SOCIETY *of*
UNITED PROFESSIONALS
IFPTE 160

26th October, 2021

Chris Graham
Executive Vice President
Society of United Professionals, IFPTE 160
2239 Yonge St
Toronto, ON M4S 2B5

VIA email and RESS Filing

Christine E. Long
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Re: EB-2021-0110 – Hydro One Networks Inc. (HONI)
2023-2027 Transmission and Distribution Joint Rate Application
Society of United Professionals' (SUP) Interrogatories to HONI

Dear Ms. Long,

Please find attached the Society of United Professionals' (SUP) interrogatories to HONI in their above noted proceeding, EB-2021-0110.

Sincerely,

[original signed by]

Chris Graham
Executive Vice President
Society of United Professionals, IFPTE 160
grahamc@thesociety.ca
(416) 979-2709 x3180

email copy: interested parties

SOCIETY OF UNITED PROFESSIONALS (SUP)
INTERROGATORY QUESTIONS

EB-2021-0110 HYDRO ONE NETWORKS INC. (HONI)

2023-2027 TRANSMISSION AND DISTRIBUTION JOINT RATE APPLICATION

26th OCTOBER, 2021

EB-2021-0110: The Society of United Professionals' (SUP) Interrogatory Questions

A-6-1

A-6 SUP #1
Reference:
Exhibit A-6-1 Attachment 1 "PWC US GAAP to IFRS conversion impact review"

Preamble: This report seems to focus on the issues related to a possible conversion from US GAAP to IFRS as HONI's basis for external financial reporting. There is potential for confusion on whether an OEB accounting policy decision in this matter will require: the adoption of IFRS for external reporting purposes; the adoption of Modified IFRS solely as a basis for future rate regulation; or more simply the adoption of an IFRS-compliant overhead capitalization policy irrespective of the rest of the accounting model used as a basis for rate regulation.

a) Please provide some context on the possible OEB decisions that would drive any combination of the three changes described above.

A-6 SUP #2
Reference:
Exhibit A-6-1 Attachment 1 "PWC US GAAP to IFRS conversion impact review"

a) If the Board opted only to require HONI to change its overhead capitalization policy to discontinue the ability to capitalize overheads and indirect costs based on US GAAP and instead to conform to MIFRS, would HONI still expect or prefer to have other aspects of its regulated businesses continue to be regulated on a US GAAP basis?

A-6 SUP #3
Reference:
Exhibit A-6-1 Attachment 1 "PWC US GAAP to IFRS conversion impact review"

Preamble: PWC's report (Exhibit A-6-1, Attachment 1, Page 2) refers to the potential for the OEB to provide a regulatory basis for continued capitalization of overheads if HONI is directed to adopt MIFRS as the basis of regulation or if its capitalization policy is changed to a MIFRS-compliant one.

a) Why does HONI or PWC believe this to be a credible scenario in light of past OEB statements of concern with the extent of HONI overhead capitalization?

A-6 SUP #4
Reference:
Exhibit A-6-1 Attachment 1 "PWC US GAAP to IFRS conversion impact review"

Preamble: PWC's report refers to certain common corporate costs no longer qualifying for capitalization if HONI becomes regulated on a MIFRS basis or becomes subject to a MIFRS-based overhead capitalization policy for regulatory purposes.

a) Is the risk of a change in accounting classification from capital to OM&A limited to common corporate costs or are there other overhead or indirect costs in the company that could also be subject to reclassification?
b) Have all such costs been identified and quantified?

A-6 SUP #5
Reference:
Exhibit A-6-1 Attachment 1 PWC US GAAP to IFRS conversion impact review

Preamble: It does not appear from the evidence that either HONI or PWC has identified the "revenue requirement impact" associated with a full transition from US GAAP to MIFRS, or with the adoption of a MIFRS-compliant overhead capitalization policy. Such an impact was requested by the OEB (Exhibit A-6-1 P. 5). Estimates of the amounts to be reclassified and the associated rate impacts have been provided to the OEB in the past for both Distribution and Transmission. The PWC report seems imprecise on the amounts that would be reclassified from capital to OM&A if the OEB required a change in accounting by HONI assuming it did not provide a regulatory basis for continued cost capitalization. A number of up to $208 million is noted by PWC (Exhibit A-6-1, Attachment 1, p. 8).

a) Has HONI made an updated point or range estimate of the costs that would be reclassified to OM&A as a result of a US GAAP to MIFRS change in overhead capitalization policy?
b) If so, please provide the cost estimates for the test years.
c) Please compare the updated estimate to any analogous estimates previously provided to the OEB. Please provide a high-level explanation for any differences noting the general cause (e.g. changes in accounting rules, changes in cost levels, changes in direct versus indirect costs etc.)
d) For 2022-2027 please provide the annual associated revenue requirement and rate impacts for a potential accounting policy change for overhead capitalization, separately for Distribution and Transmission.
e) If no updated estimate has been prepared, please explain why given the materiality and importance of the potential change and given such estimates have previously been provided to the OEB.
f) If no updated estimates exist, please provide a comment on the cost and time required to develop such estimates.

A-6 SUP #6
Reference:
Exhibit A-6-1 Attachment 1 PWC US GAAP to IFRS conversion impact review

Preamble: SUP notes that numerous consultants were engaged by HONI's external legal counsel rather than by HONI directly. Examples include:
- "PWC US GAAP to IFRS Conversion Impact Review", Exhibit A-6-1 Attachment 1
- "Benchmarking and Productivity Research for Hydro One Networks' Joint Rate Application – Clearspring", Exhibit A-4-1 Attachment 1
- "Hydro One Productivity Framework Review", Exhibit B-1-1, Section 1.4, Attachment 2
- "PWC Capitalization of Common Corporate Costs Review", Exhibit C-8-2 Attachment 2
- "Black & Veatch Corporate Cost Allocation", Exhibit E-4-8 Attachment 1
- "Alliance Consulting Depreciation Study", Exhibit E-8-1 Attachment 1

a) Why were these consultants engaged by external counsel rather than by HONI and its on-staff subject experts directly?
b) Are there any differences that result from having these consultants engaged by counsel rather than by HONI?

E-6-1

E-6 SUP #7
References:
Exhibit E-6-1 p 18
The planned increases to regular FTEs for 2021 and 2022 noted above are attributable to the addition of approximately 250 employees into the Shared Services & Information Services LOBs due to repatriation of Inergi employees.

a) Using the format of E-6-1 Table 1 "Actual and Planned FTEs for 2019 to 2027" p18, please provide the annual increases for 2021 to 2027 due to the repatriation of Inergi employees.

E-6 SUP #8
References:
Exhibit E-6-1 Attachment 2A (Appendix 2K)
Exhibit E-6-1 Attachment 1.1 "Compensation Benchmarking Forecast"

a) (i) Using the same format as the staff headcount table in Appendix 2k, please provide separately annual staff retirement and attrition (excluding retirements) as

well as new hires for 2018 to 2027. (ii) Please also provide this table in Excel format.
b) (i) Does the forecast assume an increase in the retirements of SUP and PWU employees in 2025 with the change in the pension in 2025 [high 5 rather than high 3 years of compensation]. (ii) If not, why not?
c) (i) Does the forecast assume an increase in the retirements of PWU employees in 2025 with the change in the pension in 2025 [rule of 85 rather than 82 as of April 1, 2025]. (ii) If not, why not?
d) (i) Does the Mercer compensation benchmarking forecast (E-6-1 Attachment 1.1) use the same retirement and attrition forecast as provided in a) above? (ii) If not, why not?
e) Please outline the health and safety training provided to new hires between 2018 and 2027 [as provided in a) above].
f) (i)Has HONI considered undertaking a productivity initiative to reduce accident rates and the resulting costs for new hires as well as PWU Hiring Hall apprentices? This could entail improved ongoing health & safety training and follow up; reduced or zero accident level targets in management performance contracts; improved condition and reliability of equipment including fleet; increased in the field work site supervision by FLM's etc (ii) What would the ballpark annual costs and benefits be for such an initiative?

E-6 SUP #9
References:
Exhibit E-6-1 Attachment 2A (Appendix 2K)
Exhibit E-6-1 Attachment 1.1 "Compensation Benchmarking Forecast"

Canada Pension Plan enhancement as explained here:
https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-enhancement.html

Preamble: As per the above reference, as of 2019 the Canada Pension Plan (CPP) is being gradually enhanced. The enhancement means that the CPP will begin to grow to replace **one third** of the average work earnings received after 2019, whereas before it replaced **one quarter**. The maximum limit used to determine average work earnings will also gradually increase by 14% by 2025. Pensions will increase based on how much and for how long individuals contribute to the enhanced CPP. The CPP enhancements will increase the maximum CPP retirement pension by up to 50% for those who make enhanced contributions for 40 years. Employee and employer annual CPP contributions increase gradually between 2019 and 2023 (from 5.10% to 5.95% on the earnings limit).

Further enhancements are outlined in the above Canada.ca link.

a) (i) Do the annual labour burden costs provided in Appendix 2K [rows 84-92] for 2019 to 2027 reflect the increasing CPP contributions as outlined above? (ii) If not, please explain why not?
b) Please confirm that the Defined Benefit (DB) pension which the HOPP pays pensioners monthly is the calculated pension benefit owing less the CPP benefit which the pensioner collects.
c) (i) Further to b) above, please confirm that with the increased enhanced CPP benefit being earned by current employees, when these current employees retire the HOPP will actually pay these current employees a lesser amount than they otherwise would prior to the CPP being enhanced as of 2019. (ii) If not, please explain why not?
d) (i) Further to b) and c) above, please confirm that Hydro One has made as of 2019 gradually lower annual pension contributions on behalf of current employees. (ii) If not, please explain why not?
e) (i) Further to d) above, do the annual pension contribution costs provided in Appendix 2K [row 81] for 2019 to 2027 for current employees reflect the lower pension contributions due increasing CPP contributions? (ii) If not, please explain why not?
f) (i) For current employees who are members of the Defined Benefit (DB) pension, do the annual increases in Hydro One CPP contributions match the decreases in Hydro One's required contributions to the DB HOPP? (ii) If not, please explain why not?
g) (i) Does the Mercer compensation benchmarking forecast (E-6-1 Attachment 1.1) reflect the increasing CPP contributions and decreasing HOPP contributions as outlined in parts a) through f) above? (ii) If not, please explain why not?

E-6 SUP #10
References:
Exhibit E-6-1 Attachment 1.1 "Compensation Benchmarking Forecast"

a) Please provide the annual forecast of HONI's standing versus P50 market median for 2021 to 2027. Break this down by employee category [unrepresented, SUP, PWU].
b) (i) Does the forecast assume an increase in the retirements of SUP and PWU employees in 2025 with the change in the pension in 2025 [high 5 rather than high 3 years of compensation]. (ii) If not, why not?
c) (i) Does the forecast assume an increase in the retirements of PWU employees in 2025 with the change in the pension in 2025 [rule of 85 rather than 82 as of April 1, 2025]. (ii) If not, why not?
d) (i) Does the forecast reflect the annual decline in share grants issued as per E-6-1 Tables 2 and 3? (ii) If not, why not?
e) (i) With reference to the reply to interrogatory E-6 Society #9, does the forecast reflect the growing annual decline in the earned pension benefits for current

employees due to the growing contributions to the enhanced CPP? (ii) If not, why not?
f) (i) With reference to the reply to interrogatory E-6 Society #14, does the forecast reflect annual reductions in Management/non-represented salaries. (ii) If not, why not?

E-6 SUP #11
References:
Exhibit E-6-1 Attachment 1, the Mercer Report

Exhibit E-6-1 p3 Figure 2 Total Workforce Representation Groups 2020
Canadian Union of Skilled Workers (CUSW) are 11% of the Hydro One total workforce, and EPSCA employees are 6%.

Exhibit E-6-1 p6
Casual workers engaged by Hydro One include "[m]embers of a building trades unions, such as the Carpenters, Labourers (LIUNA), Operating Engineers, or Ironworkers, which negotiate agreements with a group of employers known as the Electrical Power System Construction Association (EPSCA). "

Exhibit E-6-1 p25
Hydro One negotiates directly with CUSW, and has negotiated a total wage package with CUSW that is below typical market rates for employees that perform similar work, or possess similar skills and certifications, such as employees represented by the IBEW that work in the Electrical Power System Sector. As shown in Table 4 - Comparison of CUSW and IBEW Wages, which compares the [2020] CUSW wage rates to those of EPSCA negotiated rates with the IBEW, ***the total CUSW rate negotiated by Hydro One is $5.73 less (per hour) or nearly 10% lower than the average IBEW rate pursuant to EPSCA-negotiated agreements****.*

a) Please either confirm that the "EPSCA" casual workers engaged by Hydro One are at market median compensation in Ontario or estimate roughly where they stand versus Ontario market median compensation.
b) Please either confirm that the total CUSW rate negotiated by Hydro One is roughly 10% below Ontario market median compensation or estimate roughly where they stand versus Ontario market median compensation.
c) As per E-6-1 p3 Figure 2, "Total Workforce Representation Groups 2020", Canadian Union of Skilled Workers (CUSW) are 11% of the 2020 Hydro One total workforce, and EPSCA employees are 6%. Using this information as well as the answers to parts a) and b) above, please re-estimate Hydro One's level of compensation relative to market as estimated in the Mercer Report with the inclusion of CUSW and EPSCA employees utilized by Hydro One.
d) Using the data for CUSW and EPSCA headcount found in E-6-1 p8, Table 1, and the answers to parts a) and b) above, please re-estimate the results

contained in E-6-1 Attachment 1.1 “Compensation Benchmarking Forecast” with the inclusion of CUSW and UPSCA employees utilized by Hydro One.

E-6 SUP #12
References:
Exhibit E-6-1 p18 Table 1 “Actual and Planned FTEs for 2019 to 2027”

a) (i) Please explain why the FTE forecasts for CUSW, EPSCA and LIUNA employees do not vary with forecast work levels like all the other employee categories but are instead straightlined for 2022 to 2027. (ii) Why is HONI incapable of forecasting the annual usage of the casual labour which it employs, which compromise roughly 20% of the total staff which it employs?

E-6 SUP #13
References:
Exhibit E-6-1 p25
The Mercer Report also confirms that market position for total compensation is typically within 5% of the P50 market median. Thus, an overall level of compensation that is +/- 5% of the P50 is considered to be at market.

a) Which other subject expert companies, similar to Mercer, view the market position for total compensation as being typically within 5% of the P50 market median?
b) Are there any such subject expert companies, such as Willis Towers Watson, who view the market position for total compensation as being typically within ***10%*** of the P50 market median?

E-6 SUP #14
References:
Exhibit E-6-1 Attachment 5 “Labour Relations Strategy” (the Appendix)

a) (i) Does the Appendix contain a strategy for reducing the salaries of Management/non-represented staff going forward? (ii) If so, please provide the estimated annual savings of doing this. (iii) If not, why not?

E-7-1

E-7 SUP #15
References:
Exhibit E-7-1 p3

"*Hydro One's next Tri-Annual Actuarial Valuation for the DB Plan is required as at December 31, 2021 and must be filed by September 30, 2022".*
a) Please file Hydro One's next Tri-Annual Actuarial Valuation for the DB Plan as at December 31, 2021 when it becomes available.
b) In EB-2019-0082 HONI filed their updated Willis Towers Watson pension valuation as of 20181231 dated 20190919 on 20191017. Will HONI be able to expedite the completion of this pension valuation so that it can be filed earlier in the summer of 2022?

E-8-1

E-8 SUP #16
Reference:
Exhibit E-8-1
HONI notes that the new depreciation consultant was selected based on an RFP issued via external counsel (E-8-1 p.3).

a) Please confirm the engagement was competitively bid.
b) Did the prior consultant Foster Associates do any work or produce any draft recommendations as updates to its last depreciation study prior to the move to a new provider?

E-8 SUP #17
Reference:
Exhibit E-8-1

a) Will the recommended change in depreciation procedure result in any ancillary accounting or regulatory impacts beyond a revision to depreciation rates? For example, does the new depreciation methodology impact HONI's historical gain/loss accounting for asset retirements.