

**Hydro One Networks Inc. Transmission
Application for electricity transmission
revenue requirement and related changes to
the Uniform Transmission Rates beginning
January 1, 2017 and January 1, 2018**

VULNERABLE ENERGY CONSUMERS COALITION

**(“VECC”)
CROSS-EXAMINATION
COMPENDIUM PANEL 7
COMPENSATION**

December 5, 2016

TAB 1



Hydro One

Updated Discussion Notes - Preliminary CEO/CFO Pay Benchmarking

Hydro One is pursuing an IPO in Fall 2015, privatizing its transmission and distribution business lines

- Anticipate that the new entity will be ~\$13-16B in Market Cap, and ~\$21-24B in total enterprise value (source: Goldman Sachs' Jan 2015 estimates) – by far the largest player in the industry in Canada, and unique in that it is a “pure play” transmission and distribution company (i.e. no generation)

Our Understanding of the “New” Hydro One:

- Large challenge will be to make the business more efficient, especially the distribution unit
- Expects to be a consolidator in the industry (starting by acquiring relatively smaller players, but eventually moving to more sizable targets)
- Anticipates being a yield play, with some growth as well
- Fully independent professional board
- Will be 100% regulated by the OEB initially, but no other government regulation
- Will not be under legislative compensation constraints

Preliminary Peer Groups (cont'd)

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Market Reference Points		Reasons for relevance	Points of differentiation (Ref. Groups vs. Hydro One)	
Primary Peer Group <i>(a & b combined)</i>	a) TSX Utilities Companies	<ul style="list-style-type: none">• Similar business, at least in part (distribution and transmission)• Larger players – similar scale	<ul style="list-style-type: none">• More complex (including integrated utilities with generating capacities)• Relatively less regulated• Includes some smaller players as well	
	b) TSX Pipeline / Storage Companies	<ul style="list-style-type: none">• Similar size• Similar complexity• Some regulations apply	<ul style="list-style-type: none">• Different business models• Mostly Western Canada	
Other Reference Groups	Of Interest	TSX60 Constituents a) TSX60 b) Bottom 30	<ul style="list-style-type: none">• Hydro One will likely become a TSX60 constituent• We estimate that Hydro One will fall just under the median of constituents (on a market cap basis)	<ul style="list-style-type: none">• Large variation of business models, pay levels, etc.
	Other Context	US Utility Distributors (CEO / CFO roles)	<ul style="list-style-type: none">• Similar size• Similar business model (selected “pure play” distribution companies)	<ul style="list-style-type: none">• US pay practices (i.e. high “water mark”)• Including US comparators in peer group could lead to public scrutiny
		US Utility Distributors – Top Ops / Business Division Heads (for the CEO role only)	<ul style="list-style-type: none">• Similar size• Similar business model (selected “pure play” distribution companies)• Possible talent pool	<ul style="list-style-type: none">• Including US comparators in peer group could lead to public scrutiny• The particular roles studied may not be directly applicable
		Government-owned utilities	<ul style="list-style-type: none">• Similar business model• Similar regulatory environment	<ul style="list-style-type: none">• Compensation constraints by ongoing legislation (Ontario)• Limited / unusual compensation practices and disclosure• Different talent pool

See next page for details of the primary peer group

Primary Peer Group

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- Given the uniqueness of Hydro One, there are limited comparably sized direct industry peers (i.e. 4 large utilities) and other companies that have a similar complexity of business (i.e. 4 pipeline/storage companies) – see below a summary of the primary pay benchmarking peer group (n = 8)

Company	Industry Sector	Primary Industry	TEV	Market Cap	Revenues	Assets	EBITDA
Fortis Inc.	Utilities	Electric Utilities	\$24,461	\$10,863	\$5,401	\$26,628	\$1,711
ATCO Ltd.	Utilities	Multi-Utilities	\$15,229	\$5,323	\$4,554	\$17,689	\$1,664
Emera Incorporated	Utilities	Electric Utilities	\$10,759	\$5,950	\$2,972	\$9,844	\$987
TransAlta Corp.	Utilities	Independent Power Producers and Energy Traders	\$8,859	\$3,310	\$2,441	\$10,050	\$969
Pembina Pipeline Corporation	Energy	Oil and Gas Storage and Transportation	\$17,988	\$14,292	\$6,069	\$11,262	\$932
Keyera Corp.	Energy	Oil and Gas Refining and Marketing	\$8,858	\$7,576	\$3,624	\$3,851	\$599
AltaGas Ltd.	Energy	Oil and Gas Storage and Transportation	\$9,281	\$5,544	\$2,401	\$8,413	\$502
Inter Pipeline Ltd.	Energy	Oil and Gas Storage and Transportation	\$15,201	\$10,364	\$1,556	\$8,647	\$698

Summary Statistics

75th Percentile	\$15,918	\$10,489	\$4,766	\$12,869	\$1,156
Median	\$12,980	\$6,763	\$3,298	\$9,947	\$951
25th Percentile	\$9,175	\$5,489	\$2,431	\$8,589	\$673

Hydro One Inc.	Utilities	Electric Utilities	\$22,000	\$15,000	\$6,548	\$22,550	\$1,833
			95%	MAX	MAX	93%	MAX

Source: S&P CapIQ; Goldman, Sachs & Co: Discussion Materials Regarding Hydro One

Note that Hydro One scoping numbers are TBC – we have used our best estimates from S&P CapIQ and Goldman Sachs, but have not taken into account any further restructuring that may take place
All data in CAD \$MM as of April 15, 2015

TAB 2

Hydro One

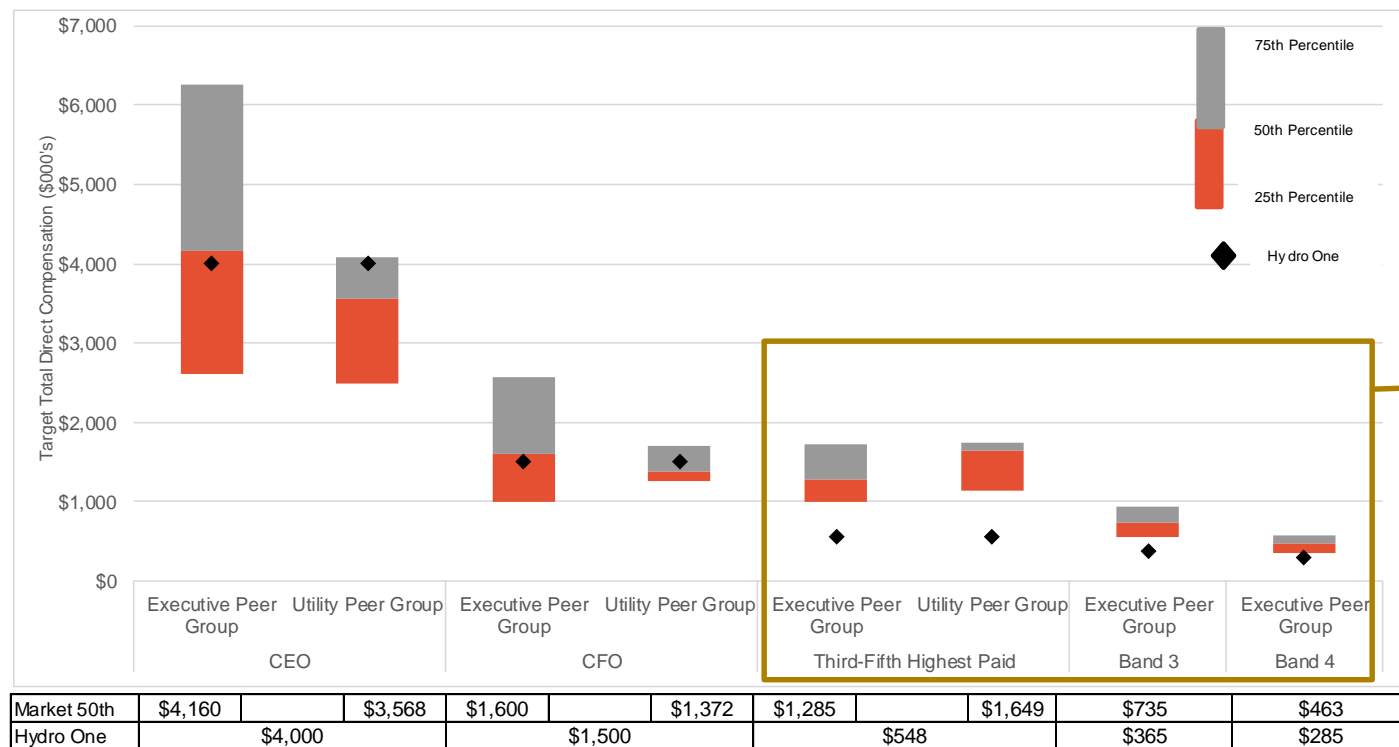
Executive Compensation Benchmarking

Draft for Discussion

OCTOBER 16, 2015

3) Comparing Peer Group Compensation Levels

- The market compensation data for the Utility Peer Group tends to be positioned lower than the Executive Peer Group (i.e., the 75th percentile of the Utility Peer Group is aligned with the 50th percentile of the Current Peer Group), except for the 3rd-5th highest paid executives where the 50th percentile for the Utility Peer Group is higher
- The difference for the CEO/CFO appears to be correlated with the smaller size of the Utility Peer Group relative to the Executive Peer Group



The below market positioning (<25th percentile) of the roles below CEO/CFO is primarily due to the absence of long-term incentives

TAB 3



Canadian Banks

Review of Horizontal Benchmarking and Its Impact on CEO Compensation and Pay Disparity

Published on Meridian Compensation Partner's website at the request of Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto Dominion Bank.

Executive Summary

Introduction

Meridian was asked by a group of six Canadian banks¹ (“the Banks”) to review horizontal benchmarking and its potential impact on CEO Compensation and pay disparity to assist with their consideration of concerns raised in shareholder proposals. In particular, our research focused on the causes of increasing CEO pay, possible risks associated with horizontal benchmarking and potential safeguards and alternative approaches.

Our research included a review of articles provided by Northwest and Ethical Investments (“NEI”) as well as additional academic articles focused on executive pay and the use of horizontal benchmarking. Our review included a cross section of materials and reflected a spectrum of viewpoints. Our research focused primarily on the U.S. and Canada; a majority of the reviewed articles are from the U.S., as the issue has received significantly more academic attention in the U.S. than Canada. The U.S. has also had some form of executive pay disclosure since the 1930’s (Canada only since the 1990’s), so long term pay comparisons typically rely on U.S. information.

In addition to academic studies, we have analyzed compensation trends and practices among the Banks and the broader market based on data provided by the Banks and available through public filings. Our research focused on trends in compensation for top executives, as well as several other positions at different levels within the Banks. We also reviewed data on executive turnover provided by the Banks.

Trends in CEO Compensation Levels

There appears to be general acceptance that executive pay has:

1. Increased significantly over the last 40 years; and
2. Increased at a faster rate than median employee compensation.

However, more recent trends show a significant downward movement in executive compensation and executive compensation relative to median employee compensation since 2000.

Based on our review of compensation at the Banks, CEO compensation reflects the broader market results. Bank CEO compensation increased significantly in the late 1990’s, with the increase predominantly in long term incentive compensation. Total Bank CEO compensation peaked in 2001, but since then has declined marginally in real terms. Total cash compensation for Bank CEO’s has declined 26% in real terms since 2000.

While Bank CEO total direct compensation has remained relatively flat since 2000, broader Bank employee compensation has increased. As a result, the ratio of Bank CEO pay to employee pay has declined since 2000. The total cash compensation ratio declined from 66:1 in 2000 to 45:1 in 2012 and the total direct compensation ratio declined from 145:1 in 2000 to 135:1 in 2012.

This downward shift in compensation and pay ratios is relatively recent and it remains to be seen whether it will be a continuing trend or is a shorter-term result of recent economic circumstances in combination with better pay for performance alignment.

¹ Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto Dominion Bank.

TAB 4

Hydro One

Competitive Compensation Review

Management Compensation Plan
Non-Executive Bands
October 16, 2015

Draft for Discussion

Executive Summary

- Hydro One engaged Towers Watson to complete a competitive market assessment of its total rewards package for management compensation plan (MCP) employees (588 incumbents)
- Our analysis is based on Hydro One's current organizational structure and role responsibilities, and will need to be refreshed as it transitions to an autonomous publicly-traded company. As such, use of this data and any program changes it informs should be paced with the evolution of the organization
- This benchmark review focuses on non-executive roles (Bands 5-10). A review of executive roles is underway and will be provided separately. The market research was conducted on a segmented basis (refer to **Appendix II** for the peer groups used in the analysis). **Consistent with Hydro One's compensation philosophy, roles are benchmarked against comparator organizations best representing the underlying skill sets required.** The two segments identified for benchmarking purposes include: Core Operational and Support segments, each representing 50% of the Band 5 – 10 population
- Seventy seven percent of Hydro One's incumbents are in roles covered by this benchmark review. In our experience, this is a strong representative sample
- On an aggregate basis, Hydro One's position to market is aligned "at" or slightly above market median; with above market variances more attributable to the support segment***

Band	# Hydro One Benchmarked Incumbents	Base Salary			Total Target Cash (TTC)			Total Direct Compensation (TDC)		
		Avg. Hydro One	Avg. P50	% +/- P50 Base Salary	Avg. Hydro One	Avg. P50	% +/- P50 TTC	Avg. Hydro One	Avg. P50	% +/- P50 TDC
Band 5 (Director)	49	\$167	\$150	11%	\$204	\$183	12%	\$204	\$191	7%
Band 6 (Mgr/Prof)	118	\$135	\$129	5%	\$155	\$142	9%	\$155	\$142	9%
Band 7 (Mgr/Prof)	229	\$117	\$107	10%	\$130	\$116	12%	\$130	\$116	12%
Band 8 (Admin)	19	\$74	\$68	9%	\$80	\$73	9%	\$80	\$73	9%
Band 9 (Admin)	35	\$64	\$61	6%	\$69	\$65	7%	\$69	\$65	7%
Band 10 (Admin)	3	\$55	\$50	10%	\$57	\$52	8%	\$57	\$52	8%
Weighted Average	453	\$121	\$112	8%	\$137	\$124	11%	\$137	\$125	10%

Filed: 2016-05-31
EB-2016-0160
Exhibit C1
Tab 4
Schedule 1
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1 thirty companies on the S&P/TSX 60 index. Similarly, the target total direct pay for the
2 CFO is in the bottom quartile of the S&P/TSX 60 index.

3
4 Willis Towers Watson conducted market assessments for MCP Bands 3-10 (SVP to
5 Administration roles). Executive level (Bands 3-4) compensation was assessed against a
6 peer group consisting of twenty-one companies that included utilities and other Canadian
7 publicly traded companies. The results show that Hydro One is positioned around the
8 25th percentile in terms of salary and target total cash. On a total rewards basis, Hydro
9 One is still positioned on average below the 25th percentile

10
11 Non-executive level (Bands 5-10) compensation was assessed by segmenting these roles
12 into Core Operations and Support Services. Core Operations roles were assessed against
13 twenty eight Canadian utilities. Core Operational roles require specific education, skills
14 and knowledge in a professional area that is directly related to the Transmission,
15 Distribution or regulation of power. Support Services positions require education, skills
16 and /or knowledge not necessarily specific to the utility business. On a total rewards
17 basis, Core Operation roles are positioned at market median or slightly below market
18 median depending on whether the assessment included the current Defined Benefit
19 Pension or the new Defined Contribution Pension Plan. Support Services roles were
20 assessed against seventy-six companies. On an aggregate basis, Hydro One's position
21 relative to market for non-executive total rewards is aligned at or slightly above market
22 median.

23
24 In situations where current incumbents are below market median as determined by these
25 market assessments, future compensation increases will be managed and approved based
26 upon demonstrated successful performance.

27
Witness: Jon Rebick

PAYROLL TABLE 2013 TO 2018

2013

REPRESENTATION	TOTAL NO. EMPLOYEES	TOTAL WAGES	Base Pay	Overtime (Incl. Premium)	Incentive	Other Allowances	Average Base Pay
PWU Reg	3,321	360,796,279	281,875,202	63,863,013	5,000	15,053,064	84,877
SOCIETY Reg	1,260	137,310,153	127,597,867	6,218,672	18,650	3,474,964	101,268
MCP Reg	600	82,939,240	70,290,362	176,885	8,229,068	4,242,924	117,151
Total Reg	5,181	581,045,672	479,763,431	70,258,571	8,252,718	22,770,952	92,601
PWU Temp	205	6,751,607	6,520,851	189,533	0	41,224	31,809
Society Temp	46	3,144,574	2,911,798	115,174	0	117,602	63,300
MCP Temp	25	1,221,374	1,175,065	1,172	0	45,138	47,003
Total Temp	276	11,117,556	10,607,714	305,878	0	203,963	38,434
CASUAL	1,781	127,813,187	98,482,627	14,650,054	11,000	14,669,505	55,296
TOTAL	7,238	719,976,414	588,853,773	85,214,503	8,263,718	37,644,421	81,356

Research Paper

Analytical Studies Branch Research Paper Series

The Evolution of Canadian Wages over the Last Three Decades

by René Morissette, Garnett Picot and Yuqian Lu

Social Analysis Division

Ottawa, Ontario

Telephone: 1-800-263-1136



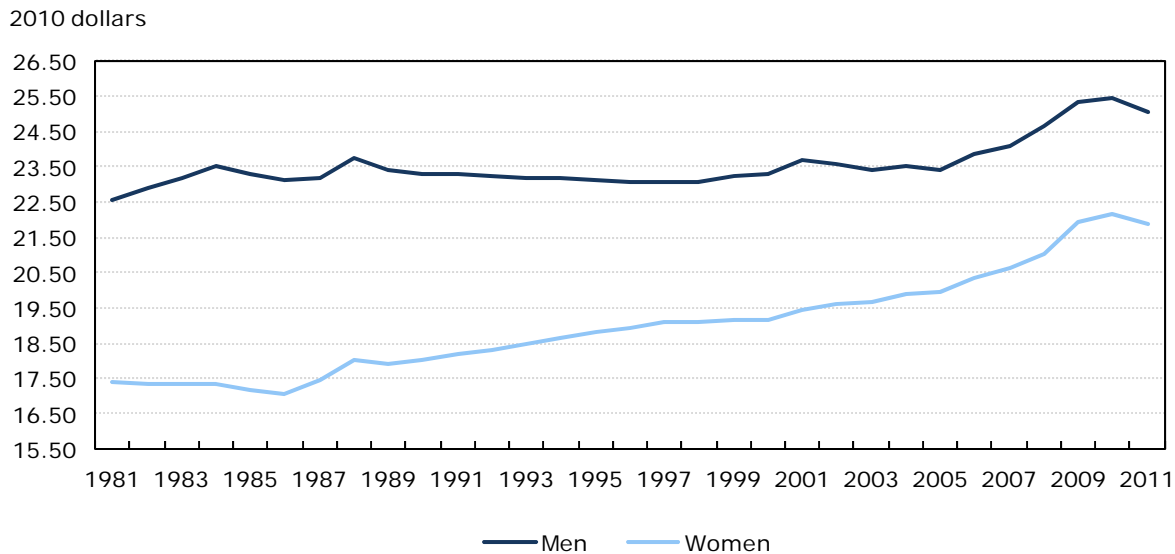
Statistics
Canada

Statistique
Canada

Canada

Chart 2

Average real hourly wages of men and women employed full-time, 1981 to 2011



Note: Estimates for 1982, 1983, 1985, and 1991 to 1996 are based on interpolations of data. Real hourly wages are obtained by dividing hourly wages by the Consumer Price Index (CPI).

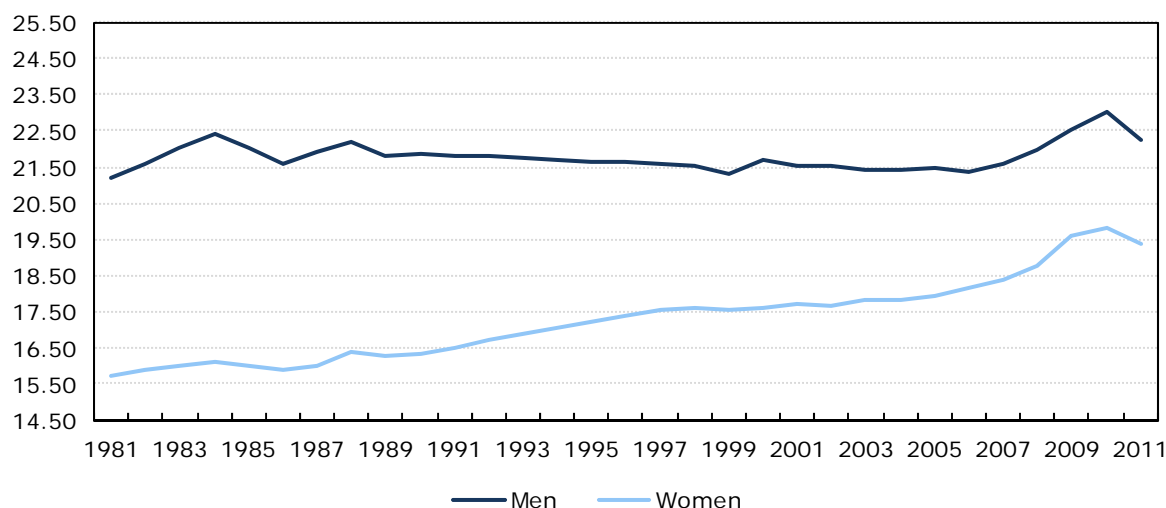
Sources: Statistics Canada, 1981 Survey of Work History, 1984 Survey of Union Membership, 1986 to 1990 Labour Market Activity Survey, 1997 to 2011 Labour Force Survey, and Consumer Price Index (All-items).

In contrast, women's median and average wages grew substantially faster between 1981 and 2011, increasing by 23% and 26%, respectively. As a result, the male–female hourly wage gap narrowed. In 1981, women aged 17 to 64 employed full-time had average hourly wages that were 77% of those of men; in 2011, the corresponding figure was 87% (Chart 4). However, these results are based on raw data. When gender differences in industry, occupation, education, age, job tenure, province of residence, marital status, and union status are taken into account, women's wages amounted to 92% of men's in 2011 (See subsection 9.2).¹¹ Among full-time workers aged 25 to 54, the corresponding number was 91%.

11. Readers should keep in mind that gender differences in industry and occupation may result either from gender differences in preferences or from sectoral and occupational segregation.

Chart 3**Median real hourly wages of men and women employed full-time, 1981 to 2011**

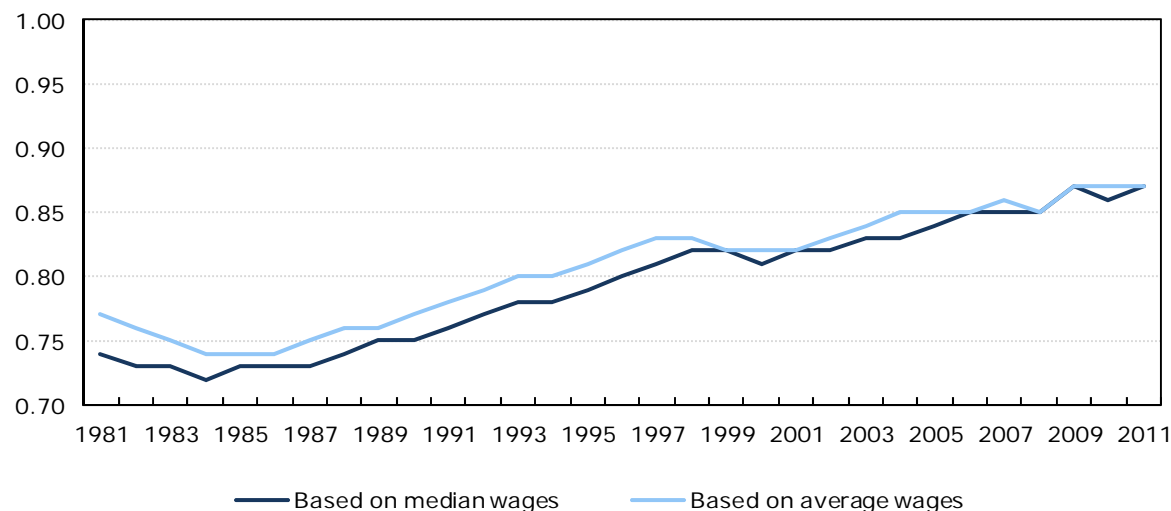
2010 dollars



Note: Estimates for 1982, 1983, 1985, and 1991 to 1996 are based on interpolations of data. Real hourly wages are obtained by dividing hourly wages by the Consumer Price Index (CPI).
Sources: Statistics Canada, 1981 Survey of Work History, 1984 Survey of Union Membership, 1986 to 1990 Labour Market Activity Survey, 1997 to 2011 Labour Force Survey, and Consumer Price Index (All-items).

Chart 4**Ratio of female–male real hourly wages, men and women employed full-time, 1981 to 2011**

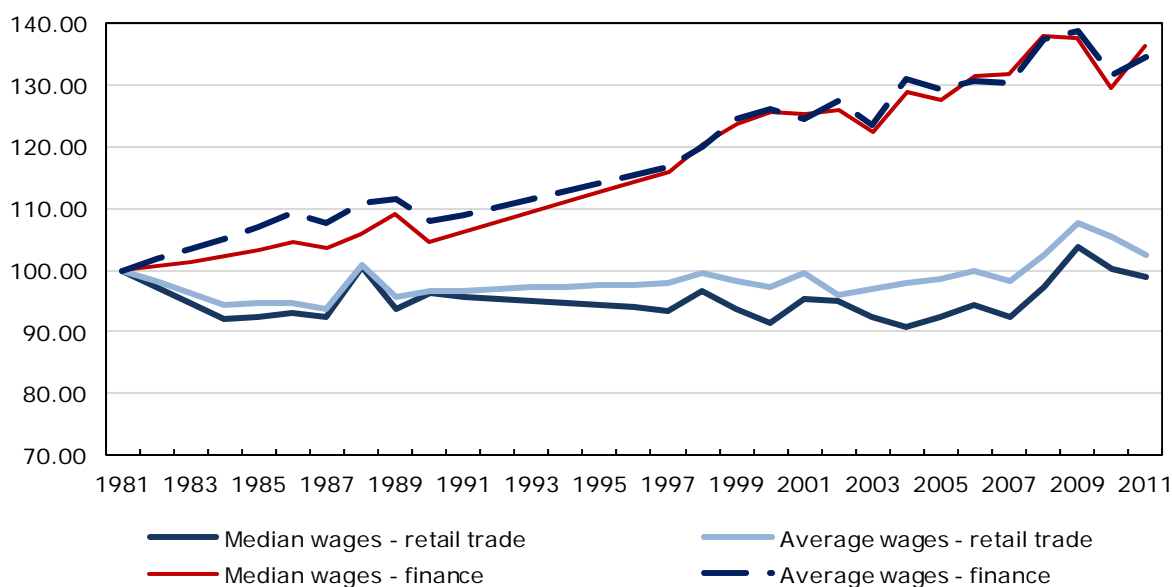
ratio



Note: Estimates for 1982, 1983, 1985, and 1991 to 1996 are based on interpolations of data. Real hourly wages are obtained by dividing hourly wages by the Consumer Price Index (CPI).
Sources: Statistics Canada, 1981 Survey of Work History, 1984 Survey of Union Membership, 1986 to 1990 Labour Market Activity Survey, 1997 to 2011 Labour Force Survey, and Consumer Price Index (All-items).

Chart 12**Index of real wages in finance and retail trade, 1981 to 2011 — Median wages and average wages (1981=100)**

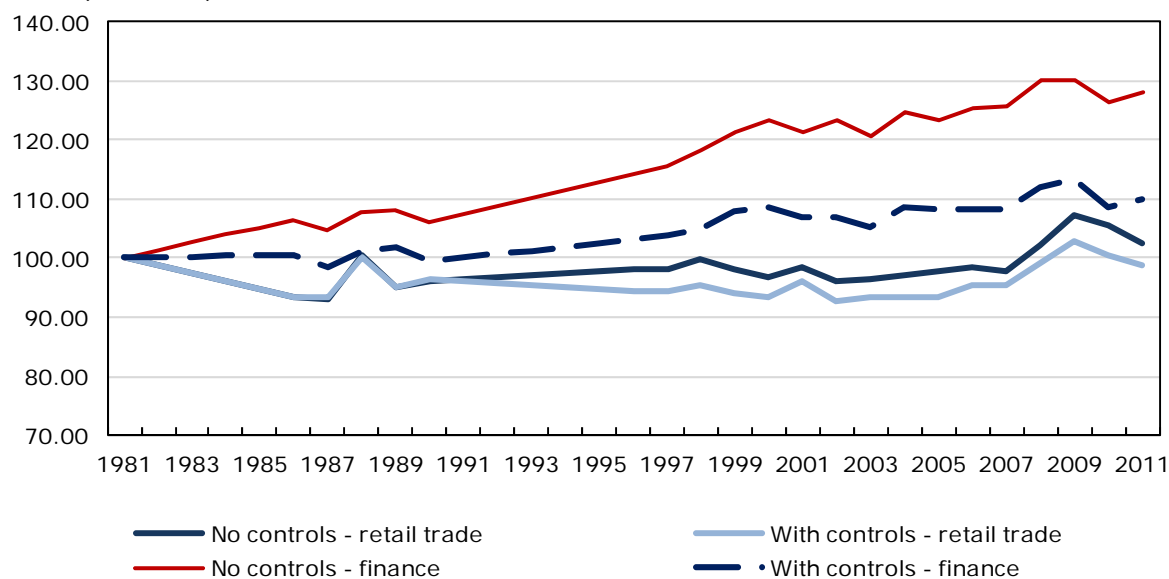
index (1981=100)



Sources: Statistics Canada, 1981 Survey of Work History, 1984 Survey of Union Membership, 1986 to 1990 Labour Market Activity Survey, 1997 to 2011 Labour Force Survey, and Consumer Price Index (All-items).

Chart 13**Index of average real log wages in finance and retail trade, 1981 to 2011 — With controls and without controls (1981=100)**

index (1981=100)



Sources: Statistics Canada, 1981 Survey of Work History, 1984 Survey of Union Membership, 1986 to 1990 Labour Market Activity Survey, 1997 to 2011 Labour Force Survey, and Consumer Price Index (All-items).