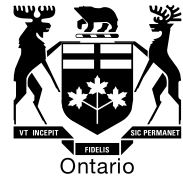


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**BY E-MAIL**

November 30, 2018

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

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

In accordance with Procedural Order No. 10, please find attached the Ontario Energy Board staff submission on the evidence filed by Hydro One pertaining to subsection 78(5.0.2) of the OEB Act related to the referenced application filed by Hydro One Networks Inc.

*Original Signed by*

Martin Davies  
Project Advisor, Major Applications  
Applications Division

Attachment

cc: Parties to EB-2017-0049

**Hydro One Networks Inc.**

**EB-2017-0049**

**ONTARIO ENERGY BOARD  
STAFF SUBMISSION ON EXECUTIVE  
COMPENSATION**

**November 30, 2018**

## INTRODUCTION

On September 26, 2018, the Ontario Energy Board (OEB) issued Notice of Motion Hearing and Procedural Order No. 9 (PO #9) in this proceeding which, in part, noted that the *Hydro One Accountability Act, 2018* (Hydro One Accountability Act) among other things amends section 78 of the *Ontario Energy Board Act, 1998* (OEB Act) by adding the following new subsection (5.0.2) effective August 15, 2018:

In approving or fixing just and reasonable rates for Hydro One Limited or any of its subsidiaries, the Board shall not include any amount in respect of compensation paid to the Chief Executive Officer and executives, within the meaning of the *Hydro One Accountability Act, 2018*, of Hydro One Limited.

On August 3, 2018, the OEB issued a letter advising that it would be providing direction to the parties in relation to addressing this new provision, and that the OEB did not expect OEB staff, intervenors or Hydro One Networks Inc. (Hydro One) to make submissions on any issue pertaining to executive compensation as part of their closing submissions being filed in August.

The OEB, in PO #9, established a process for addressing the requirements of section 78(5.0.2) in the current proceeding. The OEB stated that it would begin that process by requiring a submission from Hydro One setting out its proposal for adjusting its requested revenue requirement such that rates would be set in conformity with section 78(5.0.2). The OEB stated its expectation that the Hydro One submission would 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 expects 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.<sup>1</sup>
- Evidence that identifies the executive positions captured by the section and the total compensation for this group.

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<sup>1</sup> EB-2016-0160

On October 11, 2018, Hydro One requested a two week extension to file its evidence. On October 12, 2018, the OEB issued Procedural Order No. 10 approving Hydro One's request and establishing revised dates for subsequent steps in the process.

On October 26, 2018, Hydro One filed its evidence on these matters and on November 21, 2018, it filed its responses to related interrogatories from OEB staff and intervenors.

OEB staff's submission on these matters follows.

### **OEB Staff Submission**

#### ***Hydro One's Submission***

Hydro One noted that the Hydro One Accountability Act defines "executive" as: "any person who holds the office of executive vice-president, vice president, chief administrative officer, chief operating officer, chief financial officer, chief information officer, chief legal officer, chief human resources officer or chief corporate development officer, or holds any other executive position or office, regardless of the title of the position or office."

In its evidence, Hydro One provided what it asserts to be a complete list of 31 positions that in its view meet that definition.<sup>2</sup>

Hydro One noted that of those 31 positions, there are three executive positions of Hydro One Limited (HOL), which are: (i) the President and Chief Executive Officer, (ii) the Chief Financial Officer and (iii) the EVP and Chief Corporate Development Officer. In response to an interrogatory, Hydro One advised that those three positions are the only employees of HOL.<sup>3</sup> Hydro One stated that compliance with section 78(5.0.2) of the OEB Act requires the removal of compensation costs only in respect of those three positions from the forecasts underpinning the proposed rates in the application (although Hydro One indicated that no costs in respect of the EVP and Chief Corporate Development

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<sup>2</sup> Hydro One Accountability Act evidence, Filed: 2018-10-26, Attachment 1

<sup>3</sup> EB-2017-0049 Exhibit I, Tab 42, Schedule CME-S1(c), Filed: 2018-11-21

Officer had been allocated to the Hydro One distribution business in any event), as all other “executives” are employed by Hydro One Inc. (HOI) or Hydro One Networks Inc. (HONI).<sup>4</sup>

Hydro One went on to state that while the OEB is bound by the wording of section 78 (5.0.2), Hydro One believes it is reasonable to “expand exclusion of compensation to include all members of the Hydro One Executive Leadership Team (ELT), who are responsible for providing the high-level oversight and strategic direction of Hydro One.” Hydro One stated that this is because these positions may be considered more directly related to the changes Hydro One has undergone to become a publicly traded company.<sup>5</sup>

Hydro One stated that its ELT includes the following seven positions, which were separately identified in Attachment 1: Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, EVP and Chief Corporate Development Officer, EVP and Chief Legal Counsel, EVP Customer Care and Corporate Affairs and SVP People and Culture, Health and Safety. As noted above, the President and Chief Executive Officer, the Chief Financial Officer and the EVP and Chief Corporate Development Officer are all employed by HOL. Of the remaining four members of the ELT, one is an executive employed by Hydro One Inc. (EVP and Chief Legal Counsel), and the remaining three (Chief Operating Officer, EVP Customer Care and Corporate Affairs and SVP People and Culture, Health and Safety) are executives in HONI.<sup>6</sup>

The 24 non-ELT positions that Hydro One presented as falling within the definition of “executive” in the Hydro One Accountability Act were identified as being employed by either Hydro One Inc. (seven positions) or Hydro One Networks Inc. (17 positions).<sup>7</sup> According to Hydro One, the non-ELT executive positions “provide oversight and direction for their particular areas of accountability, but do not provide oversight and strategic direction for Hydro One as a whole.”<sup>8</sup> Hydro One has allocated no costs to its distribution business in respect of six of the non-ELT positions.<sup>9</sup>

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<sup>4</sup> Hydro One Accountability Act evidence, Filed: 2018-10-26, p. 2

<sup>5</sup> Hydro One Accountability Act evidence, Filed: 2018-10-26, p. 3

<sup>6</sup> EB-2017-0049 Ex. I, Tab 42, Sch. SEC-S105

<sup>7</sup> *Ibid.*

<sup>8</sup> EB-2017-0049 Ex. I, Tab 42, Sch. Staff-S2(b)(i)

<sup>9</sup> EB-2017-0049 Ex. I, Tab 42, Sch. Staff-S2(b)(iii)

Hydro One further stated that it had removed the compensation amounts allocated to the distribution business associated with its ELT and that the impact for 2018 is a \$3.6 million reduction to its proposed capital expenditures and a \$0.5 million reduction to proposed OM&A expenses. Hydro One submitted that the removal of compensation costs associated with members of its ELT is reasonable and should be approved by the OEB.

### ***Discussion and Submission***

OEB staff submits that the \$4.1 million reduction in total compensation proposed by Hydro One in its evidence is reasonable in the circumstances of this case and should be accepted by the OEB, subject to OEB staff's concern with, and the potential revision of, Hydro One's proposed allocation of the \$4.1 million reduction in total executive compensation between capital and OM&A. This matter is discussed below.

With respect to Hydro One's proposed approach to the exclusion of the total compensation for certain executives from distribution rates, OEB staff first notes that while section 78(5.0.2) begins by referring to the approving or fixing of just and reasonable rates for HOL or any of its subsidiaries, it speaks only to the exclusion of compensation paid to the Chief Executive Officer and other executives of HOL.

According to Hydro One, there are only three positions meeting that criterion – those are the three executives employed by HOL. Hydro One's proposed approach, in also removing compensation allocated to the distribution business for four additional members of the ELT because they provide “high level oversight and strategic direction of Hydro One”, appears to OEB staff to be appropriate.

Hydro One has also demonstrated that it is removing the remaining ELT Total Compensation in the amount of \$4.1 million.<sup>10</sup> OEB staff accepts this reduction of total compensation as reasonable and in keeping with the definition of “compensation” in the Hydro One Accountability Act.

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<sup>10</sup> EB-2017-0049 Ex. I, Tab 42, Sch. Staff-S3, p. 3.

However, OEB staff's area of concern relates to the portions of the \$4.1 million that are being removed as capital expenditures (\$3.6 million) as compared to the amount being removed as OM&A (\$0.5 million). The capital component is approximately 88 percent of the total amount. OEB staff is unclear as to why the capital component is this high as the 2018 overhead capitalization rate is shown in the evidence in this proceeding as 12 percent.<sup>11</sup> This suggests to OEB staff that \$3.6 million of the removed amount should come from OM&A and \$0.5 million should come from capital expenditures.

With the approach currently being proposed by Hydro One for the \$4.1 million reduction in total compensation, the distribution revenue requirement will only be reduced by \$0.6 million.<sup>12</sup> If the reduction in total compensation were made in a manner consistent with the 12 percent overhead capitalization rate shown in Hydro One's evidence, OEB staff estimates that the distribution revenue requirement would be reduced by slightly more than \$3.6 million. OEB staff submits that in the absence of a satisfactory explanation by Hydro One for its departure from the overhead capitalization rate it used in its application, the OEB should require Hydro One to use the 12 percent overhead capitalization rate when allocating the reduction between capital and OM&A.

- All of which is respectfully submitted-

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<sup>11</sup> EB-2017-0049 Ex. D1, Tab 3, Sch. 1, p. 2 Filed: 2017-03-31

<sup>12</sup> Hydro One Accountability Act evidence, Filed: 2018-10-26, p. 5