

BOMA INTERROGATORY #18

INTERROGATORY

Ref: Exhibit B, Tab 4, Schedule 2, p2, lines 20 and 21

- (a) Please provide more detail on increases in the \$15 million decrease in OM&A due to increased capitalization, and Admin and General capitalization.
- (b) Why are short-term incentive payments not part of compensation, rather than capitalized as part of Admin and General Expenditures? What percentage of short-term incentive ("STIP") payments are capitalized and how is the amount capitalized determined?
- (c) Please provide the number of FTEs full- and part-time employees in the new Asset Management Group.
- (d) Are the salaries and benefits capitalized? What is the amount? Please explain why those salaries and benefits should be capitalized.

RESPONSE

(a) Admin and General capitalization:

In 2016, as compared to budget, A&G capitalization increased by \$6.9M. The main drivers to the increase in capitalization were an increase in capitalization of HR related costs (\$6.3M) and capitalization from the GTA project (\$0.6M).

The increase in the capitalization of HR related costs was driven by:

- Capitalization on STIP and Benefits which was increased from 21% to 38% beginning Q3-15 to better align with labour capitalization, as these costs directly relate to the labour costs of EGD, but for ease of administration are all recorded to one cost centre. As a result of the increased capitalization rates from 21% to 38% the impact was an increase of \$9.6M:
 - a. STIP * incremental capitalize increase rate of 17% = \$30.3M
*17% = \$5.1M
 - b. Benefits * incremental capitalize increase rate of 17% = \$27M
*17% = \$4.5M
- The above noted increase is partially offset by a reduction in capitalization of other HR related costs that previously had a 21% capitalization rate but were

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reduced to a rate of 0% beginning Q3-15. This again was to better align with labour capitalization. The HR items that are no longer included in the A&G capitalization, beginning Q3-15, are Special Labour (Severance), OPEB, Pension Benefits and Employee Services & Development. The resulting offset from these was a reduction of \$3.3M.

A&G Capitalization on the GTA Project for 2016 was \$626K

Capitalization:

In 2016, as compared to budget, Capitalization increased by \$8.5M. This was mainly due to an increase in capital focused work most notably:

- AR&I crews performing more capital work
- Creation of new Asset management group which is primarily capital focused

(b) Total compensation is presented in gross dollars, and includes STIP. Capitalization on STIP is outlined in the in response to (a). The Admin and General capitalization would include capitalization on compensation items such as STIP, Benefits and stock based compensation, as well as the capitalization from support functions such as IT, Finance, HR, etc.

Capitalization is the capitalization of labour dollars specific to the nature of work from operational departments.

(c) As of December 31, 2016, the Asset Management group had 39 FTE.

(d) Asset Management salaries are capitalized, with the capitalization rate depending on the group and the nature of the work performed. Benefits for employees within this group would be capitalized to A&G using the overall EGD rate of 38% (see part (a) and (b)).

Referring to the Asset Management group, the amount of capitalized salaries in the group for 2016 is approximately \$3M

The capitalization rate of the subgroups within Asset Management is as follows:

- Asset Risk Strategy – 70%
- Asset Intelligence – 70%
- Asset Management Process - 100%
- Admin – 60%

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