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Our File # 339583-000244

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November 30, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli

**Re: Hydro One Networks Inc. (“Hydro One”)
2018-2022 Distribution Custom IR Application
Board File #: EB-2017-0049**

Please consider this correspondence as the submissions of Canadian Manufacturers & Exporters (“CME”) pursuant to the Board’s Procedural Order No. 10 dated October 12, 2018. These submissions outline CME’s suggested adjustments that are required to the Hydro One Network Inc. requested revenue requirement as a result of section 78(5.0.2) of the *Ontario Energy Board Act*.

Legislative Background

The *Urgent Priorities Act*, 2018, S.O. 2018, c. 10 (“Bill 2”) enacted the *Hydro One Accountability Act*, 2018 and amended the *Ontario Energy Board Act* by adding subsection 78(5.0.2). This subsection provides that:

Same, Hydro One executive compensation

(5.0.2) 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.

The *Hydro One Accountability Act*, 2018 defines “executives” 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.¹

Hydro One Limited is Hydro One's highest level holding company as illustrated by the simplified version of Hydro One Limited's simplified corporate organization chart which is found at Exhibit A-3-1, Attachment 5.

CME's Position

Hydro One has proposed to exclude from rates the compensation of only six executives – three executives from Hydro One Limited and other members of the “Executive Leadership Team.”² Hydro One states that there are three executive positions of Hydro One Limited: (i) the President and Chief Executive Officer; (ii) the Chief Financial Officer; and (iii) the EVP and Chief Corporate Development Officer.³ These three positions are, in fact, the only employees of Hydro One Limited.⁴ Although Hydro One submits that only these three positions are covered by the exemption found in subsection 78(5.0.2), it nonetheless believes that it is “reasonable to expand the exclusion of compensation to all members of the Hydro One Executive Leadership Team”, a total of six executives.⁵

The “executives” defined in the *Hydro One Accountability Act, 2018* go beyond the list of six included in Hydro One's evidence and submissions. The definition includes all positions at the level of vice-president or higher. CME supports the position advanced by the School Energy Coalition (“SEC”), a draft of which was reviewed by CME before finalizing this submission. CME agrees that the compensation costs of all executives at the level of vice-president or higher allocated to Hydro One's distribution rates should be excluded from rates and that such an application of the legislation is in accordance with legislative intentions.

Impact on CME's Position on Compensation

CME's position is that the compensation for all 31 the executives listed in Hydro One's Attachment 1 should be excluded from rates. This reduction is in addition to the reductions previously requested in CME's Submissions.

However, CME had argued in its Submissions that the Board should reduce annual compensation costs to the extent that they were above market median. The chart on which CME had relied was updated in a supplementary interrogatory to exclude the compensation for both the Executive Leadership Team positions and all positions contained in Attachment 1.⁶ Based on Hydro One's numbers, the total dollar amount over market median with only the Executive Leadership Team

¹ *Hydro One Accountability Act, 2018*, S.O. 2018, c. 10, Sched. 1, section 1.

² Hydro One Evidence, October 26 2018, p. 2.

³ *Ibid*, p. 3.

⁴ Interrogatory Response CME-S1 (b), p.2, lines 30-32.

⁵ *Supra* note 2, p.4.

⁶ Interrogatory Response SEC-S106.

compensation removed from the above calculations is \$70.92. If the broader definition of executive is utilized by the board, the amount of market median is \$70.74.⁷ Below are the updated charts as updated by Hydro One, including appropriate allocations.

Executive Leadership Team Only

	2016	2017	2018
	Actual	Bridge	Test
\$ Over Median	\$70.77	\$70.77	\$70.77
TDOC Splits*			
*Consistent with Labour Content Method in Exhibit D1, Tab 3, Schedule 1, Attachment 1			
Tx OMA (%)	12.30%	17.60%	16.40%
Dx OMA (%)	27.40%	26.00%	24.70%
Tx Cap (%)	32.60%	31.00%	30.30%
Dx Cap (%)	27.70%	25.40%	28.60%
Allocation of \$			
Tx OMA (\$)	\$8.70	\$12.45	\$11.61
Dx OMA (\$)	\$19.39	\$18.40	\$17.48
Tx Cap (\$)	\$23.07	\$21.94	\$21.44
Dx Cap (\$)	\$19.60	\$17.97	\$20.24
Total	\$70.77	\$70.77	\$70.77

Definition of Executive in the *Hydro One Accountability Act, 2018*

	2016	2017	2018
	Actual	Bridge	Test
\$ Over Median	\$70.64	\$70.64	\$70.64
TDOC Splits*			
*Consistent with Labour Content Method in Exhibit D1, Tab 3, Schedule 1, Attachment 1			
Tx OMA (%)	12.30%	17.60%	16.40%
Dx OMA (%)	27.40%	26.00%	24.70%
Tx Cap (%)	32.60%	31.00%	30.30%
Dx Cap (%)	27.70%	25.40%	28.60%
Allocation of \$			
Tx OMA (\$)	\$8.69	\$12.43	\$11.59
Dx OMA (\$)	\$19.36	\$18.37	\$17.45
Tx Cap (\$)	\$23.03	\$21.90	\$21.40
Dx Cap (\$)	\$19.57	\$17.94	\$20.20
Total	\$70.64	\$70.64	\$70.64

Even with the executive compensation removed, Hydro One's total compensation remains above market median.

In conclusion, CME continues to submit that the Board should reduce the annual compensation costs to the extent that they are above market median and that executive compensation, as defined in the *Hydro One Accountability Act, 2018* be excluded completely from rates.

⁷ Interrogatory Response SEC-S106.

Yours very truly

Borden Ladner Gervais LLP

A handwritten signature in black ink, appearing to read 'E. Durant', with a long horizontal flourish extending to the right.

Erin H. Durant

- c. Erin Henderson and Anne-Marie Reilly (Hydro One)
Gordon Nettleton and George Vegh (McCarthy Tetrault LLP)
EB-2017-0049 Intervenors
Alex Greco (CME)

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