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Vice President, Chief Regulatory Officer,
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BY COURIER

October 26, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

**EB-2017-0049 - Hydro One Networks Inc.'s 2018-2022 Distribution Custom IR Application
– Evidence related to Section 78(5.0.2) of the OEB Act**

On September 26, 2018, the Ontario Energy Board ("OEB") issued its Pole Attachment Matters and the Hydro One Accountability Act 2018, Notice of Motion Hearing and Procedural Order No. 9 in this proceeding. In that document, the OEB ordered Hydro One Networks Inc. ("Hydro One") to file an explanation of the impact of section 78(5.0.2) of the *Ontario Energy Board Act*, 1998 ("OEB Act") on Hydro One's distribution revenue requirement.

Hydro One hereby submits its evidence explaining the impact on its distribution revenue requirement of the amendment to the OEB Act. An electronic copy of the evidence has been submitted using the Board's Regulatory Electronic Submission System along with two paper copies attached to this letter.

Hydro One's points of contact for service of documents associated with the Application remain as listed in Exhibit A, Tab 2, Schedule 1.

Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

Encls.

cc: EB-2017-0049 parties (electronic)

HYDRO ONE ACCOUNTABILITY ACT, 2018

On July 25th, 2018 Bill 2, Urgent Priorities Act, 2018 (“Bill 2”) received Royal Assent. Schedule 1 of Bill 2, defined as the Hydro One Accountability Act 2018, included amendments to the *Ontario Energy Board Act, 1998* (“OEB Act”) placing limitations on the amount of compensation paid to Hydro One’s executives that could be included by the OEB in approving just and reasonable rates for Hydro One Limited or any of its subsidiaries.¹

In Procedural Order No. 9, issued September 26, 2018, the OEB established a process for addressing the requirements of Bill 2 in the current proceeding.² The OEB required a submission from Hydro One Networks Inc. (“Hydro One” or “HONI”) setting out its proposal for adjusting its requested revenue requirement such that rates will be set in conformity with section 78(5.0.2) of the OEB Act and expected that submission to include, at a minimum:

- An explanation of the impact of section 78(5.0.2) on Hydro One’s distribution revenue requirement, having regard to the definitions of “compensation” and “executive” in the Hydro One Accountability Act, including all relevant calculations. The OEB expected Hydro One to reconcile this impact with the amounts excluded from executive compensation in Exhibit Q, filed by Hydro One on December 21, 2017, in response to the OEB’s Decision in Hydro One’s 2017-2018 Transmission revenue requirement proceeding.
- Evidence that identifies the executive positions captured by the section and the total compensation for this group.

¹ Hydro One’s corporate organization chart is provided in Attachment 5 to Exhibit A, Tab 3, Schedule 1.

² On October 11, 2018, Hydro One filed a letter with the OEB requesting an extension to deadline for providing its submission related to the impact of Bill. The OEB subsequently issued Procedural Order No. 10 which revised deadlines for the established procedural steps.

1 The following submission sets out Hydro One's³ proposal.

2
3 **Bill 2 Summary**

4 Bill 2 added the following subsection to section 78 of the OEB Act:

5
6 (5.0.2) In approving or fixing just and reasonable rates for Hydro One
7 Limited or any of its subsidiaries, the Board shall not include any amount
8 in respect of compensation paid to the Chief Executive Officer and
9 executives, within the meaning of the Hydro One Accountability Act,
10 2018, of Hydro One Limited. [emphasis added]
11

12 Bill 2 defined executives as any individual in the following positions: "executive vice-
13 president, vice-president, chief administrative officer, chief operating officer, chief
14 financial officer, chief information officer, chief legal officer, chief human resources
15 officer or chief corporate development officer, or holds any other executive position or
16 office, regardless of the title of the position or office." As requested by the OEB in
17 Procedural Order No. 9, a full list of positions meeting this definition is provided in
18 Attachment 1 to this Exhibit.
19

20 **Bill 2 Scope**

21 As indicated in Attachment 1, there are three executive positions of Hydro One Limited
22 (HOL): (i) the President and Chief Executive Officer, (ii) the Chief Financial Officer and
23 (iii) the EVP and Chief Corporate Development Officer. Compliance with the
24 amendment to the OEB Act requires the removal of compensation costs related to those
25 three positions from the forecasts underpinning the proposed rates in this application. All
26 other executives are employed by Hydro One Inc. (HOI) or Hydro One Networks Inc.
27 (HONI).

³ Unless otherwise noted in this submission, Hydro One refers to the distribution operations of Hydro One Networks Inc.

1 While the OEB is bound by the wording of Section 78 (5.0.2), Hydro One believes it is
2 reasonable to expand exclusion of compensation to include all members of the Hydro
3 One Executive Leadership Team (ELT), who are responsible for providing the high-level
4 oversight and strategic direction of Hydro One. These positions may be considered more
5 directly related to the changes Hydro One has undergone to become a publically traded
6 company. The Hydro One ELT includes the following positions: Chief Executive
7 Officer, Chief Financial Officer, Chief Operating Officer, EVP and Chief Corporate
8 Development Officer, EVP and Chief Legal Counsel, EVP Customer Care and Corporate
9 Affairs and SVP People and Culture, Health and Safety.⁴ Hydro One has separately
10 identified the members of its ELT in Attachment 1 to this Exhibit.

11
12 Hydro One has removed the compensation amounts allocated to the distribution business
13 associated with its ELT. As detailed below, the impact on 2018 results in a \$3.6 million
14 reduction to Hydro One's proposed capital expenditures and a \$0.5 million reduction to
15 Hydro One's proposed OM&A expenses. Hydro One notes that the removal of
16 compensation costs associated with members of its ELT is reasonable and should be
17 approved by the OEB.

18 19 **Reconciliation with Exhibit Q**

20 During the Executive Presentation for the Application held on December 7, 2017, Hydro
21 One revised its proposal regarding compensation costs to align with the OEB's findings
22 in the EB-2016-0160 proceeding. Hydro One proposed to reduce the allocation of costs
23 to ratepayers for Hydro One's CEO, CFO, CLO and its Board of Directors to pre-IPO
24 levels adjusted for inflation.⁵ This change resulted in a \$3.2 million OM&A reduction to
25 Hydro One's proposed OM&A expenses of which \$2.5 million was related to Hydro

⁴ Hydro One's ELT is shown on page 1 of Attachment 1 of Hydro One's response to Exhibit I-3-SEC-5 and is also separately identified in Attachment 1 to this Exhibit.

⁵ The specific reductions were detailed in Attachment 7 to Exhibit C1, Tab 2, Schedule 1, filed on December 12, 2017.

One's CEO, CFO and CLO and \$0.7 million was related to the costs associated with Hydro One Inc.'s Board of Directors.

Bill 2 does not impact the level of costs related to Hydro One's Board of Directors that are to be included in Hydro One's revenue requirement. Hydro One continues to propose that the Board-related costs allocated to its distribution business be maintained at pre-IPO amounts adjusted for inflation, consistent with Exhibit Q, Tab 1, Schedule 1, and submits that no further reductions are required for those costs.

Bill 2 – Revenue Requirement Impact

Table 1 below details Hydro One's distribution-allocated compensation costs for its ELT. As indicated in the table, total ELT costs in the distribution application, were \$6.6M, prior to the reductions in Exhibit Q, submitted in December 2017.

In order to align with the amendment to OEB Act, Hydro One proposes to reduce these costs by the full amount, a further \$4.1 million reduction (\$0.5 million in OM&A and \$3.6 million in Capital).

Table 1 - Summary of Bill 2 Executive Compensation Costs (Hydro One's Proposal)

Dx Allocated Costs	2018 Costs in Revenue Requirement	2018 Costs After Exhibit Q Reductions	2018 Reductions Required to Ensure Bill 2 Compliance
Total ELT	6.6	4.1	-4.1
OM&A Comp ¹	3.0	0.5	-0.5
Capital Comp ¹	3.6	3.6	-3.6

¹ The methodology used to determine the OM&A and capital portions of compensation costs is described in Exhibit D1, Tab 3, Schedule 1.

The executive compensation amounts underpinning the remainder of the test period (i.e. 2019-2022) of Hydro One's business plan are based on the 2018 amount escalated by 2%

each year.⁶ The resulting envelope reductions to capital expenditures in future test years based on the 2% escalation are shown in Table 2 below.

Table 2 - Bill 2-Related Changes to Capital Forecast for 2018-2022 (\$M)

	2018	2019	2020	2021	2022
Total Capital Reply Argument	628.1	736.4	699.3	711.0	796.5
Bill 2 Adjustments (Capital Related)	(3.6)	(3.7)	(3.7)	(3.8)	(3.9)
Total Capital Adjusted for Bill 2	624.5	732.7	695.6	707.2	792.6

No future adjustments are required to Hydro One's proposed OM&A expenses as future OM&A amounts are formulaically derived from the 2018 base amount using the Revenue Cap Index described in Exhibit A, Tab 3, Schedule 2 of the Application.

Table 3 below shows the revised revenue requirements and capital factors for each year of the test period that arise as a result of the Bill 2-related reductions. The rate base amounts for each year have been revised to reflect the reduced capital envelope shown in Table 2 above. This change will result in a \$0.6 million reduction to Hydro One's proposed 2018 revenue requirement. By 2022, this revenue requirement reduction will be about \$2.0 million. The revised revenue requirements are provided in Table 3 below.

⁶ Exhibit C1, Tab 2, Schedule 1, page 33.

Table 3 - Summary of Revenue Requirement Components**After Bill 2 Reductions (\$M)**

Line		Reference	2018	2019	2020	2021	2022
1	Rate Base	D1-1-1	7,648.1	8,004.2	8,403.4	8,928.8	9,291.1
2	Return on Debt	E1-1-1	198.6	207.8	218.2	231.7	241.1
3	Return on Equity	E1-1-1	275.3	288.2	302.5	321.3	334.3
4	Depreciation	C1-6-2	398.1	419.0	433.7	452.6	466.2
5	Income Taxes	C1-7-2	65.2	68.8	71.4	78.7	79.3
6	Capital Related Revenue Requirement		937.3	983.9	1,025.8	1,084.2	1,120.9
7	Less Productivity Factor (0.45%)			(4.4)	(4.6)	(4.9)	(5.0)
8	Total Capital Related Revenue Requirement		937.3	979.5	1,021.2	1,079.3	1,115.9
9	OM&A	C1-1-1	576.2	580.6	584.9	589.3	604.5
10	Integration of Acquired Utilities	A-7-1				10.7	
11	Total Revenue Requirement		1,513.5	1,560.0	1,606.1	1,679.4	1,720.4
12	Increase in Capital Related Revenue Requirement			42.2	41.7	58.1	36.5
	Increase in Capital Related Revenue Requirement as a percentage of Previous Year Total Revenue Requirement			2.79%	2.68%	3.62%	2.18%
14	Less Capital Related Revenue Requirement in I-X			0.46%	0.47%	0.48%	0.48%
15	Capital Factor			2.32%	2.21%	3.14%	1.69%

ATTACHMENT 1

List of Executive Leadership Team positions and other positions comprised of Vice Presidents and comparable positions.

Executive Leadership Team (ELT)	President & CEO (HOL)
	Chief Financial Officer (HOL)
	EVP and Chief Legal Counsel
	EVP and Chief Corporate Development Officer* (HOL)
	EVP, Customer Care & Corp Affairs
	Chief Operating Officer
	SVP, People & Culture, Health & Safety
	Ombudsman
	Corp Secretary & Corp Ethics
	SVP, Strategy and Innovation*
	VP, Corporate Development*
	Senior Vice President, Pensions*
	Vice President - Investor Relations*
	VP, & Treasurer, Treasury & Risk*
	Senior Vice President, Finance
	SVP, Internal Audit
	SVP, Technology & CIO
	Vice President - Corporate Tax
	Vice President, Corporate Affairs
	Vice President, Corporate Controller
	Vice President, Customer Service
	Vice President, Regulatory
	VP & Chief Risk Officer
	VP, Construction Services
	VP, Health, Safety & Env
	VP, Lines and Forestry
	VP, Office of the President & CEO
	VP, Operations
	VP, Planning
	VP, Shared Services
	VP, Transmission and Stations*

Note: The list of positions and titles is based on the positions that were forecast in the business plan underpinning the application.

* Denotes positions for which costs were not allocated to Hydro One Distribution business