



Hydro One Networks Inc.
483 Bay Street,
Toronto, Ontario
M5G 2P5

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Attention: Consultation Secretariat

Workplace Safety & Insurance Board
Consultation Secretariat
200 Front Street West, 17th floor
Toronto, Ontario M5V 3J1
Attention: consultation_secretariat@wsib.on.ca

Re: WSIB Rate Framework Consultation - December 1st, 2015 Update

Please receive Hydro One's submission addressing the WSIB's most recent update to the Rate Framework Consultation, communicated to stakeholders on December 1, 2015. Hydro One attended the December 1st, 2015 Update Session held in Toronto. We appreciate the opportunity to continue in this consultation and we look forward to ongoing dialogue with the WSIB as the Consultation process continues to develop over the next stages.

Overall, Hydro One was pleased with the progress and revisions adopted by the WSIB in the most recent update. Specifically, the expansion of the Class Structure, the development of a Monitoring Mechanism/Program, Improved Support Tools for employers, and the expansion of the Graduated Per Claim Limit. These updates appear to align with the Rate Framework Modernization Key Goals.

Hydro One would also like to comment more specifically on the following areas which we believe require additional consideration and evaluation.

Fatal Claims

The confirmation that the proposed Rate Framework will render the Fatal Claims Policy inoperable is a welcome change, and is in keeping with the Key Goals of **Fairly Allocated Premiums, Collective Liability** and **Transparent and Understandable**. Assignment of a proxy cost for fatalities, combined with the application of the Credibility Scale detailed on *Slide 25* of the December 1st Update is clear, concise, and consistent with similar tables utilized throughout the Framework.

The one matter which appears to be slightly inconsistent is the use of a "rolling five year average costs of fatalities" across Schedule 1. Hydro One agrees that a rolling average is appropriate and provides an accurate projection of costs. However, noting the Experience Rating Window is to be applied across the most recent six-years, it would

seem appropriate that the same six-year window be utilized to determine the average cost of fatalities.

Unless the WSIB can offer compelling information as to why five-years is more appropriate than six-years, it would seem like an easy fix, and a way to provide further consistency to how premiums and costs are allocated for stakeholders. If costs and rate-setting is going to be associated with the larger-sum of experience over the 6-year period, it would make sense that fatalities in that same six-year period would be utilized in determining the fixed proxy cost year-over year.

Surcharging Mechanism

Hydro One continues to support the implementation of some form of Surcharge Mechanism, and continue to recommend the WSIB endeavor to develop a sub-consultation to the Framework Consultation in an effort to create applicable policies and specifics on how, and under what circumstances, the mechanism would apply. The WSIB has an opportunity to involve stakeholders and gather input in an effort to avoid a recreation of a similar error like the arbitrary implementation of the Fatal Claims Policy.

Second Injury and Enhancement Fund (SIEF)

Hydro One supports the endeavor to continue with some form of cost relief for employers. While it is recognized that employers have an accountability to provide support for all injured workers regardless of what circumstances led to, or contributed to, their workplace injury. It is our position that where a worker's pre-existing injury/impairment/condition has added, contributed, and/or brought costs to the system and employer, it may be appropriate in certain circumstances for an employer to be relieved of a portion of the costs resulting from a pre-existing circumstances.

Hydro One recommends the WSIB begin a related SIEF/Cost Relief consultation between now and 2019 in preparation for implementation with the new Rate Framework. This consultation should be a sub-consultation to the Rate Framework, but endeavor to look at how Cost Relief may be administered and applied in the new system, and also look at either **a)** revisions of the current SIEF Policy (14-05-03), or **b)** development of a new Cost Relief Policy to be implemented when the new Framework is implemented. This sub-consultation would involve employer stakeholders, actuaries, and a WSIB Director/Manager from the "SIEF team".

Consideration should also be given to the following:

- How will NEER-related SIEF awards granted to claims from 2012 – 2017 be applied to costs/experience rating in the new Framework in 2019 and beyond?
 - Does 50% SIEF = 50% in the new Cost Relief Program?
 - Will there be an "audit"/review of claims and SIEF awards to determine alignment in the new framework and/or new policy/program?
- Can Employers receive Cost Relief as a result of WSIB-claim incurred previously with the same Employer?
- Clearer definitions related to the severity of work-related accidents and severity of pre-existing conditions/injuries/impairments.

- Thresholds for what is required to demonstrate the extent a pre-existing condition is contributing to the new injury:
 - Dedicated Medical Consultants
 - Advice sheets for Employers
 - Requirement for decision makers to request prior medical files/notes/etc.
- Data and Employer statements/information should communicate the dollar amount of cost relief relative to the costs being incurred:
 - Currently, a NEER statement simply has an asterisk noted, with a statement; *“Cost have been transferred to the Second Injury and Enhancement Fund”*. Without referencing Monthly Accident Cost Statements, or doing a reverse calculation in the NEER Calculator, it is difficult for Employers to determine the actual relief they have received. Additionally, it requires extensive effort for an Employer to determine the amount of relief they have received on all current claims in the experience window.
 - For large employers, with significant claim frequency this is valuable information. **Transparency** of detailed claim and experience information would be a benefit to stakeholders.
- Data shared with Schedule 1 Employers could also identify the amount and/or percentage of costs being applied to the “collective/shared” Relief Program.
 - This would reinforce the **Collective Liability** goal, **Transparency**, and also continue to educate Employers that the “relief” is still an indirect burden on the overall system.
- Does the WSIB have data relating to SIEF allocated through Appeals, outlining how often and how significant post-Operations decisions have resulted in Employers being granted Cost Relief? Trends, costs, and other data may assist in development of the new program.

Since the implementation of the dedicated SIEF Team in 2009, Hydro One believes the WSIB has significant costs and administrative data which could demonstrate the improvements in decision making and application of SIEF over the last several years. This data would assist in the development of a new (or revised) program, and would reinforce the benefit to the WSIB system of continuing some form of a Cost Relief Program going forward.

Experience Rating Window

Hydro One has concerns with the December 1st update to apply the “weighted experience window”. Although the update states the recommendation will achieve the goal of Fairly Allocated Premiums, it is unclear why the initial model (no weighting) would be deemed any less Fairly Allocated.

In principle, it is conceivable that the increased weighting on more recent claims costs could improve Balanced Rate Responsiveness. However, the repercussions of weighting the window result in a negative effect to other Key Goals; **Transparent and Understandable, Clear and Consistent, and Ease of Administration**. Additionally, the weighting may result in increased Responsiveness, but appears to offer less Stability.

A simple, non-weighted six-year window will also result in Balanced Rate Responsiveness over time, and truly should capture real “trends” for an Employer who is reducing claim frequency and claims costs year-over-year. Applying the weighted window may increase Responsiveness, for employers who want to demonstrate the “quick fix”, but it may have other unexpected implications for the collective liability of all Schedule 1.

The original method for actuarial predictability and determining risk based on a non-weighted six-year window are sufficient for identifying a balance between stability and risk. Adding an additional layer of weighting will result in moving the Rate Framework Modernization backwards towards the cumbersome NEER process with weighted rate factors, and active-vs.-inactive claims. By adding layers, the WSIB would be sacrificing the Key Goal of **Transparency**, and may inadvertently implement a system that Employers (especially small employers) will find less **Understandable**.

Furthermore, the weighted-six-year window will begin to gravitate towards two separate three-year windows (the 1/3-window and the 2/3-window). Employers will begin to manage claims and decisions in two separate ‘windows’, specifically attempting to close claims as early as possible. This could result in Employers resorting to the NEER practice of managing dates, windows, weightings, and file closures rather than focusing on best practices for return-to-work, claims management and prevention.

Lastly, the addition of another layer the framework simply reduces the **Ease of Administration** for the WSIB itself. The WSIB staff will begin fielding calls, requests, APPEALS, etc. applicable to the same timelines and dates mentioned above.

Hydro One recommends further consideration of the weighted-six-year window. Although the weighted recommendation clearly has positive intentions, the negative implications are worrisome and may result in moving the Framework away from the Key Goals which have been such a strong point to-date.

Hydro One, and the Utility Employer Group, were provided with an example of how the “weighted” calculations would work, in comparison to a “non-weighted” totaling of Claims Costs. Although the spreadsheet offers some clarity on how the calculation would work, the complexity is still evident. Although the example is helpful, Hydro One questions whether it accomplishes the intended goal of demonstrating a focus on “most recent claims experience”.

Additional thoughts:

- Is the use of the Six-Year Table already a “weighted table”? Noting that the most recent 3 years, will already be reflective of more total costs simply due to the inclusion of more claims costs.
- Douglas Stanley’s February 2014 **Pricing Fairness** report recommended (Page 40, Recommendation 4.2) that the design of the system should err on the side of stability; stating “...*stability is preferred over responsiveness and appropriate measures for stability ought to be considered.*” Stanley based this recommendation on two reasons: 1) Employers overwhelmingly said that “rate

stability” was always preferred, and 2) a less responsive system is less likely to provide incentive for unintended and undesirable outcomes.

- Employers who implement prevention and safety measures to change claim frequency and severity will still gain the desired responsiveness in the new Framework without a weighted six-year window. However, a non-weighted window will promote sustainment of those implemented practices over the long-term. Presumably, this would be the preferred result.
- In August 2015, the WSIB provided Rate Group Analyses based on 2014 Premium Rates, using the original (non-weighted) 6-year window. This included Rate Group-specific information related to “Risk Band Analysis” and summaries of Risk Band Movement (Example: Slide 8 of **Rate Group Analysis – RG 835**). How would this same data appear with the revised weighted 6-year window?

Conclusion

In summary, it remains Hydro One’s understanding that the Rate Framework Consultation will continue to go through further phases through 2016, 2017 and 2018. Hydro One respectfully requests the Consultation Team review the information provided herein prior to finalizing the Framework model in 2016 and seeking approval from the WSIB Board of Directors. We appreciate the opportunity to provide comments on this very important WSIB Rate Framework Consultation and we look forward to reviewing the the next update and any further revisions and recommendations provided by all stakeholders.

Yours Sincerely,



Jim Harding
Manager, Health Services and Rehabilitation
Health, Safety and Environment
Hydro One Networks Inc.
hardingj@hydroone.com