



**SOCIETY of
UNITED PROFESSIONALS**
IFPTE 160

25th October, 2019

Chris Graham
Executive Vice-President
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2239 Yonge St
Toronto, ON M4S 2B5

VIA Canada Post, email and RSS Filing

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

**Re: EB-2019-0002 Independent Electricity System Operator (IESO)
2019 Expenditure and Revenue Requirement Submission
Society of United Professionals' Final Submissions**

Dear Ms. Walli,

Please find attached the Society of United Professionals' (SUP) Final Submissions in the Independent Electricity System Operator (IESO) EB-2019-0002 Application for 2019 Expenditure and Revenue Requirement.

Two (2) hard copies of this submission have been sent to your attention.

Sincerely,

[Original signed by]

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Copy by email: interested parties



SOCIETY *of*
UNITED PROFESSIONALS
IFPTE 160

Society of United Professionals'
FINAL SUBMISSIONS

EB-2019-0002 Independent Electricity System Operator (IESO)

2019 Expenditure and Revenue Requirement Submission

25th October, 2019

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EB-2019-0002: Society of United Professionals' Final Submissions

Introduction:

This is the Final Argument of the Society of United Professionals ("the Society") in the Independent Electricity System Operator (IESO) EB-2019-0002 Application for 2019 Expenditure and Revenue Requirement. This Argument is organized as per the Approved Issues List, in accordance with the OEB's decision on such, dated 20190328

Rather than put forward positions on all issues, the Society has chosen to limit itself to those largely which it considers to be of primary concern to its interests and where it can provide a different perspective for the OEB's consideration in reaching its decision in this proceeding.

On the other issues, the Society supports the position put forward by the applicant.

1.3 Are the IESO's projected staffing levels and compensation (including salaries, benefits, pensions and other post- employment benefits) appropriate and reasonable?

SUP submits that the staffing levels put forward and justified by the IESO are appropriate and justified, as is the compensation.

As outlined in SUP's submissions under issue 5.2 which follow below, the Total Compensation Study [The Mercer Study] as it stands, does not provide an objective comparison to market of IESO non-executive total remuneration. The Society submits that if the OEB is to use its results, revisions must be made to the Mercer study to take into account several relevant factors which were not factored in to the market median results. These needed revisions will result in SUP and IESO approaching or falling within the range of 5% of market median total compensation, which Mercer considers a market competitive compensation range.

5.2 Is the Total Compensation Study [The Mercer Study] for represented and non-represented staff appropriate?

The following sections address the Non-Executive Total Remuneration Review prepared by Mercer Canada Limited ("Mercer study") for the IESO. This report, dated 28 September 2018, was submitted as Exhibit C-4-1, Attachment 1. The Society submits that if the OEB is to use its results, revisions must be made to the Mercer study to take into account several relevant factors which were not factored in to the market median results. The Mercer study as it stands, does not provide an objective comparison to market of IESO non-executive total remuneration. In its reply to Exhibit I Tab 5.2 Schedule 9.03 SUP 3, Mercer confirmed that "on an organization basis, we consider a market competitive [compensation] range to be

within 5% of the target positioning [which for the OEB is market median]”. These required revisions, outlined below, will result in adjusted SUP and IESO compensation levels approaching or falling within 5% of the corrected Mercer market median compensation levels. Further, SUP submits that even with these needed revisions there is a severe flaw in the peer group selected by Mercer, and as such the study results should be disregarded. Details follow below.

5.2 A) No Cost of Living Adjustment for Those Outside of the GTA

In response to Exhibit I Tab 5.2 Schedule 1.21 OEB Staff 21 parts a) and b), the IESO responded that:

Market rates in the Mercer study do not reflect any adjustments for cost of living [outside of the GTA]. A study of cost-of-living in the various comparator organization regions was not conducted as part of the Mercer study. Without an additional study on the cost of living being completed, it is unclear what impact on any gap would the adjustment would result in.

So it has been confirmed by the IESO that the Mercer study compensation market rates do not reflect any cost of living adjustments.

In assorted studies over the past decade and beyond¹, Toronto and Vancouver are recognized as having the highest cost of living in Canada, with Montreal, Calgary and Ottawa as well as pretty well all other communities trailing materially behind. So for example, as per Appendix A of the Mercer study, about 8 of the 23 energy peer group companies (more than a third) are based in Alberta with their headquarters in either Calgary or Edmonton, one is based in Vancouver (BC Hydro and Authority) and another is based in Winnipeg (Manitoba Hydro). As per the referenced StatCan study, in 2018 the (“all-items” including cost of home rental accommodations) cost of living index of Calgary is 101, Edmonton is 99, Vancouver is 104 and Winnipeg 93, whereas that of Toronto is 108. So, for example, an IESO employee would have to earn over 9% more than an Edmonton based peer group head office employee in order to enjoy the same standard of living, or over 16% more than a Manitoba Hydro head office employee for the same standard of living. This material factor is not at all reflected in the Mercer study.

Consequently, SUP submits that in order to provide a reasonable market median of compensation for comparative purposes, the Mercer study results must be adjusted to take into account cost of living differences between the peer group companies.

¹ For example, “Mercer’s 25th annual Cost of Living Survey”, dated 20190626:
<https://www.mercer.ca/en/newsroom/mercers-25th-annual-cost-of-living-survey.html>

And the StatCan “2018 Inter-city indexes of price differentials of consumer goods and services, annual”:
<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000301>

5.2 B) Different Provincial Tax Regimes

As noted earlier in 5.2 A), it has been confirmed by the IESO that the Mercer study compensation market rates do not reflect any cost of living adjustments. On this basis, it can be inferred that the Mercer study also does not reflect any adjustments to peer group company compensation to take into account the different provincial regimes for both provincial sales and income taxes.

So for example, as noted earlier in 5.2 A), as per Appendix A of the Mercer study, about 8 of the 23 energy peer group companies (more than a third) are based in Alberta. The province of Alberta does not charge a provincial sales tax on goods or services purchased there, and it levies a lower provincial income tax than Ontario upon individuals. So for example, for every dollar earned by an individual in Alberta, an IESO employee would have to earn the equivalent of the 8% PST paid annually on purchases, in order to earn the same income, before even taking into account income tax as well as cost of living differences in the peer group companies (if the cost of living differences applied do not take into account the different PST rates).

Consequently, SUP submits that in order to provide a reasonable market median of compensation for comparative purposes, the Mercer study results must be adjusted to take into account the different provincial regimes for both provincial sales and income taxes.

5.2 C) Value of Pension Benefits

In response to Exhibit I Tab 5.2 Schedule 1.21 OEB Staff 21 part c), the IESO responded that:

In 2016, the IESO negotiated significant plan changes with the Society that will be invoked in 2025. These changes, as outlined below, better align the IESO with its peer group comparators in the energy sector. Successor organizations of Ontario Hydro made essentially the same changes that also become effective in 2025.

These changes include:

- i. The earnings component in the pension calculation will change from using the highest 3 years of earnings for an employee to the highest 5 years' earnings, and;*
- ii. The age plus service criteria for eligibility for an unreduced pension will increase from a factor of 82 to 85 points.*

It is not clear whether in its estimation of the value of the pension benefit whether the Mercer study took into account the step reduction in the future value of the pension benefit beginning in 2025. This lowers the current value of these future pension benefits and their costs to the IESO.

Consequently, SUP submits that in order to provide a reasonable IESO comparator to market median compensation, if it already has not done so, the Mercer study results must be adjusted to take into account the step reduction in the future value of the pension to employees beginning in 2025.

5.2 D) Full Impact of Increased Employee Pension Contributions in 2018

In 2016, a meaningful increase to SUP members' contributions to the Pension Plan was negotiated and these changes are now fully in place and are *not* being delayed until 2025. As outlined in IESO's response to Exhibit I, Tab 5.2, Schedule 1.21 OEB Staff 21 part c), prior to 2016 SUP members contributed 5% of their pay below the yearly maximum pensionable earning (YMPE) and 7% of their pay that was above the YMPE to the IESO pension plan. Effective January 1, 2018 SUP pension contributions rates were increased to 8% below YMPE and 10% above YMPE. This represents a direct transfer of pension funding accountability from the IESO to SUP members and accordingly represents a direct reduction to SUP members nominal compensation.

Further, as shown in Exhibit A-3-1, Page 29 of 42, Filed March 28, 2019, employee pension contributions increase 20% from \$6.253M in 2017 to \$7.468M in 2018, and the IESO pension contributions decline from \$13.5M to \$13.052M over the same period.

In Exhibit I, Tab 5.2, Schedule 9.04 SUP 4 part a), the IESO was asked "does the Mercer study take into account the full impact of the substantial increase in employee pension contributions in 2018"? In reply, the IESO answered that "the Mercer study is not based on the IESO's actuarial valuations".

As outlined in the opening paragraph above, increased annual employee pension contributions reduce the cost to the employer of the pension benefit i.e. the compensation cost component of the pension benefit declines.

Consequently, SUP submits that in order to provide a reasonable IESO comparator to market median compensation, if it already has not done so, the Mercer study results must be adjusted to take into the 20% increase in IESO employee pension contributions in 2018.

5.2 E) Inappropriate Peer Group

In Exhibit I Tab 5.2 Schedule 9.02 SUP 2, Mercer responded that:

The Alberta Electricity System Operator is primarily an independent electricity system operator. This is the only other independent electricity system operator in Canada. It represents 1 of 23 organizations included in the Energy Sector Comparators list. The role of an "independent" electricity system operator is primarily applicable to the Alberta and Ontario markets.

The information to answer this question [what proportion of the total employees sampled in the Mercer study are employed in an independent electricity system operator unit?] is not available.

So effectively, Mercer was only able to find one entity to include in its study peer group whose mandate includes one of the unique primary functionalities of the IESO.

Further, as per Exhibit C-4-1, Attachment 1, pp1:

The benchmarking includes positions that represent approximately 52% of employees at the IESO.

As the Mercer study only includes positions which represent approximately 52% of employees at the IESO and the study peer group has only one entity whose mandate includes one of the unique primary functionalities of the IESO, SUP submits that the results of this study are severely flawed and not valid and the study should be disregarded by the OEB.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED ON THIS
25th DAY OF OCTOBER, 2019**