COMPENSATION, WAGES, BENEFITS

1.0 INTRODUCTION

In earlier Distribution and Transmission decisions, the Board has expressed concerns regarding the levels of compensation at Hydro One. Hydro One understands these concerns, it has strived, where possible, to reduce compensation related items. The fact remains, however, that Hydro One must maintain a highly skilled workforce, in the face of an aging workforce, world wide competition for similar skills, and an ever increasing work program.

In these unique circumstances, Hydro One believes that these compensation levels are reasonable. Ultimately, the rate payers benefit from the quality, expertise and reliability of Hydro One employees.

The overall compensation package at Hydro One is a product of historical factors as well as current and future challenges. Hydro One is heavily unionized and the work force is comprised of highly skilled and trained employees. In recent years, although work volumes have significantly increased, Hydro One has been able to minimize costs through greater management control of resources and the simplification of required job skills and associated pay levels.

With the de-merger of Ontario Hydro in 1999, Hydro One inherited collective agreements with firmly established terms and conditions of employment for represented employees. Since its formation, Hydro One has a history of managing collective bargaining in an effective manner by balancing the needs to reduce costs, increase productivity and settling collective agreements which the unions can support and ratify with its membership. Compensation at Hydro One is appropriate and reasonable given this history and context in which the Company operates.

2.0 THE UNIONIZED ENVIRONMENT

Approximately 90 % of the work force is unionized. By law, Hydro One must negotiate collective agreements with each of its bargaining agents. The collective agreements establish the terms and conditions of the employment relationship for a fixed period of time. It is critical to understand that Hydro One inherited collective agreements from Ontario Hydro which established terms of employment. These legacy collective agreements established a 'floor' upon which future negotiations were based. Even though it has been 10 years since the demerger, these legacy collective agreements continue to strongly influence current Hydro One collective agreements. These terms of employment can only be altered through collective bargaining. The ability of an employer in an unionized environment to reduce compensation is limited, particularly in a growing company which provides an essential service. In fact, recent experience in the auto industry illustrates how difficult it is to reduce compensation. Concession bargaining is normally only successful when the parties are faced with bankruptcy protection or plant closures. Hydro One has not bargained under these extreme conditions and so negotiating across the board wage reductions is unrealistic.

Collective Agreements are legal contracts. In labour agreements, more so than commercial contracts, parties must also consider their longer term relationship. Hydro One's Human Resources strategy is to negotiate fair and reasonable collective agreements to foster and promote healthy union – management relationships. In June of 2009, Hydro One was honoured with being named the top Corporate Citizen in Canada.[1]

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[1] June 22, 2009 Globe and Mail *"The Canadian Magazine for Responsible Business"*

Ultimately, the rate payer is a beneficiary of this relationship in the form of higher productivity and, most importantly, uninterrupted supply of power.

3.0 LABOUR AGREEMENTS

Hydro One has collective agreements with the Power Workers' Union ("PWU"), The Society of Energy Professionals ("The Society"), the Canadian Union of Skilled Workers ("CUSW"), the Labourer's International Union of North America ("LIUNA") and each of the 15 Building Trade Unions ("BTU's") (via "EPSCA"). The key agreements are with the PWU and the Society.

The PWU represent over 70% of Hydro One employees. The PWU is an industrial union that represents the trades, operators, technicians and clerical workers. Its members perform line work, forestry, electrical, mechanical, protection and control, meter reading, stock keeping, system operation, technical and clerical/administrative work

Society represented staff perform engineering, high level technical and administrative work as well as supervisory functions. The majority of the Society-represented employees in Hydro One have either post-secondary education (university degrees) and/or post-graduate education. These include graduate engineers, finance and telecommunication specialists.

4.0 COLLECTIVE BARGAINING

Progress has been made in reducing employee related costs and increasing flexibility.

4.1 PWU

An attempt by Hydro One to achieve significant cost reductions in wages, benefits and pension would likely result in a strike. The last PWU strike was in 1985 and lasted 12 days. It was handled by placing management and Society-represented staff in key functions to maintain operations/service to the extent possible. However, as a result of numerous downsizing programs, and reorganization of work, there are far fewer management staff available today with the requisite skills and experience to occupy key PWU positions during a strike. Furthermore, unlike other industries, Hydro One does not have a product that can be stockpiled. As a result, the Company would be unable to continue operations for a sustained period of time during a PWU strike.

Rather than risk jeopardizing the supply of reliable electricity, the company has sought to achieve overall cost reductions by negotiating increased management flexibility to run the operations, as opposed to wide scale reductions in wages, benefits and pensions.

4.2 Society

The Society was governed by mandatory mediation/arbitration since the formation of Hydro One until 2005. Mandatory arbitration is another legacy issue, that entrenched terms and conditions into Society collective agreements that were inherited by Hydro One. Interest arbitrators are generally reluctant to reduce existing wage levels. Similarly where a service is declared an essential service, thereby not having the ability to strike, collective bargaining disputes are resolved using mandatory interest arbitration. Recently, the C.D. Howe Institute issued a study that examined the impact on wages when declaring a service an ‘essential service’.[1] This study concluded that an essential

[1] The C.D. Howe Institute. “No Free ride: The Cost of Essential Services Designation”, Benjamin Dachis 2008.

service designation resulted in higher wage increases than would otherwise have occurred in traditional collective bargaining.

Hydro One ended mandatory arbitration commencing with the 2005 collective bargaining. In the first set of negotiations without this dispute resolution tool, the Society initiated a 15-week strike. The strike was primarily in response to Hydro One's desire to reduce wages and benefits and increase hours of work for new employees. Hydro One was requested by the Shareholder to enter into mediation – arbitration to end the strike. The resulting arbitration award did result in some cost savings for future hires, highlighted with less costly pension provisions for new Society employees.

5.0 OVERVIEW OF HYDRO ONE NEGOTIATIONS

The following tables highlight the significant changes achieved for PWU and Society negotiations since 2001.

Table 1
PWU Negotiations

Term	Changes
April 1, 2001 – March 31, 2002	• Modified Staff Reduction clause to allow for easier staff reduction. • Shortened the winter meal period by two months. • Summer student rates reduced to $12 per hour from rates as high as $19 per hour. • List of 14 province-wide automatic Purchase Service Agreements, whereas previously each PSA had to be individually negotiated, thus increasing efficiency and reducing costs. • New Hiring Hall classification of General Helper at $16.27 per hour. Previously, only regular staff, who are paid benefits and pension contributions, could be utilized for this work. • Renewed ability to have Lines staff on 2nd shift. • Agreement to allow Career Edge placements (develop skills for university /College students).

Term	Changes
April 1, 2002 – March 31, 2003	• New Temporary Work Headquarters process featuring travel allowances in place of Hydro vehicles, hotels and meals. • Generic Change of Employer clause to facilitate movement of employees from Hydro One to Inergi and future similar situations. • Retain temporary employees for 15 months (previously 12 months) and 18 months with Chief Steward agreement. • 50% of Training Instructors can be temporary instead of regular. • Made Linesperson second shift permanently available. • New lower cost Meter Reader B classification.
April 1, 2003 – March 31, 2005	• Ability to invoke streamlined staff reduction process. • Can rehire Meter Reader B at lower rate without a 6-month break in service. • PWU to provide Management with a list of Hiring Hall Meter. Readers for direct call out to work by Management. This improves efficiency & reduces costs as Management can utilize available trained and experienced Hiring Hall Meter Readers. • Continue temporary work headquarters provisions. • CMS shift work provisions continued at mid-term agreement rates. • On-call established for Helicopter Pilots and Air Engineers. • Joint team to review health and dental costs with the goal of finding ways to reduce the total cost.
April 1, 2005-March 31, 2008	• Eliminated the PWU annual incentive plan that would have paid up to 6% of base pay per year with a savings of approximately $7.9 million per year in 2005. • Established a new three-day weekend shift in Lines. • Established a new lower-paid Switching agent classification and midnight shift. • Established full afternoon shift for Fleet Mechanics.
March 31, 2008-March 31, 2011	• Greater flexibility to employ University and College students. • Security clearances for new hires. • Pre hire assessment tool for apprentices. • Increased threshold for employees to qualify for post-retirement benefits. • Pensioners and surviving pensioners no longer able to add new dependents. • Cost Neutral on benefit changes and no pension improvements.

Table 2
Society Negotiations

Term	Changes
January 1, 2002-December 31, 2002	• Generic Change of Employer clause to facilitate movement of employees from Hydro One to Inergi and future similar situations • Reduction in temporary travel expenses upon a paid move • Reduction in sick leave benefit • Reduction in benefits • Greater flexibility to extend temporary employees
January 1, 2003- March 31st 2005	• Incentive Pay not renewed with a savings of approximately $2.9 million per year in 2003. • Interest Arbitration not extended • Increase ability to use shift workers
April 1, 2005 – March 31st, 2008 (arbitrated settlement)	• New pension plan 25% less expensive • Inclusion of a Management's Rights Clause. This affirmed Hydro One retains right to exercise discretion for issues not already negotiated.
April 1, 2008 –March 31, 2011 (early negotiations)	• Elimination of 1% Performance Pay with a savings of approximately $0.8 million per year in 2008. • Upper end of salary schedules reduced • New lower hiring rates • Jurisdiction, Dependent Contractor, Contracting Out grievances withdrawn • Contracting Out language suspended to provide greater flexibility to contract out work • Security Clearances introduced for new hires

MCP COMPENSATION

Compensation for non-unionized employees (MCP) at Hydro One is reasonable. As discussed in Section 7.0 “Compensation Benchmarking Study”, the 2008 Total Compensation Mercer Study concludes that Hydro One’s MCP compensation is at median to its peer group. MCP employees do not receive across the board economic increases. Compensation adjustments are approved by the Board of Directors, as deemed necessary, to attract, motivate and retain competent staff. In 2009, Hydro One implemented the Ontario Government’s request to restrict salary increases to 1.5% for all non-represented staff earning more than $150,000, and extended that restriction to all non-represented staff, regardless of salary level.

In 2004, Hydro One introduced a benefits and pension plan for new MCP employees that is approximately 25% less costly and increased the base hours of work for all MCP to 40 hours per week from 35 hours per week.

Hydro One has accepted the recommendations of the Arnett Panel regarding executive compensation. The basis of the Arnett Panel recommendations is an executive salary comparative benchmark of 15 public and 15 private sector companies. The executive positions at Hydro One will have their compensation altered as the incumbents leave in order to follow the guidelines recommended by the Arnett Panel. To date, the positions of Chief Executive Officer, General Counsel, and Chief Financial Officer have had their salaries reduced.

The table which follows reflects the 2008 salaries for the CEO position at Hydro One, OPG, OPA and the IESO.

2008	**Hydro One**	**OPG**	**OPA**	**IESO**
CEO Salary**	$924,437	$2,475,800	$689,715*	$597,588

*This is the sum of the salaries of the two individuals who held the OPA CEO position in 2008.
** Public Sector Salary Disclosure, Ministry of Finance, March 31, 2009.

6.0 COMPENSATION STRATEGY

Hydro One has experienced rapidly increasing transmission and distribution work programs since 2004. Resourcing of these work programs must occur on the most cost effective basis possible within a highly competitive labour market.

Table 3 provides a snapshot of year end compensation costs for Hydro One Networks (Transmission and Distribution) from 2006 to 2011. The Company believes that the upward trend in these costs is reasonable in light of the steadily increasing transmission and distribution work programs since 2006, as well as the negotiated increases in labour rates.

Table 3
Year End Hydro One Networks Inc Payroll* (M$) (Tx and DX)

Hydro One Networks Inc. Payroll* (M$)					
Year	**Total Wages**	**Base**	**Overtime**	**Incentive**	**Other****
2006	459.3	368.0	66.5	4.4	20.5
2007	495.5	414.7	60.9	6.6	13.2
2008	566.2	464.1	67.8	8.1	26.2
2009	656.8	543.9	74.6	8.9	29.4
2010	849.5	717.1	87.6	10.6	34.2
2011	934.1	791.8	93.5	12.2	36.6

* This payroll reflects compensation costs associated with year-end headcounts for all EPSCA, PWU, Society and MCP Transmission and Distribution staff.
** "Other" includes travel time, vacation bonus, unused vacation days paid out, standby allowance, shift allowance, vacation pay on termination and a variable to address data restrictions.

Table 3 does not reflect the revenue requirement for compensation for this Application as it represents payroll costs for Hydro One Networks in total i.e. both Distribution and Transmission.

For the period 2009-2011, the total Networks (Transmission and Distribution) work program is expected to increase by over 33% whereas the regular staff increase is expected to increase by approximately 16 %.

Hydro One believes that the goal of reducing overall wages, pension and benefits for future new hires reflects a reasonable balance between the need to attract and retain new staff while pursuing a more favourable cost structure. This is a difficult balance to achieve – too much of a reduction in compensation and benefits will impact the ability to attract the new skills necessary to replenish the workforce.

Hydro One's best performers are highly marketable, and several management staff have left the company in recent years. The Hydro One succession plan has facilitated internal promotion and a smooth transition in most cases, but our internal replacement capacity is now significantly diminished in key areas. External recruitment has proved challenging as our compensation levels and structures have fallen below the market for top people.

7.0 COMPENSATION BENCHMARKING STUDY

As directed by the Board in EB-2006-0501 Decision With Reasons, Hydro One engaged an independent party, Mercer/Oliver Wyman, to submit an independent, testable and repeatable report on compensation cost and productivity for Hydro One and comparable companies. This study, "Compensation Cost Benchmarking", was submitted in evidence in EB-2008-0272, Hydro One Transmission's cost of service application for 2009 and 2010 revenue requirement. As summarized in Table 4, the compensation benchmarking study found that the MCP and Society-represented staff were 1% below and 5% respectively above market median, or essentially at market median, whereas PWU represented staff were 21% above market median. As a result, Hydro One in total was said to be 17% above market median. However, the results of this study should only be applied with caution, for reasons set out below.

Table 4
Distribution and Transmission Compensation Benchmarking

			Below P50 Compensation			Above P50 Compensation	
Position	(#) of Hydro One Incumbents	Multiple of P50	0.5	0.75	P50 = 1	1.25	1.5
Non-Represented	151	0.99			X		
Represented Engineering	578	1.05			X		
Power Workers	1,966	1.21				X	
All	2,695	1.17				X	

Study results are essentially determined by PWU compensation levels. The Mercer Compensation study showed a few Hydro One classifications were above median, for instance, System Operator (26% above median), Regional Maintainer Lines (27% above median), Regional Maintainer Electrical (29% above median). Hydro One, where appropriate, is able to hire these similar classifications from the PWU Hiring Hall. As Hiring Hall resources do not receive Hydro One benefits or join the Hydro One Pension plan, these resources are less costly.

PWU wage rates at Hydro One are higher than wages paid at other Local Distribution Companies ("LDC's") for a variety of reasons and cannot be directly compared. Hydro One hires multi skilled employees to perform operations and maintenance work ie. Regional Maintainer – Lines, Mechanical or Electrical. These highly skilled classifications allow for a greater range of work to be performed by a single classification. LDC work is typically based-on dry land and not in the varied landscapes that exist at Hydro One. As a result, Hydro One staff are trained to operate a variety of off-road equipment and CVOR vehicles. Hydro One Regional Maintainer –Lines (RML's) employees are able to work on both Transmission and Distribution systems. These highly qualified staff can work on overhead, underground and submarine cables.

RML’s can perform specialized ‘live line ‘work where they are able to use live line tools to work on voltages ranging from 120 to 500,000 volts. By having highly qualified and flexible trades staff, Hydro One is able to service a very large geographic area efficiently and less costly since travel expenses are reduced and less staff are required to perform work.

In some cases, work performed at Hydro One is assigned to lower rated classifications than those at LDC’s. Work performed by Hydro One technicians in Customer Operations is often performed by Engineers in LDC’s. Work performed by higher graded PWU clerical staff can be compared to LDC’s who typically employ higher rated Technicians.

2008 TRANSMISSION DECISION

In the EB-2008-0272 Decision with Reasons, the Board commented on the nature of collective agreements vis-a-vis normal commercial agreements. The Board held that collective agreements are differentiated from other goods and service contracts in that the parties to collective agreements do not have a similar arm’s length relationship. As such,

> “*(t)he Board’s examination cannot include an analysis of the myriad of compromises and trade–offs associated with collective bargaining. The subjectivity related to that exercise would render it meaningless if not inoperable.”*

Hydro One asks that the Board consider the history of gains made through collective bargaining when assessing the prudency of the collective agreements. While it may be subjective, so too is a benchmarking study comparing Hydro One compensation levels to other utilities with different histories and facing different challenges and responsibilities.

COMPARISON OF COLLECTIVE AGREEMENTS

When assessing the prudency of Hydro One's collective agreements, a more useful comparison would be the compensation wage scales for similar PWU and Society classifications in the Ontario Hydro successor companies. Such a comparison is instructive since all these wage scales have the same starting point, which is the establishment of the successor companies in 1999. It is important to compare compensation escalation based on total "dollar" base rates of similar classifications. Simply comparing accumulated base rate percentage increases does not capture the true difference between total base compensation paid at the successor companies.

In the two wage scale comparison tables for each of PWU and Society staff which follow the wage scale rates shown are for the top end of the wage scale band.

Power Workers' Union – Wage Scale Comparisons, 1999 and 2009

	1999	2009	Percent Change
Mechanical Maintainer/Regional Maintainer - Mechanical			
Hydro One	$ 28.23	$ 38.30	36%
OPG	$ 29.08	$ 44.72	54%
Bruce Power	$ 29.08	$ 50.73	74%
Shift Control Technician/Regional Maintainer - Electrical			
Hydro One	$ 28.23	$ 38.30	36%
OPG	$ 30.31	$ 44.72	48%
Bruce Power	$ 30.31	$ 50.88	68%
Clerical – Grade 56 (based on 35-hour work week)			
Hydro One	$ 21.46	$ 29.12	36%
OPG	$ 21.46	$ 28.56	33%
Bruce Power	$ 21.46	$ 31.62	47%
Clerical – Grade 58 (based on 35-hour work week)			
Hydro One	$ 24.20	$ 32.84	36%
OPG	$ 24.20	$ 34.79	44%
Bruce Power	$ 24.20	$ 35.65	47%
Regional Field Mechanic/Transport & Work Equipment Mechanic			
Hydro One	$ 26.20	$ 35.56	36%
OPG	$ 26.20	$ 44.72	71%
Bruce Power	$ 26.20	$ 42.58	63%
Stockkeeper			
Hydro One	$ 23.27	$ 33.15	42%
OPG	$ 23.27	$ 34.79	50%
Bruce Power *	$ 23.27	$ 39.87	71%
Labourer			
Hydro One	$ 19.03	$ 25.82	36%
OPG	$ 19.03	$ 34.79	83%
Bruce Power *	$ 19.03	$ 39.87	110%

**** Assumes that the position falls within the Civil Maintainer II classification and corresponding wage rate.***

For PWU staff, Hydro One has negotiated substantially lower wage scales than OPG and Bruce Power for all seven positions with the exception of one.

Society of Energy Professional – Wage Scale Comparisons 1999 and 2009

	1999	2009	Percent Change
MP2			
Hydro One	$ 77,954.79	$ 90,686.36	16%
OPG	$ 77,954.79	$ 92,026.10	18%
Bruce Power	$ 77,954.79	$ 90,666.01	16%
IESO	$ 77,954.79	$ 106,809.54	37%
MP4			
Hydro One	$ 88,651.39	$ 103,052.68	16%
OPG	$ 88,651.39	$ 104,593.53	18%
Bruce Power	$ 88,651.39	$ 103,080.86	16%
IESO	$ 88,651.39	$ 121,419.54	37%
MP6			
Hydro One	$ 100,756.80	$ 117,193.07	16%
OPG	$ 100,756.80	$ 118,923.51	18%
Bruce Power	$ 100,756.80	$ 117,215.50	16%
IESO	$ 100,756.80	$ 138,064.50	37%

For Society staff, Hydro One, OPG and Bruce Power have successfully negotiated lower end rates. The IESO has continued with the wage schedule structure that existed at demerger.

In addition to the comparison of base rate wage scales, the following two charts highlight significant additional incentives and allowances over and above the base rate wage scales for each of PWU and Society staff at other successor companies. These incentives are not reflected in the preceding wage scale comparison tables.

PWU– Additional Payments, 2009

	Incentive Pay
Hydro One	• No skilled based/competency payment
OPG	• In 2002, OPG introduced Skill Broadening, which led to eligible employees receiving a $1,000 lump sum, as well as a wage increase of 5% (in addition to the general wage increase of 2% for that year).
Bruce Power	• In 2003, Bruce Power implemented a competency-based progression plan, which provided up to a 12% increase for journeypersons and a 6% increase for supervisors • Bruce Power has also introduced Multi Trade rates for certain classifications, which are higher than the competency-based rates.

Society of Energy Professionals – Additional Payments, 2009

	Incentive Pay
Hydro One	• No incentive plan
OPG	• Pays a number of bonuses for supervision, specialized work, training/certification and retention. • Tends to have more provident benefit plans than Hydro One. For example, paramedical care: OPG provides $1500 per year; Hydro One provides $500 per year based on 50% co-insurance.
Bruce Power	• Has a bonus plan for 2009, which if Company targets are met, pays 2% for MP2 and MP3, 4% for MP4 and MP5, 6% for MP6 (additional 1% available if stretch targets met). • Pays a number of bonuses for supervision, specialized work, training/certification and retention.
IESO	• Has a Performance Pay Plan where the Company will make a minimum performance payout of 1.5% of base payroll.

In a recent IESO OEB Decision (EB-2008-0340), the Board accepted the recommendations of the technical committee that the IESO compensation was reasonable. It is noteworthy that Hydro One's compensation for Society staff at both the lower and upper end of the wage scale bands are lower than that at the IESO. Further, in its Decision With Reasons in EB-2007-0905, the Board accepted OPG compensation levels. In both these Decisions over the past year, the OEB has accepted the compensation levels of entities that pay more for similar positions at Hydro One. In addition, it is quite clear that compared to these four other companies, Hydro One has been quite successful in controlling costs in collective bargaining over the past ten years to the benefit of all ratepayers.

9.0 SUMMARY

Compensation levels at Hydro One are reasonable and appropriate given the environment in which the Company operates. In recent years, despite significantly increased work volumes, overall costs have been minimized by the simplification of required job skills and pay levels where appropriate. Hydro One's demographic challenge requires us to be active in the labour market place and with world wide competition for these skills, there is a need for competitive compensation.

A strong barometer of Hydro One's ability to restrict compensation increases is a direct comparison to companies such as OPG, Bruce Power, and IESO. Hydro One competes directly with these organizations for skilled workers. Hydro One is also at risk of losing experienced staff to these organizations if our compensation is not competitive. Despite these competitive pressures, Hydro One has negotiated compensation levels that are less costly than OPG, Bruce Power and the IESO.

In addition, in a heavily unionized environment, there are significant constraints on an employer's ability to reduce compensation costs per employee. However, despite these constraints, the Corporation has made significant gains in the reduction of pension and benefits costs for MCP staff and pension costs for Society-represented staff.

As well, over time, as current employees retire and new staff are hired, lower Society wage schedules and the reduced compensation and benefit levels for new MCP hires should further reduce overall compensation costs. Compensation at Hydro One is heavily influenced from the legacy of being part of Ontario Hydro. However, Hydro One has demonstrated a track record of making progress on cost reduction and increased management flexibility.