

PRIVATE AND CONFIDENTIAL

November 6, 2006

Our Ref: 76711/007

Mr. Bill Van Veghel
Independent Electricity System Operator
655 Bay Street
Suite 410, P.O. Box 1
Toronto, Ontario
M5G 2K4

Dear Bill:

We are pleased to provide you with the overall results of the 2006 Competitive Compensation Review. This constitutes the final report of our compensation analyses.

The report contains the background information about the project, as well as the methodology we used to arrive at the results. Furthermore, it confirms the data and observations previously shared with IESO.

Please find the report attached and let us know if you have any questions.

Sincerely,



David Crawford

DC:dr
Attachmemt

Direct Dial: (416) 960-7145



**TOWERS
PERRIN**

HR SERVICES

Independent Electricity System Operator

2006 Competitive Compensation Review Overall Results

October 12, 2006

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Background

- Towers Perrin was retained by the Independent Electricity System Operator (“IESO”) to conduct a competitive compensation review of executive positions, and other positions in Management (Bands 5-10), Society and PWU.
- IESO’s actual compensation data and survey position matches presented in this report are based on data provided by IESO. Where applicable, similar IESO positions have been combined to represent a benchmark position. These IESO benchmark positions (88 in total) were matched to positions of comparator organizations through the use of Towers Perrin’s career ladder. When needed, Towers Perrin adjusted IESO’s original matches to ensure consistency across Towers Perrin’s career ladders and IESO’s grades.
- Our review covers the following elements of compensation:
 - Fixed compensation/base salary,
 - Total variable compensation* (expressed as a % of salary),
 - Target total cash (salary plus total variable compensation)
 - Pension & savings (expressed as a % of salary),
 - Benefits (expressed as a % of salary), and
 - Total remuneration (target total cash plus pension, savings & benefits).
- * Executives – Total variable compensation includes annual target bonus and expected value of long-term incentives for the various companies
Management (Bands 5-10), Society & PWU – Total variable includes annual target bonus only

Methodology

Competitive Data

- We used the following sources of data
 - Towers Perrin's Compensation Data Bank (CDB)
 - Towers Perrin's Benefits Data Bank (BDB)
- Listings of companies in each of the samples are outlined in Appendices A-D. As agreed, Towers Perrin used a standard sample of companies for the benefits data for all categories of positions
- The pension and benefits data were valued using Towers Perrin's BENVAL methodology to develop comparative values for the benefit plans provided by a group of companies
- The pension and benefits comparison methodology determines values using a standard set of actuarial methods and assumptions applied to an employee profile. Various demographic and compensation profiles were provided by the IESO and reviewed by Towers Perrin for appropriateness. These profiles were used and applied to the benefit and pension provisions for all comparator companies
 - The pension and benefits analysis includes employer-provided benefits only

Methodology: Executive Positions

- For this analysis Towers Perrin conducted a “Level Analysis”, whereby IESO positions were matched to equivalent level positions within these organizations based on reporting relationships, responsibilities and organization level
 - For companies with revenues greater than \$2 billion, we matched to a level lower (e.g., IESO VP = comparator Director)
 - For companies with revenue less than \$2 billion, a direct match was made (e.g., IESO VP = comparator VP)
- It is important to note that the leveling approach outlined above captures the “middle” or representative data point for each company. This approach generates results that
 - Are company-weighted
 - Do not consider distribution around the midpoint, such as positions that may be consistently paid at the upper end of a company’s compensation range
 - Will produce spreads between the 25th and 75th percentiles that may be narrower than actual 25th and 75th percentile levels
- For these non-executive positions, IESO positions were matched to similar positions for all comparator companies using Towers Perrin’s job descriptors

Methodology: Management (Bands 5-10), Society & PWU

- We have used two sets of comparators from Towers Perrin's Compensation Data Bank for this review:
 - Professional / Supervisory Comparators
 - Covering IESO's positions in the Society and Management Group
 - Technicians, Trades, Administrative Comparators
 - Covering IESO's positions in the PWU and Management Group
- For some positions where there was insufficient data in the selected comparator group, the sample was expanded to the general industry total sample
- Appendix B and C provide lists of organizations included in both samples.

Results: Executives

- Percentage by which IESO policy (band midpoint) is above/below market data

IESO Group	Base Salary		Target Total Cash		Total Remuneration	
	50th %ile	75th %ile	50th %ile	75th %ile	50th %ile	75th %ile
Management Group Overall	+1%	-7%	+8%	-6%	+9%	-6%
Senior Management (CEO, VP's, Dirs, Mgrs)	+1%	-7%	+6%	-8%	+6%	-8%

- Percentage by which IESO actuals are above/below market data

IESO Group	Base Salary		Target Total Cash		Total Remuneration	
	50th %ile	75th %ile	50th %ile	75th %ile	50th %ile	75th %ile
Management Group Overall	+6%	-2%	+13%	-1%	+14%	-1%
Senior Management (CEO, VP's, Dirs, Mgrs)	+4%	-5%	+9%	-6%	+9%	-5%

Results: Management (Bands 5-10), Society & PWU

- Percentage by which IESO policy (band midpoint) is above/below market data

IESO Group	Base Salary		Target Total Cash		Total Remuneration	
	50th %ile	75th %ile	50th %ile	75th %ile	50th %ile	75th %ile
Management (Bands 5-10)	+1%	-6%	+11%	-1%	+13%	-2%
PWU	+19%	+10%	+14%	+4%	+19%	+6%
Society	+21%	+13%	+13%	+3%	+16%	+3%

- Percentage by which IESO actuals are above/below market data

IESO Group	Base Salary		Target Total Cash		Total Remuneration	
	50th %ile	75th %ile	50th %ile	75th %ile	50th %ile	75th %ile
Management (Bands 5-10)	+9%	+2%	+20%	+7%	+22%	+6%
PWU	+18%	+9%	+13%	+3%	+19%	+6%
Society	+22%	+13%	+13%	+3%	+17%	+4%

Appendices



Towers Perrin Compensation Data Bank – Executive Review

■ Alberta Electric System Operator	■ EPCOR
■ Alliance Pipeline Ltd.	■ FortisAlberta
■ ATCO Ltd. & Canadian Utilities Ltd.	■ Hydro One
■ Atomic Energy of Canada Ltd.	■ Kinder Morgan (formerly Terasen)
■ British Columbia Hydro & Power Authority	■ New Brunswick Power Corporation
■ Bruce Power	■ Ontario Energy Board
■ Duke Energy Gas Transmission Canada	■ Ontario Power Generation Inc
■ Emera Inc.	■ Powerex
■ Enbridge Inc.	■ TransAlta Corporation
■ Enmax Corporation	■ TransCanada PipeLines Ltd

Professional/Supervisory Comparators (Society & Management (Bands 5-7))

- | | |
|--|--|
| ■ ABB Canada Inc. | ■ Hydro-Québec |
| ■ Alberta Electric System Operator | ■ Newfoundland & Labrador Hydro Electric Corporation |
| ■ Alliance Pipeline Ltd. | ■ Ontario Power Generation Inc. |
| ■ Atomic Energy of Canada Limited | ■ Saskatchewan Power Corporation |
| ■ British Columbia Hydro and Power Authority | ■ Siemens Canada Limited |
| ■ Duke Energy Gas Transmission Canada | ■ SNC Lavalin |
| ■ Emera Inc. | ■ Syncrude Canada Ltd. |
| ■ Enbridge Gas Distribution Inc. | ■ Terasen Inc. |
| ■ Enbridge Inc. | ■ Terasen Pipelines |
| ■ Enmax | ■ TransAlta Corporation |
| ■ EPCOR | ■ TransCanada PipeLines Limited |
| ■ FortisAlberta | ■ TSX Group |
| ■ Hydro One | |

Technicians, Trades, Administrative Comparators (PWU, Management (Bands 8-10))

- Alberta Electric System Operator
- Alliance Pipeline Ltd.
- Atomic Energy of Canada Limited
- Bell Canada
- British Columbia Hydro and Power Authority
- Duke Energy Gas Transmission Canada
- Enbridge Gas Distribution Inc.
- Enbridge Inc.
- Enmax
- EPCOR
- FortisAlberta
- Hydro One
- Hydro-Québec
- Manitoba Hydro-Electric
- Newfoundland & Labrador Hydro Electric Corporation
- Ontario Power Generation Inc.
- Praxair Canada Inc.
- Saskatchewan Power Corporation
- Terasen Inc.
- Terasen Pipelines
- TransAlta Corporation

Benefits Data Bank Comparator Group*

- AltaLink Management Ltd.
- British Columbia Hydro and Power Authority
- Duke Energy Gas Transmission Canada
- Emera Inc.
- Enbridge Gas Distribution Inc.
- Enbridge Pipeline Inc.
- EPCOR
- FortisAlberta
- Hydro One
- Hydro-Quebec
- Manitoba Hydro
- Ontario Power Generation Inc.
- Terasen Inc.
- TransAlta Corporation
- TransCanada PipeLines Limited

* Applied to all employee categories