

DISTRIBUTION RATE APPLICATION

Summary Report for Participant Review

Stakeholder Session #3

Wednesday November 30, 2016

DoubleTree Hotel by Hilton – The Toronto Ballroom

108 Chestnut Street

9:00am – 1:45pm

SESSION OVERVIEW

On November 30, 2016, Hydro One Networks Inc. hosted a third stakeholder session to discuss its upcoming Distribution System Plan (DSP) application. The purpose of this meeting was to present information on various aspects of that DSP application, including a high-level summary of extensive qualitative and quantitative stakeholder research undertaken by Ipsos, and to seek stakeholder comment on those presentations and research. Hydro One Networks will host a subsequent stakeholder meeting in February 2017 on its DSP, which, like this meeting in November, will inform Hydro One Network's final DSP application, to be submitted by March 12, 2017.

The stakeholder session included welcoming remarks from Oded Hubert [Vice President, Regulatory Affairs, Hydro One Networks] and facilitator Ted Griffith [The Fixers Group] in advance of presentations by Iain Morris [Partner, Human Capital Business Leader, Mercer Group], Sandy Guiry [SVP, Quantitative Research, Ipsos] and Brad Griffin [SVP, Qualitative Research, Ipsos], Jody McEachran [Senior Regulatory Advisor, Hydro One Networks], and Paul Brown [Director, Distribution Asset Management, Hydro One Networks]. Ted Griffith closed the stakeholder session in asking for any subsequent questions or comments, and thanking everyone for attending.

This summary was written by Ted Griffith and Steven Bright of The Fixers Group, who provided independent facilitation services for the stakeholder session. This report provides a high-level summary of the main points discussed by the participants as captured in "live" notes written during the meeting. It is not meant to be a verbatim transcript of the meeting.

Note that there are two appendices to this summary (attached separately), including:

Appendix 1. Individual Submissions Received After the Meeting

Appendix 2. Presentation Slides

Note: This summary reflects what happened during the meeting and does not include written feedback received after the meeting. Please see Appendix 1 for the additional feedback received.

FEEDBACK SUMMARY

The presentation from Iain Morris described key features of a comprehensive compensation cost benchmark study, the fourth in a series of such benchmark studies. He also presented the study's methodology and its findings. Sandra Guiry and her Ipsos colleague Brad Griffin presented high-level findings of quantitative and qualitative stakeholder research that they undertook for Hydro One Networks in the summer of 2016. Jody McEachran of Hydro One Networks spoke to slides on the Performance Metrics that Hydro One Network proposes to use in their upcoming DSP application. Lastly, Paul Brown of Hydro One Networks spoke to slides that outlined customer engagement impacts on the DSP.

Following each presentation, stakeholders asked questions of clarification and provided feedback. These questions and feedback are reflected in this summary. Each of the following sessions begins with key messages, which are intended to be read together with the more detailed feedback that immediately follows. Please note feedback from participants is in **bold**, while the responses by presenters (and in some cases a Hydro One Networks employee in the audience who answered many questions) are in *italics*.

Part 1 – Total Compensation and Benchmarking Study (Iain Morris, Mercer)

KEY MESSAGES

1. The 2016 study mirrors similar benchmark studies done in 2013, 2011 and 2008, thus allowing for reasonable comparisons and trend analysis across the time horizon of these four reports.
2. Many factors impact the results, among them long-term incentives and headcount reductions.
3. Overall, the compensation of Hydro One Networks is a multiple of 1.14 compared to the 50th percentile of the study group.

QUESTIONS OF CLARIFICATION

Benchmark Methodology

- **The “regional maintainer” position was pulled from the research. How many positions were previously in the study? *I don't have those exact numbers but can follow up if you like.***
- **Enersource and Horizon are not in the current study, but they were in earlier benchmark studies, while PowerStream is in the current study. Any impact on the current review of not having Enersource or Horizon? *We looked at the overall sample, and not having these two organizations is not a material change. What we found is representative, but there would be some effect in not having them.***

- **On slide 9, was overtime considered in base wage?** *No.*
- **On slide 18, what is total number of incumbents?** *Total number of employees captured is around 5,200.*
- **Does Hydro One own the survey data, or can others use the data?** *All participants get the data, not sure what they do with it*
- **Will share grants be incorporated in next study?** *The current study was a point in time study and share grants were not included this time, but they will be part of next study.*
- **Which is better, using the 50% percentile figures or an average?** *Percentile is better, more stable, less impacted by extreme values. Others may have other views ... this is our view at Mercer ... but percent rank is standard way across the industry research.*

Variability in Findings

- **In looking at slide 15 we see different positions, some are up and some are down. Why the variance?** *There have been some changes within Hydro One, but sample group differences might better explain variances as these can have a bigger effect than other factors.*
- **What is the relative impact of short-term incentives on overall comp? Does this contribute to variability?** *Short term tends to vary with jobs (i.e., level of job) and across different organizations. There are many factors, and these vary. In the aggregate, short-term incentives vary less than what you might think.*

Hydro One Compared to Industry

- **In the “Represented” groups, the universe is primarily small companies, yet Hydro One surrounds them. So I think smaller utilities is the actual comparator in many cases.** *We try to balance everything, which is why we include LDCs. We could re-define and broaden the competitive market in this regard in terms of the survey, which would give us a somewhat different answer. But I’m confident that what we did in this survey is a good picture of what’s happening.*
- **I realize you’re replicating the study year over year, but the universe of Hydro One itself is significantly broader than other organizations. Are we really getting accurate assessment of those with whom Hydro One is competing for labour?** *Confident we’re getting some good results in this survey. We could look more broadly, but the single panel approach we’re taking in this survey was the better approach in terms of repeatability*
- **Am I correct that Hydro One is moving away from the industry benchmark? Are compensation and incentives at Hydro moving farther away from the overall average than Hydro One pensions are moving from the average?** *We didn’t look at data that way, so the effects of pension changes don’t show up here in the data set.*

- **Do you poll other industries? My concern is that our industry is moving away from other industries? Can we break out industry data?** *Different industries do different things. The energy sector pays well, but there is no hard data in our study on whether the energy sector is paying more and more compared to other sectors.*

Pensions

- **In terms of pension comparison, how did you actually do the comparisons with changes in pensions?** *We looked at plans for each incumbent. DC plans applied to only 6 out of almost 3,000 people surveyed. We used similar approach to all organizations involved.*
- **Do you have historical data to break out pensions?** *Yes.*

Part 2 – Customer Preferences (Sandra Guiry and Brad Griffin, Ipsos)

KEY MESSAGES

1. The role of this stakeholder research is to ensure that Hydro One's distribution investment plan is informed by customer needs, preferences and priorities.
2. The research reflects a total of nearly 20,000 customers and more than 20,000 responses between June and July 2016.
3. Overall, keeping costs as low as possible is customers' top priority.
4. More specifically, small and residential customers would accept a small tradeoff of increase costs for current reliability, while large customers have limited acceptance of rate increases.

QUESTIONS OF CLARIFICATION

First Nations

- **Referring to slide 7, what's the definition of First Nations?** *Ipsos received a list from Hydro One for modeling, and took names flagged as First Nations from that list.*
- **Referring to slide 9, do the residential and small business numbers include members of First Nations?** *Theoretically, but not identified as such.*

Residential and Small Business

- **Asking about the Appendix slides, does the full report also focus on residential and small business customers?** *Yes it does.*
- **Relative to slide 7, why was the quota for small business customers not based on density?** *We can't answer that now and will get back to you.*

- **Looking at slide 21, you probed distribution impacts for larger customer but not for residential customers. Why?** *We thought residential customers would be more familiar with their overall bills than the specific delivery charge portion of their bills. But larger customers have a better understanding of that delivery portion, so we included that specific part in asking them about this.*
- **In the online workbook, did you ask residential customers about the delivery charge?** *No, as we feel they better understand their total bill.*
- **Were residential and small business participants in the eight online focus groups in same room such that they could ask their own clarification questions?** *These were online platforms with participants also on a conference call, which allowed for some discussion. Telephone and online surveys did not feature that sort of interaction.*

Definitions and Methodology

- **What's the definitional difference between C&I and large?** *We will default to Hydro One for detail, with Hydro then confirming that they would get back an answer on that question.*
- **Are results from the two one-on-one sessions included in the report?** *Yes.*
- **The survey said some customers were not invited. Why was that?** *Ipsos said Hydro One handled the recruiting, at which point a Hydro One representative said that they have 8,000 C&I customers, and many of those have multiple meters.*
- **Did the survey, in talking about the component parts of customer bills, specifically outline who is responsible for what?** *We gave respondents in the online workbooks, focus groups and workshops some detail of the bill, saying they could check their telephone script for details on how much detail this particular method gave on the issue.*
- **What is the definition of DG as used in the survey? Does it mean commercial operators?** *Ipsos said they weren't certain of the precise definition in this context. At which point, a Hydro One representative clarified that DGs are a wide range of embedded generators, and that they would have different points of view than traditional residential customer. They promised to follow-up with more details on this issue, which they did at the meeting's conclusion.*
- **Did participants in the qualitative interviews understand distribution portions?** *Mostly yes. And when they were not clear on specifics they spoke with Hydro One representatives in the meetings to provide clarity.*
- **How did the focus groups actually work?** *With members of the general population and small business customers we ran surveys and focus groups. For large business customers we ran consultative workshops. Ipsos ran these workshops with Hydro One speaking briefly and Ipsos facilitating the discussion for two to three hours. Hydro One representatives could address any detailed questions. Having Hydro One in the room did not prevent participants from speaking their minds.*

- **Did participants in the survey understand the full context of a proposed \$1 increase?** *The wording of the question defines the increase as a percentage of the total monthly bill and the equivalent average dollar amount. It also states how much higher the total monthly bill would be at the end of the fifth year. The question also states that the monthly bill could still increase for other reasons which are outside the control of Hydro One.*
- **Ipsos ran nine in-person sessions but only seven cities?** *London and Hamilton had two sessions each due to large demand to participate.*
- **Do the illustrative scenarios in the research report use historical levels?** *Hydro One said they would follow up, which they did at the end of the meeting.*
- **How many investment years were embedded in the various scenarios?** *Five years.*

Reliability

- **With respect to power quality as outlined on slide 14, can Hydro One track power interruptions of under 1 minute?** *A Hydro One representative at the table answered at this point, saying yes, they do have that capability.*
- **Were reliability performance figures included in the survey questions?** *Yes, we gave information on average outages to both residential and large customers in the “informed” surveys.*

Costs

- **This survey was in field in this summer, in June/July. It appears that energy now (i.e., late November) is more on their minds now than six months ago. Does that affect the results?** *Surveys are snapshots, representing the feelings of respondents at the time. We couldn't say if results would be different now. A Hydro One representative added that price dominated the results in the full research report, findings that broadly align with current news and feelings on energy prices.*
- **Slide 11 is matter of fact in talking about cost. How intensely do people feel about cost?** *Cost, in one qualitative session in London session, was most the contentious issue. This is consistent with other findings, as cost was contentious in other cities, but to various degrees of intensity. Similarly, in the quantitative research, cost and rates were the most prominent issues. They were particularly evident when respondents were asked to trade off cost to other factors. Keeping costs low was the number one preference in these trade-off questions.*
- **In looking at slide 12 and the wording about “willing to accept” rate changes, what size majorities did the research find?** *Results for question 17, shown on slide 20, show that acceptances were “a little bit over” the majority.*

- **How does the 1.1% increase equate to Hydro's portion of the increase?** *A Hydro One representative said information given to the "informed" group showed Hydro One's increase in the scenarios. She added that there are many different customer classes, and it can be challenging to use the same messaging in asking the same questions in trying to get statistically valid responses that can be generalized across Hydro One's broad customer range.*

Part 3 – Performance Metrics

KEY MESSAGES

1. OEB set out four categories of customer outcomes: Customer Focus; Operational Effectiveness; Public Policy Responsiveness; and Financial Performance. Hydro One will provide information on all four, plus additional metrics relating to Customer Focus and Operational Effectiveness.
2. Hydro One proposes to cease reporting on four metrics from previous applications: Number of Replaced Poles; Number of Pole Top Transformers with PCB Oil; Residential and Small Business Satisfaction; Estimated Bills Issued as % of Total Issued.

QUESTIONS OF CLARIFICATION

Targets and the scorecard

- **Will the Hydro One application have rewards or targets?** *Only targets.*
- **Will Hydro One link these targets to its corporate scorecard?** *We're working on that scorecard now.*
- **Is residential satisfaction included on scorecard?** *This is a combined scorecard, so it's mixed.*

Reliability

- **In looking at slide 5, what is a distribution outage?** *Paul Brown of Hydro One answered this question, saying a distribution outage is an unplanned outage of more than one minute, and the lights are out. He added that transmission systems have built-in redundancies, but these back-ups don't exist in distribution systems.*
- **Does operational effective and system reliability, as outlined on slide #7, consider SAIDI and SAIFI?** *No, they are a work in progress on the momentary outages.*

Poles

- **In referencing slide #9, is the number of poles replaced covered elsewhere?** *Yes.*

- **What did you previously report on poles with PCB poles?** *We reported on the number actually replaced, but this is not large component of our overall performance metrics program. We're focusing more on work throughput than replacement.*

Billing

- **What does the fourth metric on slide 9, (i.e., “estimated bills issued as % of total issued) refer to?** *We look at this as a way to drive a reduction in the number of bills that are estimated and not meter-read. Our billing accuracy metric on correct meter reads will replace this metric. So it's a duplication, which is why we propose to cease reporting.*

Methodology

- **Are the findings on slide 5 based on surveys?** *Yes.*

Industry Comparisons

- **In looking at slide 6, are other utilities reporting on these five values such that you can compare against them?** *Factors 7 and 8 (i.e., OM&A per customer and OM&A per km of line) are standard industry comparators. However, factors 4, 5 and 6 (i.e., pole replacement – cost per pole; vegetation management – cost per cyclical km; and station refurbishment – cost per MVA) are not standard across the industry.*

Part 4 – Customer Preferences, Metrics and the Distribution System Plan

KEY MESSAGES

1. Customers told Hydro One four main things: keep costs low; maintain reliable service; large customers are more concerned about reliability and capacity; and overall willingness to accept a rate increase is limited.
2. Hydro One has implemented a number of productivity initiatives to reduce unit and operating costs.
3. Hydro One is executing on various productivity and efficiency enhancements to change and reduce its cost structure.

QUESTIONS OF CLARIFICATION

Risk Models and Demographics

- **Does distribution use the same risk model as transmission?** *No, distribution is performance based.*
- **In looking at “Plan B Modified” in 2022, will demographics be worse than now?** *We don't focus as much as demographics. Rather, we want our fleet to be the same, which we means we focus on condition more than demographics. Our investment plan is being driven by performance of the network, which is correlated to condition more than demographics.*

We replace defective assets, and we use demographic information to look ahead to volume requirements.

Rates and Capital Spending

- **Can Hydro One quantify its costs savings by the respective approaches?** *Yes, we could show how effective we're being in our upcoming rate application.*
- **In looking at slide 28, will rates go up after 2018? And why is the dip in that graph important?** *We will have some fixed, non-discretionary expenditures in 2017-18 that will impact our 2018 numbers.*
- **Is the aim of Plan B Modified to reduce capital expenditure or rates?** *A Hydro One representative said Hydro One went through a very iterative process that included several levels of the organization – including up to the Board of Directors – to try and find a balance between rates, preferences and assets in 2018 and throughout the full five-year period. So when talking about the investment plan, we're talking about capital spending and the OM&A envelope interacting to create outcomes that are valued by the customer. In other words, we're trying to find a balance of capital and OM&A and a rates profile for 2018 and the full five years that is consistent with regulatory and customer expectations. A lot of that is found in productivity improvements and in doing the most we can with money we already get before we ask for more.*
- **Will rates go down in 2018?** *No. Capital spending may go down, but not rates.*
- **In looking at slide 22 (i.e., power quality initiatives), will there be incremental spending over the next five years on this quality issue?** *Yes, but these will not be material costs in grand scheme. Rather, it will be extra funding within the existing envelope, as we know there's a quality issue to be addressed.*
- **In referencing station improvements and pole replacements, what accounts for the uptick at end of planning session?** *Our estimates are tempered until 2018, then flat in 2019-2021 to allow for large transmission capital improvements. The 2022 uptick is to account for the planned smart metering re-fresh.*

Reliability

- **Is the use of “reliability” on slide 27 a judgment or a calculation comment?** *We're getting better at forecasting the reliability impact of things such as pole failures as an example. For example, in looking at the condition of our asset fleet, we're getting better at saying that if it degraded by X, then it will have X impact.*

Productivity

- **Looking at Hydro One's productivity initiatives on slides 7-10, are recently undertaken initiatives already embedded, or will you undertake them in the upcoming planning period?** *Some initiatives are in the future, with their respective benefits accruing early in the 2018-2022 time period. Various investments are built into our plan in various stages of implementation in 2017, with a bias towards driving for cost savings early on in that planning cycle.*

CLOSING COMMENTS

After discussion on all of the presentations, Ted Griffith went around the table asking every stakeholder if he/she had any further questions. He added that they would all receive a follow-up email the next day to see if they had any subsequent questions and, if so, they would have an additional seven days to submit those questions.

Process going forward

- *In these closing questions, one stakeholder asked about the process going forward with respect to Hydro One's DSP and stakeholdering. In response, a Hydro One representative said that the OEB suggested Hydro One consider third-party input into the DSP to ensure that it meets best practices. Hydro One therefore contracted an external firm to do exactly that, which Hydro One will share with stakeholders on a meeting scheduled for February 8, 2017. Input from that meeting will be incorporated into Hydro One's final filing.*

Definition of DG

- *A Hydro One representative provided answers to a question posed earlier in the stakeholder session about the definition of a DG customer, saying that a residential and/or small business customer could in fact be included in this DG definition in the research.*

Base case scenarios

- *As a follow-up to an earlier question, a Hydro One representative provided all attendees with more information on the base figures used in the investment scenarios previously discussed. She said that scenario #1 was the "status quo", scenario #2 was "improve", and scenario #3 was "degrade", adding that the first of these scenarios aligned with Plan B Modified as outlined in Paul Brown's slides. Maxine Cooper of Hydro One agreed to confirm that with a follow up email.*

PARTICIPANT LIST

The following is a list of all attending participants and their respective organizations:

Stakeholders

1. Andrew Blair – *Power Workers' Union*
2. Kim McKenzie – *Power Workers' Union*
3. Bimbola Ayo – *Toronto Hydro*
4. Brady Yauch – *Energy Probe*
5. David MacIntosh – *Energy Probe*
6. Bill Harper – *VECC*
7. Harold Thiessen – *OEB*
8. Mark Rubenstein – *SEC*
9. Matthew Higgins – *Toronto Hydro*
10. Michael Jessop – *OPG*
11. Patrick McMahon – *Union Gas*
12. Scott Pollock – *CME*
13. Shelley Grice – *AMPCO*
14. Vicki Power – *Society of Energy Professionals*

Hydro One and Consultants

1. Iain Morris – *Mercer (Presenter)*
2. Sandra Guiry – *Ipsos (Presenter)*
3. Brad Griffin – *Ipsos (Presenter)*
4. Oded Hubert – *Hydro One Networks (HONI)*
5. Jody McEachran – *Hydro One Networks (HONI)*
6. Paul Brown – *Hydro One Networks (HONI)*
7. Karen Taylor – *Hydro One Networks (HONI)*
8. Maxine Cooper – *Hydro One Networks (HONI)*
9. Erin Henderson – *Hydro One Networks Inc. (HONI)*

The Fixers Group

1. Ted Griffith – *Facilitator*
2. Steven Bright – *Note taker*