as the future pension value divided by projected future salary for the weighted average population. This estimated value should not be applied to a company's overall payroll to determine the expected cost in any given year, since it is meant to reflect the future value of the pension using standard demographic and financial assumptions that would be reasonable for all organizations. The purpose of the Mercer valuation approach is to determine the relative value of Ontario Hydro's pension plan when compared to other organizations. Actual pension contribution consisting of service cost and special payments is not collected or used by the Mercer -- by Mercer in the study. The results of the compensation study cannot be directly compared to actual costs of the pension plan."

I assume that answer was -- came from you.

MR. MORRIS: Not from me personally, but from Mercer certainly.

MR. STEPHENSON: Okay. And that is an accurate statement, I assume.

MR. MORRIS: Correct.

MR. STEPHENSON: What -- and maybe I am -- this is your area, and it is not mine, but when I read that, what I read is if PWU members pay 10 percent more for the cost of their pension benefits, that is not something Mercer takes into account. That is how I read that. Isn't that fair?

MR. MORRIS: If I can draw your attention to page 27 of the earlier document, that is large 27. It is also identified as 29 of 32. Under the heading "defined benefit plans" there is a definition of the approach that is used for valuing defined benefit plans.

And so our earlier points -- and your point was really -- our point is that we are not looking at the specific cost that could have been recorded for financial purposes by Hydro One, but we have looked at the plan design in detail and applied actuarial assumptions, and part of that plan design would be the actual sharing of costs or contributions to the plan.

So basically it says the annual costs are converted into company-provided values by deducting any required employee contribution under each plan. So in fact, to the extent that we know what the employee contribution is that would be deducted in us determining what value we would apply as a multiple of salary as we go through this total awards analysis, so because -- so that is how the approach works, because the value of a plan where employees -- plan with exactly the same benefit provisions, the plan that is -- has an employee contribution is clearly worth less to that employee than a plan that has significant contributions. And so we do take that into account.

Our point is if you were to go back and look at the most recent actuarial report that has been, you know, requested by Hydro One, there is no way that these costs will actually match exactly, because there is a different method used to determine pension plan costs under those actuarial -- using that kind of actuarial analysis.

MR. STEPHENSON: I have to tell you, sir, I have a hard time reconciling these two statements. You say:

> "Actual pension contribution consisting of service cost and special payments is not collected or used by Mercer in the study."

Is that just wrong?

MR. MORRIS: Actual costs are the costs that would be associated with and recorded, and -- that these gentlemen would have in their financial statements. We don't collect actual costs. We look at plan design, and part of plan design is in fact the sharing ratio: What are employee contributions that help to purchase the pension? And so that is reflected in our analysis. So there's -- I don't think -- and maybe I am not explaining it well. I am not a pension expert. But that is different. And they are different -- that cost that is referred to there means that we didn't ask Hydro One, how much did you -- what is your pension expense this year? We didn't go to all the companies in the analysis and ask them, what is your current year pension expense, in part pause we take a long view and the general approach that we use is the plan design that is the most beneficial, most costly or most valuable to employee, by design, and in the plan formula will have the highest value in the approach that we take.

So if it is a rich pension plan and there are no contributions, an equally rich pension plan by design where there are employee contributions would have a lower value in this analysis.

MR. STEPHENSON: Here's my problem, okay. At the end of the day, this Board isn't overly concerned with what the value of the benefit received by the employees is under their pension.

What this Board is concerned with is how much does it cost the employer, because that is what they are going to collect from the ratepayer.

We have evidence, clear evidence from your study, that at least for the PWU members -- and I think also true for the Society members -- that to the extent there is a variance between Hydro One and others, it is largely due to this pension and other benefit amounts.

We also have evidence that Hydro One has made significant progress in terms of shifting the cost of these programs from the employer to the employee. We have all of those things.

But it's not clear to me that any of that progress is captured in your report.

MR. MORRIS: I think that progress is likely captured elsewhere. We applied this methodology. This is a competitive compensation benchmarking analysis that potentially reflects cost. We use this methodology in all our total reward analyses and it, we believe, reflects the value of the benefit provided.

At the same time -- I mean, there are an increasing number of organizations, including many of the organizations in the study, that are also looking at the value of their pension programs as well. So that does have an effect in terms of the ratio that is associated with how Hydro One's total compensation stacks up relative to the marketplace, as well.

MR. STEPHENSON: I just want to be clear. I am not critical of Mercer. These reports are prepared for lots of different purposes. What I am interested in is how valuable it is for this specific purpose.

Let me just ask you a couple of other questions about the report. Your report sets out who is in the pool of other companies that you look at. I don't need to turn to that, unless you need to. My question is do you know whether these other companies, their employees are represented by trade unions? Is that something that you track? Is that part of your process?

MR. MORRIS: We do look at that. I don't have the statistics in terms of specific organizations, but many of these organizations would be heavily unionized.

MR. STEPHENSON: Do you look at all at the correlation between compensation and the degree of unionization, for example?

MR. MORRIS: I may have an opinion about that, but we have not looked at that for this study explicitly.

MR. STEPHENSON: I see. It won't come as any surprise, but you would anticipate that directionally, heavily unionized work places have higher compensation. Fair?

MR. MORRIS: Directionally, correct.

MR. STEPHENSON: The other item I just wanted to touch base with you about is this: Obviously, you are not tracking -- your study doesn't purport to track 100 percent of the employee group at Hydro One. It is a subset, correct?

MR. MORRIS: That's correct.

MR. STEPHENSON: And the subset is derived from the identification of job categories for which you've got a big enough group of comparators. Is that --

MR. MORRIS: We would identify -- we call them benchmark jobs, benchmark jobs that we would expect to find in the marketplace so we do have a point of comparison. That is part of the process to identify the key benchmark jobs that we define.

MR. STEPHENSON: And obviously, as your study reflects, the various benchmark jobs have got -- the different jobs have got different variances, right?

MR. MORRIS: Correct.

MR. STEPHENSON: You don't do an analysis of the non-benchmark jobs, correct? By definition?

MR. MORRIS: That is correct.

MR. STEPHENSON: It is not safe, I am going to suggest to you, for anybody to attempt to derive any conclusions about what variances might exist for any of the non-benchmarked jobs. That's not a safe assumption?

MR. MORRIS: That is an assumption that virtually every organization in this country would make, in terms of determining the competitiveness of its compensation programs. Generally speaking, it's not practical to attempt to find benchmark references for every job in an organization. But to the extent the organization has a structured approach to compensation, in our view, if you have benchmarks that in fact cover more than 50 percent of the employee population, frankly, we do believe it is a relatively safe assumption that other employees would be paid comparably relative to the market.

That's a very standard approach that organizations take. Every client of mine takes that approach and every client of every consulting firm in the Canadian market would do that.

MR. STEPHENSON: Doesn't that assume that there's a normal distribution in both populations?

MR. MORRIS: Clearly, there are -- there could be puts and takes. It doesn't really assume a normal distribution. It assumes really that company's compensation policy is generally applied in a consistent manner, and that there is a thoughtful process that exists to make that happen.

Likewise, that would be kind of a similar thought process around the organizations that are reflected in the marketplace. They are in fact large employers with a relatively structured approach to compensation management, and frankly that we would believe that it is not unreasonable to assume that it's a reasonable -- you know, that it is not a skewed view of the marketplace.

MR. STEPHENSON: Even if we limit our analysis to the jobs that are contained amongst the benchmarked jobs, there isn't a consistent -- there is no consistency. There is a huge variance.

MR. MORRIS: In part, that is why we would select as many benchmarks as we do, so we have multiple views of the market and multiple views of how a particular organization pays. We don't limit it to a single job category to do that.

MR. STEPHENSON: If you are not making an assumption that there is a normal distribution in both populations, how can you -- and within one population there is very substantial variances from top to bottom -- how can you make any assumption as to the variances within the other population? Why would you assume that there is consistency with a group that contains within itself no consistency?

MR. MORRIS: We are looking and we report the data in aggregate. That is the information that we report back to Hydro One and has been placed in evidence in front of the OEB.

The details in terms of individual jobs, you know, we have never really spoken about that as kind of how we've reached our conclusions. We take a very rigorous process to doing these types of studies, in terms of the process of actually collecting and analyzing the data. And to the extent that we believe that this panel of organizations is an appropriate market to compare Hydro One to, we gather and process that data in a very, very rigorous way following industry standards. And we feel again comfortable in the conclusion of how competitive Hydro One is relative to the market. Frankly, I mean, one of the things that we do recommend to our clients is, when you are looking at market data, you know, you have to be aware that there is some variation in terms of the way you should use that as an organization, and generally speaking, if we were to do a study of this magnitude with this number of benchmarks representing a large portion of the population, well over 50 -- or significantly over 50 percent, we would typically say that there is judgment that can by applied by the employer, and generally we would say in the order of plus and minus 5 percent, if that is the point you're --

MR. STEPHENSON: Okay. Let me just do one last question, then. There is one other interrogatory, if I can get you to turn up. It is the SEC number 84, Exhibit I, tab 40, schedule SEC 84. And in this interrogatory -- this is, I think, Mr. McDonell, it is you that is responsible for this -- you were asked to show a derivation of what the reduction -- the compensation reduction would be if you had applied the transmission decision to the application. And the answer that you come up with, you will see there, is the 5.3 million. Do you see that?

MR. McDONELL: Yes, I do.

MR. STEPHENSON: Okay. And the one variable that is not accounted for here, although it is made reference to on page 2, is the updated Mercer study. Do you see that?

MR. McDONELL: That is correct.

MR. STEPHENSON: Item number 2. And so the question I had was, have you, since this interrogatory response, gone back and done a relook at the analysis which takes into account the April 2018 Mercer study?

MR. McDONELL: If I understand your question correctly, if I refer you to exhibit I, tab 40, SEC 83, there was an updated Interrogatory 83.

MR. STEPHENSON: Okay.

MR. McDONELL: We were asked to update all the original interrogatories with any information from the 2017 Mercer study.

MR. STEPHENSON: Okay. Show me where that -- does that affect the 5.3 number?

MR. McDONELL: I think what we showed in -- we are not seeing the right one up on the screen, though. I think that is the original 83, but I have an SEC Interrogatory 83, bracket, updated. But the reference I gave you is Exhibit I, tab 40, schedule 83.

MR. STEPHENSON: Right.

MR. McDONELL: It was filed on -- hmm. Yeah, it has got the wrong date on it. It has still got the February date. It's whenever we filed all the interrogatories with the updated 2017 Mercer study.

MR. STEPHENSON: All I am interested in, Mr. McDonell, is, does it change the 5.3 million number and, if so, what does it change it to?

MR. McDONELL: In that interrogatory, which we are having difficulty finding, the only change that we made was the delta between P50 and the 2017 Mercer study. And it was 71 million in the original SEC 83, and it has dropped slightly to 70.92 in the updated. But what we didn't do, we didn't take out the savings from the updated valuation on the pension and OPEB, which we did in the original SEC 83. Oh, Samir just said the file date could be 20 -- what is that --

MR. CHHELAVDA: 2018-05-04.

MR. STEPHENSON: I am told it is June 7th by somebody back here that seems to know. But that -- I guess my -- you understand my question -- sorry, you finish up there.

MR. McDONELL: I don't know whose turn it is. I was just going to say there is probably no material change from the reduction in the OPEB and the pension valuation that we showed in the original SEC 83. So you would apply that to the updated 70.92. So you would deduct the same values from the 70.92. It is still going to be around the 5.4 million mark.

MR. STEPHENSON: Okay. I mean, I am prepared to leave it at that if you feel that is a good number. Is there some further math that is required? I am content if you're content.

MR. McDONELL: Yeah, there is no change into those other variables. So we are content with that. It is a fair representation.

MR. STEPHENSON: Okay. Okay. Thank you, Mr. McDonell. Thank you, panel. Those are my questions.

MR. QUESNELLE: Thank you, Mr. Stephenson.

MR. VEGH: And just to identify for the record that the updated interrogatory is in K3.1.

MR. QUESNELLE: Which was filed June 7th, right? Okay. Thank you. Mr. Dumka?

MR. DUMKA: Thank you. Hello, panel. I am Bohdan Dumka for the Society of United Professionals. Sorry.

MR. McDONELL: Could I just -- so I -- I think there is probably an important point that we did address in the last exchange I just had with Mr. Stephenson, where we are talking about SEC 83, and the original calculation was, it was about 71 million over P50. And when we did the update it slightly went down to 70.92, I think the number was. But one of the reasons why it wasn't a big change is because in the second Mercer study, the 2017 Mercer, there is probably close to 200 more employees in that study than the 2016. So when we did that calculation from the Hydro rate to the delta rate we included almost 200 more employees.

MR. STEPHENSON: If I can just follow up with that? Just so I have that -- I understand that right, so viewed relative to the median, the, if I can say the per employee differential would be smaller, but since there are -- it is a bigger cohort once you do the math you wind up at a number that is pretty close to the same.

MR. McDONELL: That is correct.

MR. STEPHENSON: Okay. Got it.

MR. McDONELL: Sorry for that confusion.

MR. QUESNELLE: Thank you. Mr. Dumka.

CROSS-EXAMINATION BY MR. DUMKA:

MR. DUMKA: Well, now I am going off-track. I just want some clarification on the SEC 83 when you are talking about the cohort. I was under the impression that the $71 million was derived based on the, I will call it the planned Hydro One work force for that year, not based on the number of bodies in the Mercer study, or maybe I misheard the discussion here. Whatever the number is -- and I will just pull it out of the air. I don't have the table in front of me. Let's say there is 5- or 6,000 Hydro One employees in 2018, and so you would have derived the increment above market median based on that Hydro One head count. It has nothing to do with the change in the cohort in the Mercer study. You are taking the delta, whatever it is, per employee and applying it to your planned head count for 2018. Is that not the case?

MR. McDONELL: I'm afraid I am going to have to put Mr. Morris on the spot here, because the $71 million number that we are quoting actually came from Mercer. I'm not sure if you are able to make a comment on that.

MR. MORRIS: Unfortunately, I'm not. I wasn't aware of the calculation, and I would have anticipated it was on the entire employee population. But I can't say for certain. I didn't, frankly.

MR. VEGH: Perhaps the panel can sort this out during the morning break and provide a response when we return.

MR. QUESNELLE: That would be helpful, thank you, Mr. Vegh.

MR. DUMKA: And one other one on that, and I'll probably touch on it again, my client -- the employee pension contributions go up in 2018. So if we're taking a look at where we are verses market median, we've had the discussion in terms of how you calculate the pension and other benefits variance.

But looking at it from my client's point of view, they are lowering the overall costs, the compensation costs, for Hydro One by increasing the employee pension contributions. It would seem to me if we are looking at a variance from market median in the 2018 test year, we should be taking that into account, because in fact looking at the single year, we are closing that gap. Like somehow or another, we have to take into account that my client is actually lowering your overall costs from where they would be and shrinking that variance from market median.

MR. QUESNELLE: Perhaps, Mr. Dumka, if the panel can take that into consideration, and respond after the break when you've analyzed what the update to the interrogatory actually means. And we'll open it again to both Mr. Stephenson and Mr. Dumka if any questions come from that explanation.

MR. DUMKA: Fair enough. There is another thing that came up in Mr. Stephenson's cross-examination. This was Mr. Chhelavda's response to the potential for a pension contribution holiday. There was some uncertainty, I thought, in terms of whether the employee pension contributions would vary in the same manner as the employers, if they go down due to a holiday or taking advantage of the pension surplus.

My recollection in the past was that in fact the employee pension contributions stayed constant at whatever they were. It was -- it was separated from any employer pension contribution holiday. I am wondering if we can get an undertaking just to clarify that in terms of that scenario.

MR. CHHELAVDA: My understanding is should the employer's contribution dip below that of the employees, it would be a one for one reduction for both.

MR. DUMKA: You are a hundred percent certain?

MR. CHHELAVDA: That is written, I believe, in the collective agreement.

MR. DUMKA: I will leave it with you if you verify that we've already got that on the record. But if it turns out there some variation, I think it would be helpful for us to know. Okay, thank you.

I've got a compendium and if I can ask you to get that up.

MR. QUESNELLE: We will mark that, Mr. Dumka. Society of United Professionals, panel No. 2, will be K3.2.

EXHIBIT NO. K3.2: SUP CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MR. SIDLOFSKY: Yes, thank you, sir. If I could ask you just to flip to page 2 of the compendium, this is Society IR No. 13. Mr. Stephenson took you to the big worksheet that is behind this that Hydro One prepared.

I am just going to go to the summary table, which was the end question. If we -- which you see in the interrogatory here, this table, which asked Hydro One to calculate what the total increase in compensation is on a per FTE basis for the 2014 to 2022 period, and then for the 2017 to 2022 period, and then come up with annual averages in terms of increase.

If we could flip to page 4 of the compendium, I have done an extract of those tables. For our purposes here, I'd just suggest we talk about the total Hydro One. There's slight variations because of the change in the allocation between the DT and the TX part, but the numbers on a per FTE basis is essentially the same. It is just one decimal place here or there. So I think it's just simpler if we look at the top table.

Now, when I was going through these numbers in detail the other week, I found that there was an error in the average compensation per FTE increase on an annual basis. That would be row A, for example. If you take a look at the second figure, which is the annual average for 2017 to 2022, in the IR response it was stated as 1.4 percent. This is for the unrepresented.

But I looked at the calculation and it appears to me to be in error. The annual average was -- the total increase calculated is the total increase divided by 8.

This for the '17 to '22 period, and it should actually have been divided by FIVE, I believe.

MR. McDONELL: Thank you, Mr. Dumka. Yes, we did see this yesterday and we can confirm that your correction is indeed correct. It was a formula error. As you've said, instead of putting five, we had eight years in.

MR. DUMKA: Okay. Would it be possible -- I am looking forward to the transmission proceeding if this comes up. Would it be possible just to file an update to the interrogatory response so we have it sitting there for the transmission proceeding?

MR. McDONELL: I think that's a fair request.

MR. SIDLOFSKY: Make that undertaking J3.1.

UNDERTAKING NO. J3.1: TO FILE AN UPDATE TO THE RESPONSE TO SOCIETY IR NO. 13, INCLUDING ALL THREE CATEGORIES

MR. DUMKA: Just another point. You will see that the bottom of the highlighted table, I have plunked in the annual inflation factor for 2019 to '22, which is 1.9 percent. And I realize that is just a placeholder for the purposes of the evidence. That inflation factor will be updated each year, as per OEB direction for coming up with the IR figure for '19 and whatever else.

I've had a look-see in terms of what the projected inflation is for that period, 2019 and '22, and it's -- this is -- it's in the range of about 2 to 2.5 percent. It depends on the year and which forecast you look at.

So just for the sake of our purposes here, would you be comfortable in assuming that the inflation factor is roughly 2 to 2 and a quarter percent? The exact number isn't that key.

MR. McDONELL: I think that's fair. We can accept that because in the business plan, I think we assumed around 2 percent as well.

MR. DUMKA: Okay. Basically, the statement I would like you to confirm for me is that looking at these figures here, the annual increase in compensation per FTE, effectively the average for Hydro One total is materially below inflation through that period. We've got an annual average of about 1.3 percent increase in compensation for FTE, and the inflation rate is roughly 2 percent.

So it's about -- the increase is about two-thirds of the inflation rate. Fair statement?

MR. McDONELL: Based on the numbers that are here, yes, that makes sense.

MR. DUMKA: Okay. That's fine. I just wanted to get that on the record. As you went through with Mr. Stephenson earlier on, the actual compensation numbers that have gone into this are total compensation. So it's not just wages, the annual cash salary. It includes bonuses for non-represented staff and things like the stock options for staff. It would include things like the annual merit increases for the unionized staff, as well. So it's the whole bucket.

MR. McDONELL: Correct.

MR. DUMKA: Okay. Thank you.

MR. McDONELL: Maybe this is an obvious question. When you asked us to replicate this with the corrected -- I assume you want it for the distribution and transmission as well, not just the --

MR. DUMKA: Oh, yes, yes. Sorry, I am sorry, yes. Again, the IR response as you provided it; just update that for all three categories.

MR. McDONELL: Okay, done.

MR. DUMKA: Yeah. Okay. Thank you.

If I can ask you to go to the next page in the compendium, please, and this is IR J21.11. And here we asked Mercer, whoever, to provide the statistical certainty level on the market median estimate. And in the orange box is the reply. And I am wondering -- and you may ask our friend from Mercer to answer this question -- why should we feel there is a certain level -- a high level of confidence in the market median? I had some difficulty in interpreting what was said here.

MR. CHHELAVDA: Part of what we were attempting to show in the box was looking to see whether there was any type of skewness in the data by looking at percentiles around the market median. So that was our intent with that. So that is why we presented this information.

MR. DUMKA: Okay. It wasn't quite what I was looking for, to be honest with you. I am used to seeing surveys that say the market median is X plus or minus, you know, 5 percent or whatever else. So I was wondering if we could ask you to provide the approximate 95 percent confidence interval for the estimated median.

MR. MORRIS: Can I ask what type of surveys you are talking about with the confidence of 95 percent?

MR. DUMKA: Well, I just did a random search on the Internet, looking at medical studies, where they were calculating medians, et cetera, and it would seem that the 90 -- approximate 95 percent confidence interval for the median was a typical figure that was examined.

MR. MORRIS: That type of analysis is most commonly used in -- I mean, you see it in polling studies, for example. There has been a lot of polls, I guess, around the recent election. And those are circumstances where you are using a, you know, a very small sample, say a national political poll would use a relatively small sample to try to estimate the opinions of millions of people. And so there is a -- basically a sampling analysis like this.

Our view with a compensation study of this type is that we are using a very closed population; in fact, a population that is associated with the organizations in the peer group. We make every effort to, you know, gather, as I have said earlier, gather all the detail in terms of plan design on the benchmark roles and collect, you know, comprehensive data from each of the plan participants, and then we apply our standard and effectively an industry standard methodology to calculate the number.

And so we believe that the, you know, that the median is in fact the median of all the data that we calculated through this process in comparison to Hydro One. Having said that, and I mentioned it earlier, you know, we do advise, you know, clients that if you are looking at the median and you are trying to make decisions about pay within your organization on a systemic basis, you may wish to or you should in our view look at that median and determine whether it is competitive within a range of plus and minus 5 percent.

And so I just -- it's the sort of the polling statistic that you have described or medical research, which again generally has very low sampling compared to the population that you are extrapolating the data to, that is a -- there is a kind of a different statistical technique than if you are looking at what is effectively in our view the entire population. And so that is why, frankly, I have never seen a compensation study that reports a 95 percent confidence interval.

MR. DUMKA: So basically what you are saying is the industry in the way it does these calculations assumes essentially 100 percent?

MR. MORRIS: Yes, and judgment required in application. And that is --

MR. DUMKA: Okay.

MR. MORRIS: -- kind of the approach that is taken.

MR. DUMKA: My point would be -- and we will leave it here -- you are not sampling 100 percent of the population. You've got -- and I am pulling numbers out of the air. I don't have them at my fingertips. But you are sampling roughly 60 percent, if that, of the Hydro One employee population. So there is some variation there, because it is a high sample, but it isn't 90 percent or 95 percent of the population. You have something that approaches 50 or 60 percent of the population.

So there is some variation, I would think, in terms of the confidence level on the median that you calculate. I can't speak of the other companies that you have in, in terms of if you looked at the number of actual employees that are covered out of their employee population, if you have looked at that at all. So I am just suggesting that there could be some -- well, I would say material variation in the populations that are being sampled, et cetera, which from my perspective would not put your market median calculation at -- I will just pick a number out of the air -- a 99 percent certainty level or 99.9 percent. That is all I am suggesting.

MR. MORRIS: If -- to your point about the organizations that we have surveyed, you know, quite frankly, we were only interested in their data for the benchmark jobs. You know, we -- and frankly, they provided us that information as thoroughly and accurately as possible. We really don't have any concern for how they pay their other employees. It is just not relevant to this analysis.

So as far as the sampling goes, we have made every effort to gather any available data from this population of organizations on the benchmark jobs from Hydro One perspective, and so to the extent that the market median is the ratio that we calculate around, we think that that number is a very solid number.

Again, we do suggest that in application an organization consider plus and minus 5 percent around that figure. And I think that that is a very fair, and in fact it is a relatively -- it is a Mercer industry standard approach, our approach when we are looking at competitiveness of compensation values, and so that's in part how we would take into account the fact that there is -- you know, it is not an absolutely perfect process. And, you know, we can't say that, you know, the errors are normally distributed, you know, to make us, you know, a precise, precise number. But we think that that is a reasonable number and a reasonable approach, and would feel that it is also reasonable in this circumstance.

MR. VEGH: And if I might just interject, Mr. Chair, I think this issue has been thoroughly discussed. I just wanted to point out that Mr. Dumka's reference to his expectations around confidence levels and 95 percent, et cetera, that is not based on anything in the record. That is just his impression. I will just leave it at that.

MR. DUMKA: Okay. Thank you for that, Mr. Morris. But as you said, plus or minus 5 percent is what you instruct clients to consider in terms of their application of this.

MR. MORRIS: To consider, correct.

MR. DUMKA: All right. Thank you.

If we can flip to compendium page 6 -- and I am just going to spend a moment on this because Mr. Stephenson spent a great deal of time on this --

MR. QUESNELLE: Mr. Dumka, I would just ask you to find a spot in your cross where we take a break. If this is a good spot we can do it now, or --

MR. DUMKA: We can do it now.

MR. QUESNELLE: Why don't we do that. Let's break until 11:35. Thank you.

--- Recess taken at 11:20 a.m.

--- On resuming at 11:43 a.m.

MR. QUESNELLE: Thank you. Please be seated.

MR. VEGH: Thank you, sir. Just to provide an update, the witnesses were going to provide a clarification of SEC 83 at Exhibit I40. They are still working on that, so they'll provide that after lunch.

MR. QUESNELLE: Thank you very much. Mr. Stephenson and Mr. Dumka, I take it you will be back after lunch? Thank you. Mr. Dumka?

MR. DUMKA: If I could just ask -- it's already up there. This is Society IR No. 10. My questions have been reduced a great deal after the earlier discussion with Mr. Stephenson.

But one question with regards to how Mercer calculates the pension. Have you taken into account in the estimate that beginning in 2025, there's been a change in the -- an agreed change in the pension rules, part of the give and take in terms of negotiation?

So there's a so-called -- as Mr. McDonell said earlier, there is a rule of 85 that starts getting applied and there is -- it is a high five calculation, as opposed to a high three, which lowers the value of the pension to the employee.

I could be wrong. Mr. McDonell can correct me. I think there is some tweaking as well in terms of the maximum of the high five. Was there a change there, as well? I can't recall.

MR. McDONELL: To be honest, I can't recall that part. There's a high five and the early undiscounted pension were the big changes.

MR. DUMKA: My question to Mr. Morris for Mercer is this lower pension value, was that taken into account in terms of the compensation benchmarking study in terms of how you derived the value of that pension?

MR. MORRIS: No, I don't believe it was. We look at it at a point in time and plans that exist at the time we undertake the study. So that would be something that will come into play in the future.

MR. DUMKA: As Mr. Stephenson has said to me, that does impact the present value of the pension -- the value of it to the employee because it is going to be lower for those employees starting -- you know, the employees that will still be contributing to the pension in 2025, the value of the pension to them in present value terms has gone down.

So it does have an impact on the value of the pension to the employee and in terms of how you calculate that pension benefit. I think there is a key element. The reason I am on this is both the unions agreed to this reduction in future pension benefits. That is a real value to current union members.

So that has to be taken into account in some form or another, in terms of the market median calculation.

MR. QUESNELLE: You are putting that as a question, Mr. Dumka?

MR. DUMKA: I am putting that as a question. It seems like a big gap in the value or the market median calculation.

MR. MORRIS: We take a point in time view for organizations that have multiple pension plans currently in place, so a DB plan or a closed DB plan and DC plan. We did in fact take those different pension arrangements into account.

I don't believe we took into account something that is happening in 2025 through this process.

MR. DUMKA: Okay.

MR. MORRIS: And -- I will leave it at that.

MR. DUMKA: Okay. Really, if I am looking at pension at your answer to part A of this interrogatory, the last statement in part A is:

> "The results of the compensation study cannot be directly compared to the actual costs of the pension plan."

So this is another -- this is a variation, what we've just talked about, again in terms of how the compensation study can't be directly compared to the actual cost to Hydro One and the ratepayers in 2018 and '19, '20, et cetera, to know the cost to them of this pension plan.

MR. MORRIS: I don't think that categorization is the way where would categorize it. I am back to the point I attempted to make earlier. I believe that the cost referenced there is the actual cost of providing the pension as would be accounted for by Hydro One, as would be determined by Hydro One's actuaries; we are not them.

Other than the point that you do make about the pension plan change in 2025, seven years hence, that hasn't been taken into account. I just don't feel it's appropriate to characterize our analysis as not being representative of the value of the pensions, generally speaking. That is my perspective on that.

MR. DUMKA: Okay. Thank you for that. If I can ask you to move to page 9 of the compendium, please, this is 2018 team scorecard.

I have a simple question on the scorecard. There appears to be no measure on this scorecard included for diversity and inclusion. Is that correct?

MR. McDONELL: That is correct. Maybe a little bit more of an explanation might be warranted on the diversity and the inclusion. We will be setting targets for 2018, but they haven't been set yet. We are still doing a fair bit of work doing focus groups and completing an audit on our diversity and inclusion policies and procedures.

So we're not ready to set a target; therefore, it wouldn't be appropriate to put it on the 2018 scorecard.

I was thinking about this the other day. I think we also have to be careful when you put targets like that on a corporate scorecard. We've had some experience in the past where we put a like metric employee engagement on our scorecard a few years ago, and what we found is that sometimes it became a little bit cynical because people felt that the only reason in that case we put -- talked about engagement was because there was going to be a short-term incentive payout.

So I think we just have to be a little bit careful putting something like diversity and inclusion, which is very important to our board, and put it in our scorecard.

MR. DUMKA: It is going to be later this year that you have 18 targets?

MR. McDONELL: Yes. I followed up with the director yesterday and she is hoping, I think, in the next couple of months, we will have the targets available.

MR. DUMKA: So you will provide that information in the upcoming transmission?

MR. QUESNELLE: Mr. Dumka, can you explain to me what the concern is here, as far as the revenue requirement?

MR. DUMKA: Well, I am going to get into that to a certain degree. But in terms of financial performance of companies, those with a more diverse workforce, and in particular women, have better financial results; i.e. at a high level, there is a strong correlation. Our concern is at several levels.

MR. QUESNELLE: That is what your argument would be on that point?

MR. DUMKA: Yes.

MR. QUESNELLE: Okay. Thank you.

MR. DUMKA: I guess this question is already answered to a degree. Do the executive performance contracts include any diversity and inclusion measures or targets?

MR. McDONELL: I am not sure. The employee individual contracts have not all been finalized yet. Quite frankly, I haven't seen them, so I can't comment.

MR. DUMKA: That is an uncertainty. This isn't the point of my cross-examination, but employee contracts, the management contracts haven't been nailed down. We're halfway through the year.

MR. McDONELL: I understand the point that you are making. But there have been a lot of changes at Hydro One again this year, and we've had a couple of senior EVPs arrive over the last month or so. So because of that, the individual contracts have to be adjusted.

MR. DUMKA: Right. But in the case of directors such as yourself and the senior VPs, their contracts --

MR. McDONELL: I have a contract that has been established. The vast majority of management would have had contracts established.

MR. DUMKA: Okay. All right. Thank you for that.

Let's see. I think we have answered all these. And I was going to ask about the diversity measures and targets that we asked for in Society 16. So, you know, again, what you have just said is those numbers aren't going to be available for another couple months.

MR. McDONELL: Yes, same answer.

MR. DUMKA: Okay. Could you please move to compendium page 10, please. And this is where, Mr. Chair, I'm going to start getting into at a high level some of the background in terms of the benefits to corporations and the ratepayers in terms of diversity and inclusion. And this is actually leading up to a number of questions. And --

MR. QUESNELLE: Go ahead.

MR. VEGH: Like you, Mr. Chair, when I looked through the compendium I didn't really see a lot that had an impact on -- I didn't see anything that had an impact on the revenue requirement and the remedies requested in this case, and what I am gathering from this introduction is that Mr. Dumka is about to provide some evidence on that. So, you know, I am still waiting for relevant questions. I won't have -- I don't have an objection to this entire area, but I am questioning its relevance to the issue in this -- to the issues in this case, and that will be background to any objections that do arise throughout the course of this cross-examination based on this evidence of government policy around pay equity.

MR. QUESNELLE: Thank you, Mr. Vegh. With that in mind, Mr. Dumka, perhaps you could, as you are going through these, do the mapping in advance as opposed to after the fact.

MR. DUMKA: Sure. Absolutely. What I am interested in in terms of the cross-examination on this act which came into effect -- it got Royal assent on May 7th -- is the requirement for reporting on compensation gaps in the genders and visible minorities. So my question is leading to what does Hydro One do now. This reporting is going to be required in 2020 on 2019 results. So my question, just to cut to the chase, is, does Hydro One currently gather any of this information and report upon it to its executive team?

MR. QUESNELLE: And if the answer is yes or if the answer is no how does change your argument as to what arguments you will be making in response to the relief sought from Hydro One?

MR. DUMKA: Where I'm going with this is that if the company has targets laid out in terms of diversity and closing the gender compensation gap, it is going to improve the financial results of the company. It is going to be able to overall run more efficiently, so it is in the best interests of the company and the ratepayer to have this in effect. That's the point.

MR. QUESNELLE: That's the kind of mapping we need. Thank you.

MR. VEGH: I suppose that that is a statement that Mr. Dumka wants to make. I think he just made it, and I don't know what is advanced in further cross-examination of that issue.

MR. QUESNELLE: Well, I would take it, Mr. Vegh, that if the answer is yes or no he will either argue in favour of your client or not.

MR. VEGH: [Microphone not activated]

MR. QUESNELLE: Yes.

MR. McDONELL: So that's -- The answer is no. And what I mean by that is we don't currently collect data which we think will be in line with this piece of legislation, which I understand the regulations haven't been finalized yet. So we are still --

MR. DUMKA: Yeah, oh, yeah.

MR. McDONELL: Yeah. So we are collecting the data.

MR. DUMKA: Okay. And so then it would be a fair guess on my part that Hydro One doesn't see any value in terms of keeping track of gender pay gap or visible minority pay gap?

MR. McDONELL: Let me take it up a level high. We totally believe in diversity and inclusion. It is very important to our board of directors. Our board of directors expect a quarterly update of how we are doing in terms of diversity and inclusion. We actually spent a lot of time and effort this year, as I said, doing focus groups and doing an audit on all our policies and procedures that could impact and uncover systemic discrimination. So I don't agree that we don't take it seriously. We do very much so.

And, I mean, diversity and inclusion is just not a nice thing. I do actually believe -- or I would agree with part of your comment that having a strong diversity and inclusion environment can improve the business results. It is not just a "nice to have". We are doing it because there is some positive business outcomes as a result of it.

MR. DUMKA: Right. Okay. I am just, I am going to go quickly through the remainder of the material. If we could just go to page 13 for a moment, and I will just take you to the second highlighted point.

And this sort of again cuts to the chase, and you don't do reporting on diversity and compensation gap or whatever else, but the concern expressed here in the background on the legislation is the huge gaps that do exist, which is, as it is now, women earn about 30 percent less than men. And I am not suggesting that that is the gap in Hydro One. I am suggesting that if you haven't kept track of this -- there is concern, but you haven't kept track of it. If you don't keep track of gaps like this, you can't manage them and minimize them, so it's --

MR. QUESNELLE: Mr. Dumka, I am going to ask you to pose questions on what you have provided to the panel. You are really running close here to -- the relevance of this is questionable. You have made the argument upfront. I accept the connection. There no doubt about that. But now it sounds like you are making a series of statements on what your client believes to be a deficiency in a totally different forum and a totally different area. I would like you to keep tying this back to the revenue requirement and the relief sought. The Board has to be mindful of what its mandate is here and you have made the connection, in a fashion, and we accept that. But this sounds like a series of statements you are making that you would like to get on the record and a response from Hydro One for other matters.

MR. DUMKA: Okay. Fair enough.

Just to touch on it in passing -- and it is here on the record -- on page -- if we can go to page 15 of the compendium. And this is just the statement from -- at the bottom in highlight. I am not going to go into it in any detail, but again, this is the view from McKinsey in terms of the profitability of companies with a high proportion of diversity, both gender and ethnic. So I will just leave that.

And page 17, I don't think I will go into that now, but basically what is outlined here --

MR. QUESNELLE: Do you have a question on any of the material --

MR. DUMKA: Yeah, actually, I was going to ask a number of questions, but I am trying to cut to the chase. But maybe we can go through it quickly. And my questions to Mr. McDonell are, in the box at the bottom of the page, which we have here, has Hydro One done any of these five steps?

MR. McDONELL: My answer to that would be, yes, we have.

MR. DUMKA: Could you please --

MR. McDONELL: Give you some examples? I was waiting for that. The first one, as I was saying before, are, it's not just words when we talk about diversity and inclusion at Hydro One. Our board is very interested in it, and as mentioned, they get updates on a quarterly basis. We just recently, as a matter of fact, appointed a director of diversity and inclusion within the human-resource group to focus on programming to increase the D&I awareness. So that is really number one.

Number two, as I mentioned a couple of times, we are setting targets this year. So, you know, we are on the road for that. Creates formal sponsorship programs, absolutely. We are very proud of a couple of programs that we have. One is called WIEAT (ph), woman in engineering and technology. It is a program that are we working with a group of women to bring awareness of working in a utility environment and looking for systemic barriers and having actionable items.

We are also in partnership with four universities where the focus is bringing awareness to high-school girls so that they are aware of the opportunities for careers in our sector. Making flexible compatible with promotion, you know, we do have some flexibility around hours of work or working at home or working remote, so I think that would probably qualify.

Raise awareness of unconscious bias. A really good example of that is what we call the MARC program, Men Advocating Real Change. It is a group of 25 senior male leaders who get together on a fairly regular basis with woman at Hydro One, again, just to talk about issues that could be barriers for promotion and success from a woman's point of view and bringing awareness to the rest of the organization to eliminate any barriers that may exist.

MR. DUMKA: Okay. Those are all my questions.

MR. McDONELL: Thank you.

MR. DUMKA: Thank you.

MR. QUESNELLE: Thank you, Mr. Dumka. Ms. Durant?

MS. DURANT: Good morning. I have a compendium that I will be referring to that should be marked as an exhibit.

MR. SIDLOFSKY: Exhibit K3.3.

EXHIBIT NO. K3.3: CME CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

CROSS-EXAMINATION BY MS. DURANT:

MS. DURANT: I have given hard copies to the panel as well.

Most of my questions are going to be again to the same two individuals, Mr. Morris and Mr. McDonell. I'll have mostly questions on compensation.

To start off, what I thought I would do is give us a recap of where we are in terms of the compensation evidence and how we got here, just because it is a bit confusing in terms of all the waves of compensation evidence that has been filed.

Mr. McDonell did a good job starting to explain it, but I think where am going to go into a bit more detail, if you don't mind.

Tab 1 is somewhat of a starting point, and how we got here is this was the compensation evidence filed as attachment 6 in response to the transmission decision. Is that your understanding?

MR. McDONELL: That is correct.

MS. DURANT: What happened here was there were some concerns raised in the transmission proceeding -- which I understand I was not personally involved, but which I've read about -- about the extent of the compensation evidence presented and more details requested by the Board, specifically to allow the Board to compare total compensation between transmission and distribution. Am I right on that high level?

MR. McDONELL: At a high level. I might have additives in a few minutes.

MS. DURANT: And what's done in attachment 6 is you provide an explanation about the data that is provided, and you explain that the compensation evidence is approved upon in a few different ways. I believe you explained here and in your earlier evidence the head count issue, in terms of past evidence being based on employees working December 31st of each year, whereas the new approach, the more comprehensive approach, shows employment compensation data for a full year. Is that correct?

MR. McDONELL: Yes, it is.

MS. DURANT: So what we get on the following pages -- I guess starting at page --

MR. McDONELL: I will make one comments that I think would be helpful to you, as well.

The attachment 6 is as a result of a further decision from the transmission hearing. We had the transmission hearing where we took an undertaking J10.2, which was a look at year-end compensation for our transmission business. So we filed that.

Right on the heels of that, we are filing our distribution filing and we are trying to evolve and approve the evidence in that -- in the DX application. So what we did there was we took a look at distribution total compensation, not just year-end. And then a procedural order, I believe, came and the Board asked if we -- to have a baseline total compensation, can we do the same -- the same chart that we did for the DX total compensation, but do for the TX compensation. So now we have a baseline TX and DX and at the bottom consolidated. That is what attachment 6 is all about.

MS. DURANT: And than at page 4 is where we get the actual tables, right?

MR. McDONELL: That is correct.

MS. DURANT: At the top, transmission unrepresented, that's the totals related to transmission. Below is distribution. If you actually -- I looked back to compare this to your original filing in DX, and the distribution table that's shown here is actually the same as what you had originally filed, and that's because you had improved the evidence, right?

MR. McDONELL: I did the very same thing. Absolutely, that's true, yes.

MS. DURANT: Okay. I just have one question while we are on this page. It is more of a clarification question.

MR. McDONELL: Are you on the tables?

MS. DURANT: I am on the tables at page 3 of 9 of attachment 6. You are estimating under the column total unrepresented head count and head count totals, and it is throughout this chart. When you are estimating head count on a going-forward basis, are you using full term (sic) equivalent numbers there? Or what is that estimate based on?

MR. McDONELL: You'll see -- from 2014, 2015 and 2016, you see three numbers, right? You see head count, which is all the heads, the compensation, the year. FTE is the full-time equivalent, and year-ahead head count is exactly the number of bodies on December 31st.

That takes you to 2017 and now you see a single number. That's an FTE calculation.

MS. DURANT: FTE calculation?

MR. McDONELL: That's right.

MS. DURANT: Thank you. In addition to attachment 6, you remembered a procedural order and that comes at tab 2. I think that is what you were speaking of here, a procedural order. This is tab 2, page 11 of the compendium.

MR. McDONELL: Right. I think I'm with you.

MS. DURANT: This is just an explanation of what the Board was requesting in terms of further filings.

MR. McDONELL: I think this gets us to having that baseline compensation I was referring to.

MS. DURANT: Yes. What comes after that, if you go to tab 4, page 13 of the compendium, this is a further -- it is called a compliance filing with further compensation evidence.

MR. McDONELL: That was filed on December 12th of 2017, that's correct. The gist of this is based on the ruling in the transmission decision for the reduction in the corporate management function, how was Hydro One going to do that for the upcoming distribution filing, and this is that response.

MS. DURANT: Okay. This response here -- I am looking page 13. There is the heading "Hydro One's historical approach", and if you go to the second page of that, the second paragraph, line 6:

> "The historical approach included in total compensation only base pay, overtime, short term incentives and other allowances for PWU, Society and management employees did not include other compensation items such as pension and OPEBs."

That's items you've added this time around, correct?

MR. McDONELL: That is correct, yes.

MS. DURANT: And then what we get are, over the next couple of pages, just explanations of what evidence is filed in each different piece of compensation evidence. You mentioned J10.2. I will skip over that one to page 15. You then provide an explanation of what is shown on attachment 6. I will focus on the bullet points here.

In these bullet points, you are just explaining here the changes and the improvements to the evidence?

MR. McDONELL: That is correct.

MS. DURANT: The first bullet is you expand the definition of total compensation, and it also reflects the cost for full years rather than point in time. It refines the allocation of casual employee compensation.

Tell me a bit about bullet 3. What do you mean by that?

MR. McDONELL: My recollection was for casual employees they can work both on transmission assets or distribution assets. And I believe when we originally did the calculations, we used the Black & Veatch methodology to get the allocation between the two businesses.

Then we thought maybe there's a better approach to get a more accurate allocation, so we -- not me, but some folks in our finance group spoke with managers, predominantly in lines and forestry, to get a better split for casual employees between DX and TX. We used that managerial experience to get a little bit more of an accurate...

MR. DUMKA: So to identify where these casual employees are actually working, rather than just using an allocation method?

MR. JODOIN: If I may add to that and just to expand a little bit on what exactly the Black & Veatch methodology is, it's a historical view of the labour embedded in transmission distribution OM&A and capital. So it's looking in the past, whereas if you have a changing work program between transmission and distribution, management expertise could alter that based on changing business needs.

MS. DURANT: Okay. Then the other change in the filing is that you isolate total compensation costs for distribution business only and the evidence filed is updated to reflect the distribution business plan.

MR. McDONELL: That is correct.

MS. DURANT: Okay. So the next page, 16, I will just point out to the tribunal briefly. This is just a summary table. If you wanted to look at one place to see, you know, what are the changes of the various types of filings, this summarizes the evidence in each compensation filing. It is on page 16 of the compendium, or page 4 of 10 of attachment 7. And is --

MR. McDONELL: Was that --

MS. DURANT: Sorry, I just --

MR. McDONELL: -- a question?

MS. DURANT: Yeah. So this table -- I am just pointing it out to the tribunal mainly for assistance. If you are looking for a table to compare similarities and differences between the various filings of compensation over the different -- you know, this is where you could look to quickly see, you know, what is identified.

MR. McDONELL: If you remember my opening statement, I was explaining how confusing this can be --

MS. DURANT: Yeah.

MR. MCDONNELL: -- and we are proving it to ourselves --

MS. DURANT: Yeah.

MR. McDONELL: -- and that was how we were trying to reconcile everything.

MS. DURANT: Yeah, so this table is a good place for everyone to look to see, okay, if there is a difference, you know, it would be in this table, right?

MR. McDONELL: Correct.

MS. DURANT: Okay. Now, I have some questions. The next page is page 17 of the compendium. And these are tables that show the differences between the 2013 to 2018 total compensation figures for the transmission business shown in attachment 6 and in Exhibit J10.2 in the transmission case. And I am just getting that little paragraph summary from page 7, but I want to spend some time on exactly what are we looking at in these tables. So table 2, variance summary, we see different headings here which identify different rounds of compensation filings or different rounds of compensation evidence.

So what are we looking at if we start at the first one under the heading "consolidated TX and DX compensation as per order number 2 updated J10.2." That is evidence filed in the transmission proceeding?

MR. McDONELL: Correct. And I think I can help out here --

MS. DURANT: Sure.

MR. McDONELL: The first -- the top part of the chart --

MS. DURANT: Yeah.

MR. MCDONNELL: -- the first row of compensation, that is really reflecting the J10.2 compensation. In other words, it is a snapshot of year-end compensation.

MS. DURANT: So the whole first row is all J10.2 compensation.

MR. McDONELL: I am not explaining it very well. That whole block --

MS. DURANT: Okay.

MR. MCDONNELL: -- of -- the first block of tables.

MS. DURANT: Yeah.

MR. MCDONNELL: Okay? And below it you see another block of numbers too, right?

MS. DURANT: And they all say October 11, 2017 filing in the headings, right?

MR. McDONELL: And that is the attachment 6. So now what we have is a clear visual of total compensation and year-end compensation.

MS. DURANT: And it is one page. We can see it quickly in one spot.

MR. McDONELL: Correct.

MS. DURANT: Okay. Next page, what are we looking at here?

MR. McDONELL: Okay. So now we are trying to explain the tables that we just saw and what the differences are between the two --

MS. DURANT: Yeah.

MR. MCDONNELL: -- so I am reading number 1, total compensation versus year end compensation. So that is the delta between the attachment 6 and the attachment 8, and --

MS. DURANT: Right. So to just give an example for the benefit of the tribunal is -- so if you look at year 2014, the $24.6 million number, that is the difference between reporting point-in-time compensation at year end versus the entire year's compensation.

MR. McDONELL: Correct. Yes.

MS. DURANT: And for 2015 that number is 20.5 million?

MR. McDONELL: And that is for non-casual, because that leads me to the next bullet --

MS. DURANT: Yeah.

MR. MCDONNELL: -- which is the difference in methodology -- casual employee method change, and what that is explaining is that when you looked at J10.2 --

MS. DURANT: Mm-hmm.

MR. MCDONNELL: -- the year-end compensation, quite often we would lay off a lot of our casual employees. So they wouldn't be on December the 31st. So there was a smaller amount of compensation. So what attachment 6 is doing is calculating the total compensation for our casual work force. So that is -- number 2 is the delta between the compensation for our full-year casual compared to year-end casual.

MS. DURANT: I think I saw somewhere in the evidence, although it is not in my compendium, that the casual employees are lowest of all of the years in December. There is an uptick in casual in the summer and a downtick --

MR. McDONELL: Due to the seasonality of our work force, yes.

MS. DURANT: Yeah, okay. And then the third change in that is the casual employee allocation change. I think how I understand that to mean is you will see there is corresponding numbers from transition moving to distribution -- or, sorry, distribution to transmission, just showing that when you did the reallocation of where the casual workers actually are working, you see money leaving distribution and going to transmission.

MR. McDONELL: That's right. So it nets out to zero.

MS. DURANT: Nets out to zero. Okay. And number 4 is just change due to what the actual payroll was in 2016?

MR. McDONELL: That is correct.

MS. DURANT: So there is a -- so the example under the first heading for the consolidated number was that the actual payroll for 2016 was 13.7 million higher than what was filed in the estimate for J10?

MR. McDONELL: Correct.

MS. DURANT: Okay. And the last one is just again an allocation change? And under number 5, change in 2016 allocation split? And again, there is --

MR. McDONELL: Yes.

MS. DURANT: -- a change from transmission to distribution. What is that change as a result of? If you can answer?

MR. JODOIN: I can probably help with that one.

MS. DURANT: Sure.

MR. JODOIN: If we go back to number 4 --

MS. DURANT: Yeah.

MR. JODOIN: -- where it was the change in 2016 actual payroll, the allocation of that was done based on 10.2. And then to show specifically what the actual allocation was, we added row 5. So it was just a way of isolating what was pure comp changes and what was allocation changes. Does that help?

MS. DURANT: Yes.

MR. McDONELL: If I could just also add. So everything I just said is pretty much summarized on page 19 and 20 of your compendium.

MS. DURANT: Yes. Now, if you go to tab 7 of my compendium, which is page 28, I had a specific question which is based on the statement in Exhibit C1 involving contract staff that are engaged as independent contractors, and we have talked today a lot about temporary employees more in the -- from the union halls, the hiring halls, but contract staff, they are treated differently by Hydro One. They are a different batch of people receiving money, right? They are not temporary workers?

MR. McDONELL: They are not an employee --

MS. DURANT: Yeah.

MR. MCDONNELL: -- so actually the human-resource group really doesn't have much to do with contract staff. That would be all done under our supply chain management group.

MS. DURANT: And I asked a few questions just about contract staff numbers at page 29. And you were able to pull out just some data for me. Because I was interested in, you know, just how many people are working on contract and what the compensation was, and ISD I understand stands for information solutions division?

MR. McDONELL: Yes.

MS. DURANT: And what do they do? What's IS --

MR. McDONELL: They are our IT department.

MS. DURANT: Okay. And so 2016, 125, we will call them contract staff or contractors, and 2017 is 160, and you don't track these people, but are these type of workers or labour tracked at all or are they all sort of tracked separately by each hiring manager? What is the process with these individuals? I see they all fall under different departments. So ISD, as an example, is IT. Would there just be somebody hiring the contractors that would be ahead of ISD, or is there a central person that would be monitoring all of this?

MR. McDONELL: There would be a central person monitoring all this. But if I was looking to engage a contractor within my business, I would have to follow our supply chain policies and procedures in order to engage a contractor. I think we referenced that starting in 2016, that supply chain organization is starting to track the actual costs. I believe before that, they didn't do that.

To answer your question, it's a little bit of both. Like the LOB or line of business can make a determination of whether they need a contract staff, and if the answer to that is yes, then they work with supply chain to get the person engaged and sign the contracts, et cetera.

MS. DURANT: You have given me the figures as of 2016, 18.9 million approximately was spent on the contract staff and 2017, 20.7 million. Right?

MR. McDONELL: Right.

MS. DURANT: I had asked the question how many of these contract staff are former employees of Hydro One, and you weren't able to give me an answer to that.

MR. McDONELL: Well, I think I gave you a partial to answer to that in that we are -- our human resource information system doesn't track that because they are not paid through our HRIS system.

We do have a policy on engaging former Hydro One employees. That actually is a fairly significant issue for us. We understand the optics of people who may leave, retire and come back to Hydro One. It is a fairly rigorous process in order to re-engage somebody that has retired.

MS. DURANT: But to ask for -- you know, when I asked the number of people in each year that were former employees of Hydro One, I didn't get an answer.

MR. McDONELL: You didn't get an answer on that, because we didn't give you an answer other than -- because we don't track that. But managers know fairly well that if they are going to be engaging a former employee that they've got to go through the process to get an appropriate levels of approval, and they're fairly high levels of approval.

MS. DURANT: I will get you off the hot seat for a minute and I'll switch my attention to Mr. Morris. Only a few questions, because some of mine have been answered. I am actually going to start with a few that are more for my benefit than anyone else, because I am still a little confused on something that was covered earlier.

You were answering some questions by both union lawyers just about how the pension is dealt with and calculated. Specifically, I think the concern from the union lawyers was that the increased amounts being paid by members of the unions towards the pension somehow wasn't reflected in the results.

And what I took from that, from you, is that the methodology or the formula, I think you said, does reflect what is being paid in by employees and compared to other organizations.

Can you just explain that to me a bit more, how that works?

MR. MORRIS: I mean, the methodology looks at the actual pension plan. I called it a formula, or a plan design. So it goes through and applies a standard set of actuarial values to come with a total value of pension delivered by the plan design, and then it would deduct from that the amount that is actually paid for by employees.

So you're really getting -- based on our standard approach, it is really kind of the employer-provided value of pension. That is how that works.

Part of the information we collect from organizations that participate in the study, and this is most particularly for defined benefit type plans, would be what is the plan formula, how do you calculate the benefit's value and how much do employees have to contribute to receive that benefit.

MS. DURANT: When you are comparing the Hydro One value to the values of the other organizations, you have received similar data from everybody else in terms of what the plans look like and how much employees are contributing to the plan. Is that right?

MR. MORRIS: That's correct.

MS. DURANT: Mercer has been filing evidence, I understand, in these types of cases for Hydro One since 2008. Have you been involved since 2008?

MR. MORRIS: I have.

MS. DURANT: Okay. And the study, just for the Board's benefit, that was last before the Board for distribution purposes was the study in 2013. And you were involved in that study, correct?

MR. MORRIS: Correct.

MS. DURANT: You can pull out your report, if it will help you at any time.

MR. MORRIS: Sorry, I don't have the 2013 report.

MS. DURANT: That's okay. I don't have it either. But in 2013, the results of it was that Hydro One was 10 percent above market median. Do you remember that?

MR. MORRIS: Yes.

MS. DURANT: If you wanted to look at a summary, if you jump all the way to tab 20 of my compendium, which is page 58 or the fourth page into the compendium, there is just a summary table here which at the bottom I have highlighted it in red. It sort of shows over time what the results were at the bottom.

So 2013, 1.10. That just means 10 percent over?

MR. MORRIS: Correct.

MS. DURANT: And then 2011, it was 13 percent over and 2008 was 17 percent over. That was the history?

MR. MORRIS: That is correct.

MS. DURANT: I should actually explain what I have here. This is a side-by-side view of the 2016 study and the 2017 study. The left-hand side is 2016; the right-hand side is 2017.

So the 2016 Mercer study result was that Hydro One was 14 percent above market median.

MR. MORRIS: Mm-hmm.

MS. DURANT: Is that a yes?

MR. MORRIS: Correct.

MS. DURANT: Sorry, mm-hmm doesn't show up on the transcript. And 2017, a slight movement to 12 percent.

MR. MORRIS: Correct.

MS. DURANT: I think you said earlier that the range of error was plus or minus -- was it 4 percent?

MR. MORRIS: I didn't describe it as error. I described a range of judgment that we would recommend an employer take into account, and it was plus or minus 5 percent, if you are looking at an analysis that covers a broad range of benchmarks.

MS. DURANT: I think you said earlier that within the

5 percent range of median is seen as a sort of a competitive range. Right?

MR. MORRIS: That relates back to that figure I talked about before. If you are judging whether you are within a competitive range, plus and minus 5 percent is what we would describe as a reasonable assessment point.

MS. DURANT: Now, I want to go to -- I think we will start at same tab, page 56 of the compendium, which is still in tab 20.

When reading through your 2017 study compared to the 2016 study, I just notice some different language just in terms of the ability to use the 2017 study as -- to compare it to prior studies. There were some changes made to the comparator groups, is that right, in 2017?

MR. MORRIS: Yes. There's actually differences in the comparators between every study, for a variety of reasons.

MS. DURANT: Yes, and I noticed that. But this is the only time in your reports where I've seen -- and I am looking at the right-hand side of page 56, the fourth paragraph down where it says:

> "While these changes may have an impact on the study-over-study comparison, Mercer believes they better reflect the current workforce and balance of jobs at Hydro One."

MR. MORRIS: Correct.

MS. DURANT: Explain why this is in the report and what we should take from this.

MR. MORRIS: There were changes, and as I've said, there are always changes in terms of the survey participants. I guess we -- at this point, we decided we would look closely and had conversations with Hydro One about the actual labour market and changes in the industry.

And so we did make some changes to the study, including adding in a couple of contractors that do a substantial amount of work. I think that is -- they are not a type of organization that had been included historically.

I was just going to say there are also some changes to the benchmarked jobs. There were a couple of benchmarked jobs that had relatively low incumbency at Hydro One historically and had relatively few matches provided by market data. And so we selected some additional jobs that we felt gave a better representation of the current workforce.

MS. DURANT: Historically, the benchmarked companies were transmission, distribution, and generation organizations, supplemented with participants from similar regulatory environments, right? That was the focus prior to 2017, right?

MR. MORRIS: Correct.

MS. DURANT: And in terms of the actual benchmarking companies you are comparing them with in 2017, there is a change to add a few contractors, right?

MR. MORRIS: Yes. I believe the remainder of the organizations would fit that early categorization.

MS. DURANT: Yeah. Okay.

And if you change to the very next page, 57, of the Mercer study, and this is the 2017 results, and you are explaining on the right-hand side Hydro One's overall positioning relative to the market median. Are these conclusions in the bullets that you derive from the data? So are you deriving these conclusions from strictly the data in the studies comparing other organizations or are you getting any of these explanations from Hydro One?

MR. MORRIS: I would say they are predominantly from the study. I mean, we do have conversations about Hydro One's data itself and if we see shifts in terms of number of employees, for example. And there is earlier evidence about the use of things like casual workers as also being a -- having -- not having pension and benefits costs associated with that. And you could actually -- you see the hiring-hall type roles that are included in the study don't have pension and benefits values included in their total compensation costs.

MS. DURANT: You mentioned one of them is the higher short-term incentive payouts to the non-represented group following strong company performance. So looking at that one as an example, you can tell from your data segment that there is higher incentives being paid out compared to other companies. Right? That is an easy comparison to make?

MR. MORRIS: We are really comparing Hydro One with itself in that bullet --

MS. DURANT: Okay.

MR. MORRIS: -- so year over year we would see an increase in the short-term incentive as a percentage of salary for a given role compared to the prior analysis.

MS. DURANT: So this statement here isn't saying Hydro One's short-term incentive payouts are higher than the comparator groups, is they're higher than what they had historically been paying themselves?

MR. MORRIS: That is correct.

MS. DURANT: Okay. When you -- the short-term incentives are steps that you are comparing in the study. How are you comparing Hydro One's step with other organizations? Is it just the dollar amount? Are you looking at the structure of the plan? What are you doing in that analysis?

MR. MORRIS: We look at the dollar amount. So we don't look at plan design or what the underlying metrics are. It is actual payment, so it is actual pay levels.

MS. DURANT: So you look at what the payout dollar amount is for Hydro One and compare it to the dollar amount in others.

MR. MORRIS: That is correct.

MS. DURANT: Okay. You don't have any input on the actual design of the plan.

MR. MORRIS: No. I'm sorry, just one -- we may have it if it is a pure profit-sharing plan. I think we may have that identified in the database, but other than that we don't know what the metrics would be, for example.

MS. DURANT: My last question for you, sir, is page 60. It is another comparison of the two reports. And if you can scroll down so that you can see both number 7s on the left-hand side and the right-hand side. I have got them -- in my version it is highlighted. I don't know if yours is or not.

On the left-hand side this is the 2016 study. This is just comparing the comparator group from the prior year. So in 2016, 87 percent of the peers were a part of both studies and 94 percent of the jobs, and that figure changed in 2017 to 77 percent of peers and 91 percent of jobs. Is that correct?

MR. MORRIS: That is correct.

MS. DURANT: So in 2017, there is a roughly one-third turnover in terms of comparable organizations. What is the significance of that?

MR. MORRIS: It does have an effect on the findings of the study. Different organizations have different pay regimes. It would be reflected in the outcome of the study.

MS. DURANT: Okay.

MR. MORRIS: And just to -- one point that I think is worth putting on the record is changes in the sample are not always within our control. You know, we establish a panel of organizations that we would approach to participate in the survey, but there are times where organizations are not inclined to provide data. It takes work on their part. And so they decline to participate. And sometimes organizations would leave the survey with, you know, without -- well, it is beyond our control, frankly.

MS. DURANT: And I was a little untruthful. I do have one more series of questions. Your study, just in terms of the scope of employees that are included, it involves regular employees, right? It doesn't include sort of the casual employees, or does it include casual?

MR. MORRIS: It doesn't include casual employees --

MS. DURANT: Okay.

MR. MORRIS: -- other than the hiring-hall type roles.

MS. DURANT: And --

MR. MORRIS: Keith is going to --

MS. DURANT: And does it include -- it doesn't include a study of independent contractors, right?

MR. MORRIS: No.

MS. DURANT: And just doing some preparation for today, I noticed that Mercer does offer a service for management and IT consulting comparisons. Can you tell me a bit about what that type of study would do?

MR. MORRIS: I mean, Mercer actually conducts quite a number of surveys on an annual basis. And they are surveys that we basically undertake to inform the market in terms of market value of particular jobs. Organizations then pay to purchase those surveys.

And so we would -- one of the surveys we think would be of broad interest is a survey around IT type roles, and so we conduct that on an annual basis.

MS. DURANT: When you say IT type roles are those IT consulting roles?

MR. CHHELAVDA: They are predominantly IT operational and employees as opposed to consultants. So we don't typically gather contract or consulting type roles in our benchmark studies.

MS. DURANT: The title of the document -- I am not looking at the full document, but the title that I am seeing is called "the management and IT consulting compensation survey". Is that strictly a survey of consulting organizations, or would that also include --

MR. MORRIS: That -- that survey is just for consulting organizations, and it is not generally available beyond survey participation per --

MS. DURANT: Okay.

MR. MORRIS: -- yeah.

MS. DURANT: So it would be possible, though, for an organization like Hydro One to participate in a consulting survey like this?

MR. MORRIS: No, because Hydro One is not a consulting organization --

MS. DURANT: Okay. So there --

MR. MORRIS: -- so it's really -- these are really consultant type, consultants, yeah --

MS. DURANT: So if I was a consultant and wanted to compare my rates to other consultants I could participate in this survey.

MR. MORRIS: Your firm could. You couldn't as a individual.

MS. DURANT: Okay.

MR. MORRIS: Yeah.

MS. DURANT: And if a company wanted to know if it was paying market rate for consulting services, could they retain your company to get that information?

MR. MORRIS: I mean, we do custom surveys. And the survey analysis that is done for Hydro One is what we would call a custom survey. We select a peer group and we solicit participation and gather a suite of information and analyze it. We certainly could gather similar type information for IT consultants in the market.

MS. DURANT: And the last piece of information that is not included in your survey in terms of benchmarking is overtime. Can you explain why overtime is excluded?

MR. MORRIS: It is -- I mean, it has historically been excluded. We actually look at -- we take -- most organizations provide us with base pay information -- or base wage information plus incentive pay information. And they don't always track overtime particularly closely. And so we don't gather overtime information in any of our surveys that we do on a national basis.

MS. DURANT: Okay. Thank you.

Now, I see we are 20 minutes to 1:00. I was originally scheduled to finish before lunch. If you allow me to go until 1:00 I think I will finish. But I am in your hands in terms of the tribunal's timing.

MR. QUESNELLE: Are you available after lunch --

MS. DURANT: I am available after lunch.

MR. QUESNELLE: Why don't we break for lunch now then.

I think it's --

MS. DURANT: Sure.

DECISION:

MR. QUESNELLE: -- a break. And -- you know, actually, before we go, I will take a little bit of time myself, actually, just to tidy up some business here before we go. I will just provide the determination that the Board has made on the matter that came up between Schools and Hydro One on Tuesday. On Tuesday Mr. Shepherd, counsel for Schools Energy Coalition, challenged the level of independence of Hydro One's expert witness, Mr. Fenrick, of Power System Engineering, with respect to the creation of his performance benchmarking report. Mr. Shepherd requested the provision of draft reports and e-mails that Mr. Fenrick received from Hydro One providing substantive input on his report.

Mr. Vegh, counsel for Hydro One, objected to the production of the requested items on ground that the question of independence was no longer legally relevant because the Board had already recognized Mr. Fenrick as an expert, and that the OEB's focus should be on the merits of the report with a view to rate setting outcomes.

The Board directed that SEC's cross-examination should continue and that it would provide a ruling on the matter at a later date.

I haven't included all the details of the full record, but the exchange is between pages 111 and 119 of volume 2 of the transcript.

The Board accepts Mr. Fenrick's testimony that Hydro One had no influence and no direct control of any research results, so therefore the Board will not compel Hydro One to produce the items requested by the School Energy Coalition.

Thank you. With that, we will break for lunch and return at 1:40.

--- Luncheon recess taken at 12:45 p.m.

--- On resuming at 1:45 p.m.

MR. QUESNELLE: Good afternoon. Please be seated.

Anything preliminary before we get started again, Mr. Vegh?

PRELIMINARY MATTERS:

MR. VEGH: Yes, thank you. I believe the panel has something to report on with respect to that interrogatory.

MR. QUESNELLE: Okay.

MR. VEGH: Mr. Morris?

MR. MORRIS: I have spoken with the -- our analyst that actually initially calculated the number, and I guess I can report that the figure was an estimate that was intended to reflect the difference in total compensation gap to market for the entire population. At this point I do believe that a more thorough analysis is likely to show a somewhat greater gap in 2017 than the figures actually represented. And so, you know, if it pleases the Board, we would undertake to provide that more thorough analysis.

MR. QUESNELLE: I think that would be in order. Mr. Stephenson, Mr. Dumka, any comment, or is that satisfactory?

MR. STEPHENSON: Nothing for me, thank you.

MR. QUESNELLE: All right. Thank you very much.

MR. SIDLOFSKY: That was an undertaking, correct?

MR. QUESNELLE: Yes.

MR. SIDLOFSKY: J3.2.

UNDERTAKING NO. J3.2: TO CLARIFY THE METHOD USED TO CALCULATE STI IN ATTACHMENT 6 FOR FUTURE YEARS

MR. QUESNELLE: Is that it, Mr. Vegh? That's all?

MR. VEGH: Thank you, yes.

MR. QUESNELLE: All right. Ms. Durant, do you want to carry on?

CROSS-EXAMINATION BY MS. DURANT (CONT'D):

MS. DURANT: Sure. So just before I move into a new area -- (microphone not activated)

MR. QUESNELLE: Perhaps try the button again. They are finicky. There's a green button just behind your iPad there, I believe.

MS. DURANT: Just before I move into a new area, I'm into -- I'm going to talk about short-term incentives and long-term incentives. And I think the best place to start is tab 1 of my compendium at page 4. And we will just use one of the columns as an example. So if you look at transmission unrepresented there is STI indicated there starting in the year 2014 and going forward.

The STI in 2014, would that be an old bonus structure, or is that the current STI program?

MR. McDONELL: That would have been a former short-term incentive plan. It changed in 2016. So anything before that would have been under the old plan.

MS. DURANT: And the 2016 changes, they came as a result of the studies, the Willis Towers Watson and whatnot studies involving compensation. Is that right?

MR. McDONELL: That is true. So we engaged Willis Towers Watson to inform senior management of an appropriate compensation strategy now that we became a publicly traded organization. And so based on their advice, best practices, our desire to drive more of a performance-based system in everything we do, including STIP, we made some changes to our STIP program to really define goals both at the team level and the individual level. So it is -- a lot more accountability was being driven with the change in 2016, is what I am trying to say.

MS. DURANT: And the plans in 2014, 2015, were they the more traditional, you know, I will call it bonus scheme, where it was essentially percentage of your salary and sort of capped off as a percentage without team and individual performance indicators? Is that how it worked?

MR. McDONELL: Well, partially. It still would have had a team and an individual component, but probably where it was not as rigorous as is now is in the aligning of individual goals with corporate goals. I just lost my train of thought there. Oh, and the other difference in 2016 was we established different thresholds, minimum target and maximum. We didn't have that sort of structure previously. And I think as result of that there is probably a lot more flexibility for the senior team and the board of directors, a lot more discretion, in terms of what the allocation was. Under our new method is it is a little bit more of a -- it is more mathematical, if you will.

So what was improving is the transparency in 2016 and really tying your individual behaviour to the corporate objectives, corporate objectives based on the team scorecard. So you can see the cascading of goals from the corporate to the individual all ties into the STIP program in 2016.

MS. DURANT: We're going to get into the new plan, because I have got a copy of it in my compendium. And currently you can sort of cap out your STIP at 200 percent is basically, you know, 200 percent of your target is where you max out. Under the 2014, 2015 plan, was there a similar 200 percent cap?

MR. McDONELL: No, it didn't have a cap like that, but it was to the discretion of the board to -- a recommendation by the senior team would go to the board for approval. So there wasn't a cap, but it could have been more than, say, at 100 percent, depending on the success of the company.

MS. DURANT: Okay. So you can still, under the old plan, get more than 100 percent?

MR. McDONELL: Yes.

MS. DURANT: Could you get more than 200 percent?

MR. McDONELL: No. Well, it never happened.

MS. DURANT: So if you go to tab 10 of the compendium, which is page 34, there's a few statements throughout the evidence in various places that short-term incentive is brought in to deal with -- to attract, motivate, and retain qualified employees. And what I get from the statement in responses to interrogatories is that's sort of the general reason why STIPs are in place. It is not based on any analysis of attracting, retaining, motivating employees at Hydro One actually being a problem. It is more of a general statement of why companies adopt these programs generally; is that right?

MR. McDONELL: Yeah, I mean, I say attract, retain, motivate, align employee behaviour with the company's objectives. It is a best practice. It is another element of pay for performance. Those who achieve goals get rewards. Those who don't don't get rewards. It is variable pay. It is at risk. So there is no guarantee that you are going to get a STIP, and if you do, what that level -- so every year you have to earn your reward.

MS. DURANT: And before bringing in the new STIP, there was no studies done specifically at Hydro One that said something like this was required to keep your staff around?

MR. McDONELL: Not that I am aware of. But I think it is generally seen as a best practice in compensation to have variable pay elements like a STIP program.

MS. DURANT: And incentive-based pay, variable risk pay, is a common feature in publicly traded companies; is that right?

MR. McDONELL: Yes.

MS. DURANT: So tab 13 of the compendium at page 38, this is a copy of the short-term incentive plan and employee guide. So this is what is given to your employees to explain how the plan works; is that right?

MR. McDONELL: That is correct.

MS. DURANT: And if you go to page 39, which is the next page in the compendium, this explains the calculation, and when I look at the formula the first thing that goes into it is base salary. Is that right?

MR. McDONELL: That is right.

MS. DURANT: And then you multiply the base salary by a target bonus percentage. Right?

MR. McDONELL: Yes.

MS. DURANT: And if you just flip to the next page, page 40, just for the tribunal's knowledge, the target bonus percentages are outlined in that table. Is that right? From the administrative role up to the director role?

MR. McDONELL: That is correct.

MS. DURANT: And the target bonus percentages go higher than 20 percent above band 5?

MR. McDONELL: Actually, compared to the previous plan it went down at the director level, used to be 30 percent base --

MS. DURANT: Okay.

MR. McDONELL: -- and now it is 20 percent. Band 6 used to be 20 percent, now is 15, and band 7, if I recall correctly, it was 15 and went down to 10. So it actually went down.

MS. DURANT: Okay. And those are the target bonus percentages which gives you sort of your starting point for the STIP, right?

MR. McDONELL: Correct.

MS. DURANT: Okay. If you flip back to page 39, this is where we get into team performance and individual performance, so you get a factor for each of those. And then you multiply everything together to get your STIP payout, right?

MR. McDONELL: yes. As an example for myself, I am at, I guess, a director level, so my team performance would be 70 percent and my individual would be 30 percent. A more senior position than myself would be 80 percent team, 20 percent individual. And more entry level into our non-represented group would be 50/50.

MS. DURANT: Below the calculation boxes, there's two notes. Note 2 says that:

"No STIP payout team or individual components will be made if the individual performance ratings do not meet expectations."

Is that how it works?

MR. McDONELL: That's right. So if you are not performing well, you are not going to get the benefit of the corporate results because your individual performance didn't merit an increase -- or a STIP, I should say.

MS. DURANT: If your individual performance does not meet expectations, does that mean you get a zero for both team performance and individual performance?

MR. McDONELL: Correct.

MS. DURANT: And your ultimate payout is nothing?

MR. McDONELL: Sorry, I may have to -- I believe -- I don't think we had that rule in last year. I think we are looking at implementing that rule for next year, that you don't get any STIP if your performance rating does not meet expectation. I don't believe it was existence last year. I could double check that, if it is important to you.

MS. DURANT: I think we're going to get there because we see some of the numbers from past payout years, and it looks like people that did not meet expectations did receive a STIP.

MR. McDONELL: That could very well be.

MS. DURANT: Well, we'll walk through that. If you just go a few pages more to page 42 and if you scroll down under "example", this is a good way for the tribunal and everyone to see how it works based on real numbers.

So this is an individual with $100,000 salary. They had a 10 percent bonus target, which means they would be in a manager/professional band 7.

MR. McDONELL: Going back to page 5, correct.

MS. DURANT: Right, and this is where we see the actual calculation of the ratings. So the team performance rating for this person because they are a management level person is 70 percent is. You see that from the box above, under team performance rate. Their individual performance rate is 30 percent.

And this is a person who has met expectations on an individual level, correct? If you read the text underneath "example".

MR. McDONELL: I am just going to back you up one box, that 105 percent. That is because in this particular example, the team scorecard exceeded the target by 5 percent.

MS. DURANT: Yes, and then the individual performance was scored at 100 percent.

MR. McDONELL: Their individual performance met target, correct.

MS. DURANT: So based on this calculation, when we run the numbers you get to 10,350?

MR. McDONELL: That is right.

MS. DURANT: The 350 is basically what gets multiplied out based on the team performance and the individual performance. That's what gets added on to 10,000, right, the 10,000 target?

MR. McDONELL: Well, yes, it's really -- I think it's just the combination of the team and the individual that you to the 10,350.

MS. DURANT: Okay. The next tab, tab 14, is the scorecards that we were provided for 2017 and 2018. These are the -- they are at page 45 and 46 of the compendium, starting at page 45 first.

So this is the metrics that get considered in the team component of the STIP, is that correct?

MR. McDONELL: For the team, yes.

MS. DURANT: This is set and approved by the board of directors?

MR. McDONELL: It is, yes.

MS. DURANT: The largest factor in the team scorecard is net income at 30 percent?

MR. McDONELL: Correct.

MS. DURANT: Then if you go to the next page, that 2018 team scorecard, page 46 of the compendium, it is basically the same -- a similar scorecard. There are some changes, but the largest component weight of net income is still 30 percent.

MR. McDONELL: In our view, it's a balanced scorecard with multiple goals; no one goal dominates any other goal. I mean, one of the differences between the 2018 scorecard and the 2017 scorecard is the maximum levels have been stretched, so they are more challenging.

MS. DURANT: And the net income at 30 percent, that figure doesn't change?

MR. McDONELL: Correct.

MS. DURANT: The next tab is tab 15, page 47. One of my interrogatories was to provide the percentage of eligible employees who received a STIP payment, and the average amount of the STIP payment to MCP employees. The response was that for performance year 2016 for STIP paid in 2017, all eligible MCP employees received a STIP. That's correct?

MR. McDONELL: That's cor -- I just want to catch up.

Did you say to go to tab 16?

MS. DURANT: Sorry, I am on tab 15. If I --

MR. McDONELL: You probably said that.

MS. DURANT: -- and page 47 overall.

MR. McDONELL: Yes, okay, I have that.

MS. DURANT: I was just reading through the interrogatory response C.

MR. McDONELL: Okay, I am with you. Yes, I agree with that.

MS. DURANT: The average amount that you had calculated out was 28,000 and change, and the average STIP for employees below executive vice president level was 24,896?

MR. McDONELL: That is true. I would point out that that particular year, the corporate results were very good. We exceeded our targets.

MS. DURANT: And corporate results, the amount that it impacts the STIP varies depending on the level. So higher level employees' team is a higher score than the lower level...

MR. McDONELL: That is true.

MS. DURANT: Next tab, tab 16, page 48, this is where we get numbers for the 2018 STIP, which is based on performance year 2017.

This one shows a breakdown between the percentage of employees receiving different individual ratings and who received a STIP. This is where I found the number that eight employees who did not meet expectations did receive a

STIP payment.

MR. McDONELL: If I recall this particular undertaking, this -- I think it was an AMPCO original inquiry about some of our metrics. There was a notation in there about how the original distribution went to the executive leadership team for review.

They looked at the results and they weren't satisfied with the results. They felt there was too many people in the exceeds and not enough people in the meet expectations.

So this undertaking is reflective of basically our senior management saying go back and try again, because they felt it was -- too money people were in the exceed category. So this is more of a normal distribution that we'd be hoping to see.

MS. DURANT: This distribution here with 61 percent meeting expectation, 28 percent exceeding, 2 percent significantly exceeding, this is a distribution you would be happy with as a corporation?

MR. McDONELL: Well, it's also reflective of that particular year. I think the corporation did very well, so it would follow that those who meet -- exceed and significantly exceed should be higher, if the corporation did that much better, right?

In a normal year, you might see a bit of a different distribution with less exceeds if we just, say, hit target.

MS. DURANT: The individuals receiving STIPs that do not meet expectations -- and you've mentioned that going forward, those people may not receive a STIP -- the employee guide that we were given, which is at page 13, is dated June 2017, which makes me think that those people probably shouldn't have received a STIP if the guide was followed to its word.

MR. McDONELL: What was the date you said?

MS. DURANT: June 2017 is the date of the guide. Was there a different guide for June 2016?

MR. McDONELL: I do not believe so. I am not sure I can be particularly helpful on that particular response.

MS. DURANT: That is fine.

If you go to tab 17, which is page 49.

MR. McDONELL: Yes.

MS. DURANT: And I think this might have been what led to the undertaking response. And I am sorry if your copy is a bit blurry.

MR. McDONELL: Yes, it's a --

MS. DURANT: The one on the screen is a bit better. This I understand is a report that is taken from human-resources metrics that are reported every so often, perhaps quarterly. Is that correct?

MR. McDONELL: Monthly.

MS. DURANT: Monthly? Okay. And this is where we are talking about performance distribution, and you can see the notes in the text on the right-hand side of the page. And I think this is what you are getting at in terms of rebalancing the metrics.

MR. McDONELL: Precisely.

MS. DURANT: Okay. And if you look at -- on the left-hand side, the charts, you can see that some people were moved out of the "meets expectation" to into the -- oh, thank you for --

MR. McDONELL: That is better.

MS. DURANT: That's better. "Meets expectation" target into the "meets most but not all expectation" --

MR. McDONELL: Mm-hmm.

MS. DURANT: -- and others were moved from "exceeds expectation" to "meets expectation"; is that right? To rebalance?

MR. McDONELL: That is a good interpretation.

MS. DURANT: Okay. And no one was moved into "did not meet expectation"?

MR. McDONELL: Correct.

MS. DURANT: Okay. All right.

MR. McDONELL: I might just make a point too, under the "did not meet expectation" that could very well be not necessarily poor performance. It could very well be a person is new into their role, and because they are so new it is pretty hard to assess if they met their expectations, because they are still learning or there is not enough time in the role to really give them a "meet expectation". So I wouldn't necessarily come to the conclusion that it is a bad thing if you are in that category. It could be, but it could also very well be that you are just kind of new in the role.

MS. DURANT: Do you think that your managers for a new employee that was just starting out who hasn't had a chance would give them the lowest possible rating as someone who is brand new?

MR. McDONELL: Well --

MS. DURANT: I think that would cause some outrage with the employee, wouldn't you?

MR. McDONELL: I think you have to appreciate when we are explaining the rankings to managers how they use the tool we use a very similar language to what I just said, that people would understand that may be not necessarily a bad thing that you are in that category.

MS. DURANT: Do you have any documents -- I haven't seen any in the record -- that explains to managers how to use the rankings? Is there anything in writing?

MR. McDONELL: I just -- I think there is. I just, I think it is a new product. It probably wasn't in place for the time period we are talking about here.

MS. DURANT: Okay. Moving just to a new area just as I wrap up, tab 18, page 50, and this is an undertaking to provide percentage increase and total compensation for the Power Workers' Union and Society staff, including their base rate increase, as well as increase in share grants. And the part I am interested in in this undertaking specifically is the share grants.

Can you explain to me how the share grants work, what the percentages are for the Power Workers' Union and the Society?

MR. McDONELL: So for the PWU, the share grant is worth 2.7 percent of their base. So the number of grants would be 2.7 percent of your base, whatever that number is, divided by the -- I think it was the IPO price of $20.50 per share. That would tell you how much -- how many shares you get. Society, a similar concept, except it was 2 percent of your base divided by the struck price of the share.

MS. DURANT: And are these grants that you are eligible to receive a one-time thing, or are these an annual grant, or how does that work?

MR. McDONELL: So for the PWU, it is those employees that were on payroll and on the pension plan as of April 1st, 2015, and they are eligible as long as they continue to be employed with Hydro One and don't reach 35 years of service, they continue to get a share grant every year for 12 years. The important point here is it is only those employees. So if you started the next day at Hydro One, you do not get those shares. Society is the same concept, except you had to be on payroll, I think it was September 1st, 2015, and they have 12 years of shares again --

MS. DURANT: 12 years of grants.

MR. McDONELL: Yes.

MS. DURANT: Okay.

MR. McDONELL: But it is only that group of people. It is not as if we hired somebody today, they don't get share grants.

MS. DURANT: And if you looked at -- if you went back to tab 1, page 5, this is transmission and distribution Society represented share grants are now sectioned out, and you can see an amount annually for the share grants?

MR. McDONELL: That is correct.

MS. DURANT: And the same for the next page is distribution. You will see the cost of the share grants for --

MR. McDONELL: That is right.

MS. DURANT: -- the Power Workers' Union on page 6.

MR. McDONELL: That is correct.

MS. DURANT: Okay. And the share grants, these are things that aren't tied at all to performance. It is just the benefit they get regardless of performance indicators.

MR. McDONELL: Sorry, didn't mean to cut you off. Yes, it is the value of the stock.

MS. DURANT: Okay. And as I was reading through the submissions in terms of -- and I haven't put it in the compendium, but gains over time in terms of negotiating with the unions, one of the things that I think several rounds of bargaining ago that it was eliminated for both unions was incentive-based pay; is that right?

MR. McDONELL: Oh, yes, you are going back a number of years, probably, I am going to say at least ten years ago.

MS. DURANT: Yeah, it is still referenced in your -- in the history --

MR. McDONELL: Right.

MS. DURANT: -- section of the brief in terms of, you know, something that you guys have achieved in terms of reducing --

MR. McDONELL: Right.

MS. DURANT: -- cost, so at one point in time both unions did get incentive pay. Is that right?

MR. McDONELL: They did. But it wasn't the type of incentive pay that we are talking here. It was more a collective. Everybody either got it or didn't get it. So it wasn't tied to individual performance like it is now. And quite frankly, that is why we got rid of it, because it really wasn't driving the behaviour that we were hoping it to drive.

MS. DURANT: And for one of the unions I believe the percentage was 1 percent?

MR. McDONELL: If --

MS. DURANT: 1 percent --

MR. McDONELL: -- subject to check that rings a bell.

MS. DURANT: And that -- so even though it was called incentive pay it was always paid? Is that how it worked?

MR. McDONELL: It was based on corporate results, but it wasn't individual results. It was, if the corporation paid the incentive pay and there was metrics, which I have long since forgotten, if they met those metrics then they would have got that payout.

MS. DURANT: And I was reading through one of the older decisions, and the incentive pay, you know, the 1 percent incentive pay that was eliminated for being pretty expensive, didn't seem to be as expensive as the current incentive pay for non-represented staff. Was that an accurate statement?

MR. McDONELL: Well, in our view it just wasn't driving the behaviour that we believe that this incentive pay is because -- so we are talking about incentive pay here, or we're talking about share grants?

MS. DURANT: Incentive pay now.

MR. McDONELL: Okay. So if you are not tying the behaviour of the individual to goals, individual goals, like the other one wasn't, we are not getting the results in the former plan as we are now, because individual goals are aligned with the corporate goals --

MS. DURANT: The --

MR. McDONELL: -- aligned with the corporate strategy.

MS. DURANT: The calculations that you have put projecting forward, page 4 of tab 1, for short-term incentive --

MR. McDONELL: Yes.

MS. DURANT: -- is -- when you are looking on a forward basis -- and you may not be the one to answer it. It may be one of your colleagues on the panel -- is that just based on the ideal distribution of the -- of what is expected to be paid out of STI, or how is that configured?

MR. McDONELL: I am just conferring with my partner here. I think we would rather take an undertaking on that particular one. We just need to confer with the person that put these numbers together.

MS. DURANT: Sure.

MR. SIDLOFSKY: That will be J3.3.

UNDERTAKING NO. J3.3: TO PROVIDE DETAILS OF THE SHORT-TERM INCENTIVE PAYMENTS AS DESCRIBED ON PAGE 4

OF TAB 1

MS. DURANT: Thank you. I think those are my questions. Thank you very much, panel.

MR. QUESNELLE: Thank you very much. Mr. Segel-Brown?

MR. SEGEL-BROWN: I believe everyone has a copy of my compendium?

As a change of pace, all of my questions relate to accounting rather than compensation.

MR. JODOIN: That sounds great. I have never heard accounting sound so exciting, but that sounds great.

MR. SIDLOFSKY: I hate to interrupt the excitement, but that will be K3.4.

EXHIBIT NO. K3.4: VECC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MR. SEGEL-BROWN: My first set of questions relates to the allocation of costs associated with the acquired utilities. This is following up on the questions that were referred to this panel during the first panel.

Mr. Jodoin, you are listed as the witness on these interrogatory responses. I was wondering is there a specific analysis that was undertaken in order to understand whether the acquired utilities are giving rise to incremental corporate common costs?

MR. JODOIN: Sorry, did you ask if there was a specific study?

MR. SEGEL-BROWN: Yes.

MR. JODOIN: I don't believe there was a specific study. What I can say is there are no incremental costs associated with the acquired utilities.

There were certain employees that did come over with the acquisition, but they would have filled vacancies that existed within the organization -- from a corporate perspective I'm talking here. So no, there isn't a specific study that I am aware of, but there are no incremental costs.

MR. SEGEL-BROWN: Two particular areas in which we wanted to check that. One was in relation to the Treasury function that includes insurance costs. So are the costs of insuring the acquired utilities' assets being covered by Hydro One, or are they being separated?

MR. JODOIN: Just so we are all referencing the same page, I believe in your compendium you brought up the Treasury function, but within exhibit -- we are talking specifically corporate here -- Exhibit C1, tab 1, schedule 7.

MR. SEGEL-BROWN: That's tab 4, yes.

MR. JODOIN: Within your compendium, tab 4? Thank you. That's right.

What I can confirm is that in the test here in this application, there are no incremental insurance costs layered into this proceeding. There were -- and I believe this is sort of what my colleague on the prior panel, Mr. Lopez, was alluding to from a shareholder perspective -- there's approximately $15,000 worth of premiums for the three acquired LDCs that do not show up in this application, nor are they embedded in the costs that are being paid for at the shareholder level.

But $15,000, it's a very nominal amount.

MR. SEGEL-BROWN: Thank you for the clarification on that.

MR. JODOIN: No problem.

MR. SEGEL-BROWN: Regarding the finance function, there are -- there would also be additional costs associated with additional invoices to vendors and so on that arise from the acquired utilities. Have those also been separated?

MR. VEGH: Sorry to interrupt, but we're having a difficult time following where we are in the compendium. Can you tell us what page we're at?

MR. SEGEL-BROWN: The description of the corporate controller function is at tab 3, page 9.

MR. JODOIN: Could you repeat your specific question?

MR. SEGEL-BROWN: My analyst identified -- Bill identified that there were -- one of the cost drivers that was identified in relation to the corporate controller function was the number of invoices which are handled by a third party called Inergi. So we were wondering whether the costs associated with those additional invoices have been separated out.

MR. JODOIN: We understand the Inergi costs you are referring to. As far as we are aware, there are no incremental costs we are being charged from that particular business as a result of the acquisitions. There is nothing we have quantified.

Perhaps if you can direct -- sorry, I know you mentioned you saw something. Perhaps you could direct me there and we could answer it specifically. That might help.

MR. SEGEL-BROWN: If you could turn to tab 6 -- page 16, under physical cost drivers, you've identified the number of invoices to vendors as a cost driver used for the purposes of cost allocation.

So presumably, in acquiring three additional utilities, there are additional business transactions which have to be undertaken. And we have wondering whether the acquired utilities are bearing those costs, or whether they've been shifted to Hydro One.

MR. JODOIN: Now I -- sorry. I follow your line of questioning now and I see how you got here.

So that everyone is aware, what this is an excerpt of is the Black & Veatch corporate cost allocation methodology. And what this particular table is attempting to identify are some of the drivers of cost allocation principles that are applied to total corporate cost to get them to the appropriate segments.

What I can confirm is that Black & Veatch did not factor in any incremental -- in the case here, you're using invoices associated with the acquired LDCs. As a result, the underlying remaining allocation to the distribution segment as what we can call legacy; Hydro One Networks distribution remains as is. In other words, no incremental cost is being allocated down to the network's legacy distribution customers.

Does mat make sense? Does that help?

MR. SEGEL-BROWN: It answers my next question, which is whether the acquired utilities had been excluded in allocating the costs between the business units. And it sound like you are confirming that they were not. Is that correct.

MR. JODOIN: I am not sure that's what I said. I guess what I'm saying is all are no incremental costs build up in this application for corporate costs associated with the acquired LDCs. When Black & Veatch completed their exercise of allocating the specific drivers, the LDCs would not have been included, thereby not allocating any incremental cost to distribution legacy customers.

Perhaps we are saying the same thing in a little bit different way. Sorry if I am confusing the situation, but that's how it was done.

MR. SEGEL-BROWN: Okay. Let's turn to tab 7, which is page 18. I see this is the one you updated, which provides the clarification to the undertaking. So we can skip that.

MR. JODOIN: That is correct, and I believe that undertaking was filed last night.

MR. SEGEL-BROWN: Yes. Turn to tab 9, which is page 23. This section talks about the lost revenue adjustment mechanism variance account. Our concern here is that there's two inconsistent statements regarding the years which will be captured in the account.

At tab 9 -- now, looking at tab 10, a page over. So looking at the -- so perhaps I can just ask the question directly. So what years are being captured in the lost revenue adjustment mechanism variance account? Is it 2017 to 2020 or is it 2015 to 2020?

MR. CHHELAVDA: If you look at page 26 of the compendium, I believe the response to question A details the years that are covered. So for 2018 programs, it is implemented in '17, '18, 2019 programs implemented in '17 to '19, and for 2020 programs it would be for programs implemented in 2017 to 2020.

MR. SEGEL-BROWN: Okay. So the table set out -- so if we go back to tab 9, which is page 23, in this response to the interrogatory it seems to be showing an account tracking back to 2015, so you're confirming that the proposed account is only for the 2017 on with cumulative results?

MR. CHHELAVDA: So I will go back to page 26 of the compendium, where it states that, you know, the lost revenue is due to the incremental savings in each of 2018, '19, and '20. It gives you the -- it gives you the years -- it covers for each one. So again for 2018 it would be for programs implemented in '17 and '18, for 2019 from programs implemented in 2017 to 2019, and for 2020 savings for programs implemented in 2017 to 2020.

MR. SEGEL-BROWN: Okay. If we could turn to tab 11, which is page 29. So this undertaking response indicates that the impact on the current rate base of maintaining the current depreciation rate rather than using the updated rate comes out to 81 million by the end of 2022?

MR. CHHELAVDA: So based on applying the revised estimate by Foster & Associates that would be the impact, yes.

MR. SEGEL-BROWN: Okay. Turning to page 32, so this indicates the capital-related revenue requirement by year. And if we add all of them up, it comes out to 112.1 million. So that is the total revenue reduction resulting from maintaining the current depreciation rate rather than using the new one under the revised study?

MR. CHHELAVDA: That would be correct.

MR. SEGEL-BROWN: Okay. So if we could turn to page 36. So this is mostly just a curiosity question, but the transmittal letter from Foster Associates refers to the dual objectives of depreciation accounting. But only one objective is stated.

Do you know what the second objective they are referring to is? That is the bottom paragraph of page 36.

MR. CHHELAVDA: Just give me one second. I will...

So my understanding of how Foster & Associates have characterized this is the dual objective is cost allocation over the economic life, as well as the recovery of that cost in rates.

MR. SEGEL-BROWN: Okay. Could you turn to page 39. So in this interrogatory response Hydro One seems to state that it can use any reasonable set depreciation rates, provided that those rates are adopted for the purposes of rate-making, because as a regulated utility the depreciation rates used for the purposes of rate-making define the consumption of service potential of the asset.

Does that fairly characterize why you are stating that -- this margin of reasonableness answer?

MR. CHHELAVDA: So, I mean, I think you said earlier we could use any rate, and I would clarify that to say we could use any rate that is within an acceptable range, and in this study Foster & Associates have indicated that we could choose to implement all of none of the proposed rates and it still would be within that band of reasonability. And so our view is, you know, we would keep the rates as is and it would be within that acceptable band.

MR. SEGEL-BROWN: Okay. What is the principle which defines the band of acceptability? Is it allocating it over the asset life or...

MR. CHHELAVDA: Well, I mean, in terms of depreciation, it is the best estimate at that point in time. And these depreciation studies tend to be backward-looking. So they look at what has been your history to date and apply that prospectively. The one thing that they do not consider is the future capital expenditure that is going to be incurred. And that is one of the reasons why in our view keeping the rates as is is within that band of acceptability, as Foster & Associates has stated it is, simply because in our view we feel the future expenditures that will happen in some of these categories will result in -- you know, if you adopt the new rate that you will be -- you may be overdepreciating, overcollecting. So our view is to keep it as is to maintain the fairness to both the utility and customers.

MR. SEGEL-BROWN: Okay. Why did Hydro One undertake a new study in 2016? Why did it ask Foster to conduct this review of the applicable depreciation rate?

MR. CHHELAVDA: So we generally conduct a depreciation study for each rate application, and it is from a prudence point of view. It is, I believe, it is the right thing to do. And, you know, what came out of this study was that -- it was a small change, but it was still -- it wasn't what I will characterize as a significant change. But it just helped us to prove out whether or not the depreciation rate that is going into a rate application, whether or not it is reasonable. And as you can see, the studies indicates that the rates we are using or proposing to use is reasonable.

MR. SEGEL-BROWN: So at the time you commissioned your study was your intention to implement the results, but what you are telling me now is that in your view you have implemented the results because they are consistent with the results of the study?

MR. CHHELAVDA: So, well, the study result -- it produced a result, and in conversations with our depreciation specialist, you know, we made the assessment of, do we keep the rates as is or implement -- again, I will go back to the transmittal letter, which is on -- which is page 36 of your compendium in the last paragraph, where Dr. White states that, you know, we could choose to implement all or none of the recommendations, and we are still within an acceptable band. So we have opted to keep the rates as it is -- as is.

MR. SEGEL-BROWN: Okay. So when you bring your 2022 rate application, we would expect to see a new depreciation study?

MR. CHHELAVDA: I suspect, yes, you would, yes.

MR. SEGEL-BROWN: And you would expect the rate application to reflect the results of that depreciation study?

MR. CHHELAVDA: Again, we would make an assessment of the results of that study and if the rates are reasonable, then yes, it would be reflected in the application.

MR. SEGEL-BROWN: Could we turn to tab 13, which is page 42? At this tab, you've provided us with the 2018 spread of Hydro One's long-term debt. Would you agree with me that the spread between Hydro One's debt and Government of Canada long-term bonds reflects the relative risks associated with Hydro One's debt, as perceived by the market?

MR. CHHELAVDA: I believe that would be a fair characterization, yes.

MR. SEGEL-BROWN: So one factor which could happen over the course of the rate plan is that Hydro One's debt could be perceived as more or less risky?

MR. CHHELAVDA: Sorry, could you repeat that?

MR. SEGEL-BROWN: One development which could occur over the next five years is that Hydro One's long-term debt could be perceived as more or less risky, resulting in higher or lower bond rates?

MR. CHHELAVDA: That could be a distinct possibility. It could happen, yes.

MR. SEGEL-BROWN: And to some extent, the decisions of Hydro One may impact the perceived risks associated with Hydro One's debt?

MR. CHHELAVDA: This is the rating for Hydro One Inc., and typically rating agencies will look at Hydro One Inc. separate and distinct from Hydro One Limited. So there is some level of insulation there.

MR. SEGEL-BROWN: But presumably you will borrowing at their interest rates, rather than borrowing independently?

MR. CHHELAVDA: In this instance, the issue of the debt will be Hydro One Inc. and not the parent company. We would be issuing at the Hydro One Inc. level. As I mentioned earlier, rating agencies provide a separate rating for Hydro One Inc., which is separate and distinct from the parent company, Hydro One Limited.

Typically, we are insulated from the rating of the parent to some extent.

MR. SEGEL-BROWN: One of the features of the proposal that has been brought before us is that in 2020, when the acquired utilities are integrated, there will be an update of the cost of capital which would include an adjustment for any changes to interest rates. Is that correct?

MR. CHHELAVDA: It is actually, I believe, 2021.

MR. SEGEL-BROWN: Yes.

MR. CHHELAVDA: Yes.

MR. SEGEL-BROWN: So adjusting the applicable interest rate is not strictly necessary in order to add the capital associated with the acquired utilities to the rate base, is it?

MR. JODOIN: I think -- I will help with this one, and perhaps my colleague can weigh in if there is anything additional to add.

I would agree with you that adding the capital to the rate base and adjusting for the associated cost of capital would be two separate and distinct steps. With that being said -- and consistent with the messaging that was provided from panel 1, the acquired utilities in some cases have rebased much earlier. They are operating currently at a dated cost of capital parameter.

So come 2021, it is our opinion that it's prudent to adjust for those factors as well, to bring all -- I guess what you can call the consolidated DX to the same point in time.

MR. SEGEL-BROWN: Why would we not apply Hydro One's current cost of capital to the acquired utilities? Why are we upgrading -- why are we reassessing the cost of capital for the entire legacy rate base?

MR. JODOIN: Truthfully, I think that should have been a question for the first panel, and I do believe it was asked at various points. If there is anything else you would like us to clarify, we could potentially help. But I do think that was question better served for panel 1.

MR. VEGH: Also just to add, this question was canvassed with panel 1 from a few different intervenors.

MR. QUESNELLE: Do you have anything further? Do you agree --

MR. SEGEL-BROWN: I don't remember any particular question, so...

MR. QUESNELLE: Well, if it was canvassed, I am not sure. But you can check the record and see if your answer is possibly there.

MR. SEGEL-BROWN: It was canvassed, but I was also referred to panel 2 for a more in-depth answer on this general line of questioning.

MR. VEGH: I believe the question to panel 1 was why are you updating the cost of capital in 2021, and I think they provided an answer to that.

MR. QUESNELLE: I think they did, but I think the question I just heard was slightly different, was it not? Could you restate the question? I don't know that that's the same question.

MR. SEGEL-BROWN: We are asking why the cost of capital associated with the legacy rate base is being up dated in 2021 and whether that is necessary, as opposed to -- I believe the previous question was whether we are updating the -- why we had to update the rate base in 2021.

I would have to go back to the transcript to find out precisely was what asked and answered.

MR. QUESNELLE: Mr. Rubenstein covered that ground fairly thoroughly. I think he did ask that question. Perhaps not. I will check.

MR. VEGH: Not that it's for me to ask questions, but a fair question may be whether this panel has anything to add to what panel 1 has provided as evidence on this point.

MR. SEGEL-BROWN: It's all right. I can continue on with the details I need to get here.

MR. QUESNELLE: Thank you.

MR. SEGEL-BROWN: The concern that kind of arises out of that 2021 adjustment to the cost of capital is that it leaves consumers somewhat exposed if there is a rise in interest rates, or if Hydro One's debt does come to be perceived as more risky.

So I wanted to get your thoughts on the Board's general policy regarding updating that. I suppose we -- we've already canvassed that. That is all my questions. Thank you.

MR. QUESNELLE: Thank you very much. Mr. McLeod?

CROSS-EXAMINATION BY MR. MCLEOD:

MR. McLEOD: Thank you, Mr. Chair. Panel, good afternoon. My name is Michael McLeod and I am with the Quinte Manufacturers Association in Belleville and Trenton.

I am going to try to make up some time here. I have a couple very specific things for Mr. Chhelavda; I believe you'll be the right guy for this.

I would like to turn to Board Staff interrogatory 218. If we can have a look at that, that would be super. The reason I am going to focus on PCBs and the cost of this is in our review of the evidence, this thing popped up a couple of times and became a bit of a concern in the sense that it looks like -- and I'm going to put it this way to you, it's been dragging on for years. It is one of those line items that never quite seems to disappear. Ministry of the Environment, the federal -- Environment Canada all have concerns about PCBs and we have been looking after -- that's the global "we" -- have been looking after the PCB issue for years and looking at that costs that carry on and are amortized over some period of time.

The amount of work that seems to be done, it seemed to us that by now, from the time the PCB issues started and old Ontario Hydro started into looking at PCBs and replacing the transformers that had -- and the oil that was in those transformers that had PCBs in them, that this would have been done by now.

It doesn't seem to be. And looking at the evidence in C1-1-2 and C6-1 -- and this may be the for the asset panel, too, that I have to bring this up with them -- it just keeps going on, so our concern is when we are looking at the amount that is to be collected in rates it is always there and it is always a fair amount of money in our perspective. It's just going to disappear.

And the reason why I am saying it is because our concern is we have got this coming -- we are showing the amounts being collected up to 2017. It looks like it is likely going to carry on because there is more testing and things to do. At the end of the test period are we going to have another big lump of PCB issues that have to deal with in terms of rates to be collected to manage an issue that doesn't seem to be ending?

MR. CHHELAVDA: So in terms of the work program and the work being done, that would be the asset panel that would be able to answer that. In terms of the amount collected in rates, so, yes, there is an amount collected in rates. In my recollection I believe there is a sunset date or deadline to when all the PCB work has to be done --

MR. McLEOD: It is 2025.

MR. CHHELAVDA: Right.

MR. McLEOD: I guess our concern is that right before we get to 2025 something else has to be done, because it isn't all completed at that time, and we didn't see anything in the evidence that there was -- that gave us any kind of assurance that there is a drive towards making -- completing that, other than they said -- I think it was Environment Canada in the evidence -- or not Environment Canada didn't say, Hydro One said that the time limit is 2025.

Anyways, we want to know, is there any expectation there. And I know I am kind of crossing panels with this one, but since your name was on this -- and this is the money part. This is where we have the concern.

MR. CHHELAVDA: So in terms of the work expectation I believe the panel that's -- I can't recall which panel, but I know it is either Mr. Bowness, Ms. Bradley, Ms. Garzouzi, or Mr. Jesus can answer question. But in terms of, you know, for funds that have been collected, and if their work hasn't been done, the expectation would be that we would not come back to collect funds again for work -- we wouldn't come back to collect funds that were already collected. The work will have to done. We will have to find a way to manage within the envelope that we get.

MR. McLEOD: Okay. So that is important. So as we reach the end of the time horizon for this particular case, and the approvals that will come out of it, our expectation is that we would not want to see this carried on beyond -- into the next rate case for Hydro One. So that's -- I will have to bring that forward then with the other panel. Anyways, I appreciate that, thank you. That is it.

MR. QUESNELLE: Okay. Thank you very much. Ms. Grice.

CROSS-EXAMINATION BY MS. GRICE:

MS. GRICE: Great. Thank you very much. I have a compendium.

MR. SIDLOFSKY: I believe the panel has copies of --

MS. GRICE: Sorry, yes --

MR. SIDLOFSKY: -- Ms. Grice's compendium. That will be Exhibit K3.5.

EXHIBIT NO. K3.5: AMPCO CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MS. GRICE: Okay. Thank you. If we can please start off with page 10 of the compendium. So in one of our interrogatories we asked for Hydro One to provide their latest HR metrics, and across pages 10 to 13 Hydro One provides seven new metrics. And we don't have to go through the pages, but I will just list them here. There is attendance management, grievances, years of service, turnover, age breakdown, retirement eligibility, and performance distribution. And my understanding is all of these metrics are new in 2017 and the data that is provided with these metrics is data for all of '17. Is that correct?

MR. McDONELL: Yes, that is my recollection of that conversation we had at the -- I guess it was maybe the technical conference. I am forgetting now, but, yes, I agree.

MS. GRICE: Okay. Great. And at the technical conference we talked to, about whether or not any targets had been set. I just wanted to follow up and ask if Hydro One has set any targets for any of these metrics for 2018 and beyond for the test period?

MR. McDONELL: So you look at the metrics like the attendance management, grievances, years of service, turnover, et cetera. Those --

MS. GRICE: Yeah, those --

MR. McDONELL: -- you are asking if we have metrics for those? I'm sorry, you're asking --

MS. GRICE: I am sorry, what I was asking was if there -- if Hydro One has set any specific targets to any of these metrics over the test period.

MR. McDONELL: No, I don't believe we have.

MS. GRICE: And then just as a follow-up to our discussion at the technical conference too, are there any new HR metrics beyond these?

MR. McDONELL: Well, I was just going to say we are looking at revising and creating new metrics this year. I mean, the one thing that -- let me back up. Just like a lot of our lines of businesses were being challenged to be more metric-focused, more accountability, et cetera, et cetera, so that was sort of the background to why we put an effort into creating metrics where we really didn't have that much in the way of HR metrics before.

One of the things that we are thinking about is improving these metrics by telling a little bit of a story, because when you look at it, you are seeing numbers, and that is not always going to be particularly helpful to support our lines of businesses succeeding. So what we want to do is look behind the numbers and look for trends. For instance, you know, under attendance management you might see a number of letters of expectation. So that's not really telling you a whole lot. But some of the work that I have done in this area, we start to see, well, why are we getting letters of expectations, and it turns out that we have had, you know, a rash of people getting letters because they are driving too fast because they have a GPS in their car. So if we are able to look behind the numbers a little bit more and look for themes and we can start talking about those stories and helping our lines succeed.

So a long way to say we are revising these metrics and looking at a better a way to present them and tell a better story.

MS. GRICE: Yeah, but in terms of this application these metrics will be in place for the test period? They are relevant to the test period?

MR. McDONELL: Well, I think what you are going to see is there is going to be improved metrics as we move forward. I mean, this is just data that is helping our managers manage their business better. I don't think it is going to change our -- the application if we change these metrics and dig down a little bit deeper and tell a better story. If anything, it is going to improve our operations.

MS. GRICE: Okay. Can we turn to one metric in specific?

MR. McDONELL: Sure.

MS. GRICE: Specifically one metric, and that is turnover, and that is on page 11. So what this is showing, my understanding, is that the white portion refers to the number of retirements in each month.

MR. McDONELL: Okay. I am just looking at the screen. It is a little bit better.

MS. GRICE: Sure.

MR. McDONELL: Okay. I will agree with that.

MS. GRICE: Okay. And then in terms of terminations, the number of terminations per month is the dark portion. You will agree with that?

MR. McDONELL: Yes. I just want to comment on the word "terminations". I mean, again, it's -- you know, sometimes we go to the negative connotation of it. Like, the termination -- and I think in this particular example there are probably a lot of students and temporary employees whose contracts have simply come to an end, and we would call that a termination.

MS. GRICE: All right. And I think it says on this slide that "terminations refers to voluntary, unvoluntary (sic), and death"?

MR. McDONELL: Yes.

MS. GRICE: Those three categories?

MR. McDONELL: And the rest of 33 were temporary employees returning back to school. So those probably would be co-op students, I would guess.

MS. GRICE: Okay. Now, just looking at this table, would you agree that this table also reflects the number of vacancies you have in any given month?

MR. McDONELL: This table? This table of turnover?

MS. GRICE: Yes.

MR. McDONELL: Sorry? Is that what you are asking?

MS. GRICE: Yes.

MR. McDONELL: I don't think so. I don't think it reflects the number of vacancies, necessarily, because, you know, for instance, somebody could retire, and we would look at that role and make a decision whether or not that role has to be filled or not. A lot of those turnover are temporary employees, not necessarily an ongoing position. So I don't really -- I don't see the tie between this and potential vacancies.

MS. GRICE: Would there be some overlap in this chart between positions that are filled and not filled at any given time?

MR. McDONELL: Truthfully, I don't see it. I mean, I could see if we do have retirements, there is a possibility I suppose that those jobs could be filled by looking at that data. That wouldn't be particularly helpful for me to determine what vacancies are resulting from any terminations in any month.

MS. GRICE: Okay. Can we please go to C1, tab 2, schedule 1, page 8?

MR. McDONELL: Page 8.

MS. GRICE: Yes. I have provided this reference to Hydro One. I apologize it's not in the compendium.

MR. McDONELL: C1, tab 2, schedule 1, page 8.

MS. GRICE: Yes.

MR. McDONELL: Around head count?

MS. GRICE: Yes. I just wanted to look at the last paragraph of page 8 under "head count", where it says:

> "Hydro One recognizes the concerns expressed in previous OEB decisions with respect to rising head count. Furthermore, the OEB has expressed a concern that Hydro One has not presented its resourcing requirements on a full-time-equivalent basis."

Then over the page:

> "In this application, Hydro One has provided reporting on FTEs, and in the future Hydro One expects to incorporate the FTE metric into its business planning and performance management

processes."

So if we can go back, please, to page 11 in the turnover table, when I looked at this further I realized this table is done on a head count basis.

MR. McDONELL: I think I would agree with you on that. When you're talking about the table, you're talking about the metric of turnover?

MS. GRICE: The metric of turnover.

MR. McDONELL: Yes, that looks like a head count.

MS. GRICE: In order to use any of the data for my purposes, do you have this table on an FTE basis?

MR. McDONELL: No.

MS. GRICE: Could just help me out and tell me the head count for 2017 that you are using the derive these numbers?

MR. McDONELL: Sorry, which numbers? The numbers on this turnover?

MS. GRICE: When you are calculating...

MR. McDONELL: Sorry, I am having difficulty hearing.

MS. GRICE: I am sorry. When you are calculating the percentages for each month, the points below the table say it is done on an annualized basis based on 2017 head count.

So in order to understand the percentages and possibly utilize that information, I need to know what the head count is for 2017, since you are not using FTEs. I don't believe that number is in evidence.

MR. McDONELL: I don't believe it is either.

MS. GRICE: Is that something you could provide?

MR. VEGH: Before the witness answers, this is the type of question that is normally addressed in an interrogatory or at the technical conference, because I think by the time the panel is in a position -- if we were to take the undertaking and provide this, I am not sure what Ms. Grice would do with this anyway.

MS. GRICE: I guess -- I was asking about the number of vacancies at the technical conference, and I asked for an undertaking and the undertaking came back and basically expressed that you have vacancies at any given period during the year. On some occasions, you back fill those positions and you incur a cost.

What I was trying to understand at the technical conference was does Hydro One still have vacancy dollars at stake, even after you backfill. And the undertaking response was that you could not calculate the backfill cost.

So I'm trying to go back now to the evidence and find a way to get at this information, and when I look at this metric turnover and it gives the retirements and it gives the terminations for any given month, it overlaps in my mind with vacancy numbers.

So in order for me to make any use of this, I need to know the head count for 2017. I am sorry if -- I have tried to come at this a few ways.

MR. McDONELL: It is still not a hundred percent clear to me what you are asking for. For 2017, by month -- are you asking for the FTEs for every month?

MS. GRICE: No. I am asking for -- I believe the way this table is calculated, it's an annualized percentage. So the head count for 2017 is utilized to create the percentages in the table. In order to understand that, I need to know the head count for 2017.

MR. QUESNELLE: Is it your understanding, Ms. Grice, that is a simple number?

MS. GRICE: I believe so.

MR. QUESNELLE: It's the December 31 head count -- well, that's what it was previously. I understand they have changed that methodology now. But in '17, it would be one number.

MS. GRICE: It would be one number that they used to create this table.

MR. McDONELL: Rather than guess here on the stand, I think if we took that away we might be able to produce something that might be helpful.

MS. GRICE: That would be great. Thank you very much.

MR. SIDLOFSKY: That will be Undertaking J3.4.

UNDERTAKING NO. J3.4: TO PROVIDE THE HEAD COUNT NUMBER USED TO CREATE THE TABLE AT C1, TAB 2, SCHEDULE 1, PAGE 8

MS. GRICE: Can we please turn to page 14 of the evidence -- sorry, the compendium. This table is from the evidence and it shows Hydro One distribution's compensation costs for 2014 to 2022.

MR. McDONELL: Just so I am catching up with you, this is the -- this is an excerpt out of our evidence, I believe, the original evidence for distribution full costs.

MS. GRICE: Yes, that's correct, it's from the original evidence.

Can you confirm, please, with me that the dollars that result from this table for the test period for 2018 to 2022 compensation, that these numbers assume that all FTE positions are filled for the entire year. Is that correct?

MR. McDONELL: Sorry, it took a long time to get to this answer. The answer to your question is does this assume all the FTEs were in place? Yes, it does.

MS. GRICE: If we can just quickly go back to the turnover slide on page 11, I just want to confirm then that the compensation dollars that we looked at do not include the retirement -- the retirements that would occur in each year, and it also does not include the terminations that occur in each year.

MR. McDONELL: I am just going to back up again. The appendix B is the costs that we are forecasting for all the FTEs. So if I look at that chart on the screen on turnover -- I'll pick retirements, because that is one of the largest reasons for turnover.

It is quite common for somebody to retire and give us three, four months' notice that they are going to retire. That's very standard. What that does is that enables the hiring manager to put in motion a recruitment to replace that individual and hopefully, the person will be arriving in or around the time the person actually retires.

So I think that's what we were trying to get at at the technical conference, is you shouldn't assume that just because somebody leaves there is going to be a cost savings to Hydro One, because often it's the case that that role is filled as the person is leaving.

Another large -- another big reason why we have vacancies is people will selected to an internal role. I think if you add that number and the number of retirements, it's probably about 80 percent of all the vacancies we have. That's another example where the hiring manager has a fair bit of advance notice of someone leaving, and therefore can replace the individual.

MR. QUESNELLE: Mr. McDonell, I take it from Ms. Grice's explanation of what she was asking for at the technical conference, is it my understanding that you do not have a rolling vacancy rate? You can't calculate the delta between the time of people leaving? Like, it is called turnover. There are two sides to a turnover. It is someone new showing up. The point in time where someone leaves and the point in time where someone on average is back-filling that role, there isn't a vacancy number? Is that your response? Like, this is a slide that provides one half of a turnover. It is the reason people leave. It doesn't provide the other side of a turnover, which is somebody else new showing up. And the difference between the two I think is what Ms. Grice is after.

MR. McDONELL: Yeah, I think I understand what she is after. I just don't know if we track that information to that detail in that way. One of the -- one thing that we have been doing for what I -- another to look at vacancy rate is how long it takes to fill a vacancy. That is one thing that we in fact do track.

MR. QUESNELLE: I think that would be helpful.

MR. McDONELL: Well, we do have that, and I thought that could have been an answer to an interrogatory.

MR. QUESNELLE: Yeah. Because I think that to the extent that -- I think we understand what Ms. Grice is trying to get at, and I recognize the difficulty in translating this chart, which I would suggest is again one half of a turnover equation to what she is looking for, is determining a length of time to fill.

MR. McDONELL: Well, that I can help with. And that is actually a school board interrogatory, Exhibit I, tab 40, SEC 79. We do talk about --

MS. GRICE: Just to be helpful, that is page 15 of the compendium.

MR. McDONELL: There you go. Thank you.

MR. QUESNELLE: We had turned our mind to that at one point in time.

[Laughter]

MR. McDONELL: So really in a nutshell what we are saying here is that the vacancy rate is relatively new to Hydro One and we have been experiencing a vacancy rate of about 77 days. We have things in play to actually reduce that to 52 days. And I think we also made the point here that often it is the case that there are costs associated with a vacancy, because we might work overtime, hire a temporary employee, contract out work. It could be a variety of different things. So hopefully that helps a little bit, but I am not sure it fully answers your question.

MR. QUESNELLE: Well, I think the anecdotal examples and what-have-you are helpful to understand exactly what the subject matter is, but it doesn't sound like you have a number. You haven't calculated this or concerned yourself with this metric to the point where you have it quantified.

MR. McDONELL: I guess all we really have is the number of how long it takes typically to fill a vacancy.

MR. QUESNELLE: Okay.

MS. ANDERSON: Just so I am clear, when it comes to budgeting, your compensation, do you take into account any assumption about, I guess this gap between all positions being filled and some being vacant for 52 days? So do you take that into account in your budget?

MR. JODOIN: Sure, I can help with this. I do want to note the compendium stops at part B, but there is actually a part C to the question. And what I will do is I will read the question, and it says:

> "Please confirm that Hydro One has built into its budget for 2018 its forecast vacancy rate for 2018."

Sorry, I'm going to have to leverage your notes here.

So what actually happened from a corporate costing perspective is -- and maybe I will step back. From a process perspective what we do when we complete the business plan is we'll reach out to all of the corporate groups with costing templates, and essentially what they will do is they will define their staffing needs for the forecast test and forward-looking years, and they will fill out the template, and part of the finance governance of that is to review their submissions, analyze their submissions, compare them to past submissions, and also check against where they currently stand from a staffing perspective.

So in the latest cycle, we did note that there was some seats left unfilled relative to the in-year forecast they were providing, and we scaled back the corporate budget groups by a vacancy percentage, thereby cutting their budgets. That was done -- and again, that is for corporate groups.

For field groups -- and I don't know if you want to elaborate a little bit on the field groups, but it wasn't done on the field side, and that's more because of the flexibility of those resources, leveraging hiring hall employees, maybe some regular staff are not available. I know Mr. McDonell can expand a little bit.

MR. McDONELL: Yeah, I wouldn't say too much more than that, in a field sort of organization which a person leaves quite often the person is replaced fairly quickly through the use of the PWU Hiring Hall if it is a tradesperson. So I guess we don't see so many open vacancies in the field group as we would possibly in a corporate and common group.

MS. ANDERSON: So, sorry, just so I am clear, that sounded like, that there was a budget reduction for known vacancies. Do you put in a percentage for the unforeseen?

MR. JODOIN: So what would have happened in this planning cycle underlying this application is an initial cut, and I believe -- and I would have to -- subject to check, I believe that was carried forward to all planning years, and in this case applicable to 2018 in the OM&A rebasing year. Does that help?

MS. ANDERSON: Thank you.

MR. QUESNELLE: Ms. Grice?

MS. GRICE: Thank you. I just have a few follow-up --

MR. QUESNELLE: Sure.

MS. GRICE: -- questions to that.

Would you be able to provide us the percentage that you used for the common groups, the common corporate groups?

MR. JODOIN: I don't have that with me right now, but it is something that I could provide if that's something you are interested in.

MS. GRICE: I would be. Thank you.

MR. SIDLOFSKY: That will be Undertaking J3.5.

UNDERTAKING NO. J3.5: TO PROVIDE THE PERCENTAGE USED FOR THE COMMON CORPORATE GROUPS.

MS. GRICE: Just as you were explaining everything, just to be helpful -- and I just want to see if this information is available -- can we go back to page 11. So again, this is the turnover page. And if you will accept this subject to check, I added up all of the positions that have either turned over because of retirement or termination, and I get 438 total for the year in 2017.

MR. McDONELL: You just simply added everything up.

MR. RUBENSTEIN: I just added everything up.

MR. McDONELL: Okay. Subject to check, I mean, that sounds in the ballpark.

MS. GRICE: So do you have information in your system where then you know in those months what new hires came in attached to those positions? Is that something that then we can sort of have the second half of the story that we feel like we are missing?

MR. McDONELL: I am not 100 percent sure. Let me explain what we do have and see if it would be any help to you. So one of things that we wanted to do and consistent with some of the language we put in the evidence is to be mindful of our FTEs or our head count, because there is always concern that our employee groups are growing. So one thing that we started to do in 2017 was, anybody that wanted to hire anybody, be it a rotation, a temporary job, internal, external, regular position, you name it, any sort of vacancy, you had to go through a vacancy approval process, which requires probably about three levels of approval, which is good. It is a good control mechanism that people look at vacancies before they are just posted.

Part of that process requires the approval of the hire to go to our EVP of human resources, and she approves it as well. So it is a fair bit of rigour, I guess is a good word, for filling roles.

I happened to have been tracking that last year, so I do have a database. So the information that I get is, you know, the type of vacancy, rotation, regular position, et cetera, et cetera, the rationale why that vacancy even occurred, and whether or not it has been approved or not.

I mean, that is kind of the data I have. I mean, I -- if that helps, I might be able to pull some information, some metrics off that that might give you some information you want.

MS. GRICE: It just would help to know based on those 438 positions --

MR. McDONELL: Right.

MS. GRICE: -- what happened to them, how many were vacant.

MR. McDONELL: Yes.

MS. GRICE: Like how many were filled during the year.

MR. McDONELL: That is where there is going to be a disconnect, because what I get is the approval to hire. So when someone actually makes that decision to hire, that's when that process starts.

What I won't see is if somebody retires and we don't backfill. I don't have a line of sight to that. Maybe Mr. Jodoin -- if what I described to you in terms the data I have, I would we happy to try to pull something together. But I'm not sure I will be able to make you 100 percent satisfied.

MS. GRICE: It would just be best efforts to try and tell the other side of the story with the 438 positions on page 11, at the end of the year how many were filled and how many were vacant.

MR. McDONELL: Okay. I'll give it a go.

MS. GRICE: Thank you.

MR. SIDLOFSKY: Undertaking J3.6.

UNDERTAKING NO. J3.6: TO MAKE BEST EFFORTS TO ADVISE, OF THE 438 POSITIONS, HOW MANY WERE FILLED AND HOW MANY WERE VACANT

MS. GRICE: I have a question back to page 15 with respect to this new vacancy metric. You mentioned that the data is to track how many days it took to post and fill a position, and right now that rate is approximately 77 days.

MR. McDONELL: Correct.

MS. GRICE: Then you mentioned that you go through a lot of rigour internally in terms of getting a position through senior management for approval to do something with. Are those days to do that in addition to the 77? Or is the 77 it is posted on day X and you can expect to have somebody in the position in 77 days?

MR. McDONELL: The 77 days, it's going to be sort of like a -- so a posting is posted internally. It is probably going to be posted for one or two weeks, which is standard. Another week goes by where all the applications are coming into our internal recruitment; that's three weeks.

And then candidates are contacted, set up for interviews, possibly a second interview, and a selection is made. That person who gets selected needs a little time to come from whenever they are coming from. So you quickly gobble up 77 days by just following that process I've just described.

MS. GRICE: So then there are additional days internally for it to get through the system before it results in a posting. Do you have a sense how long that takes?

MR. McDONELL: It's like two days. Somebody puts in an approval to hire request. Our internal goal is to get the approval in place within two business days.

MS. GRICE: Thank you. I don't want to forget to ask this, so please bear with me.

Can we please go back to page 14? This is the table that shows all of the compensation dollars. There have been a lot of updates that we looked at today with CME on the compensation dollars. Is there an update to this table that shows the data all the way to 2022?

MR. McDONELL: Yes. My best advice is go to attachment 6, because attachment 6 is going to have this exactly plus the transmission view out to '22.

MS. GRICE: Does it go all the way to 2022?

MR. McDONELL: I think it does.

MS. GRICE: It does; okay.

MR. McDONELL: I will just confirm that. Yes, it does.

MS. GRICE: Thank you. Can we go back, please, to C1, tab 2, schedule 1, page 9, table 1? This is the reference that I mentioned earlier that was not in my compendium.

MR. McDONELL: The FTE table?

MS. GRICE: Yes, thank you. What this table is showing is the number of regular, non-regular, and casual FTEs for the test period 2018 to 2022.

MR. McDONELL: Correct.

MS. GRICE: If we just look at 2018, the total there is 8,606 FTEs and then it reduces in 2019, and it is slightly reduces every year until 2022. So it looks like 2018 is the year with the greatest number of FTEs and slightly decreasing each year thereafter. You will agree with that?

MR. McDONELL: I actually did the calculation. It's about a 1.3 percent reduction between 2017 and '22.

MS. GRICE: I was looking at 2018 to 2022.

MR. McDONELL: Okay. I did 2017 there.

MS. GRICE: Okay. But regardless, there is a slight reduction?

MR. McDONELL: It's a slight reduction.

MS. GRICE: Okay, thank you. Can we please turn to page 16 of the AMPCO compendium?

So what we asked in an interrogatory was to get the same numbers for the historical period, 2012 to 2016. I just wanted to look at the actuals beginning at 2014, which was the test period or the time period for the last application. The total FTEs in 2014 are 8,308. Then it declines down to 8,077 in 2015.

But then in 2016 and 2017, the increase is 587 in 2016, and 217 in 2017. That is a total increase in FTEs of

504. Can you just explain what is the story behind the increase in those FTEs?

MR. McDONELL: Well, I am not sure I am going to be able to account for it all off the top of my head, but I -- it looks like our casual construction workforce was increasing slightly.

MS. GRICE: Yes, it's the casuals increasing in 2016, and then the regular FTEs is increasing in 2017.

MR. McDONELL: Yes.

MS. GRICE: Are there work programs, significant new work programs that are driving this 504 FTE increase?

MR. McDONELL: You know, I just don't know that I can really properly answer that. I wasn't really looking at the historical data as much as I was looking forward.

MS. GRICE: Could we get an undertaking just to explain that?

MR. McDONELL: The undertaking would be to provide some data as to the increase in FTEs in 2016 and 2017?

MS. GRICE: Yes, that would be great.

MR. McDONELL: Okay.

MS. GRICE: Thank you.

MR. SIDLOFSKY: J3.7.

UNDERTAKING NO. J3.7: TO PROVIDE SOME DATA AS TO THE INCREASE IN FTES IN 2016 AND 2017; TO CONFIRM WHETHER THE 2017 FTES IN THE TABLE ARE FORECAST OR ACTUAL FIGURES

MS. GRICE: Just as an add on to that, I just want to confirm -- the 2017 FTEs in this table, are they actuals?

MR. McDONELL: 2017? Just judging by the --

MS. GRICE: Maybe that can just be part of the undertaking.

MR. McDONELL: I will see if I can answer it. We believe it is a forecast, but I will add that to the undertaking.

MS. GRICE: Thank you. I just have a few questions left.

MR. QUESNELLE: Why don't you go ahead, Ms. Grice?

MS. GRICE: Thank you. If we can please turn to page 28? What this table is showing is how Hydro One calculates a typical standard labour rate and it is part of Hydro One's evidence on costing of work.

My understanding is the way this is done is that Hydro One takes all of the total payroll and expenses, including an assignment of support activity costs, and then you divide it by the forecast billable hours and you come up with a standard labour rate. This example is for the regional line maintainer regular staff. Have I characterized that properly?

MR. JODOIN: That is correct.

MS. GRICE: Thank you. In the table it shows the five components of the labour rate, and the first one is payroll obligations, and that includes things like base pay, standby pay, vacation payout, payroll allowances, benefits, and then government obligations like CPP/EI. Correct?

MR. JODOIN: That is correct.

MS. GRICE: Okay. And then time not directly benefiting a specific -- oh, sorry, number 2, contractual time away from work is for things like sickness and accidents?

MR. JODOIN: So we have all of these categories fully described in our evidence, if that is helpful, but --

MS. GRICE: I'm actually --

MR. JODOIN: -- that is correct.

MS. GRICE: -- I am quoting from that. I am just summarizing it for you, just --

MR. JODOIN: Sure.

MS. GRICE: Okay. And time not directly benefiting a specific program or project is to attend safety meetings and downtime. And then field supervision is to manage and monitor programs and projects, and support activities is for things like travel, cell phones, and training.

So what I wanted to look at here was in -- this piece of evidence is from your last application, EB-2013-0416. And in 2014 the forecast hourly rate for the regional line maintainer was $118 an hour, and then for 2018 it was $122 an hour, and then for 2019 it is $123 an hour. You will agree with that?

MR. JODOIN: Confirmed. I can see.

MS. GRICE: Okay. Okay. Thank you. And then if we can then please turn the page to page 29, this shows -- this is evidence now from this application, same costing of labour rate calorie -- sorry, labour rate categories, and for 2014 it has increased from your forecast of $118 an hour in your last application, 2014 came in at 103 -- $133 an hour.

Can you explain why that is, why the significant increase?

MR. JODOIN: Unfortunately I think we have a case of an apples-and-oranges comparison, as it is not the same position. The example position provided in the last application is not -- seems to be different than the example position provided in this iteration of the evidence, so I wouldn't be able to address any specific differences, as it could solely relate to the position.

MS. GRICE: My apologies. I thought that position looked almost identical. So would you be able to do it then for the same position that you provided in your evidence in the last application?

MR. JODOIN: Sorry. Could you repeat the question? I'm --

MS. GRICE: Sure. Sure. If they are not the same position, would you be able to provide the same information as on page 29, showing the actuals for 2014 to 2016, and then the forecast for the test period for the same position that you used in the last application?

MR. JODOIN: Absolutely, that is a fair ask, and I do apologize. We should be providing consistent data sets, application over application. So this won't happen in a future exhibit.

MS. GRICE: And -- thank you. And if there are any differences in the hourly rates, could you please provide an explanation as part of that undertaking?

MR. JODOIN: Sure.
MS. GRICE: Okay. Great. Thank you.
DR. ELSAYED: Is that for both tables? Stations and the line?
MR. JODOIN: Sorry --
DR. ELSAYED: Is the undertaking for both tables, the one shown on page 28 and 29?
MR. QUESNELLE: It's --
MR. JODOIN: I will leave that. Would you prefer for us to provide the current data from the equivalent position as the last application? Does that work?
MS. GRICE: Why not. Sure. That --
MR. JODOIN: Okay.
MS. GRICE: -- would be great, thank you.
DR. ELSAYED: Yes, but that position -- you have two different positions here.
MR. QUESNELLE: That is the confusion, yeah.
MR. JODOIN: So what we are committing to provide is the position from EB-2013-1219 -- or, sorry, EB-2013-0416 in this latest evidence. So the current data set. If you would prefer us to provide both positions, we could --
DR. ELSAYED: No, I just want to clarify the undertaking.
MR. JODOIN: Okay. Sure. I think we are on the same page.
MS. GRICE: Great. Thank you.
MR. SIDLOFSKY: So that will be J3.8.
UNDERTAKING NO. J3.8: TO PROVIDE THE SAME INFORMATION

AS ON PAGE 29, SHOWING THE ACTUALS FOR 2014 TO 2016, AND THEN THE FORECAST FOR THE TEST PERIOD FOR THE SAME POSITION USED IN THE LAST APPLICATION. AND IF THERE ARE ANY DIFFERENCES IN THE HOURLY RATES, TO PROVIDE AN EXPLANATION.

MS. GRICE: One last question.

MR. QUESNELLE: Okay. Thank you.

MS. GRICE: Page 20, please. This is an undertaking that provided all of the overtime hours compared to the regular hours for Hydro One. At the bottom of the paragraph in the response it says:

"It should be noted that overtime forecasts are difficult to make since the majority of overtime hours within field operations is due to storm activity and the resulting restoration efforts."

Would you be able to just summarize overall the circumstances under which Hydro One would require overtime?

MR. McDONELL: Sure. All the -- well, I am going to come at it from the perspective of a field type of role. I mean, probably about -- within our operations group probably about 75 percent of the overtime is going to be incurred as a result of storm restoration efforts. Other lines of businesses might have different sort of percentages. If I recall correctly, you know, within our station maintenance group a significant portion of their overtime is a result of scheduling outages. So it's more convenient to our customer. It might be after hours, early -- before normal start time, possibly on weekends. So storm restoration, outages would be the big-ticket items. Also, just given the geography of our organization and where our crews are, often it is the case that a crew will work a couple of extra hours at the end of the day to finish up a job so that they don't have to pack up and come back the next morning and travel back to the site if it is just going to take a couple of extra hours to complete a task. Is that sort of what you're getting at?

MS. GRICE: Yes, I just wanted to know the major categories --

MR. McDONELL: Yes --

MS. GRICE: -- of overtime.

MR. McDONELL: -- so I would say outage, scheduling, and storm restoration would be the big ones.

MS. GRICE: Okay. I just have one quick follow-up question to that on page 27. And this is a page out of an internal audit report from March 2nd of 2017. And the recommend -- or the audit recommendation is around coordinating schedule changes to minimize compression of execution time lines. And it has -- or the risk at this point in time is a medium. And under the risk it says:

> "Lack of effective communication among lines of business stakeholders could result in missed expectation, delayed responses, and unnecessary escalations."

And then if you go halfway down the paragraph on the left, where it starts -- where it says "stations and operating management", it says:

"Stations and operating management have informed us that upstream delays continue to cause in-service day pressure where project managers are requesting overtime work to meet the planned in-service dates."

So it sounds like overtime is being used to hit in-service dates and then along with that the effect of that is it is causing unnecessary escalation in project costs. So can you talk further about that and how often this is occurring?

MR. McDONELL: So that -- so sounds like a panel 5 question to me.

MS. GRICE: Okay.

MR. McDONELL: Just that they would have --

MS. GRICE: More details on that?

MR. McDONELL: -- more details about that, I would think.

MS. GRICE: Okay. Okay. Thank you. Those are my questions. Thank you.

MR. QUESNELLE: Thank you, Ms. Grice.

We will take our afternoon break until 3:50, and I understand, Mr. Rubenstein, you are up after the break. Okay. Thank you very much.

--- Recess taken at 3:34 p.m.

--- On resuming at 3:55 p.m.

MR. QUESNELLE: Thank you. Please be seated. The monitor is just getting a little bit too -- it is late in the day to be teasing like that, I think. Mr. Rubenstein?

CROSS-EXAMINATION BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Thank you very much. Good afternoon, panel. I have a compendium for this panel, if we can mark that as an exhibit.

MR. SIDLOFSKY: That will be K3.6.

EXHIBIT NO. K3.6: SEC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MR. RUBENSTEIN: Thank you very much. Panel, if we could start at page 3 of the compendium. Now, page 2 and 3 is a response to JT1.19. I am not going to go through the whole interrogatory, but in the -- as I understand part of -- and this is at the beginning of page 2. While you were responding to this undertaking, you noticed there was an error, I believe, in the attachment 6 that we have been looking at numerous times and talking about today, and you corrected it in this table 2 that shows the split between total capital, total OM&A in the DX.

I understand the totals are the same, but the split was the incorrect in the attachment. Do I have that correct?

MR. JODOIN: You do.

MR. RUBENSTEIN: I was wondering if you could, just as a starting point, refile a corrected version of the attachment 6.

MR. JODOIN: That's fine.

MR. SIDLOFSKY: We will make that undertaking J3.9.

UNDERTAKING NO. J3.9: TO FILE A CORRECTED VERSION OF ATTACHMENT 6; AND TO FILE A LIVE EXCEL VERSION OF

ATTACHMENT 6; TO ADD INCENTIVE PAY INFORMATION

MR. RUBENSTEIN: I'd ask also for you to file an Excel version of that. I know if there was an Excel version that's been filed, a previous version, if that could be provided as well.

MR. JODOIN: Sure, that's no problem. And just to be clear with respect to the compendium, all that will change in attachment 6 is the component -- the table noted on the top of page 3 of the compendium provided to us today.

MR. RUBENSTEIN: All right. So for the purposes of today, this is the most accurate table we have that shows the total compensation that's allocated to DX and split between capital and OM&A, correct?

MR. JODOIN: That's correct.

MR. RUBENSTEIN: What I see from this table is that the allocation of compensation dollars to capital is actually higher than OM&A through the term of the plan. You would agree with me on that?

MR. JODOIN: That's true, yes.

MR. RUBENSTEIN: So really the bigger impact on compensation during this custom IR term will be on the capital side?

MR. JODOIN: That's fair.

MR. RUBENSTEIN: If we go to page 4 of the compendium, this is from the Q exhibit, this is your capital expenditure forecast for the test period. Do you see that on table 4 in the total line?

MR. JODOIN: Yes.

MR. RUBENSTEIN: When I look at the labour component that we just looked at -- this is on page 3 of the compendium and this is the total DX capital component -- would you take it, subject to check, that over the 5-year term, it's just north of 47 percent of capex is made up of compensation, the labour component?

MR. JODOIN: Subject to check on the math, but I will take your math.

MR. RUBENSTEIN: That is seems roughly correct? The specific number doesn't necessarily matter. We are talking a very good portion of the capital expenditures are made up by compensation, the labour component, correct?

MR. JODOIN: Correct.

MR. RUBENSTEIN: All right. I would like back to the previous decision in EB-2013-0416. This is at page 5 of our compendium.

You would agree with me, and we have discussed this before, that the Board has made in the past comments related in previous distribution decisions related to your compensation costs, correct?

MR. McDONELL: I would agree with that, yes.

MR. RUBENSTEIN: If we turn to page 6 of the compendium, this is the beginning of the compensation section of that decision, and if we flip over to page 7, you will see where it starts with the findings.

MR. McDONELL: Yes.

MR. RUBENSTEIN: If we flip over to page 18.

MR. McDONELL: 18?

MR. RUBENSTEIN: Sorry, 8. I was jumping ahead; I apologize. Let me take you down to the last paragraph. The Board says in that decision:

> "While the OEB recognizes the progress that Hydro One has made over the last few years in getting closer the market median, the OEB does not find that it is fair that ratepayers will pay a 10 percent premium over the market median."

Do you see that?

MR. McDONELL: I do.

MR. RUBENSTEIN: If we turn to 14 of the compendium, this is from the Mercer study, and I think Ms. Durant brought you to this table earlier. We see the 10 percent premium in 2013 that the Board is referring to in its decision, correct? That is the 1.10.

MR. McDONELL: Correct.

MR. RUBENSTEIN: The Board's comments about getting closer, would you agree with me, were references to the 2008 and 2011 amounts, which were 17 percent above the P50 and the 13 percent. Would you agree with me?

MR. McDONELL: In 2013, if you are looking at that chart, yes, you would come to that conclusion.

MR. RUBENSTEIN: All right. The current Mercer study has you 12 percent above the P50. Do I have that correct?

MR. McDONELL: On an overall basis, correct.

MR. RUBENSTEIN: So if in early 2015 when the Board released its decision in your previous distribution case and said it was not appropriate for ratepayers to have to pay for 10 percent above the P50, why would it be appropriate in mid-2018 for the Board to accept 12 percent?

MR. McDONELL: I guess what I'd say is that we are trying to be as transparent as possible with all our compensation. We have seven benchmarking studies on the file now and, to me, I think we are telling a good news story. Virtually each one of them, we are headed in to the right direction.

We had a bit of blip in our 2016 Mercer study because of efforts that were, I think, made in 2015 bargaining where we were -- we did have a paradigm shift, which we talked about earlier today. We are doing things that are reducing our compensation, and we hope the Board would recognize that and deem our compensation reasonable.

MR. RUBENSTEIN: Based on this study, you are worse than you were four years ago. You are going in the opposite direction.

MR. McDONELL: As I said, we had a blip in 2016 and to go from 14 percent to 12 percent in one year, I think, is pretty significant achievement. I do understand your point about 2013, but we are back headed in the right direction again.

MR. RUBENSTEIN: You would agree with he that 12 percent is higher than 10 percent?

MR. McDONELL: I would agree with you, yes.

MR. RUBENSTEIN: I want to ask about the Mercer study and get a better sense of it. If we can turn to page 8 of the compendium, this is just going back to the decision --

sorry, page 9 of the compendium.

MR. McDONELL: Sorry, page 9 of your compendium?

MR. RUBENSTEIN: Yes, page 9 of the compendium. If we take a look right at the top of the page, the first sentence:

> "In addition, the OEB directs Hydro One in its next rates application to file a compensation study similar to the one filed in the proceeding, so that the OEB can continue to benchmark Hydro One's compensation against that paid by comparable companies."

Do you see that?

MR. McDONELL: I do.

MR. RUBENSTEIN: Am I correct that this the basis of why you have undertaken the 2016 Mercer study and the 2017 Mercer study?

MR. McDONELL: Yes -- well, this is the 2013 -- I mean, it might be semantics; I am not sure. The 2016 study I would imagine is following this directive. We feel that providing more information is helpful for everybody, so we had the 2017 study prepared for upcoming transmission filing. So whether or not it's a result of this 2013 I think is debatable. But I think it is Hydro One trying to provide as much updated information as we possibly can.

MR. RUBENSTEIN: No, I meant -- I understand what you are saying. I meant the reason you have done -- you have retained Mercer and done the study in the way you have done the study is because that's what the Board asked you to do in the previous decision.

MR. McDONELL: Sure. If you go back to 2008, this has been an ask of the Board or directive of the Board to continue to show benchmarking that -- I believe in earlier hearings as well or earlier decisions, you know, they encouraged for us to improve the study to be more robust and provide more information, so as Mr. Morris said earlier today, each study is slightly different, tweaking it, hopefully, to make it a better product. But still able to show some trending.

MR. RUBENSTEIN: Sure. My point is when it said similar study in the decision that is why you have done the Mercer study. Just to have an apples to apples. Understanding there is an evolution and --

MR. McDONELL: I wouldn't debate you on that.

MR. RUBENSTEIN: Okay. And I want to understand how the study works for Mr. Morris. If we can start at page 12 of the compendium. This is from the 2017 study. So the updated version. Sorry, this is from page 12 of the study, page 23 of my compendium. My apologies.

And under "total cash compensation" it says:

> "Base salary plus most recent short-term incentives or bonus paid lump sum where applicable."

Do you see that?

MR. McDONELL: Yes.

MR. RUBENSTEIN: My understanding is you -- the annual base salary was determined on October 1st, 2017?

MR. McDONELL: Correct.

MR. RUBENSTEIN: When you say the most recent short-term incentives or bonus, can you -- what is the time frame? Is that in the previous 12 months from that date?

MR. MORRIS: It is the most recent. The closest payment. Many organizations that are on an annual compensation cycle would typically pay a bonus with respect to the previous year's performance in the following year. So it may be paid in January or February at the close of books, typically, and it would be that payment. So it is an in-year payment. Arguably it is with respect to the performance in the previous year.

MR. RUBENSTEIN: So then my question for Hydro One is when we had the attachment 6 and looking at those tables, are we -- does that include the -- let's use the example of 2018, the 2018 year. Does that include bonuses that are paid in the calendar year 2018 but involve performance in 2017, or does that include the 2018 expected bonuses to be paid based on 2018 --

MR. McDONELL: It is always confusing. So I am just talking about non-represented STIP here, okay? So the 2018 -- because we pulled the dollars from our pay system, it was paid in 2018, but it was for performance year 2017.

MR. RUBENSTEIN: So the attachment -- the data we have at attachment 6 and in those tables that show the compensation for 2018?

MR. McDONELL: Is the -- that is what they earned -- or that is what they were paid in 2018, because they received their STIP probably in February or March of 2018, but it is reflective of the performance year of 2017.

MR. RUBENSTEIN: And so what you are seeking to recover in 2018 -- I take those charts to be trying to show what you are seeking to recover in 2018 in other years.

MR. McDONELL: Here is my suggestion on that. I think we took an earlier undertaking today to give you some information about how we calculated the STIP. How about we add that part to that undertaking?

MR. RUBENSTEIN: That is fine with me. I don't know if -- I leave it to you how you want to do it. That is fine.

Just to be clear, what you are providing -- so there are sort of two parts to my question. One was, I was just confirming that as I understand the point of the attachment 6 tables was to try to demonstrate -- let's -- the numbers in 2018 on that table are what you are seeking to recover from ratepayers in 2018. Do I have that right, that part right?

MR. JODOIN: Confirmed, that is correct.

MR. RUBENSTEIN: Okay. Now I -- so the -- what you are going to add to that undertaking is incentive pay, which year is that --

MR. JODOIN: Correct.

MR. RUBENSTEIN: -- flowing from. Okay. Thank you very much.

All right. And back to Mr. Morris, if -- so if you used the annual base salary at October 2017, am I correct that that would not include the share grant, the value of the share grant to the Society, which I don't believe begins until 2018?

MR. MORRIS: No, that is correct.

MR. RUBENSTEIN: Now, I understand from page 10 of your report, page 21 of the compendium, this was discussed earlier that the report benchmarks 3,200 -- 3,210 Hydro One employees, representing 59 percent of Hydro One's employee population, excluding non-full-time employees?

MR. MORRIS: Correct.

MR. RUBENSTEIN: So 41 percent of the employees then I -- the converse would not be covered.

MR. MORRIS: I beg your pardon --

MR. RUBENSTEIN: The 41 percent of Hydro One employees are not covered by your benchmarking study.

MR. MORRIS: That is correct.

MR. RUBENSTEIN: And generally compared to other studies you have done how does that 59 percent covered, 41 percent not, how does that reflect against other studies that you have done?

MR. MORRIS: It would be similar. 2008 through this period, I would say that the representation of Hydro One population has been between 50 and 60 percent. I am not sure whether the numbers have trended up in every year, but it has been in that range, and beyond Hydro One are -- when we are working with an organization that has a relatively structured pay program we would often recommend benchmarking in excess of 40 percent of the employees and in critical roles across functions. So that is a standard approach.

MR. RUBENSTEIN: I was trying to understand where the 3,210 employees have -- what exactly the categories and how you are drawing from that. If I can ask you to turn to page 61 of the compendium. Maybe this is a question for Hydro One, who I assume provided the data to you.

Can you help me understand what categories we are talking about here? Is it the regular and the non-regular employee -- FTEs? What are we looking --

MR. McDONELL: So which categories are you referring to? The table or the categories in the Mercer study?

MR. RUBENSTEIN: Well, Mercer had 3,210 employees that it benchmarked that represented 59 percent of your employees.

MR. McDONELL: So let's just stop there for a second. So of that number, there would have been -- and we tried to do it in percentages of representation at Hydro One. So rough numbers, you know, 65 percent I believe would be PWU and 25 percent roughly would have been Society, 10 percent would have been MCP in the Mercer study, close to that. I am not sure it is exact percentages, but we try to represent our representation percentages.

MR. RUBENSTEIN: So --

MR. McDONELL: In the Mercer study there would have been more PWU, a little bit less Society, and fewer MCP.

MR. RUBENSTEIN: Not what I was getting at. My question is this: 59 -- if 59 percent of Hydro One's employees equals 3,210, my quick math is, that is a Hydro One employee pool of about 5,440. And I am just trying to understand how that relates then to the table that is provided on page 61 of my materials. I am just trying to understand what categories are in or out. And I recognize the numbers aren't going to be perfect because one is at a point in time, one is the average for the year. Walk me through which categories. Is it the --

MR. McDONELL: It would have been regular --

MR. RUBENSTEIN: Yeah.

MR. McDONELL: -- and certainly casual, and I just -- I just -- I do not believe we put temporary employees in the database. So I am pretty sure it is regular and casual.

MR. RUBENSTEIN: So non-regular is not included.

MR. McDONELL: Non-regular being a temporary employee.

MR. RUBENSTEIN: Okay. Thank you very much.

MR. QUESNELLE: Does that line up with the math that you just used, though, Mr. Rubenstein? Isn't that a much higher number than what you calculated the percentage would have been?

MR. RUBENSTEIN: Well, that is my next question --

MR. QUESNELLE: Sorry. We have been working together too long.

MR. RUBENSTEIN: Well, that's -- part of the question I had with respect to -- so if you go look at page -- if you look at the 2017, just if we include regular numbers, regular employees, we see 5,534 on your list. And even if, because of the timing difference, your midway through the year and we look the 2018 FTE numbers on the same basis on page 60, regular alone is 5,499.

So I have this disconnect. I don't fully understand what the pool of employees you've used or have not included in the Mercer study.

MR. McDONELL: So if I understand your question, if I took that 5,534 number, your regular complement, and 60 percent of that that comes out to about 3,220, right?

So in the Mercer study, we -- that 3,320 would have been the rough proportion of our representation. So 65 percent PWU, 25 percent Society, and the balance management.

MR. RUBENSTEIN: I am trying to understand. If I take what you've said is the universe of employees that you tried to benchmark, that would have been regular and casual, those numbers are much higher than what appears to be included in the Mercer study based on 59 percent equalling 3,210.

MR. McDONELL: Would it not be helpful if we actually took a look at the Mercer study and the classifications, because I believe we put the incumbent numbers --

MR. RUBENSTEIN: If you would like to. You may want to take this by way of undertaking.

MR. McDONELL: I am not sure if we are talking at cross purposes. I just want to show you what I am referring to and see if it is helpful or not.

MR. MORRIS: If you just look at page 32, for example.

MR. McDONELL: I am looking at the 2017 study on page 32, table 11, the Mercer study -- I don't think there was a 2018 study. Are you with me, Mr. Rubenstein?

MR. RUBENSTEIN: Yes, I am.

MR. McDONELL: If I look at table 11, that represents the PWU jobs that are in the study, and the number of incumbents in each of the classifications, I see the number 2,476.

MR. RUBENSTEIN: Yes. I understand that to be you -- benchmarked 2,478 PWU positions. That is what that means, correct, Mr. Morris?

MR. MORRIS: That's correct.

MR. RUBENSTEIN: If we go back to page 10 of -- page 21 of the compendium, you say:

"The 2017 compensation cost benchmark study directly reflects 3,210 Hydro One employees in 34 benchmarked jobs representing 59 percent of Hydro One's employee population, excluding non-full-time employees.

MR. MORRIS: Correct.

MR. RUBENSTEIN: So that assumes to me that 59 percent of the total population is being benchmarked. That would show there is a total population of 5,440 Hydro One employees that are non regular -- sorry, non full-time employees. That is the simple math I am getting. Would you agree with that?

MR. MORRIS: I would.

MR. RUBENSTEIN: So the question is I don't understand what the -- if we go back to the FTE table provided on page 60 and 61, I am trying to understand -- the 5,440 don't seem to match with any numbers on the tables that you've provided about your full-time equivalents.

If you want to do this by way of undertaking, that is maybe the most useful way to use our time.

MR. McDONELL: I think we will have to take this as an undertaking.

MR. SIDLOFSKY: That will be J3.10.

UNDERTAKING NO. J3.10: TO EXPLAIN THE 5,440 NUMBER

MR. RUBENSTEIN: Thank you very much. Now, if we can turn to page 20 of the compendium, you show the comparators that you used in the study, Mr. Morris. I believe there are 19 of them. Do I have that correct?

MR. MORRIS: I believe that is correct, yes.

MR. RUBENSTEIN: At page 18 of the compendium, page 7 of the report, you talk about how you determine the peer group, what the various criteria is, and you talk about having annual revenues between 33 percent and 300 percent of Hydro One. Do I have that correct?

MR. MORRIS: That is one of the criteria, yes.

MR. RUBENSTEIN: Can you explain why that is an important element?

MR. MORRIS: It was really -- it related predominantly to the managerial roles, the more senior individual incumbent roles where organization size would have a potential impact on the value of the job in the marketplace.

It is somewhat less important as you kind of drop down through the organization, where the jobs are -- frankly, the number of incumbents increases as opposed to the scope of the job increasing based on organizational size.

MR. RUBENSTEIN: Does Hydro One know roughly what the percentage of management employees are to the rest of the company? I take it it's a small percentage point. Would you agree with me?

MR. McDONELL: About ten percent.

MR. RUBENSTEIN: So then it is not as important, Mr. Morris, for ninety percent of the employees -- as important?

MR. MORRIS: It's not as important.

MR. RUBENSTEIN: When determining a peer group, would you consider what organizations Hydro One is attracting from or losing employees to? Would that be an important consideration when you are looking at the scope of what type of peers we want to look at?

MR. MORRIS: It can be a consideration. In this case, we established the basic foundation for this in 2008, and there have been some changes to that. The other challenge is we need to -- we wanted to be able to have a peer group that would be provide benchmark data on a broad range of positions in each of the categories, so we could take a consistent look at Hydro One relative to the marketplace that is outlined.

MR. RUBENSTEIN: If we turn to page 41 of the compendium, this is a map of LDCs in Ontario from an IESO map from their website. Do you see that? Does the panel see that?

MR. MORRIS: Yes.

MR. RUBENSTEIN: I take it that the white -- it says, at least in most of southern Ontario, it's the Hydro One service territory, correct?

MR. MORRIS: Yes.

MR. RUBENSTEIN: I would have thought the most likely employers for many jobs, maybe primarily PWU jobs, would be other LDCs that would be close to where employees are based for Hydro One, regardless of size. Would that be a fair assumption to make?

MR. McDONELL: Where we would attract employees from?

MR. RUBENSTEIN: PWU employees, let's use --

MR. McDONELL: Not so much. No so much. The reason being -- especially for our apprentices, which is a fairly large group, we tend to want to home-grow our apprentices. We don't normally hire trade staff from other utilities. We believe it's better to hire, start them off young and train them. Our training -- with a transmission and distribution business the size of ours, a lot of our procedures are going to be a lot different than smaller utilities.

MR. RUBENSTEIN: If we turn back to page 20 of the compendium. This is the comparators. I am correct they are all energy or utility companies? Correct?

MR. MORRIS: Correct.

MR. RUBENSTEIN: If we turn to page 22 of the compendium, you list the positions that you are benchmarking. Correct?

MR. MORRIS: Correct.

MR. RUBENSTEIN: If we go through them, you would agree with me that many are not exclusively employees of energy -- would not be positions that would be exclusive to energy or utility companies. Correct?

MR. MORRIS: I don't know what you categorize as "many", but there are certainly some.

MR. RUBENSTEIN: Well, so for example if we go to the non-represented, you would agree with me that, say, financial director, senior legal counsel, human-resources manager, consultant, administrative assistant, those are not specific necessarily to the energy or utility business, correct?

MR. MORRIS: Not necessarily.

MR. RUBENSTEIN: You would agree with me that they're not --

MR. MORRIS: Correct. I agree with you, yeah.

MR. RUBENSTEIN: And the same for the PWU: Fleet mechanic, system dispatcher, carpenter, construction, labourer, stockkeeper, data entry clerk, those are not necessarily specific to the energy or utility positions, correct?

MR. MORRIS: Correct.

MR. RUBENSTEIN: And so you would agree with me that the universe of companies that Hydro One may compete with for employees, those positions, it's going to be broader than the utility and energy companies. Correct?

MR. MORRIS: It could be.

MR. RUBENSTEIN: If we turn to page 17 of your report, page 32 of the compendium, this is for the PWU. This is your summary of the PWU. Correct?

MR. MORRIS: Correct.

MR. RUBENSTEIN: And I think -- sorry, I have the wrong page there. That is page 28 of the compendium. My apologies. This is the summary for the PWU, I apologize. A table versus on averages. This is against the P50. Correct?

MR. MORRIS: Correct.

MR. RUBENSTEIN: And you went over this a bit with Mr. Stephenson, but what he was trying to ask you, and I think there was some agreement that -- we see this at the bottom -- that the total cash relative to the P50 is about 1 percent and it's the -- when you get to the total compensation you get to 12 percent. So really, it is the benefits and the pension that are pushing the PWU to be 12 percent above the P50? Is that fair?

MR. MORRIS: Correct.

MR. RUBENSTEIN: So do I take it that the real benefit for Hydro One has over benchmark employers with respect to those positions is its pensions and benefit side, not the cash component, correct?

MR. MORRIS: That would be correct.

MR. RUBENSTEIN: So is it fair to conclude that Hydro One just has much more generous pensions and benefits portions than other employers?

MR. MORRIS: Essentially, yes.

MR. RUBENSTEIN: And if we turn to page 43 of the compendium, this is a response to SEC IR 4 that asked for production of some other benchmark studies, but Hydro One provided a PWU-specific benchmark study undertaken by Willis Towers Watson? Is that what this document is?

MR. McDONELL: I probably should answer that. That is correct.

MR. RUBENSTEIN: And am I correct that it is based on compensation at some point in 2017?

MR. McDONELL: That is true.

MR. RUBENSTEIN: And what I understand from this study is that Hydro One for the PWU broke out its positions to benchmark into two categories, core services and operational -- operations? Correct?

MR. McDONELL: That is correct.

MR. RUBENSTEIN: And core services were positions that were not specific to --

MR. McDONELL: Utilities?

MR. RUBENSTEIN: -- to -- just making sure I -- core services using -- [speaking over each other] -- core services were positions that were not specific to utility or energy companies?

MR. McDONELL: That is correct.

MR. RUBENSTEIN: And where operations are.

MR. McDONELL: That is correct.

MR. RUBENSTEIN: And if we see at pages 52 and 53, we see the compendium, those are the comparators?

MR. McDONELL: Sorry, I'm with the -- so page 53 is the comparators for the core services, and 52, I assume, is the operations.

MR. RUBENSTEIN: Do I have that correct?

MR. McDONELL: That is correct. We are aligned.

MR. RUBENSTEIN: And if we go to slide 6 from that report -- this is page 48 of the compendium -- no, I apologize. Page 49 --

MR. McDONELL: 49?

MR. RUBENSTEIN: -- of the compendium, slide 7.

MR. McDONELL: The table?

MR. RUBENSTEIN: Yes.

MR. McDONELL: Yes.

MR. RUBENSTEIN: What I take away from this is that with respect to target total cash the overall Hydro One benchmark 7 percent above the P50. Do I have that correct?

MR. McDONELL: Overall 7 percent; that is correct.

MR. RUBENSTEIN: And am I correct that this study is only about the cash portion? It is not about pensions and benefits?

MR. McDONELL: Cash being base plus share grant for PWU, yes, I would agree. It does not include pension and benefits; that is correct.

MR. RUBENSTEIN: So in the Mercer study, as we previously discussed, when we have a limited set of comparators, cash compensation was 1 percent above the P50, but 12 percent when you include all the compensation, including pensions and benefits. Here we are 7 percent above the P50 on cash compensation and the study doesn't even look into pensions and benefits. Do I have that correct?

MR. McDONELL: That is correct. That is correct, yes.

MR. RUBENSTEIN: So would it be fair to assume that the 7 percent would be much higher if it benchmarked total compensation, not just cash, but also pensions and benefits?

MR. McDONELL: Repeat that question.

MR. RUBENSTEIN: Would it be pair to assume that the 7 percent shown in the PWU study would actually be much higher if you benchmarked total compensation, which include pensions and benefits?

MR. McDONELL: Well, I mean, personally I think that is a difficult question to answer without having that as part of this study. I -- but I would agree with you notionally that it would be higher. I don't know how much higher.

MR. RUBENSTEIN: But directionally --

MR. McDONELL: Directionally, yes, I could agree with that.

MR. RUBENSTEIN: Thank you very much.

Now, we had a discussion during the transmission proceeding when Willis Towers Watson was before this Panel, and Mr. --

MR. McDONELL: Resh (ph)?

MR. RUBENSTEIN: -- Mr. Resh from Willis Towers Watson testified, and my understanding, that transcript has been placed on the record in this proceeding, correct, by agreement?

MR. McDONELL: Yes, I believe that, yes.

MR. RUBENSTEIN: If we can turn to page 55, I have some excerpts I just want to talk about for a second.

MR. McDONELL: 55. Okay. I am with you.

MR. RUBENSTEIN: And I ask at the bottom of page 55 Mr. Resh -- he had done a similar segmented study, and I asked him:

> "Why have you done two separate peer groups? Why are you not just using the core? Why are you comparing support costs, support functions, to just other -- what those functions would be at other utilities?"

And his response was:

> "Yeah, no, that is a good question. We step back as part of our compensation philosophy and guiding principles, and one of them was around affordability and segmentation. And so working with management we thought through the broader non-executive work force to understand what is the relevant labour market for this group and consistent with best practices I believe that we are doing more and more with clients is segmenting the work force so that we can target peer groups appropriately."

Mr. Morris, is that -- would you agree with that? I know why you did your study, because -- it's not a criticism of yours today. I understand why you did it. But would you agree that's best practice, is to segment employees?

MR. MORRIS: Some organizations do segment employees. Many other organizations would say that they want to have a consistent peer group. That way they can explain to all employees they are compared to the same organizations in the marketplace. And so there's mixed practice on that. I think it is a good practice. I am not sure it is necessarily best practice. I --

MR. RUBENSTEIN: You think that's a -- you agree that it gives a more accurate reflection of how a company benchmarks its compensation?

MR. MORRIS: I don't know whether it's more accurate in how they benchmark. It is a way that they could benchmark, and clearly the Willis Towers Watson study segmented the employee population that way.

MR. RUBENSTEIN: Regular -- line 23 on page 56, Mr. Resh says:

> "And essentially what you find, and you see this in the data within our reports for similar levels -- is that market data is higher amongst utility companies in Canada, and then general industry. And so again, going back to the conservative nature of this approach, it was to ensure that we weren't inflating market levels by comparing non-utility roles to other utility organizations."

Would you agree with that?

MR. MORRIS: I would say that could generally be the case, and there are reasons potentially for that. I think utility companies have internal equity to deal with that does tend to potentially increase the cost for certain administrative roles relative to others.

MR. RUBENSTEIN: If we can go to page 58 of this compendium, there was some discussion today about this, and there was an undertaking that was given with respect to this interrogatory which asked about the difference between the -- the delta between, I guess, where Hydro One benchmarks on the 2017 report to the P50 and the -- at least at the time of this response, the number was 70.92 million. Do you see that?

MR. MORRIS: I do.

MR. RUBENSTEIN: I was just wondering if you could just -- I understand you are going to look into this more, I guess. But can you help me understand, Mr. Morris, how did you come to the number? Just conceptually what -- are you able to help us?

MR. MORRIS: Yes. What we did was look at the gap between the market median and where Hydro One fell in aggregate 12 percent above the market median. We looked at that -- and this isn't exactly the methodology, but we looked at that as a percentage of payroll roughly.

MR. RUBENSTEIN: Did you weigh the different segments against where Hydro -- for example, PWU was 12 percent above the market median. Did you weigh that -- did you ensure you were weighing that against...

MR. MORRIS: That aggregate number of 12 percent is a weighted average, so in fact it does more highly represent the highly populous and relatively highly paid power workers.

MR. RUBENSTEIN: I am going to ask you, either as part of that previous undertaking, I guess, to Hydro One, or an additional undertaking, if you could provide us the step by step analysis you did to get to whatever that number is may change and become and with those underlying calculations, so we can better understand exactly how that differential was determined. Are you able to do that?

MR. MORRIS: Certainly.

MR. SIDLOFSKY: Sorry, Mr. Rubenstein, did you want to add that onto an undertaking?

MR. RUBENSTEIN: A separate one would be easiest.

MR. SIDLOFSKY: I would say a separate one. J3.11.

UNDERTAKING NO. J3.11: TO PROVIDE THE ANALYSIS THAT LED TO THE DERIVATION OF THE NUMBER AS WELL AS THE UNDERLYING CALCULATIONS

MR. RUBENSTEIN: I want to just quickly -- there was some discussion about the share grant program. As I understand it, what it is is in addition to their base salary or lump sum amounts provided, eligible PW and Society employees are to be paid Hydro One shares equal to 2.7 for the PWU and 2 percent for the Society of their 2015 salary, every year for 12 years for the PWU and 11 years for the Society. Do I have that right?

MR. McDONELL: I believe it is, in both cases, 12 years, and I think I said that before. It is only that group of employees that were on payroll either on April 1 for PWU or September 1 for Society. So it's a finite number of employees.

MR. RUBENSTEIN: But that is most of the PWU and Society today?

MR. McDONELL: Yes, that's true.

MR. RUBENSTEIN: I just wanted to understand where the shares come from. Is Hydro One purchasing these shares on the market to then distribute?

MR. CHHELAVDA: No, these shares are not purchased on the market. They are actually pre-IPO shares for the Canadian-controlled private corporation shares. They are pre-IPO shares, not purchased in the open market. They come from Treasury.

MR. RUBENSTEIN: Is Hydro One actually -- is there a cost to Hydro One to issue these shares? Like what is the -- you're recovering, as I understand, the cost of this share grant in your revenue requirement, correct, the distribution component of that. Do I have that correct?

MR. CHHELAVDA: That is correct.

MR. RUBENSTEIN: Is there an actual cost to Hydro One to issue these shares?

MR. CHHELAVDA: There is an actual opportunity cost for these shares that could have been issued on the market for a set price, they are not being issued.

MR. RUBENSTEIN: So there is no direct cost for Hydro

One, correct?

MR. CHHELAVDA: In terms of the shares, no.

MR. RUBENSTEIN: Do you still think that's appropriate then to recover from ratepayers?

MR. CHHELAVDA: There is an opportunity cost. These shares could have been issued -- all could have been issued at the IPO time for proceeds. So there is an element of cash that the organization has foregone.

MR. RUBENSTEIN: The organization is forgoing it, or the shareholders are foregoing it?

MR. CHHELAVDA: The shareholder.

MR. RUBENSTEIN: So Hydro One is not foregoing anything?

MR. CHHELAVDA: That's correct.

MR. RUBENSTEIN: There was a discussion with Mr. Stephenson about SUP 13. You don't necessarily need to bring this up, but he was taking you through that table, as I recall, and showing that as an aggregate -- PWU's compensation costs in the aggregate were going down.

As I understood it, the response was, well, that's two things. There is an FTE decrease over time, as well there is just an allocation between TX and DX was changing. Do I have that correct?

MR. McDONELL: You have that correct.

MR. RUBENSTEIN: Would you agree with me that on an FTE basis, the PWU costs are actually increasing over time?

MR. McDONELL: Where do you see that, Mr. Rubenstein?

MR. RUBENSTEIN: I just did the simple math while he was talking. Just taking the total cost, dividing it by the distribution component, dividing it by the FTEs that are allocated.

On a per FTE basis, the PWU costs are increasing over the term plan.

MR. McDONELL: My recollection is I thought that table showed it on a FTE basis.

MR. RUBENSTEIN: No, it is on an aggregate basis. I think there's an FTE...

MR. McDONELL: I thought there was an aggregate and also a year-over-year average FTE.

MR. RUBENSTEIN: I am not aware of that part of the table -- oh, I see what you are talking about. Okay.

MR. McDONELL: I think we can do one of two things. You can show us your math and we can verify it, or we can do our math and...

MR. RUBENSTEIN: I am looking at line 168 of the table, actually. Sorry, I didn't see how far it goes down; my apologies, but...

MR. McDONELL: 160?

MR. RUBENSTEIN: 168; do you see it?

MR. McDONELL: Yes.

MR. RUBENSTEIN: What I see there is -- yes, 168, but the number is increasing over the period.

MR. McDONELL: Okay. I see that, yes.

MR. RUBENSTEIN: I have that correct? It is on an FTE basis increasing over the plan term.

MR. McDONELL: 3.2, 1.2, 1.2, 1 -- yes.

MR. RUBENSTEIN: Yes, okay. Can I ask you to turn to SEC 84? This is my last area.

There was some discussion about this -- SEC 84, I apologize, is not in my compendium. I was just wondering...

MR. McDONELL: This is the one...

MR. RUBENSTEIN: Yes, you were brought to this earlier on today.

MR. McDONELL: Right.

MR. RUBENSTEIN: I wanted to ask you about the interrogatory. The question was if the Board applied the same methodology as it applied in the Hydro One transmission compensation cost reduction, what would the annual reduction for distribution compensation cost be. Then it asks you to please provide a step-by-step breakdown.

And you start at line 19 of this sort of step by step, as I take it, with the 14 percent above market median. I understand this has been updated and that the Hydro One's OM&A cost as originally filed would be an approximate reduction of 17.5 million. I have that part correct?

MR. McDONELL: Correct.

MR. RUBENSTEIN: And then you make a number of adjustments that I don't fully understand how they are relevant. I want to ask you about that, and it's primarily part 1 and 2.

So first you say in June 2017 you reduced the pension OM&A cost by 7.1 million due to an actual re-evaluation and then -- and that reduces it by 7.1 million.

And then in part 2, you talk about how there was an OPEB OM&A reduction of 1.9 million. And similarly, as I understand it, there was another re-evaluation done.

I am trying to understand how those two numbers relate to the 17.5, because I would have assumed that that pension OM&A reduction is on all compensation costs, not the difference between the median and the P50.

MR. JODOIN: Perhaps I can explain what the two adjustments represent. And in fact, both 1 and 2, what they represent are reductions to our OM&A that were completed after the study -- the Mercer study had been conducted. So they are further reductions to the OM&A on compensation-related items.

MR. RUBENSTEIN: Let me ask you this: As we talked about earlier on, based on the Mercer calculation, $70.92 million -- I recognize this may change -- is the delta between P50 and where your -- where Hydro One's total compensation costs are. Correct?

MR. JODOIN: That is correct.

MR. RUBENSTEIN: And then based on SEC 83, using the allocation methodology that you have proposed to OM&A and capital for distribution, that would be, I believe, about $36.4 million. That is the total difference. Correct? In 2017 I am using --

MR. McDONELL: DX OM&A and DX capital?

MR. RUBENSTEIN: Yes. Well, let me ask you to turn to page 59 of the compendium. Maybe that is just the easiest here. And I am using 2017, but you can use 2018. And maybe -- let me sort of jump to the chase and just ask you this question.

MR. McDONELL: Sorry, what page reference again?

MR. RUBENSTEIN: Page 59 of the compendium. Let's assume that the 70.92 is the right number. I understand that may change. If the Board says to Hydro One, we think you should be at the P50, we don't think ratepayers should have to pay any more than that, is the Table 1 chart with the reduction the Board should be making a reduction of 20.27 million in 2018 to capital and a reduction of $17.48 million to OM&A? Was that how the Board should do it?

MR. JODOIN: Our position -- and that is why we described it in the interrogatory -- is that post-Mercer study there were OM&A-related compensation adjustments made bringing down our requested OM&A. Therefore, we feel it should be considered when factoring in the compensation -- when considering the compensation in this application.

MR. RUBENSTEIN: Okay. But that is a different -- that is not the same question. Your position is you should consider other things, I understand. Obviously you would want the Board to consider all your evidence. But if the Board made a ruling saying, we think ratepayers should not -- should only bear compensation at the 50th percentile based on the Mercer study, is the reductions the Board should make, if that was its only finding, is it the 17.48 for OM&A and the 20.27 for capital?

MR. McDONELL: So again, it might be semantics, but, I mean, the 70.2 million is accurate in the sense that that is the delta between P50 and the Hydro One wages. Understood and agreed. But we also think that it should be recognized that we have made post-survey reductions that should also be considered somehow.

MR. RUBENSTEIN: I understand that. But that is not my -- it is not a response to my question --

MR. McDONELL: Your question --

MR. RUBENSTEIN: -- want to confirm --

MR. McDONELL: -- is, is the 70.92 million the number. I guess you have to break it down to DX. Right. So the 70.92 is correct, subject to whatever changes are later, and then -- and the DX OM&A and the DX cap would be what you are after.

MR. RUBENSTEIN: Okay.

MR. McDONELL: And we agree with that.

MR. RUBENSTEIN: Okay. Thank you very much. Panel, those are my questions. Thank you.

MR. QUESNELLE: Just on that last point then, Mr. McDonell, the numbers that are being cited as being post-study that have an effect on the delta over median, where would you make that correction?

MR. McDONELL: So I hope I have the answer to your question. So what we are saying is that we think that there have been post-Mercer study improvements, and if there is going to be any reduction those improvements should be factored into any reduction that you may make.

MR. QUESNELLE: Understood. But it would be helpful, I suppose, if we could just use this chart, and I would like to understand the math, I guess, as to those post-study improvements that you are citing, and Mr. Rubenstein took you there in the response to that other IR, where you had 7.1 million and 1.92. How would that change this table if you were to make a proposal to alter the starting point?

MR. JODOIN: I understand your question. With respect to how we have answered the IR, we have already allocated it down to the OM&A component. So essentially what we would have to do is gross that up to the full costed approach, because there would be a capital element as well. And that's how we would -- that's how we would answer the question. So basically the IR takes already the OM&A component, and that is why we use that as our starting point.

MR. QUESNELLE: I see what complicates it. Okay. Thank you.

Okay. With that we will adjourn until tomorrow morning, and I believe Mr. Ladanyi will be up next tomorrow morning. Thank you. We will adjourn until 9:30 tomorrow morning. Have a good evening.

--- Whereupon the hearing adjourned at 4:52 p.m.