

**mccarthy  
tétrault**

McCarthy Tétrault LLP  
PO Box 48, Suite 5300  
Toronto-Dominion Bank Tower  
Toronto ON M5K 1E6  
Canada  
Tel: 416-362-1812  
Fax: 416-868-0673

**Gordon M. Nettleton**  
Partner  
Email: gnettleton@mccarthy.ca

**December 5, 2016**

**VIA RESS AND COURIER**

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**RE: EB-2016-0160 Hydro One Networks Inc. ("Hydro One") Transmission Rates  
Application – Mercer Total Cost Benchmarking Study**

During the Technical Conference, parties requested an update with respect to the status of the Mercer study. Hydro One indicated that the study would be available in mid-December.

Hydro One is aware that School Energy Coalition intends to cross-examine Hydro One's witnesses on the Finance Panel with respect to materials Hydro One Distribution presented during a distribution stakeholder consultation session.

In view of these circumstances, Hydro One is filing an update on the Mercer Total Cost Benchmarking Study.

Yours truly,

**McCarthy Tétrault LLP**  
Per:

  
For: Gordon M. Nettleton

GMN

## HYDRO ONE'S TOTAL COMPENSATION BENCHMARKING STUDY

In the Ontario Energy Board's Decision in the Hydro One Distribution Rate Application, proceeding EB-2013-0416 (the "Decision"), Hydro One was directed to undertake:

*A compensation study similar to the study filed as part of this application to allow benchmarking to comparable companies.*

Hydro One has engaged Mercer Canada to conduct the study, as directed in the Decision, and intends to file it in its next Distribution Rate Application (for 2018-2022 rates). The preliminary report for this Compensation Benchmarking Study was shared with stakeholders on November 30, 2016 at a Stakeholder Session for Hydro One's upcoming distribution rates application. Reference was made to this Compensation Study in the technical conference of Hydro One's Transmission Rate Application (EB-2016-0160).<sup>1</sup> Since the study was not developed for the purpose of the current Transmission Application, Hydro One offers the following context to accompany the study findings.

1. Since this study was performed to be filed with Hydro One's upcoming distribution rate application, the job classifications and related headcount used in the study are those that are more prevalent in the distribution business.

To more accurately reflect the job classifications used in the Transmission business, additional classifications such as the Construction Electrician, Construction Lineperson, and other relevant Building Trades classifications should be included. Hydro One negotiates directly with the Canadian Union of Skilled Employees (CUSW) and the CUSW wage package is less than the only alternative union trade wage package for this work (see Exhibit C1-Tab 4 – Schedule 1 page 23 Table 2). For all other Building Trades work there is a standard industry wage. In transmission, approximately 57% of the total transmission capital work program is performed by construction employees.

2. Mercer Canada performed the study as a snapshot in time. All information reported is as of September 1, 2016.

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<sup>1</sup> EB-2016-0160, Transcript, September 23, 2016.

3. Above median roles such as the Field Services Coordinator (1.19 of P50), Business Analyst A (1.39 of P50) and Engineer B (1.30 of P50) have resulted due to wage compression. These roles tend to have feeder pools from both higher level and higher paid unionized Society of Energy Professionals (“the Society”) or Power Workers’ Union (“PWU”) positions. On promotion, employees in these positions are generally initially placed higher on the wage schedule than staff recruited externally. The compression issue is not as relevant for more senior roles and the positioning relative to P50 improves for positions such as Engineer D (1.04 of P50), Engineer E (.92 of P50), and Area Superintendent (.86 of P50). As an example, the typical career path for an Engineer B would be Engineer D and then Engineer E.
4. Hydro One has reduced total compensation costs in some of the above market median roles by employing fewer employees as shown in the following table.

Position	2016 Study		2013 Study
	Multiple of P50	# of Hydro One Incumbents	# of Hydro One Incumbents
Drafter II	1.11	21	33
Area Distribution Technician	1.33	151	180
Engineer B	1.30	176	271

5. In 2015, Hydro One negotiated three-year collective agreements with lower than average base wage adjustment, lump sums and increased employee pension contributions with the PWU and the Society. Since the data for this study was collected as of September 1, 2016, the full impact of these savings is not reflected in the Mercer Study. Lower base wage adjustments have ongoing savings in other wage sensitive items such as overtime rates and allowances. It is expected that Hydro One’s positioning to market median will improve in each of 2017 and 2018 as a result of these negotiations.
6. The Mercer Benchmarking Study compares total compensation “entitlements” (i.e. base salary, STIP, LTIP, pension and benefits) against the comparator peer groups. For pension and benefits, the study uses a standard approach and methodology based on industry norms. It then compares the expected value of pension and benefits of Hydro One and the peer groups, using this standard approach instead of the utility specific demographics and assumptions. The Study does not account for the impact of Hydro

One's negotiated cost saving initiatives such as future pension benefit reductions or the updated pension valuation filed with the OEB as Exhibit I, Tab 01, Schedule 131.

7. Many of the peer companies have Defined Contribution Pension ("DCP") Plans. This has a negative impact on Hydro One's positioning relative to P50. Hydro One has closed the Defined Benefit Plan for non-represented employees and has implemented a DCP. As the DCP was only recently introduced, benefits are not reflected in the Mercer Study results.
8. Hydro One requested Mercer to estimate the dollar difference between the weighted average total compensation for Hydro One employees and the P50 (median) for the peers in the study. Using the same methodology as used in the Mercer Study, Mercer has determined the difference to be \$71.0 million, approximately 17.6% (\$12.5 million) of which is allocated to Transmission OM&A. These amounts still do not take into account the positive results of negotiations and pension structure changes outlined in points 4-6 above, or that many of the employee descriptions employed in Transmission are not fully reflected in the Mercer Study.

November 22, 2016

## Additional Information: Total Remuneration Market Difference (in Dollars)

As requested by Hydro One, the table below summarizes with significant generalization, Hydro One's 2016 weighted average median / P50 total remuneration (Current, Future and Go Forward) relative to the weighted average market median / P50 for the three employee groups. We note the following in deriving the dollar difference:

- All amounts are presented in thousands (\$000s) of Canadian dollars
- Data based on plan provisions and compensation data effective as of September 1<sup>st</sup>, 2016
- Weighted average Hydro One P50 total remuneration (Current, Future and Go Forward) are based on benchmarked incumbents (not reflective of the entire population)
- Weighted average market P50 data represent the average of benchmark positions only
- Employee group population sizes were provided by Hydro One

All data presented in CAD (\$000s)	Total Remuneration (Current) <sup>1</sup>	Total Remuneration (Future) <sup>2</sup>	Total Remuneration (Go Forward) <sup>3</sup>
	\$ Market Difference <sup>4</sup>		
Non-Represented	-\$564	-\$3,774	-\$16,082
Professionals	\$13,870	\$12,026	
Power Workers	\$57,737		
Total	\$71,042	\$65,989	\$53,681

Note:

(1) Based on Hydro One's employee population, assuming current benefit and pension program eligibility.

(2) Based on Hydro One's employee population, assuming all incumbents in the new DB pension and benefits programs.

(3) Based on Hydro One's employee population, assuming all incumbents in the new DC pension and benefits programs.

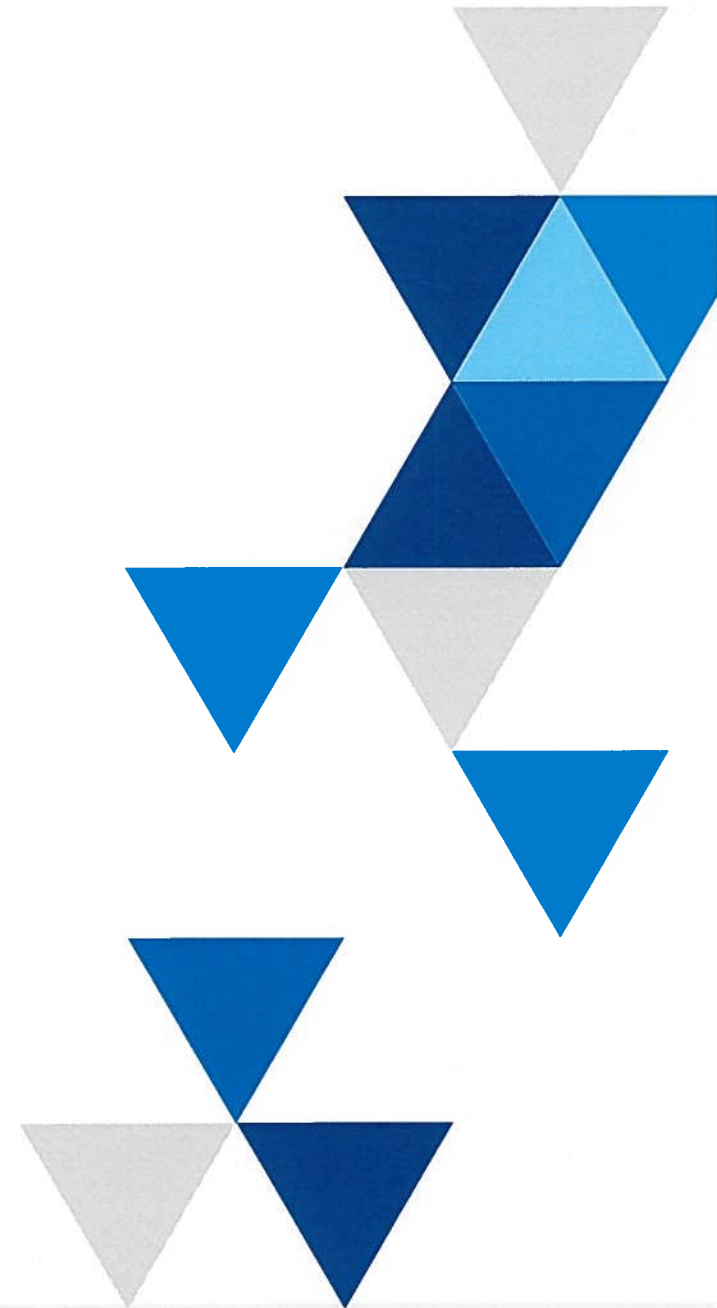
(4) \$ market difference represents Hydro One's average P50 base salary (for all benchmarked incumbents) relative to the market P50 (average of all benchmark positions) multiplied by the number of incumbents in each employee group.

\* Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position).

HEALTH WEALTH CAREER

# HYDRO ONE NETWORK INC. COMPENSATION COST BENCHMARKING STUDY

*November 30, 2016*



MAKE TOMORROW, TODAY  MERCER

# AGENDA

- Introduction – Key Features of the Study
- Methodology
  - Determining Benchmark Positions
  - Determining the Peer Group
  - Total Compensation
    - Elements
    - Methodology
  - Factors Impacting The Results
- Preliminary Results (Hydro One P50 relative to Market P50)
- Preliminary Results (Hydro One P50 relative to Market Average - Overall)

# 2016 COMPENSATION COST BENCHMARK STUDY FEATURES

- **Below are some of the major features of this year's study:**
  - Assesses regulated Transmission and Distribution utilities' and comparable regulated businesses' compensation costs benchmarks across Canada
  - Conforms to best industry standards for independence, testability and repeatable market-based total compensation assessment
  - Assures participants' confidentiality by the study's design, methodology and process that respondent information cannot be attributed or inferred
  - Mirrors the scoping included in the 2013, 2011 and 2008 studies for peer selection, job classes, etc.
  - Mirrors the questionnaire used in the 2013, 2011 and 2008 studies for ease of participation by returning participants
  - Enables reasonable comparison to the 2013, 2011 and 2008 studies and provides trending analysis for Hydro One's next application



## 2016 COMPENSATION COST BENCHMARK STUDY FEATURES (CONT'D)

- To balance the repeatability and durability of results obtained, the scope of the 2016 study was enhanced by targeting the same benchmark jobs and organizations as the 2013 study.
  - Four (4) organizations that declined to participate in previous years' studies agreed to participate in 2016. This resulted in an increase of two (2) organizations over the number of 2013 participants.
  - The Regional Maintainer – Forestry position was not surveyed in 2016 due to limited data in the market from previous years
- The benchmark jobs in the study represent approximately 57% of Hydro One's employee population (excluding non-full time employees).

# DETERMINING THE BENCHMARK POSITIONS NEED TO REPRESENT DIFFERENT FUNCTIONS AND ORGANIZATION LEVELS

- **Individual jobs**
  - Stable job content that is well understood
  - Large number of incumbents
  - Found in other organizations
- **Benchmark jobs or classes in aggregate**
  - Represent all major functions
  - Represent all levels in the organization from front-line to senior management
  - Representative of different compensation regimes
- **Balance numbers**
  - Enough to understand complete picture
  - Not so many as to cloud conclusions
- **Recognize reality of surveying**
- **Core jobs**
  - Core jobs from 2013 study

## BENCHMARK POSITIONS NON-REPRESENTED AND PROFESSIONAL

- Below is the list of Non-Represented and Professional benchmark positions included in the 2016 study.

Hydro One Group	Job #	Benchmark Survey Title
<b>Non-Represented</b>	1	Financial Director
	2	Top Rates and Regulatory Affairs Executive
	3	Senior Legal Counsel
	4	Engineer F
	5	Area Superintendent
	6	Human Resource Manager / Consultant
	7	Field Service Coordinator
	8	Administrative Assistant
<b>Professionals</b>	9	Engineer E
	10	Business Analyst C
	11	Engineer D
	12	Engineer C
	13	Engineer B
	14	Business Analyst A
	15	Engineer A

## BENCHMARK POSITIONS POWER WORKERS

- Below is the list of Power Workers benchmark positions included in the 2016 study.

Hydro One Group	Job #	Benchmark Survey Title
Power Workers	16	System Operator (Controller)
	17	Regional Maintainer - Lines (Supervisory)
	18	Protection and Control Technician
	19	Area Distribution Engineering Technician
	20	Regional Maintainer - Lines
	21	Regional Maintainer - Electrical
	22	Fleet Mechanic
	23	Lineman - Journeyman
	24	Service Dispatcher
	25	Drafter II
	26	Stock Keeper
	27	Data Entry Clerk
	28	Production Field Administrator III
	29	Electrical Apprentice
	30	Lines Apprentice
	31	Meter Reader
	32	General Labourer/Roustabout*

*\*Vacant Hydro One position.*

## DETERMINING THE PEER GROUP

- **Similar approach to the 2013 study:** Considered annual revenues between 33% and 300% of Hydro One's 2015 annual revenue or total assets, from the following areas:

Selection Criteria	Type of Organizations
Located in Canada	<ul style="list-style-type: none"><li>• All Canadian Companies</li></ul>
Closely related businesses	<ul style="list-style-type: none"><li>• Transmission, Distribution, Generation</li></ul>
Other regulated and comparable businesses	<ul style="list-style-type: none"><li>• Similar regulatory regime</li></ul>
Asset Intense	<ul style="list-style-type: none"><li>• Overall asset intensive rather than people intensive</li></ul>
Similar workforce characteristics	<ul style="list-style-type: none"><li>• Highly skilled</li><li>• Significant level of unionization</li></ul>
Similar organizations	<ul style="list-style-type: none"><li>• Similar employee population</li><li>• Similar asset base</li><li>• Similar geographic footprint</li></ul>

**THE OBJECTIVE:** create a single peer group to assess total compensation costs for the entire set of benchmark jobs

## PEER GROUP

- Summarized below are the companies that were included in the compensation benchmarking:

Company Name	Revenue <sup>1</sup>	# of Employees <sup>1,2</sup>
Bell Canada*	\$21,514.0	31,394
Hydro-Québec	\$13,754.0	19,250
TransCanada Corporation*	\$11,300.0	6,795
BC Hydro Power & Authority	\$5,657.0	5,641
Ontario Power Generation Inc.	\$5,476.0	9,247
Enbridge Gas Distribution Inc.	\$3,609.0	2,491
Toronto Hydro Electric System Ltd.	\$3,539.9	1,471
Bruce Power L.P.	\$3,126.8	4,151
ENMAX Corporation	\$3,065.7	1,765
SaskPower	\$2,296.0	3,238
TransAlta Corporation	\$2,267.0	1,653
EPCOR Utilities, Inc.	\$2,193.0	2,316
Manitoba Hydro	\$1,800.0	6,300
New Brunswick Power	\$1,791.0	2,403
PowerStream Inc.	\$1,213.5	559
AltaLink*	\$829.0	825
Veridian*	\$339.3	230
75th %ile	\$5,476.0	6,300
50th %ile	\$3,065.7	2,491
25th %ile	\$1,800.0	1,653
Average	\$4,927.7	5,866
Hydro One	\$6,538.0	5,256

<sup>1</sup> Data as reported by survey participants in CAD (\$MM)

<sup>2</sup> Representative of full-time employees and equivalents only

\* New participants in 2016

### Participated in 2013, Not in 2016

- Enersource Corporation
- Horizon Utilities Corporation

### New Participants in 2016

- AltaLink
- Bell Canada
- TransCanada Corporation
- Veridian

# ELEMENTS OF TOTAL COMPENSATION

## FOCUS ON ITEMS THAT CAN BE MONETIZED

- **Base wages or salaries**
- **Short-term incentives**
  - Annual incentive plans
  - Productivity incentives
- **Long-term incentives**
  - Various forms
  - Mostly at senior management level
- **Insured Benefits**
  - Health, Dental, Life, Disability
  - Company paid portion
- **Retirement plans**
  - Registered plans (DB, DC, Group RRSP)
  - Company paid portion



# TOTAL COMPENSATION METHODOLOGY

- **Definitions and methodology:**
  - **Base Salary / Wage**
    - Effective date: September 1<sup>st</sup>, 2016
  - **Total Cash Compensation**
    - Base salary *plus* most recent short-term incentive or bonus paid
  - **Benefits and Pensions**
    - Applied relative value process to determine standard “employer paid cost”
    - Standard actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs
    - Used open and closed plans
  - **Long-term Incentives**
    - Estimated annual value of most recent long-term incentive grant (i.e., stock options or share awards)
  - **Total Compensation**
    - Total cash compensation *plus* benefits and pensions *plus* long-term incentive
  - **P50**
    - 50<sup>th</sup> percentile - the middle point in a rank listing of data for a particular variable
  - **Avg. or Average**
    - Arithmetic mean - the sum of data for a particular variable divided by the number of observations



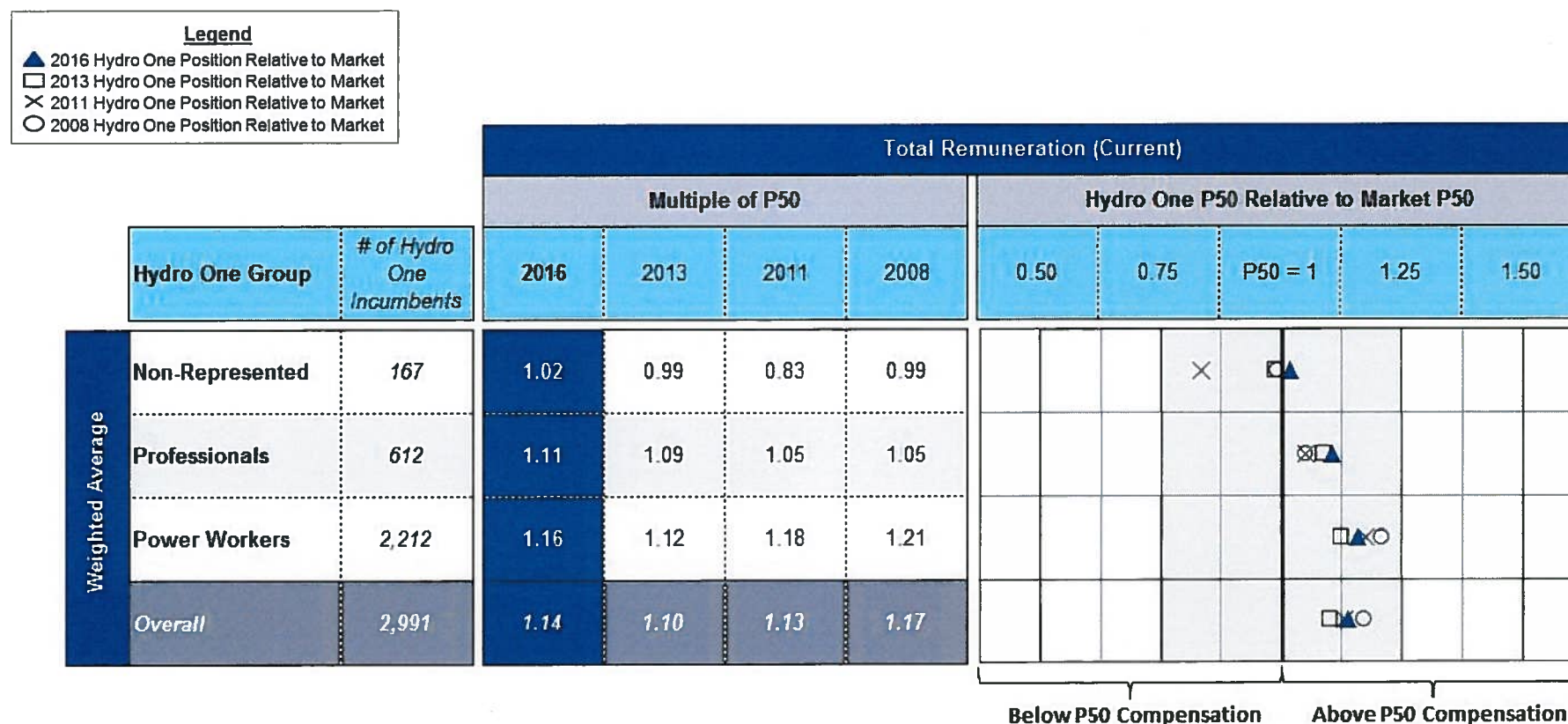
# FACTORS IMPACTING THE RESULTS

- The results are driven by a combination of factors the most significant of which are the following:
  - The introduction of long-term incentives for certain roles in the Non-Represented group to align with market practices among publicly-traded companies
  - Reduction in the headcount of Professional entry level role through promotion/attrition and not backfilling the lower paid roles.
  - Highly competitive base wages, especially for the most highly skilled Power Workers' Union ("PWU") positions
  - The relatively high value of legacy collective agreement wages, pension and benefits programs (the legacy non-represented pension and benefit and Society pension plans are now closed to new members)
  - Changes in the organizations participating in the study

# PRELIMINARY RESULTS

## OVERALL – TOTAL COMPENSATION (P50)

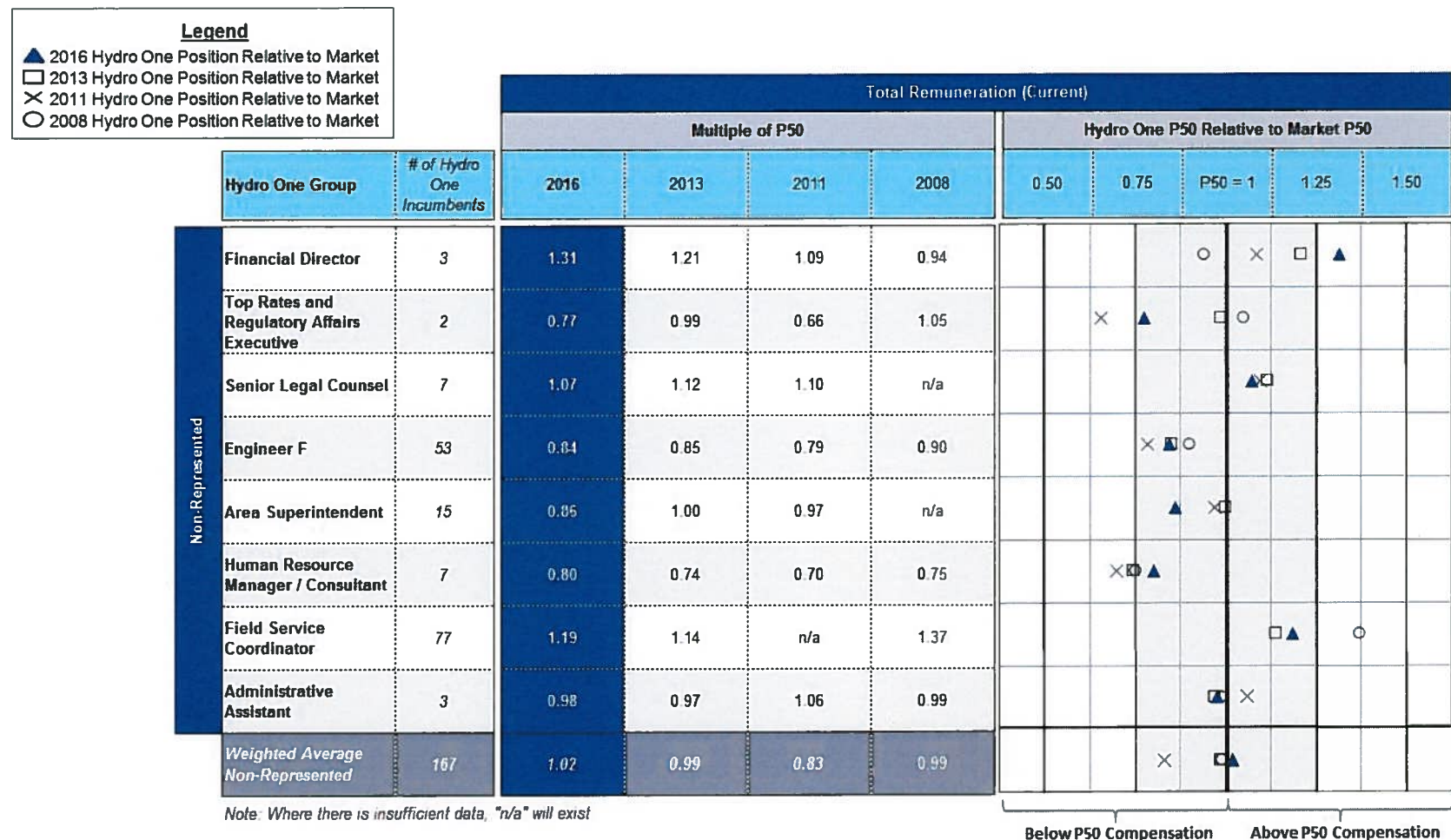
- Summarized below are the overall preliminary results comparing Hydro One P50 to Market P50, by employee group



# PRELIMINARY RESULTS

## NON REPRESENTED - TOTAL COMPENSATION (P50)

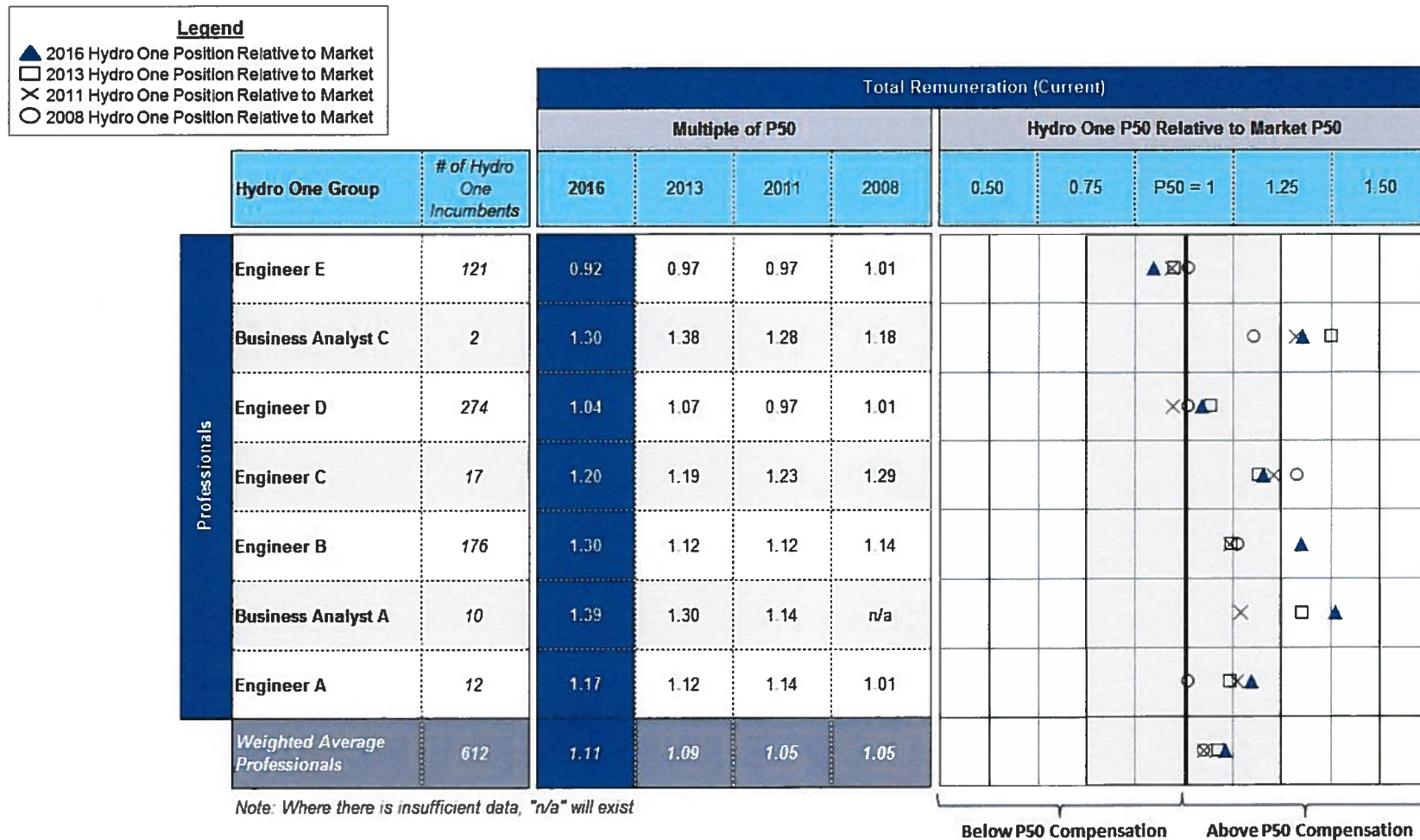
- Summarized below are the preliminary results for the Non-Represented group comparing Hydro One P50 to Market P50



# PRELIMINARY RESULTS

## PROFESSIONALS - TOTAL COMPENSATION (P50)

- Summarized below are the preliminary results for the Professionals group comparing Hydro One P50 to Market P50





# PRELIMINARY RESULTS

## POWER WORKERS - TOTAL COMPENSATION (P50)

- Summarized below and on the following pages are the preliminary results for the Power Workers group comparing Hydro One P50 to Market P50

		Total Remuneration (Current)									
		Multiple of P50				Hydro One P50 Relative to Market P50					
		2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	Hydro One Group	# of Hydro One Incumbents									
	System Operator (Controller)	103	1.31	1.28	1.30	1.26					
	Regional Maintainer - Lines (Supervisory)	66	1.05	1.24	1.31	1.43					
	Protection and Control Technician	90	1.36	1.30	1.38	1.26					
	Area Distribution Engineering Technician	151	1.33	1.23	1.27	1.22					
	Regional Maintainer - Lines	769	1.25	1.22	1.19	1.27					
	Regional Maintainer - Electrical	249	1.16	1.17	1.27	1.29					

Note: Where there is insufficient data, "n/a" will exist

Below P50 Compensation
Above P50 Compensation

# PRELIMINARY RESULTS

## POWER WORKERS - TOTAL COMPENSATION (P50)

### (CONT'D)

#### Legend

- ▲ 2016 Hydro One Position Relative to Market
- 2013 Hydro One Position Relative to Market
- × 2011 Hydro One Position Relative to Market
- 2008 Hydro One Position Relative to Market

			Total Remuneration (Current)									
			Multiple of P50				Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents		2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	Fleet Mechanic	71	1.25	1.21	1.27	1.20				○▲×		
	Lineman - Journeyman	123	0.99	1.04	1.18	1.15			▲□○×			
	Service Dispatcher	24	1.47	1.41	1.45	1.42					○▲×	
	Drafter II	21	1.11	1.30	1.44	1.28			▲	○□×		
	Stock Keeper	55	1.39	1.37	1.43	1.42				□▲×		
	Data Entry Clerk	75	1.22	1.21	1.27	1.13			○	▲×		
							Below P50 Compensation			Above P50 Compensation		

Note: Where there is insufficient data, "n/a" will exist

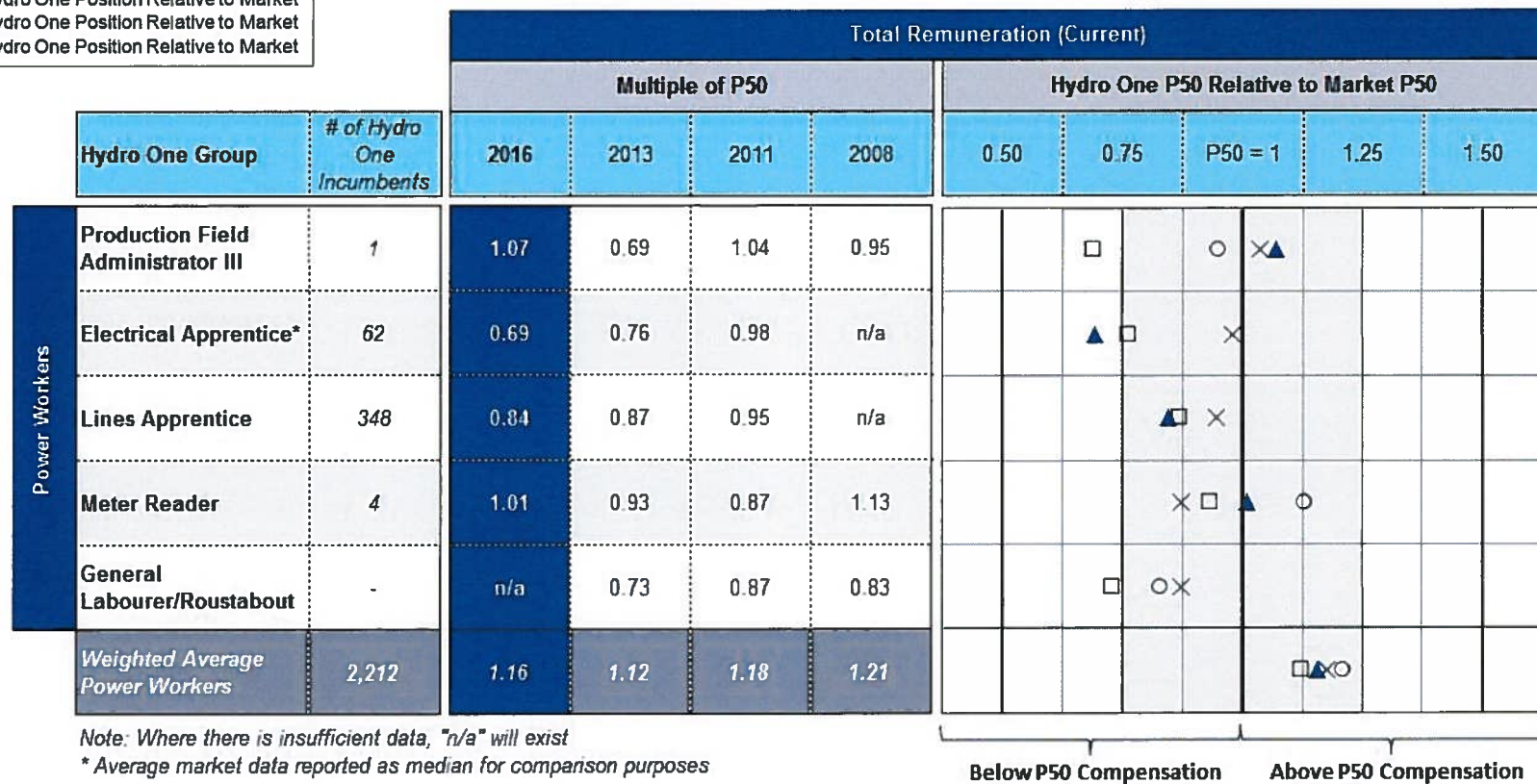
# PRELIMINARY RESULTS

## POWER WORKERS - TOTAL COMPENSATION (P50)

### (CONT'D)

#### Legend

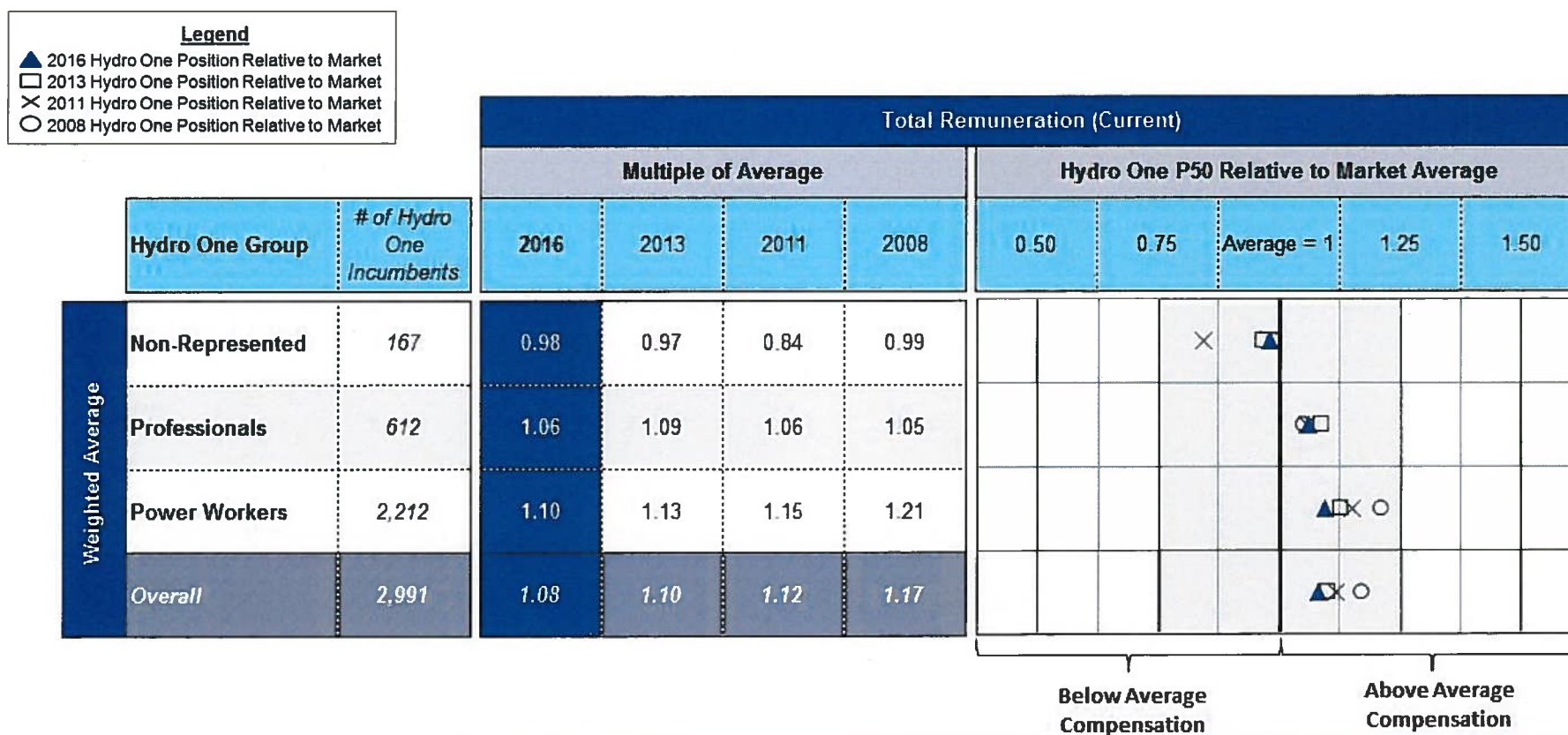
- ▲ 2016 Hydro One Position Relative to Market
- 2013 Hydro One Position Relative to Market
- × 2011 Hydro One Position Relative to Market
- 2008 Hydro One Position Relative to Market



# PRELIMINARY RESULTS

## OVERALL – TOTAL COMPENSATION (AVERAGE)

- Summarized below are the overall preliminary results comparing Hydro One P50 to Market average, by employee group





**MAKE  
TOMORROW,  
TODAY**

