Hydro One Networks Inc.
7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5680
Cell: (416) 568-5534
Frank.Dandrea@HydroOne.com

Frank D'Andrea
Vice President, Chief Regulatory Officer,
Chief Risk Officer

BY COURIER

April 20, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

EB-2017-0049 – Additional Compensation Evidence

Please find enclosed updated compensation benchmarking studies by Mercer and Willis Tower Watson. Also, as requested by OEB in its letter dated April 18, 2018, please find enclosed the exhibits filed in Hydro One Transmission's proceeding (EB-2016-0160) that qualify to be filed in this distribution proceeding. Hydro One requests this material be assigned an exhibit number at the commencement of the oral hearing.

This filing has been submitted electronically using the Board's Regulatory Electronic Submission System and two (2) hard copies will be sent via courier.

Hydro One's points of contact for service of documents associated with the Application remain as listed in Exhibit A, Tab 2 Schedule 1.

Sincerely,

ORIGINAL SIGNED BY IAN MALPASS ON BEHALF OF FRANK D'ANDREA

Frank D'Andrea

Encls.
cc. EB-2017-0049 parties (electronic)

MERCER
MAKE TOMORROW, TODAY

HEALTH WEALTH CAREER

COMPENSATION COST BENCHMARKING STUDY

HYDRO ONE NETWORKS INC.

04 APRIL 2018

MARSH & McLENNAN COMPANIES

CONTENTS

1

Executive Summary

Hydro One Networks Inc. (“Hydro One”) has retained Mercer to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One’s total compensation levels including salary, short-term incentives, long-term incentives, pension and employer paid health and group benefits relative to a select peer group. This study was conducted in 2008, 2011, 2013, 2016 and repeated, following a similar methodology, in 2017.

Prior to each study, every effort is made to ensure that the approach and methodology used continues to meet industry best standards and will provide an appropriate comparison for Hydro One.

Since 2008, the compensation cost benchmarking study has included regulated Transmission and Distribution Utilities’ and comparable regulated businesses across Canada. However, to reflect the changing talent landscape and nature of the workforce, the comparator group and job list for the 2016 study was reviewed with the purpose of rebalancing the mix of Transmission, Distribution and Functional benchmark jobs, and to better represent the market in which Hydro One attracts and loses talent to (e.g. contractors). This resulted in revisions to the comparator organizations and survey jobs included in the study.

While these changes may have an impact on the study-over-study comparison, Mercer believes they better reflect the current workforce and balance of jobs at Hydro One.

This document represents the final results of our analysis. Study-over-study trend analysis is provided.

Compensation Benchmarking

The compensation benchmarking study compared Hydro One’s total compensation to a peer group of Transmission, Distribution and Generation organizations, supplemented with Contractors and participants from a similar Regulatory Environment.

The study reflected 3,210 Hydro One employees (up from 2,991 in 2016) in 34 benchmark jobs representing 59% of Hydro One’s employee population (excluding non-full time employees). In total, our analysis reflected approximately 16,800 (up from approximately 15,000 in 2016) incumbents employed in the Canadian energy and/or adjacent sectors. The increase in the percentage of Hydro One employees represented is partly driven by the updates made to the benchmark job list.

On an overall weighted average basis, for the jobs Mercer reviewed in 2017, Hydro One is positioned approximately 12% above the market 50th percentile (“P50” or “median”). In comparison to the 2016 study, Hydro One’s overall weighted average positioning has decreased from 14% above the market total compensation 50th percentile.

The shift in Hydro One's competitive position towards the median is notable given that the peer group, like Hydro One, has worked to reduce labour costs as a response to both the substantial economic downturn beginning in 2008 and expectations of key stakeholders over the entire period the compensation cost benchmarking studies have been conducted (2008 – 2016).

Hydro One's overall positioning relative to the market median is driven by a combination of a number of factors, including:

- The use of casual workers that have lower cost pension and benefit packages
- Higher short-term incentive payouts to the non-represented group following strong company performance
- Highly competitive base wages, especially for the most highly skilled Power Workers' Union ("PWU") jobs (Trades and Technical Group)
- The introduction of lump sum and share grant awards to the Energy Professionals and Technical and Trades workers, respectively, in exchange for reduced base salary / wage increases, resulting in lower pension and benefit costs
- Changes in the organizations participating in the study and the benchmark job list
- The relatively high value of legacy collective agreement wages, pension and benefits programs. We note that the legacy non-represented pension and benefit and Society pension plans are now closed to new members

The table below summarizes the results of the 2017 Compensation Cost Benchmarking Study compared to the results of the 2016, 2013, 2011 and 2008 study.

Table 1

Legend
- 2017 Hydro One Position Relative to Market
- 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

	Hydro One Group	# of Hydro One Incumbents	Total Remuneration (Current) Multiple of P50 2017	2016	2013	2011	2008	Hydro One P50 Relative to Market P50 0.50	0.75	P50 = 1	1.25	1.50
Weighted Average	Non-Represented	*172*	**1.01**	1.02	0.99	0.83	0.99					
	Energy Professionals	*560*	**1.12**	1.11	1.09	1.05	1.05					
	Trades and Technical	*2,478*	**1.12**	1.16	1.12	1.18	1.21					
	Overall	***3,210***	***1.12***	***1.14***	***1.10***	***1.13***	***1.17***					

Below P50 Compensation | Above P50 Compensation

2

Introduction

Hydro One Networks Inc. ("Hydro One") has retained Mercer to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One's total compensation levels including salary, short-term incentives, long-term incentives, pension and employer paid health and group benefits relative to a select peer group. This study was conducted in 2008, 2011, 2013, 2016 and repeated, following a similar methodology, in 2017.

This report is intended to help Hydro One in preparing a multi-year CIR Application for Transmission rates (2019-2023). The results of the Compensation Cost Benchmarking study will be filed as evidence for the rate setting application.

To provide independent and reliable information on Hydro One's relative compensation costs, Mercer has undertaken a customized survey of total compensation in the market ("Compensation Benchmarking")**.**

The total compensation (i.e., base salary, short-term incentives / lump sums, long-term incentives [including negotiated share grants], pension and benefits) benchmarking analyses focused on assessing Hydro One's overall competitiveness in the marketplace.

Prior to each study, every effort is made to ensure that the approach and methodology used continues to meet industry best standards and will provide an appropriate comparison for Hydro One. In order to reflect the changing talent landscape and nature of the workforce, the comparator group and job list for the 2016 study was reviewed with the purpose of rebalancing the mix of Transmission, Distribution and Functional benchmark jobs, and to better represent the market in which Hydro One attracts and loses talent to. This resulted in revisions to the comparator organizations and survey jobs included in the study.

While these changes may have an impact on the study-over-study comparison, Mercer believes they better reflect the current workforce and balance of jobs at Hydro One.

3

Guiding Principles

The principles used for the compensation cost study were based on Mercer's standard approach in conducting multi-year compensation benchmarking. Mercer ensures that these principles are effectively applied within the context of the Hydro One study, making adjustments where necessary. These principles include:

1. Principle objective – to revisit the 2016, 2013, 2011 and 2008 Mercer Study to reasonably compare Hydro One compensation costs to those of regulated Transmission and Distribution Utilities', comparable regulated businesses and Contractors across Canada.
   - The 2016, 2013, 2011 and 2008 Mercer Studies were revisited following the same general overall methodology to provide appropriate study-over-study comparisons.

2. Keep it simple to entice survey participants.
   - The data collection process was reviewed and streamlined, where possible, to encourage survey participants to share data. Additional follow-up was provided by Mercer to support comparator participation in the study.

3. Be independent, testable, repeatable and market-based.
   - The study was conducted in a manner that meets each of the criteria listed.

4. Provide participants with the assurance that their information could not be attributable to them.
   - All participants were assured that data would be held confidentially by Mercer and only be shared in aggregate form.

5. Be based on the organizations and benchmark jobs surveyed in the 2016 Mercer Study and expanded as deemed appropriate by the consultant.
   - The 2017 study targeted similar benchmark jobs and organizations as the 2016 study; however, the following changes were made:
     - The list of benchmark jobs for the 2017 study was revised to reflect a mix of Transmission, Distribution and Functional jobs that is more representative of the roles at Hydro One. This resulted in the addition of five (5) new jobs and removal of three (3) jobs.
     - The list of peer organizations for the 2017 study was revised to include Contractors, Regulators and a rebalanced mix of Transmission, Distribution and Generation organizations. This resulted in a similar peer group used in the 2016 study with the addition of two (2) Contractors, one (1) Electricity System Operator and two (2) Transmission organizations. Two (2) organizations that participated in the 2016 study declined to participate in 2017. One (1) organization was part of a merger and participated under a new name.

6. Mirror the scoping in the 2016, 2013, 2011 and 2008 Mercer Studies for peer selection, job classes, etc. and changes as deemed appropriate by the consultant.

- Though the peer group and job list were revised, the same methodology used in 2016, 2013, 2011 and 2008 was followed in the 2017 Mercer Study for both peer company selection and job classes for inclusion. The selected benchmark job classes for the 2017 study represented 59% of Hydro One's employee population (excluding non-full time employees).

7. Enable reasonable comparison to the last Mercer study and provide trending analysis for Hydro One.
   - By including approximately 77% of peers and 91% of jobs from the 2016 Mercer Study, reasonable comparisons have been made and trending has been assessed.

8. Compare to market median rather than market average ("mean")
   - The 2017 Mercer Study is based on a comparison of Hydro One median compensation against market median compensation. Comparison of medians is standard compensation practice; medians are representative of the middle data point in a sample and are less sensitive to outliers than the mean.
     - The 2008, 2011, 2013 and 2016 studies also compared Hydro One to the median.
   - Appendix A provides a comparison of Hydro One's total compensation median against market average. On an overall weighted average basis, there is a material difference between Hydro One's median positioning relative to market median and its positioning relative to the market arithmetic mean.

9. No adjustments to reflect regional costs of living amongst the study participants.

10. Hydro One has relied on Mercer's expertise in conducting the study to recommend appropriate changes in methodology and assumptions.

4

Compensation Benchmarking

Peer Groups

Mercer selects peer organizations, for compensation benchmarking purposes, based on a stable metric that reflects the size and operating complexity of the organization (typically, this is revenue and/or total assets). Where there is a relatively small sample of relevant comparator organizations, Mercer establishes limits of 33% to 300% of the scope criteria for the organization we are analyzing. Some organizations were included in the analysis despite falling below the 33% of revenue threshold value. These organizations were a mix of regulated Transmission and Distribution Utilities', Contractors and an Electricity System Operator that are seen as important comparators by stakeholders.

To develop a single peer group for Hydro One, Mercer initially considered all organizations, with 2015 or 2016 annual revenues between 33% and 300% of Hydro One's 2016 annual revenue, from the following areas:

1. Electric utilities, multi-utilities, generation, transmission, and gas utilities industries in Canada as classified by their Global Industry Classification Standard ("GICS")

2. 74 Local Distribution Companies ("LDCs") in Ontario

3. Organizations from which Hydro One contracts employees

4. Other comparable regulated businesses (i.e., gas pipelines, railroads, etc.)

Overall, 29 organizations were invited to participate in the study:

- 19 organizations accepted the invitation and participated in the 2017 study.
  - 15 of the 17 organizations included in the 2016 study were invited to participate.
    - The following two organizations were not invited to participate in 2017:
      a. Bell Canada: Few comparable jobs – Provided data for less than 30% of jobs in 2016
      b. PowerStream: Part of a merger to become Alectra Utilities; Alectra is included in the study.
  - 13 organizations included in the 2017 study also participated in 2016.
  - 2 organizations that participated in the 2016 study declined to participate in 2017.
- 6 organizations that participated in the 2017 study were not invited in previous studies. This includes, amongst others, Contractors and an Electricity System Operator.
  - This resulted in an increase of two (2) organizations over the total number of 2016 participants.

Organizations that did not participate in the compensation benchmarking study indicated that they were unable to participate due to either resource constraints or an insufficient number of relevant benchmark jobs.

Following standard industry practice, comparisons were made between Hydro One's incumbents, at the 50th percentile, to the market peer group 50th percentile on base salary, total cash compensation and total compensation.

To ensure that no one organization biased the results, we have weighted our analysis by organization for each job class and not by number of incumbents to determine Hydro One's position relative to the market (i.e., the analysis is "Org Weighted"). To preserve the confidentiality of compensation data at both Hydro One and participating organizations, we have aggregated our results.

Market Sample

Summarized below are the participating organizations in the compensation benchmarking.

Table 2

Company Name	Revenue[1]	# of Employees[1,2]
Hydro-Québec	$13,339.0	19,552
TransCanada Corporation	$12,505.0	6,705
BC Hydro Power & Authority	$5,874.0	6,076
Ontario Power Generation Inc.	$5,653.0	9,306
Toronto Hydro Corporation	$4,030.0	1,415
Alectra Utilities Corporation*	$3,824.4	1,440
ENMAX Corporation	$2,801.0	1,786
Bruce Power L.P.	$2,656.0	4,109
Enbridge Inc.	$2,606.0	2,053
SaskPower	$2,296.0	3,238
EPCOR Utilities, Inc.	$1,932.0	2,989
Manitoba Hydro	$1,867.0	5,925
New Brunswick Power	$1,791.0	2,573
Nalcor Energy*	$824.0	1,334
Veridian Corporation	$364.1	219
Kinder Morgan Canada Ltd.*	$253.0	353
Independent Electricity System Operator*	$194.1	665
Black & McDonald[3]*	--	--
K-Line Maintenance & Construction Ltd[3]*	--	--
75th %ile	**$3,927.2**	**5,413**
50th %ile	**$2,296.0**	**2,573**
25th %ile	**$1,162.0**	**1,375**
Average	**$3,390.7**	**3,951**
Hydro One Network Inc.	**$6,552.0**	**5,400**

[1] *Data as reported by survey participants in CAD ($MM)*

[2] *Representative of full-time employees and equivalents only*

[3] *Private organization. Revenue and number of Employees information has been masked*

** New participants in 2017*

Benchmark Jobs

The compensation survey was designed to benchmark compensation levels from a cross-section of Hydro One's population. To determine the roles to be included in our benchmark analysis, Mercer reviewed jobs that represented all of Hydro One's major business units and covered, at least, 50% of Hydro One's employee population.

To assist with study-over-study comparisons, it was determined that the Study should collect incumbent data using 29 of the 32 benchmark roles surveyed in the 2016 study. In an effort to rebalance the mix of Distribution, Transmission and Functional jobs within the study to better reflect the representation of jobs found within Hydro One, the following roles have been removed from the 2016 job list, partially due to their low incumbency at Hydro One:

- Area Superintendent
- Meter Reader
- Production Field Administrator III

The following five (5) jobs were added to the Study as replacements:

- Non-Represented: Manager Construction
- Energy Professionals: Estimator/Scheduler, Senior Protection & Control Supervisor
- Trades and Technical: Heavy Equipment Operator, Carpenter-Construction

In total, 34 benchmark roles were included in the 2017 compensation benchmarking study and data is reported on all 34 jobs.

As a result, ***the 2017 Compensation Cost Benchmarking Study directly reflected 3,210 Hydro One employees in 34 benchmark jobs representing 59% of Hydro One's employee population (excluding non-full time employees).***

In the market, Mercer collected approximately 16,800 individual incumbent observations across the benchmark roles (this figure excludes the 3,210 Hydro One incumbents) ***employed in the Canadian energy and/or adjacent sectors.***

Summarized below are the benchmark jobs organized by major employee group. The results in this report are summarized by the following employee groups. Specifically:

Table 3

Hydro One Group	Job #	Benchmark Survey Title
Non-Represented	1	Financial Director
	2	Regulatory Director**
	3	Manager of Construction*
	4	Senior Legal Counsel
	5	Engineer F
	6	Operations Manager**
	7	Human Resource Manager / Consultant
	8	Administrative Assistant
Energy Professionals	9	Engineer E
	10	Business Analyst C
	11	Engineer D
	12	Senior Protection and Control Supervisor*
	13	Estimator/Scheduler*
	14	Engineer C
	15	Engineer B
	16	Business Analyst A
	17	Engineer A
Trades and Technical	18	System Operator (Controller)
	19	Regional Maintainer - Lines (Supervisory)
	20	Protection and Control Technician
	21	Lineman - Journeyman
	22	Engineering Technician
	23	Regional Maintainer - Lines
	24	Regional Maintainer - Electrical
	25	Fleet Mechanic
	26	Service Dispatcher
	27	Draftsperson**
	28	Stock Keeper
	29	Carpenter - Construction*
	30	Heavy Equipment Operator*
	31	Labourer**
	32	Data Entry Clerk
	33	Electrical Apprentice
	34	Lines Apprentice

** New position in 2017*

*** Retitled position*

"Energy Professionals" refers to Hydro One jobs represented by the Society of Energy Professionals (i.e., "Society") and "Trades and Technical" refers to Hydro One jobs represented by the Power Workers' Union (i.e., "PWU").

See Appendix B for a summary of job descriptions.

Methodology

As outlined in Appendix B, summarized below is the methodology used to determine compensation levels. Specifically:

Base Salary/Wage – Annual base salary at October 1, 2017 - If an hourly rate was reported, Mercer annualized the value by multiplying the standard number of work hours per week by 52 weeks per year. If a weekly rate was reported, Mercer annualized the value by multiplying by 52 weeks per year.

Total Cash Compensation - Base salary ***plus*** most recent short-term incentive or bonus paid/lump sum where applicable.

- Hydro One does not provide short-term incentives or bonus programs to Energy Professional or Power Worker jobs.
- In 2017, Hydro One provided lump sum payments, to the Energy Professional jobs, in exchange for reduced base salary increases.

Benefits and Pensions – To value benefit and pension programs, Mercer applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans.

Total Compensation – Total cash compensation ***plus*** estimated annual value of the most recent long-term incentive grant (i.e., long-term cash, expected value of stock options or share awards) and pensions and benefits.

- Hydro One only provides long-term incentives to the Financial Director and Regulatory Director job.
- In 2017, Hydro One provided share grants, to the Power Worker jobs, in exchange for reduced base salary increases.

Findings

Summarized below are the results of our compensation benchmarking analysis.

Overall, **on a weighted average basis, Hydro One's total compensation cost is 12% above market median**. Hydro One is consistently positioned above the market 50th percentile for all employee groups, ranging from a low of 1% for the Non-Represented group and a high of 12% above the market P50 for the Trades and Technical group.

In the 2016 study, Hydro One's overall weighted average was 14% above the market total compensation P50 – a 2% shift towards the market median since 2016.

Table 4

Legend
- 2017 Hydro One Position Relative to Market
- 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	2017 ◆	2016 △	2013 □	2011 ×	2008 ○	0.50	0.75	P50 = 1	1.25	1.50
Weighted Average	Non-Represented	172	1.01	1.02	0.99	0.83	0.99						
	Energy Professionals	560	1.12	1.11	1.09	1.05	1.05						
	Trades and Technical	2,478	1.12	1.16	1.12	1.18	1.21						
	Overall	*3,210*	*1.12*	*1.14*	*1.10*	*1.13*	*1.17*						

Below P50 Compensation | Above P50 Compensation

The results are driven by a combination of factors the most significant of which are the following:

- The use of casual workers that have lower cost pension and benefit packages
- Higher short-term incentive payouts to the non-represented group following strong company performance
- Highly competitive base wages, especially for the most highly skilled Power Workers' Union ("PWU") jobs (Trades and Technical Group)
- The introduction of lump sum and share grant awards to the Energy Professionals and Technical and Trades workers, respectively, in exchange for reduced base salary / wage increases, resulting in lower pension and benefit costs
- Changes in the organizations participating in the study and the benchmark job list
- The relatively high value of legacy collective agreement wages, pension and benefits programs. We note that the legacy non-represented pension and benefit and Society pension plans are now closed to new members

Mercer understands that these legacy plans relate to collective agreements negotiated prior to the formation of Hydro One. All PWU employees continue to be covered by the legacy plans. Even if all Non-Represented and Energy Professional employees were covered by the new plans, the difference in overall cost on a weighted average basis would not be substantial as the high population Power Worker jobs continue to be covered by the legacy plans; however, the use of casual workers ("hiring hall") for several of the PWU benchmarks does reduce compensation costs relative to other PWU jobs and our market data.

For new employees hired into Non-Represented and Energy Professional job classifications, the value of pensions and/or benefits, where applicable, have decreased due to recent amendments to these plans (see "Future" & "Go Forward" columns on the following pages).

Mercer notes that, when measured on revenue, Hydro One is the third largest organization, for which we are able to report revenue, in the sample. Although size has a limited impact on middle management and unionized roles, size may have an impact on compensation for executive roles, as these roles tend to be larger and more complex in larger organizations.

As requested by stakeholders in 2011, in addition to comparing Hydro One P50 to market P50, a comparison was also made of Hydro One median to market average ("mean"). On a weighted average basis, Hydro One's total compensation cost is 8% above market average. Hydro One's position relative to market varies by employee group from 6% below market average for the Non-Represented group to a high of 9% above the market average for the Trades and Technical group. There is a noticeable difference between the market median and market average. This is driven, to a certain extent, by outliers in the data set and the sample size used. See Appendix A for detailed results.

Non-Represented

Summarized below are the results for the Non-Represented roles that Mercer benchmarked at Hydro One relative to the market peer group.

In comparison to 2016, the 2017 Total Compensation (Current) result has decreased from 2% above market median to 1% above market median.

Table 5

			Hydro One P50 Relative to Market P50[1]				
			Base Salary	Total Cash[2]	Total Compensation[3]		
	Hydro One Group	# of Hydro One Incumbents			Current[4]	Future[5]	Go Forward[6]
Non-Represented	Financial Director	2	-4%	10%	23%	23%	8%
	Regulatory Director**	2	-16%	-6%	5%	4%	-9%
	Manager of Construction*	8	6%	17%	22%	20%	4%
	Senior Legal Counsel	7	-4%	18%	15%	15%	4%
	Engineer F	57	-10%	-9%	-1%	-3%	-14%
	Operations Manager**	85	-3%	-1%	1%	-1%	-13%
	Human Resource Manager / Consultant	8	-24%	-25%	-21%	-21%	-31%
	Administrative Assistant	3	4%	4%	5%	5%	-5%
	2017 Weighted Average Non-Represented	172	-6%	-3%	1%	0%	-12%
	2016 Weighted Average Non-Represented	167	-1%	-3%	2%	-1%	-12%
	2013 Weighted Average Non-Represented	206	-2%	-4%	-1%	-6%	-
	2011 Weighted Average Non-Represented	137	-17%	-20%	-17%	-18%	-
	2008 Weighted Average Non-Represented	151	-2%	-4%	-1%	-5%	-

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.)
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
[5] Based on Hydro One's employee population, assuming all incumbents in the new DB pension and benefits programs.
[6] Based on Hydro One's employee population, assuming all incumbents in the new DC pension and benefits programs.
** New job in 2017.*
*** Retitled job.*

Energy Professionals ("Society")

Summarized below are the results for the Energy Professional roles that Mercer benchmarked at Hydro One relative to the market peer group.

In comparison to 2016, the 2017 Total Compensation (Current) result has increased from 11% above market median to 12% above market median.

Table 6

			Hydro One P50 Relative to Market P50[1]			
			Base Salary	Total Cash[2]	Total Compensation[3]	
	Hydro One Group	# of Hydro One Incumbents			Current[4]	Future[5]
Energy Professionals	Engineer E	113	-1%	-1%	2%	-2%
	Business Analyst C	1	28%	28%	34%	34%
	Engineer D	276	0%	-3%	6%	6%
	Senior Protection and Control Supervisor*	26	7%	9%	22%	17%
	Estimator/Scheduler*	16	33%	36%	43%	43%
	Engineer C	21	14%	4%	16%	16%
	Engineer B	86	22%	15%	29%	29%
	Business Analyst A	7	41%	40%	42%	42%
	Engineer A	14	2%	-5%	7%	7%
	2017 Weighted Average Energy Professionals	560	5%	3%	12%	11%
	2016 Weighted Average Energy Professionals	612	5%	1%	11%	10%
	2013 Weighted Average Energy Professionals	746	7%	3%	9%	7%
	2011 Weighted Average Energy Professionals	779	6%	-3%	5%	4%
	2008 Weighted Average Energy Professionals	578	8%	-2%	5%	3%

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.)
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
[5] Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs.
** New job in 2017.*

Trades and Technical ("PWU")

Summarized below are the results for the Trades and Technical roles that Mercer benchmarked at Hydro One relative to the market peer group.

In comparison to 2016, the 2017 Total Compensation result has decreased from 16% above market median to 12% above market median.

Table 7

			Hydro One P50 Relative to Market P50[1]		
	Hydro One Group	# of Hydro One Incumbents	Base Salary	Total Cash[2]	Total Compensation[3] Current[4]
Trades and Technical	System Operator (Controller)	88	18%	18%	37%
	Regional Maintainer - Lines (Supervisory)	62	5%	4%	21%
	Protection and Control Technician	90	17%	17%	34%
	Lineman - Journeyman	142	12%	12%	1%
	Engineering Technician	144	6%	6%	27%
	Regional Maintainer - Lines	748	-3%	-5%	10%
	Regional Maintainer - Electrical	255	8%	8%	29%
	Fleet Mechanic	73	9%	9%	26%
	Service Dispatcher	20	41%	35%	50%
	Draftsperson**	29	6%	3%	20%
	Stock Keeper	56	19%	16%	40%
	Carpenter - Construction*^	57	30%	30%	31%
	Heavy Equipment Operator*	11	12%	12%	18%
	Labourer	225	10%	8%	12%
	Data Entry Clerk	65	13%	9%	27%
	Electrical Apprentice	54	-14%	-14%	-16%
	Lines Apprentice	359	-17%	-17%	-20%
	2017 Weighted Average Trades and Technical	2,478	3%	1%	12%
	2016 Weighted Average Trades and Technical	2,212	5%	4%	16%
	2013 Weighted Average Trades and Technical	2,100	8%	6%	12%
	2011 Weighted Average Trades and Technical	2,411	10%	9%	18%
	2008 Weighted Average Trades and Technical	1,966	20%	16%	21%

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.)
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
** New job in 2017.*
*** Retitled job.*
^ Average market data reported as median for comparison purposes.

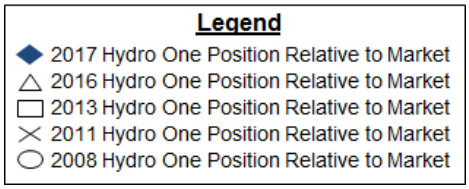
APPENDIX A

Hydro One vs. Market Average

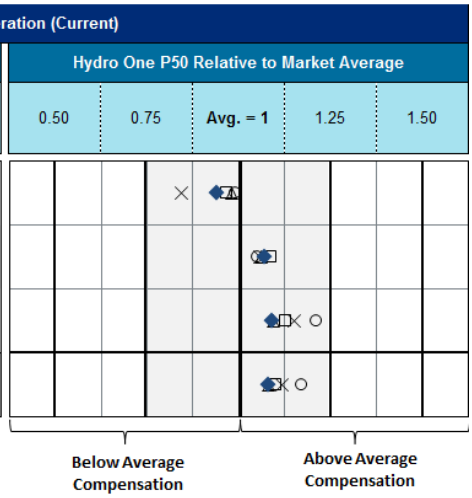
As requested by stakeholders, summarized below are the results of our compensation benchmarking analysis comparing Hydro One median to market average.

Overall, **on a weighted average basis, Hydro One's total compensation cost is 8% above the market average (mean)**. Hydro One's position relative to market varies by employee group from a low of 6% below the market average for the Non-Represented group to a high of 9% above the market average for the Trades and Technical group.

Table 8



	Hydro One Group	# of Hydro One Incumbents	Total Remuneration (Current) Multiple of Average 2017 ◆	2016 △	2013 □	2011 ×	2008 ○
Weighted Average	Non-Represented	172	0.94	0.98	0.97	0.84	0.99
	Energy Professionals	560	1.07	1.06	1.09	1.06	1.05
	Trades and Technical	2,478	1.09	1.10	1.13	1.15	1.21
	Overall	*3,210*	*1.08*	*1.08*	*1.10*	*1.12*	*1.17*



Non-Represented

Summarized below are the results for the Non-Represented roles that Mercer benchmarked at Hydro One relative to the market peer group.

Table 9

	Hydro One Group	# of Hydro One Incumbents	Hydro One P50 Relative to Market Average[1]				
			Base Salary	Total Cash[2]	Total Compensation[3]		
					Current[4]	Future[5]	Go Forward[6]
Non-Represented	Financial Director	2	-4%	5%	16%	16%	3%
	Regulatory Director**	2	-15%	-12%	-13%	-14%	-25%
	Manager of Construction*	8	3%	6%	13%	10%	-4%
	Senior Legal Counsel	7	-5%	4%	1%	1%	-8%
	Engineer F	57	-14%	-13%	-13%	-14%	-24%
	Operations Manager**	85	-5%	-7%	-2%	-3%	-15%
	Human Resource Manager / Consultant	8	-24%	-28%	-26%	-26%	-34%
	Administrative Assistant	3	-2%	0%	1%	1%	-8%
	2017 Weighted Average Non-Represented	172	-8%	-9%	-6%	-7%	-18%
	2016 Weighted Average Non-Represented	167	-2%	-5%	-2%	-5%	-16%
	2013 Weighted Average Non-Represented	206	-4%	-6%	-3%	-8%	-
	2011 Weighted Average Non-Represented	137	-15%	-17%	-16%	-17%	-

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.)
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
[5] Based on Hydro One's employee population, assuming all incumbents in the new DB pension and benefits programs.
[6] Based on Hydro One's employee population, assuming all incumbents in the new DC pension and benefits programs.
** New job in 2017.*
*** Retitled job.*

Energy Professionals ("Society")

Summarized below are the results for the Energy Professional roles that Mercer benchmarked at Hydro One relative to the market peer group.

Table 10

			Hydro One P50 Relative to Market Average[1]			
			Base Salary	Total Cash[2]	Total Compensation[3]	
	Hydro One Group	# of Hydro One Incumbents			Current[4]	Future[5]
Energy Professionals	Engineer E	113	-6%	-12%	-5%	-8%
	Business Analyst C	1	29%	26%	31%	31%
	Engineer D	276	1%	-3%	1%	1%
	Senior Protection and Control Supervisor*	26	4%	3%	13%	9%
	Estimator/Scheduler*	16	33%	35%	45%	45%
	Engineer C	21	12%	8%	15%	14%
	Engineer B	86	23%	20%	27%	27%
	Business Analyst A	7	37%	33%	41%	41%
	Engineer A	14	0%	-4%	6%	6%
	2017 Weighted Average Professionals	560	5%	1%	7%	6%
	2016 Weighted Average Energy Professionals	612	7%	-1%	6%	5%
	2013 Weighted Average Energy Professionals	746	8%	1%	9%	7%
	2011 Weighted Average Energy Professionals	779	6%	-1%	6%	4%

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.)
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
[5] Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs.
** New job in 2017.*

Trades and Technical ("PWU")

Summarized below are the results for the Trades and Technical roles that Mercer benchmarked at Hydro One relative to the market peer group.

Table 11

	Hydro One Group	# of Hydro One Incumbents	Hydro One P50 Relative to Market Average[1]		
			Base Salary	Total Cash[2]	Total Compensation[3] Current[4]
Trades and Technical	System Operator (Controller)	88	14%	11%	28%
	Regional Maintainer - Lines (Supervisory)	62	6%	1%	19%
	Protection and Control Technician	90	18%	15%	34%
	Lineman - Journeyman	142	11%	9%	-2%
	Engineering Technician	144	7%	7%	23%
	Regional Maintainer - Lines	748	-3%	-6%	8%
	Regional Maintainer - Electrical	255	10%	7%	24%
	Fleet Mechanic	73	10%	9%	27%
	Service Dispatcher	20	29%	26%	48%
	Draftsperson**	29	4%	2%	17%
	Stock Keeper	56	22%	19%	39%
	Carpenter - Construction*^	57	30%	30%	31%
	Heavy Equipment Operator*	11	10%	7%	9%
	Labourer	225	6%	5%	5%
	Data Entry Clerk	65	3%	2%	15%
	Electrical Apprentice	54	-17%	-20%	-26%
	Lines Apprentice	359	-16%	-17%	-21%
	2017 Weighted Average Trades and Technical	2,478	2%	0%	9%
	2016 Weighted Average Trades and Technical	2,212	2%	-1%	10%
	2013 Weighted Average Trades and Technical	2,100	9%	7%	13%
	2011 Weighted Average Trades and Technical	2,411	10%	8%	15%

[1] Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per job.
[2] Base salary plus short-term incentives granted (i.e., bonus/lump sum), where applicable.
[3] Total cash compensation plus estimated long-term incentives, benefits and pension values.
[4] Based on Hydro One's employee population, assuming current pension and benefits program eligibility.
** New job in 2017.*
*** Retitled job.*
^ Average market data reported as median for comparison purposes.

APPENDIX B

Job Descriptions

Benchmark Job	Survey Code	Generic Description
Administrative Assistant	220.108.430	Requires a general knowledge of departmental procedures, practices and office routine. Possesses good office and computer skills including word processing, spreadsheets, graphics software, and filing. May provide assistance to a more senior Administrative Assistant in a large department.
Business Analyst A	320.392.360	Assists with analyzing internal metrics. Performs responsible and varied business analytical or administrative functions. Assists with preparation documents, forecast summaries, status reports, budget reports, etc. Duties may include interpreting and processing company contracts, AFEs, and government agreements. Assignments are given in terms of objectives and relative priorities. Problems may be solved by adapting standard methods or by practical applications of knowledge. Usual qualifications include a university degree and up to 2 years' experience.
Business Analyst C	320.392.340	Analyzes internal metrics. Performs responsible and varied business analytical or administrative functions. Prepares documents, forecast summaries, status reports, budget reports, etc. Duties may include interpreting and processing company contracts, AFEs, and government agreements. Assignments are given in terms of objectives and relative priorities. Problems may be solved by adapting standard methods or by practical applications of knowledge. Usual qualifications include a university degree with a minimum of 4 years' related experience.
Carpenter - Construction	999.999.012	Lay out and build forms for concrete work needed to construct transformer stations, distribution stations, generating stations and lines as well as formwork for spill containment. Work involves assembling/disassembling scaffolding and shoring (indoors &/or outdoors); framing walls/rooms inside buildings, barriers, temporary outdoor shelters or winter housing and other miscellaneous carpentry projects as required (e.g. building shelving, crates) and other duties as required.
Data Entry Clerk	999.999.002	Perform data processing services including inputting, updating, to various computerized databases and applications of external service providers. Perform clerical/administrative duties in support of system processes. Work with various internal and external contacts and customers in the set up, maintenance, reporting and follow up of non-electricity accounts, customer service orders, materials, corporate charge cards, time reporting, management reporting, damage claims, accounts receivable, etc. Perform administrative services for provincial client group and special projects.
Draftsperson	510.656.420	Incumbent works on standard drafting assignments. Methods are detailed and standard but judgment is required in planning tasks and choice of methods. Accountable for accuracy and adequacy of work performed. May provide technical guidance to less experienced Drafters. Usual qualifications include a technical school diploma or equivalent, with a minimum of 5 years' related experience.
Electrical Apprentice	999.999.112	A five year apprenticeship leading to a Construction and Maintenance Electrician.

Benchmark Job	Survey Code	Generic Description
Engineer A	510.780.360	Incumbent receives "on-the-job" training in various phases of office, plant or field engineering through assignments or, in some cases, classroom instruction. Tasks assigned are simple and routine in nature. Assists more senior engineers in the preparation of plans, calculations, reports, etc. Few technical decisions are made and these are routine, with clearly defined procedures and guidelines. Works under close supervision and work is reviewed for accuracy, adequacy and conformance with prescribed procedures. Usual qualifications include a university degree in engineering with minimal experience.
Engineer B	510.780.350	Uses a variety of standard problem solving techniques. May assist more senior engineers in carrying out technical tasks requiring computation methods. Duties are assigned with detailed oral, and occasionally written instructions. Work is reviewed in detail with guidance given. May give limited technical guidance to junior professionals or technicians working on a common project. Usual qualifications include a university degree in engineering with a minimum of 2 years' related experience.
Engineer C	510.780.340	Incumbent is responsible for varied engineering assignments requiring a broad knowledge of an engineering specialty and the effect the work has upon other fields. Solves problems using a combination of standard or modified procedures. Participates in planning objectives. Performs independent studies, and analyzes, interprets and draws own conclusions; more complex work projects are referred to more senior authorities. Not supervised in detail except on more difficult assignments. May give periodic technical guidance to less experienced professionals or technicians assigned to work on a common project. Usual qualifications include a university degree in engineering with a minimum of 4 years' related experience.
Engineer D	510.780.330	This is the first level of full engineering specialization and is considered the senior level position. Alternatively may be the level at which an individual acts as group leader or work task force leader of a small group of technical personnel. Requires application of well-developed technical knowledge in planning, conducting and coordinating difficult assignments. The position requires the modification of established guidelines and initiation of new approaches. Makes independent decisions in planning, organizing and completing technical assignments. Work is reviewed for soundness of judgement but accepted technically as accurate and feasible. Work is assigned in terms of objectives and priorities but informed guidance is available. Advises on technical problems and supervision, and may plan, schedule and review work of professional engineers and technicians. May make recommendations concerning selection, training, discipline and remuneration of staff.
Engineer E	510.780.320	May have responsibility for coordinating engineering work assignments and making recommendations on technical applications developed by other professional personnel or consultants. May involve the direct supervision of a group of professionals. Provides guidance and training to less experienced staff. Checks work for accuracy and completeness. As a specialist, conducts special, complex and advanced level studies. Work is generally reviewed for results only. Makes independent decisions within broad guidelines and policies. May make recommendations concerning selection, training, discipline and remuneration of staff. May also responsible for construction.
Engineer F	510.780.310	Incumbent is considered an authority in an engineering field of specialization and acts as a technical consultant to the organization. This level is a dual-stream first level managerial position. Incumbents may be responsible for directing a staff of professional and support employees or act as a technical specialist. Responsible for planning and directing large engineering programs/projects; sets priorities and allocates resources; makes necessary decisions on all day-to-day operating matters within constraints of company policy. Receives work in terms of broad objectives. Usual qualifications include over 15 years' experience.
Engineering Technician	999.999.001	Perform technical support work for the Distribution and/or Transmission system: such as monitoring the performance of the distribution/transmission system by performing various technical studies, identifying and recommending solutions to the supervisor, providing field data and preliminary analysis for engineering studies. Negotiate property settlements on distribution/transmission lines and perform joint use activities. Provide administrative support related to preparation of estimates and work orders (WO) work schedules, line layouts, joint use, provision of underground cable and fault location service. Perform staking activities and prepare design packages for new connections, service upgrades, extensions, betterments and relocations.
Estimator/Scheduler	510.330.320	Supervise and direct the work operations of a group engaged in the preparation of capital construction projects, release and study estimates and schedules, construction cost estimates and cost reporting systems.

Benchmark Job	Survey Code	Generic Description
Financial Director	210.100.130	Responsible for providing overall direction for tax, insurance, budget, credit and treasury functions for the organization. Provide short to medium term direction for all corporate financial functions so that financial transactions, policies, and procedures meet the organization's short and medium-term business objectives and are conducted in accordance with regulations, and standards. Activities may include: credit control; cash flow; investment management; tax; insurance; treasury; internal audit; budgeting and forecasting; and foreign exchange. Lead, direct, evaluate, and develop a team of senior managers to ensure that the organization's financial strategy is implemented effectively, consistently and according to established guidelines.
Fleet Mechanic	999.999.011	Be responsible for the inspection, repair and maintenance, as well emergency repair of vehicles (e.g. bucket truck, all-terrain vehicles, go track, digger truck, ladder truck forklift, backhoe, manlift, vans/pickup trucks and the hydraulic equipment of the vehicles e.g. booms, buckets. Maintain inspection schedules and coordinate scheduling repairs to be contracted out. Work is performed in a garage or on site.
Heavy Equipment Operator	708.729.400	Equipment Operators are operators of heavy earth moving construction equipment such as bulldozers, front-end loaders, forklifts, excavators, backhoes, tension pulling machines, equipment for pole hold drilling and Hydro Vac excavation trucks etc. Generally assist both lines and stations crews. Under lines construction often operate and drive various types of cranes and boom trucks and must hold and maintain the required license(s) such as AZ, 339C, 339A based on the equipment being operated/driven. Operating Engineers/Heavy Duty Mechanics are trained to repair and maintain many types of heavy equipment.
Human Resource Manager / Consultant	120.100.220	This position supports the planning, design, development, implementation and administration of policies and programs through functional supervision in all or some of the following areas: employee relations, executive compensation, wage and salary administration, job evaluation, performance management, recruitment and selection and employment equity/human rights.
Labourer	700.792.431	Performs general labour work & assists other construction trades as required. The work involves material handling; hand excavation/backfill; operating equipment; demolition of structures including jack hammering to break up concrete; operating small tools; intermittent tractor/forklift/Bobcat operation; janitorial tasks, flagging, traffic control, equipment monitoring; assisting with formwork, scaffold erection/dismantling; and other miscellaneous labour related tasks as required.
Lineman - Journeyman	920.788.410	Responsible for the installation, maintenance, removal, and inspection of transmission/distribution power lines. Typically requires 4 years of experience and certification as a Power Line Technician (or equivalent).
Lines Apprentice	999.999.113	A four year apprenticeship leading to a Power Line Technician position.
Manager of Construction	708.100.220	Responsible for providing construction management and supervision within the construction group. Administers construction contracts. Is accountable for construction costs, schedules, safety, product quality and environment performance. Provides input into Project Execution Plans and the associated schedules and estimates. Usual qualifications include 10 to 12 years of experience including supervisory experience. Requires experience in construction management and supervision of various trades.
Operations Manager	700.793.240	Manage and supervise trade, technical and clerical staff. Develop work programs, organize schedules, provide instructions, guidance and checks, monitor work to ensure work quality and accuracy and in conformity to governing regulations. Ensure the administration of procedures, applicable legislation and collective agreements are met. Administer and control contract work. Review work methods, ensure appropriate training. Develops, maintains and enhance customer relationships through direct contact both internally and externally. This position is non-represented. Areas of accountability could be managing staff responsible for operating transmission or distribution systems, the execution of protection, control and station maintenance work programs or managing staff responsible for electrical services such as new connections/upgrades, trouble call/storm restoration or forestry work programs.
Protection and Control Technician	999.999.004	Perform initial inspections, conduct trouble-shooting and preventative maintenance, carry out modifications and repairs as required, on all types of protection, telecommunications, metering and control equipment which comes under Protection and Control (P&C) jurisdiction. Discuss and review results with supervisor, if the equipment is highly critical from the standpoint of system operation, before putting the equipment into service.

Benchmark Job	Survey Code	Generic Description
Regional Maintainer - Electrical	999.999.007	Responsible for the general maintenance and repair work on electrical systems and equipment at various geographical locations. Requires overhauling, maintaining and inspecting equipment such as conductors & insulators i.e. batteries, station bus, cable, compressed air systems, fire protection equipment switchgear i.e. circuit breakers, load interrupters metalclad switchgear, oil circuit breakers, SF6 breakers, air blast breakers, transformers, rotating machines, distribution stations & equipment. Has the necessary knowledge of the trade theory, operating principles, charts, tables, testing equipment and other reference works, to test, dismantle, repair, clean and assemble station electrical equipment within the required specifications. Requires certification as a construction and maintenance electrician. Also performs mechanical and protection and control work.
Regional Maintainer - Lines	999.999.006	Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers. Understands and is able to operate the tools of his/her trade, and is familiar with the various instruments, i.e. voltmeters, ammeters and ohmmeters. Must be familiar with hydraulically-operated articulated or telescopic aerial devices. Must provide at own expense any tools listed for the classification if required in his/her work in accordance with the attached tool list. This classification also includes the requirement to hold a Power Line Technician certification (or equivalent).
Regional Maintainer - Lines (Supervisory)	999.999.008	This position is responsible for the safety, quality and quantity of the work performed by his/her crew. They plan work including staffing requirements, assigning work, co-ordinate work with other work groups, ensure proper work practices are followed, report on work performed and engage in good public relations. He/she performs the following physical work activities. Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers. Also responsible for contract monitoring and lead hand responsibilities.
Regulatory Director	110.200.130	Executive with primary responsibility for preparing, managing, and leading company's testimony in utilities rate cases before local, regional or federal agencies. Responsibilities include development of all research associated with regulatory activities including activity across other regulatory entities and maintaining relationship with all regulators. Develops cost factors in association with utilities rate cases, may or may not, be involved in delivery of testimony. Typically reports to a Top Legal Executive, Chief Operations Officer or a Top Utilities Executive.
Senior Legal Counsel	115.100.340	Responsible for providing management and employees with advice on a broad range of moderately complex conflicting legal principles. The applicable laws and regulations are numerous and varied, and present difficult problems of interpretation. Applies independent judgement in recommending a course of action for a client department, providing input as to the ramifications of a course of action, a legal decision, or a new piece of legislation. Usual qualifications include a law degree, membership in a law society/bar association and/or other relevant jurisdiction with a minimum of 8 year's related experience.
Senior Protection and Control Supervisor	999.999.005	Provide advice and guidance to field and support groups on matters related to the work programs such as protection, instrumentation, control and telecommunications pertaining to the protection, operations, control and maintenance of the electrical power system. Also may participate in the development of standards and procedures. Minimum of 8 years' experience. Supervise staff engaged in the inspection and testing of electrical equipment to verify the equipment meets specified requirements and regulations.
Service Dispatcher	430.612.340	Responsible for handling incoming consumer calls to schedule and dispatch service technicians to problem areas (including high voltage switching). Maintains documentation of crew activities for continuous knowledge of line and substation work. Key coordinator during power failures provides notification to internal and external customers regarding restoration of power services.
Stock Keeper	999.999.009	Receives, receipts, stores, issues and ships materiel used in operations. Manages materiel, in accordance with established practices and regulations. Is responsible for materiel under his/her control. Performs maintenance, not requiring formal trades qualifications, and assists in tasks where unskilled or semi-skilled ability is required.
System Operator (Controller)	999.999.010	Monitor and operate the transmission/distribution system assets on a 24-hour basis. Determine condition and recommend on availability of equipment. Carry out Manual Block and Rotational Load Shedding Schedules procedures. Monitor, approve and report LV - load transfers. Direct / monitor personnel on a 24 hour basis (i.e. - switching agents, field crews) in the operation of the Transmission / Distribution network system assets. Troubleshoot & sectionalize for low voltage feeder faults.

APPENDIX C

Detailed Compensation Benchmarking Methodology

Summarized in this appendix is supporting descriptions of how Mercer determined values for each of the major components of compensation. Specifically:

Base Salary/Wage – Annual base salary at October 1, 2017. If an hourly rate was reported, Mercer annualized the value by multiplying the standard number of hours per week by 52 weeks per year. If a weekly rate was reported, Mercer annualized the value by multiplying by 52 weeks per year.

Total Cash Compensation - Base salary ***plus*** most recent short-term incentive or bonus paid/lump sum.

Benefits and Pensions – To value benefit and pension programs, Mercer applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans. See detailed methodology below.

Total Compensation - Total cash compensation ***plus*** estimated annual value of the most recent long-term incentive grant (i.e., expected value of stock options or share awards) and pensions and benefits.

Detailed Benefits and Pension Methodology – Total remuneration includes the following values for benefits and pensions:

- Mercer's relative value process applies a broad set of standard cost factors, plus actuarial and demographic assumptions to measure all of the financially significant features of benefit programs on a benefit line basis.

- Effectively, this process isolates the plan design and removes variable factors such as historical experience, demographics, and utilization trends specific to each participant in the study. For example, if two survey participants have an identical benefit offering, the values will be equal regardless of the actual plan costs to each of the employers.

Aligning Values with Hydro One's Actual Costs

Participation & Anti-Selection:

Active Flex Benefits:

- Participation: Mercer uses a standardized set of participation assumptions for all participants that vary only by the number of options that are offered under the plan. Therefore, two identical flex programs will produce similar relative Total Values.

- Anti-Selection: A unique feature of flex plans is that employees who choose richer options are likely to be higher claimers than those choosing poorer options. This is reflected within our methodology by increasing the value of the richer options and reducing the value of the poorer options. The final relative values of the flex plan are a weighted average of the values of each of the options.

- Optional plans that are fully employee-paid (such as optional life) are excluded from the review.

- Low value core plans / catastrophic core plans and spousal top-up plans are excluded from the valuation.

Projection Methodology for Pension Plans

Defined Benefit Plans

- For defined benefit plans, annual service costs were estimated for each company's plan design at various earnings levels using a common sample employee demographic (age and years of service). The annual service costs were converted into company provided values by deducting any required employee contributions under each plan. The resulting company provided values were expressed as a percentage of earnings to be applied to the earnings associated with each benchmark job.

Defined Contribution Plans

- For defined contribution benefit plans, the company provided value was set equal to the company contributions.

- Where employees are entitled to choose the level of their contributions, employees were assumed to contribute at the level that would maximize company contributions.

Projection Methodology for Post-Retirement Non-Pension (PRNP)

Employee-specific factors including earnings and service are projected to each of the assumed retirement ages at which point the benefit payable is determined, actuarially valued and discounted with interest to the current age of the employee. The resulting values are split pro-rata on service into the benefit in respect of past service and the benefit in respect of future service, and the future service benefit value is converted to a level percentage of future pensionable earnings.

- The results are weighted by the assumed retirement rates and combined to produce a single value of future benefit accruals, as a percentage of future earnings, per member.

- Benefits are projected both before and after retirement based on benefit-specific (e.g. medical, dental) inflation assumptions.

- Benefits are coordinated with provincial medical and drug plans.

- Lifetime maximums are reflected where applicable.

Flex Premium Cost Sharing & Credit Allocation:

- Cost sharing is determined using each participant's actual price tag and credit formula.

- Assumptions are made as to where credits would commonly be used, unless they are allocated to specific benefits. These assumptions coordinate with the standardized participation assumptions outlined earlier.

Standard Demographic Assumptions:

- A common population reflecting the general demographics of a Canadian workforce group and adjusted to more closely mirror Hydro One's workforce is used in the analysis.
  - This population reflects a group of employees with an average age of 40 and average service of 12 years.

- For Pension and Post Retirement Non-Pension benefits, the above population is assumed to retiree approximately as follows:
  - 25% of the group retire at age 55
  - 60% of the group retire at age 60
  - 15% of the group retire at age 65
  - 70% of the active members are assumed to be married over their career while 90% of members are assumed to be married at the time of their retirement

Other Actuarial Assumptions:

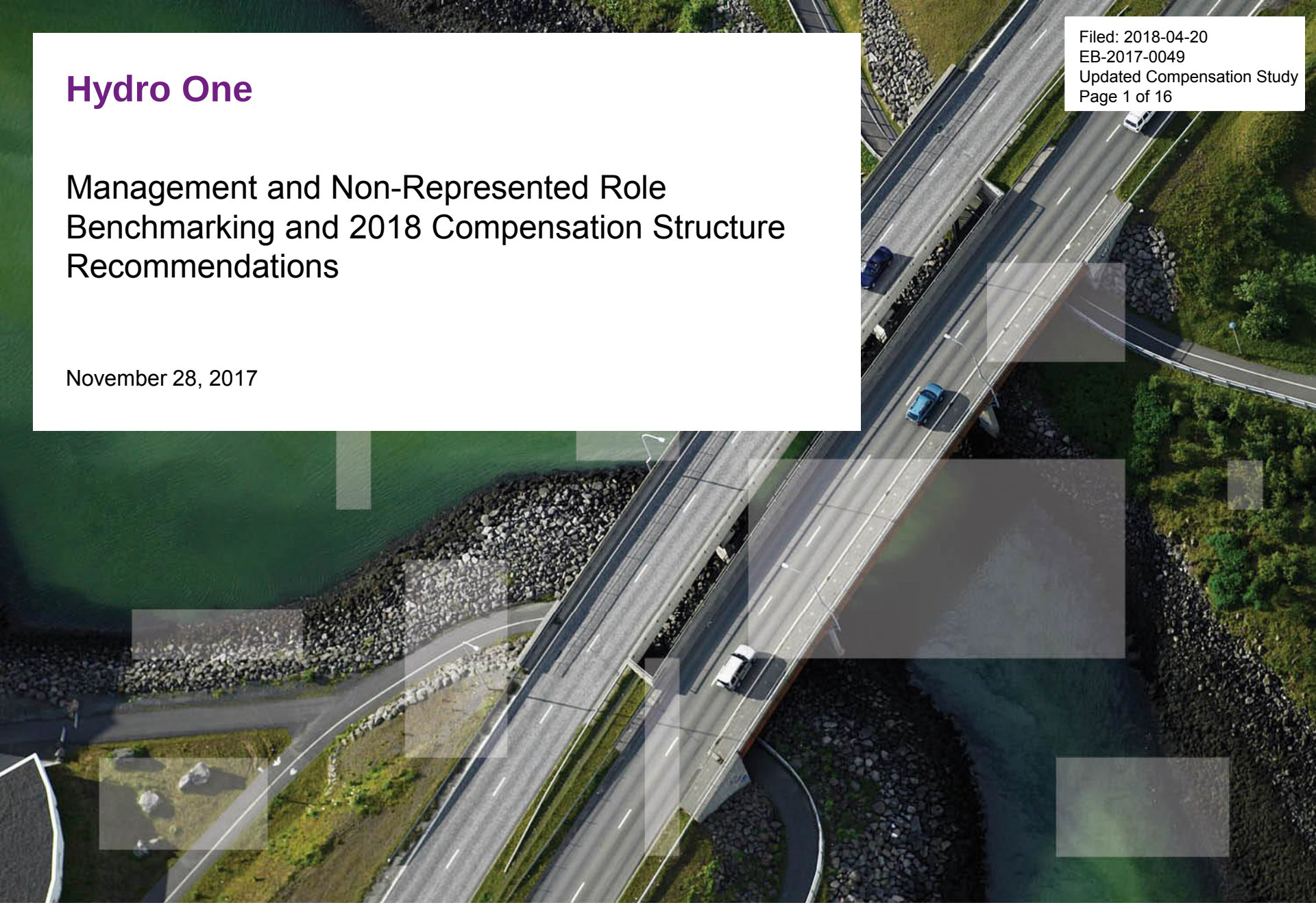
- The following assumptions were used in the review:
  - Discount rate: 4.00% per annum
  - Inflation: 2.00% per annum
  - YMPE Increase: 3.00% per annum
  - Salary Increase: 4.00% per annum
  - Post Retirement mortality: 100% of CPM 2014 Public Sector Mortality projected with CPM-B Scale
  - Termination rates of 2% each year prior to age 55 (for pension values)
  - Medical and Dental inflation/utilization increases

Mercer (Canada) Limited
120 Bremner Boulevard, Suite 800
Toronto, Ontario M5J 0A8
+1 416 868 2000

Hydro One

Management and Non-Represented Role Benchmarking and 2018 Compensation Structure Recommendations

November 28, 2017



Willis Towers Watson

Background and Context

Willis Towers Watson was engaged by Hydro One to benchmark salary structures including director level LTIP eligibility. The recommendations reflect the continued transition of the management compensation program, in accordance with the principles established in 2015.

Compensation Structure Evolution

- Between 2015-2016, the following compensation structures and programs were introduced to support the transition to a new ownership structure, industry practice, and current business priorities:
  - a new compensation philosophy
  - an updated Short Term Incentive Plan (STIP)
  - a Long Term Incentive Plan (LTIP) for executives (VP and above) and phased introduction for directors (≈50% eligibility at a value of 20% of salary)
  - a more rigorous and detailed job level framework to better reflect progressive job scope and complexity
  - a segmented approach to competitive benchmarking and salary structures, reflecting market differences while considering career progression of talent from bargaining unit levels

Current Workforce Population Composition*

Employee Group	Employee Distribution		Total 2016 Payroll Costs (in Millions)
	# of Employees	% of Total	
Management and Non-Represented Employees	762	7.4%	$105.6
Represented Employees (including Casual and Hiring Hall)	9,569	92.6%	$806.6
Total	10,331	100%	$912.2

*Source: Hydro One 2016 Actual Payroll Summary

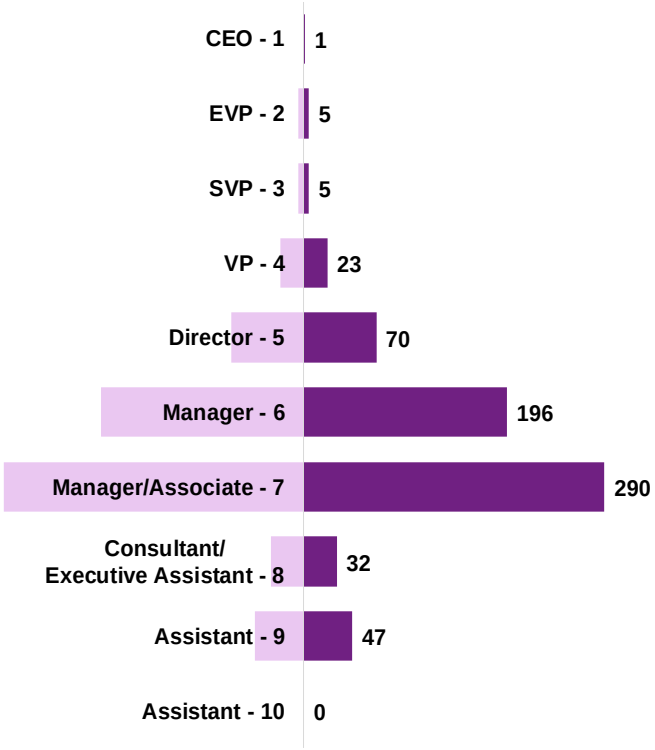
The Management population represents **7%** of total Hydro One employees, accounting for **12%** of total 2016 payroll

Background – Level Structure & Distribution of Incumbents

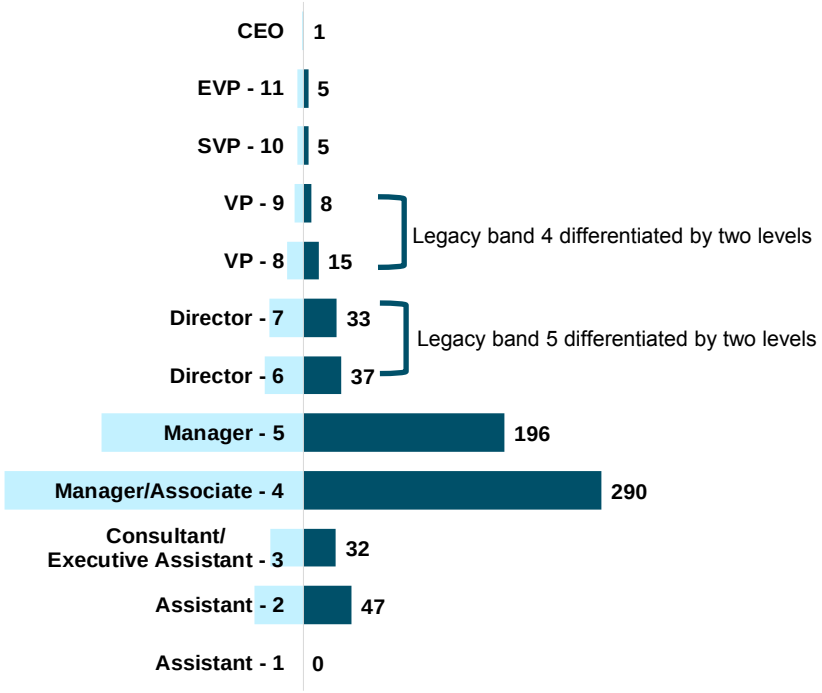
Management Group Distribution by Level

- Full implementation of the segmented salary structures was not possible before aligning all jobs to the more structured and rigorous level framework. Using a consistent year-over-year sample, the distribution of incumbents by the new levels, compared to the legacy band structure is summarized below

Legacy Band Structure Distribution



Current Level Structure Distribution



Data Source: Hydro One

Market Comparisons and Internal Considerations

Market Competitiveness

- On a target basis, Hydro One's current compensation structure (i.e. salary midpoints, target STIP and LTIP) is positioned 1% below the market median with some variation by segment

Segment	Current Structure Midpoint vs. Market Median		
	Base Salary	Total Target Cash Compensation (TTC)	Total Direct Compensation (TDC)
Executives (excluding ELT)	-5%	-11%	-14%
Operations	-5%	-5%	-5%
Core Services	2%	4%	4%
Overall	**-2%**	**-1%**	**-1%**

Compensation Program Design and Delivery Consideration

- Programs must also enable attraction and retention of the talent needed to operate a regulated utility and support the growth mandate. This includes providing opportunities for career progression and supporting promotion from within, particularly within the Operations segment

Compression with Represented Roles*

- Employees promoted from represented roles to management are typically placed in the top half of the applicable Operations salary range, and near or above the maximum of the Core Services salary range due to the existing represented salary structures
- Attracting the right talent from represented roles to management is further challenged by other program elements including enhanced pension and benefits programs, job security, overtime eligibility, and standard work hours (in many cases 35 hours vs. 40 hours)

2018 Pension Contribution Increases

- Effective January 1, 2018, in accordance with the transition to a desired 50/50 cost sharing, employees hired after 2003 will contribute an average of 0.75% more (8.25% before YMPE, 10.75% after YMPE) and employees hired before 2004 will contribute an average of 1% more (8.75% before YMPE, 11.25% after YMPE) to the defined benefit plan. From an employee cash flow perspective, any salary increases are offset by these additional payroll deductions which serve to decrease the required employer contributions.

*Refer to Appendix II for high level compression analysis

Proposed Compensation Structure Changes

Proposed Base Salary Structure Changes

- Salary structure movement of 6% for VP and SVP level positions, 4% for Operations and 3% for Core Services on an incumbent weighted basis (details by range are outlined on page 6)
  - Salary range minimums and maximums are aligned with 25th and 75th percentile of the market
- Introduce a premium salary structure for legal and tax positions which command a higher compensation

Proposed LTIP Eligibility and Vehicle Mix for Directors

- Increase LTIP participation for director level (up to 100% vs. 50%) with grant ranges to enable differentiation; this is consistent with market practice of peer companies offering equity compensation, supports retention and further aligns senior level employees with shareholders.
  - Grant range: 10–20% for level 6 and 20-30% of salary; with an estimated increase in costs of ~$1.2M
- Extend the Performance Share Unit (PSU) program to directors, to allow the same mix of vehicles as awarded to the VP and above population:
  - At the time the LTIP was implemented, selective participation at the director level made it difficult to grant PSUs given that employees may not participate annually and would be in different performance cycles.
  - Consistent with market practice among publicly-traded peer companies, where majority practice is to extend participation in the executive LTI plans to directors. Weightings on PSUs are typically higher for executives, recognizing increased line of sight.
  - The following PSU/RSU weighting is recommended, based on market practice, internal relativity and to provide for a meaningful individual award:

Eligible Population	LTI Vehicle Mix
VPs and above - no change to current practice	60% PSU/40% RSU
Directors – shift from 100% RSUs to PSU/RSU mix	40% PSU/60% RSU

Market Position as a Result of Proposed Changes

Target Compensation Position to Market

- The resulting structure is positioned slightly above market for Core Services to address internal compression issues, particularly at first level management roles (levels 4 and 5), and to preserve a reasonable internal differential relative to the Operations segment

	Proposed Structure Midpoint vs. Market Median		
	Base Salary	Total Target Cash Compensation (TTC)	Total Direct Compensation (TDC)
Executives (excluding ELT)	0%	-5%	-8%
Operations	-1%	-2%	-1%
Core Services	5%	7%	8%
Overall	**2%**	**2%**	**3%**

2018 Proposed Structure Adjustments

- To align closer to market on a target basis and support transition objectives, modest salary structure adjustments are proposed. A separate structure for tax and legal positions which command higher market pay levels is introduced. Increased eligibility for LTI at the director levels continues the pay mix evolution in favour of shareholder alignment and retention

Level	N Count	Current Structure ($000's)				Proposed Structure ($000's)			
		Salary Midpoint	STI Target %	LTI Target %	LTI Receivership	Salary Midpoint	STI Target %	LTI Target %	LTI Receivership
Executives									
SVP - 10	5	$310	40%	85%	100%	$310	40%	85%	100%
VP - 9	9	$250	30%	60%	100%	$270	30%	60%	100%
VP - 8	17	$220	30%	40%	100%	$235	30%	40%	100%
Operations									
Director - 7	15	$190	20%	20%	50%	$197	20%	25%	100%
Director - 6	12	$165	20%	20%	50%	$167	20%	15%	100%
Manager - 5	115	$138	15%	-	-	$142	15%	-	-
Manager/Associate - 4	201	$115	10%	-	-	$120	10%	-	-
Core Services - Primary									
Director - 7	17	$162	20%	20%	50%	$170	20%	25%	100%
Director - 6	24	$135	20%	20%	50%	$144	20%	15%	100%
Manager - 5	91	$113	15%	-	-	$115	15%	-	-
Manager/Associate - 4	126	$90	10%	-	-	$92	10%	-	-
Consultant/Executive Assistant - 3	36	$72	7%	-	-	$74	7%	-	-
Assistant - 2	47	$60	7%	-	-	$62	7%	-	-
Assistant - 1	1	$50	5%	-	-	$54	5%	-	-
Core Services - Tax and Legal Positions									
Director - 7	4	-	20%	20%	50%	$187	20%	25%	100%
Director - 6	-	-	20%	20%	50%	$159	20%	15%	100%
Manager - 5	13	-	15%	-	-	$127	15%	-	-
Manager/Associate - 4	8	-	10%	-	-	$101	10%	-	-

Note 1: Values in green represent increases, values in red represent decreases

Note 2: N counts listed represent the number of management jobs currently assigned to a segment and level

Impact of Salary Structure Changes and Proposed 2018 Merit Budget

Incumbent to Salary Structure Alignment

- With the transition from broad salary ranges for all management and non-represented employees to a segmented approach, approximately 78 Core Services employees at entry level management roles (4 and 5) will be above maximum of their respective salary range. This transition represents a potential retention risk, particularly for high performing and high potential employees identified as successors. Specific programs to manage compression will need to be targeted over time

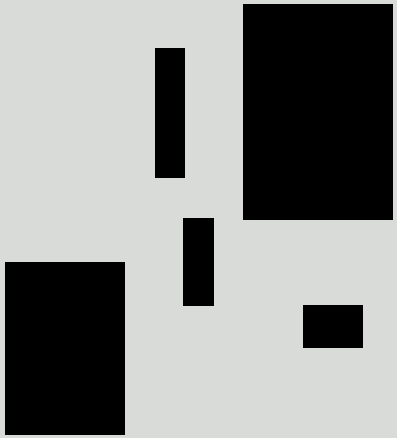
	% of Total Employees			Average Incumbent Salary vs. Midpoint
	< Min	Min - Max	> Max	
Executives (excluding ELT)	3%	93%	0%	94%
Operations	1%	99%	0%	102%
Core Services	3%	75%	22%	112%
Overall				**107%**

2018 Merit Budget and Allocation Principles

- At median, Canadian organizations are forecasting salary increase budgets between 2.1% and 2.7% within the General Industry and Energy/Power Utilities Sectors
- A 2.5% ($2.3 million) merit budget is recommended with the following allocation principles:
  - Differentiated salary increase budget allocation based on compa-ratio, recognizing that Executive and Operations segment incumbents are generally positioned at or slightly below the market based range midpoints
  - Managing increases for incumbents positioned near the maximum of the market based ranges, and continued commitment to freezing salaries for those at or above maximum
  - One-time lump sum payments for those Core Services employees deemed to be high performing, high potential or in a critical function, to mitigate upward pressure on fixed salary costs, while maintaining some differential between management positions and the bargaining unit positions reporting directly to them

Appendix I

Comparator Groups by Segment



Comparator Group Approach and Criteria

Hydro One's comparator groups have been differentiated to reflect the segmented labour markets for talent. The list of companies within each comparator group are provided on the following pages.

	Segment Definition	Comparator Group Selection Criteria
1) Operations	▪ Requires specific education, skills and knowledge in a professional area, directly related to concepts and methods associated with the transmission, distribution and regulation of power. Examples include: Operations, Engineering, Skilled Trades	▪ *Predominant focus on industry/nature of work*: reflects organizations where comparable specialized skill sets reside ▪ **Industry:** Utility ▪ **Geography:** Canada, with <30% Alberta representation ▪ **Size**: Revenue size > $500M ▪ **Ownership:** Balance of public and private-sector ownership models ▪ **Year-over-year peer group changes**: Minor changes in in WTW Compensation Survey participation (8 fewer peers)
2) Core Services	▪ Roles requiring education, skills and knowledge not specific to the transmission, distribution and regulation of power. Examples of such functions include Finance, Human Resources and Information Technology	▪ *Predominant focus on range of Ontario talent sources*: incorporates a variety of organizations based on labour market – assumes an Ontario labour market and recognizes the importance of Hydro One as an Ontario employer ▪ **Industry:** General Industry *(excluding subsidiary Retail and Consumer Products)* ▪ **Geography:** Ontario-based employers ▪ **Size**: Private sector: >$500M, Public sector: >$100M & Subsidiaries: >$1B ▪ **Ownership:** All structures ▪ **Year-over-year peer group changes**: Attributable to removal of Retail and Consumer Product subsidiaries, and changes in WTW Compensation Survey participation (2 fewer peers)
3) Executive (non-ELT)*	▪ Vice President and above roles that set the strategy and direction of Hydro One through leadership of functions that are critical to the long term success of the organizations	▪ **Operations**: Consistent use of the Operations peer group (noted above) ▪ **Core Services**: Peer group consists of a broader sample of large Canadian companies for roles that are not industry-specific: *Ownership structure is the primary criterion for this peer group* and assumes the national talent pools will be considered for all roles at this level ▪ **Industry:** General Industry ▪ **Geography:** Canada ▪ **Size**: Revenue between $2B - $20B ▪ **Ownership:** Publicly-traded. Bruce Power and OPG added as direct competitors for talent within the public sector ▪ **Year-over-year peer group changes**: Attributed to a revenue cap of $20B, and changes in in WTW Compensation Survey participation (13 fewer companies)

Peer Group – Operations

Also used for operations executive roles requiring an industry focus

Utilities Peer Group (n=21)		
Alberta Electric System Operator	Emera Inc.	NB Power
AltaLink	Enbridge Inc.	Nova Scotia Power
ATCO Ltd.	ENMAX Corporation	Ontario Power Generation
BC Hydro Power & Authority	EPCOR Utilities Inc.	Spectra Energy Transmission
Bruce Power LP	FortisAlberta Inc.	Toronto Hydro
Capital Power Corporation	GE Energy	TransAlta Corporation
Corix Group of Companies	Hydro Quebec	TransCanada Corp.

Percentile Statistics	Revenue	Assets
25th Percentile	$1,568,050,000	$5,047,225,000
50th Percentile	$2,801,000,000	$10,052,937,500
75th Percentile	$4,965,000,000	$29,830,750,000
Hydro One	**$6,500,000,000**	**$25,300,000,000**
Percentile Positioning	86P	72P

Ownership Structure	% of Total
Government Agency	38%
Public Parent	28%
Wholly Owned Subsidiary	24%
Joint Venture	5%
Private Parent	5%

Peer Group - Core Services

General industry focus

Core Service Peer Group (n=93)			
AIG Insurance Company of Canada	CPP Investment Board	Johnson and Johnson Canada	RGA Canada
Air Canada	Eaton Canada	Kinross Gold	RioCan Real Estate Investment Trust
Algonquin Power and Utilities Corp.	Economical Insurance	LifeLabs	Rogers Communications
Allstate Insurance Company of Canada	Element Fleet Management	Loblaw Companies Limited	Royal Bank of Canada
Aviva Canada Inc.	Export Development Canada (EDC)	LoyaltyOne Co.	RSA
Avnet International Canada	Facebook, Inc. (Canada)	MacDonald, Dettwiler and Associates Ltd.	Samuel Son and Co.
Bank of Montreal	FCA Canada Inc.	Magna International Inc.	Scotiabank
Bayer Inc.	Ford Motor Company of Canada, Limited	Manulife Financial Corporate	Stantec Inc.
Bell Canada	Four Seasons Hotels and Resorts	Maple Leaf Foods	Sun Life Financial
Bunge Canada	GE Aviation Canada	McCain Foods Limited	TD Bank Financial Group
Canada Post Corporation	General Dynamics Land Systems - Canada	Microsoft Canada	TELUS Corporation
Canadian Imperial Bank of Commerce	General Electric Canada	Molson Coors Canada	The Co-operators Group Limited
Canadian Natural Resources Ltd.	Gerdau Long Steel North America	Munich Reinsurance Company of Canada	The Empire Life Insurance Company
Canadian Nuclear Laboratories	Gordon Food Service Canada	NAV Canada	TMX Group Limited
Canadian Tire Corporation	Great Canadian Gaming Corp.	Nissan Canada, Inc.	Toronto Hydro
Canadian Tire Financial Services	Great-West Lifeco Inc.	Northbridge Financial Corporation	Travelers Insurance Company of Canada
Capital One Canada	Holt Renfrew	Novelis Inc.	Treasury Board of Canada Secretariat
CBC/Radio Canada	Home Capital Group	Ontario Power Generation	Univar Canada
Celestica Inc.	HP Canada Co.	Ontario Teachers' Pension Plan	University Health Network
CH2M Hill Canada	Husky Injection Molding Systems Ltd.	Parmalat Canada	VIA Rail Canada Inc.
Chubb Insurance Company of Canada	Independent Electricity System Operator	PepsiCo Canada	Workplace Safety & Insurance Board
City of Mississauga	Intact Financial Corporation	Pfizer Canada Inc.	
CNH Industrial Canada	Investors Group Inc.	Purolator Inc.	
Compass Group Canada	John Deere Canada ULC	Revera Inc.	

Percentile Statistics	Revenue	Assets
25th Percentile	$1,201,145,500	$2,500,773,000
50th Percentile	$2,271,811,000	$8,020,730,000
75th Percentile	$7,984,113,000	$28,188,750,000

Hydro One	**$6,500,000,000**	**$25,300,000,000**
Percentile Positioning	73P	74P

Peer Group – Executives

Core Services focus (operations peer group used for industry specific roles)

VP (Secondary) (n=41)		
Agrium Inc.	Emera Inc.	Potash Corporation of Saskatchewan Inc.
Air Canada	Encana Corporation	Quebecor
ATCO Ltd.	Finning International Inc.	Resolute Forest Products Inc.
Bruce Power LP	Gaz Metro	Rogers Communications Inc.
Canadian Imperial Bank of Commerce	Goldcorp Inc.	Saputo Inc.
Canadian National Railway	Husky Energy Inc.	SNC-Lavalin
Canadian Natural Resources Ltd.	Intact Financial Corporation	Stantec Inc.
Canadian Pacific Railway Ltd.	Kinross Gold	Teck Resources Limited
Canadian Tire Corporation	Lululemon Athletica	TELUS Corporation
Celestica Inc.	MacDonald, Dettwiler and Associates Ltd.	Toronto Hydro Electric
Cenovus Energy Inc.	Maple Leaf Foods	TransAlta Corporation
CGI Group Inc.	Norbord Inc.	TransCanada Corp.
Cogeco Inc.	**Ontario Power Generation**	Transcontinental Inc.
Crescent Point Energy	Pembina Pipeline Corporation	

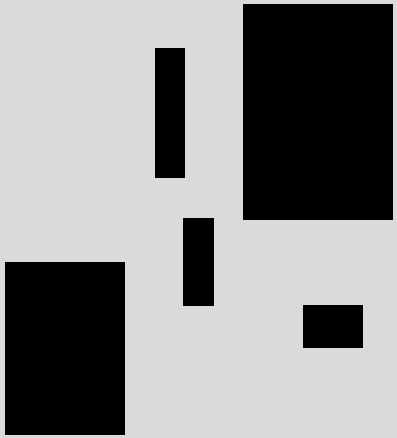
Percentile Statistics	Revenue	Assets
25th Percentile	$3,451,189,500	$5,624,677,500
50th Percentile	$5,628,000,000	$15,114,000,000
75th Percentile	$11,514,250,000	$28,035,500,000

Hydro One	**$6,500,000,000**	**$25,300,000,000**
Percentile Positioning	58P	73P

1. Represents publicly traded companies with revenue between $2B and $20B
2. **Bolded companies** represent public sector organizations who are direct competitors for talent

Appendix II

High Level Compression Analysis



Compression Analysis

Issue Definition

- Compression can occur when salary at lower levels are at or above management levels. Hydro One asked that the proposed ranges be tested for compression to understand possible obstacles to internal progression

Methodology

- Hydro One identified 6 Operations and 5 Core Services Management Group roles at Levels 4 and 5 respectively, that are considered primary "destination" roles for internal promotion from within the bargaining unit (with the majority being from Society)
- We have reviewed the assumed compensation of the feeder roles relative to the Total Target Cash compensation midpoint of the proposed Management Group structures to understand any potential barriers to entry
- In order to ensure a holistic compensation, the following elements were considered in the compensation definition:

Feeder Role Bargaining Unit Compensation	Destination Management Group Role Compensation
• Base salary at most prevalent step of the feeder band (typically top step) • Average actual annualized overtime for the past two years experienced by the feeder roles • Base salary <u>was not</u> adjusted to recognize transition from a 35 hour work week to a 40 hour work week for Management Group roles but should be acknowledged as a consideration	Total Target Cash Compensation at midpoint for receiving level: ▪ Proposed structure midpoint X (1 + STIP Target) Total Target Cash Compensation at maximum for receiving level: ▪ Proposed structure maximum X (1 + STIP Target for the level)

Compression Analysis

- **Operations:** Roles are most prevalently promoted to Level 4 of the Management Group structure. Based on the most prevalent feeder role scenarios, the proposed operations ranges accommodate progression from the bargaining unit (recognizing that the entry point will be within the top half of the range):
  - "Close to maximum cases" may occur in certain scenarios, particularly for roles that have experienced high levels of historical overtime. In such cases, targeted programs to manage transition may be required, particularly if deep operational experience is a key aspect of the talent and business excellence strategy
- The primary "feeder" and "destination" scenarios are outlined in the following tables by segment

Segment	Prevalent Scenario	Receiving Role Level	Feeder Role Avg. Total Cash Comp	TTC Midpoint	TTC Max	Feeder Role Compa-Ratio	$ to Max of Receiving Role	% Difference to Max
Operations	Society - MP4	Manager/Associate - 4	$128,769	$132,000	$162,000	98%	$33,231	-21%
Level 4: Assuming a ~5% increase for a promotion, excluding overtime*			$137,901				$24,099	-15%

- **Core Services:** Roles are most prevalently promoted to either Levels 4 or 5 of the Management Group structure based on the nature of work to be performed:
  - Given the compression issue, programs to manage internal equity may need to be considered. If internal progression is a critical aspect of the build strategy, targeted progression programs may be required to manage the transition

Segment	Prevalent Scenario	Receiving Role Level	Feeder Role Avg. Total Cash Comp	TTC Midpoint	TTC Max	Feeder Role Compa-Ratio	$ to Max of Receiving Role	% Difference to Max
Core Services	Society - MP4/MP5	Manager/Associate - 4	$130,917	$102,000	$126,000	128%	-$4,917	4%
Core Services	Society - MP5	Manager - 5	$135,060	$135,000	$166,000	100%	$30,940	-19%
Level 4: Assuming a ~5% increase for a promotion, excluding overtime*			$143,373				-$17,373	14%
Level 5: Assuming a ~5% increase for a promotion, excluding overtime*			$154,742				$11,258	-7%

* Also assumes STIP eligibility in addition upon promotion, if we assumed a salary increase to accommodate for the extended work week (standardize to 40 hrs)

Association of Major Power Consumers in Ontario (AMPCO)
INTERROGATORY #006

Reference:

None

Interrogatory:

a) Please provide a breakdown of Hydro One's projections regarding payroll and non-payroll costs related to the implementation of the government's Cap and Trade policy for the years 2016 to 2018.

b) Have any Cap and Trade costs been included in the current application? If yes, please provide.

Response:

a) Currently there are no known payroll costs related to the implementation of the government's Cap and Trade policy for 2016 to 2018. To buy the credits for SF6 emissions only for 2017, Hydro One is forecasting a cost of $1 million dollars.

b) The regulations relating to Ontario's Cap and Trade policy came out in June 2016 and information on how the system works is still emerging. As Hydro One submitted its rate application in May 2016, no Cap and Trade costs were included in the application.

School Energy Coalition (SEC) INTERROGATORY #055

Reference:

C1/4/1, p.15

Interrogatory:

Please provide the specific details of the "increased resource flexibility [that] was achieved by negotiating enhancements to utilize temporary employees longer and to contract out more work".

Response:

In 2015 collective bargaining with the PWU, Hydro One negotiated the ability to retain temporary employees in an ongoing position for a duration of 15 months which is an improvement from the previous 12 month restriction.

Hydro One was also able to negotiate a Purchase Service Agreement which enables Hydro One to outsource cable locate work. Cable locates are a lower skilled activity that would otherwise be performed by higher skilled classifications. Contracting out this type of work allows for greater efficiency and lower costs.

School Energy Coalition (SEC) INTERROGATORY #061

Reference:

C1/4/1, Attach 1

Interrogatory:

Please provide the number of employees in 2015 that would have appeared on the Ontario Government's Public Sector Salary Disclosure list (i.e. Sunshine List) if it had still applied to Hydro One. Please also provide the number of employees in 2015 that would have had salaries at or over $200,000.

Response:

The number of Hydro One Networks employees who would have been on the 2015 Government Public Sector Salary Disclosure list is 3956 employees.

The number of Hydro One Networks employees who had total compensation at or over $200,000 in 2015 was 47.

The Society of Energy Professionals (SEP) INTERROGATORY #10

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p7 ln14-p8 ln 1,2

Interrogatory:

Demographic and skills analyses are conducted to ensure that Hydro One retains the appropriate talent in the present and is positioned properly in the market to attract the talent required in the future.

a) Please provide the most recent demographic and skills analyses conducted by Hydro One as mentioned in the referenced sentence above.

b) Please provide the Hydro One definition of being "positioned properly in the market to attract the talent required in the future".

c) Please explain how these analyses ensure "that Hydro One retains the appropriate talent in the present and is positioned properly in the market to attract the talent required in the future".

Response:

a) Demographic and skill analyses are conducted in a variety of ways depending on the type of roles, the size of the organization unit, the impact of attrition and the lead time required to train new employees. Examples include:

- Succession planning for senior leadership roles;
- Identification and development of high potential employees;
- Field organizations review their resource requirements against a multiyear business plan annually along with historical attrition rates to ensure the required amount of skilled resources are available to complete work programs;
- Provincial Lines utilizes a trades training matrix which identifies mandatory training components specific to both Transmission and Distribution skills. When a skill resource shortfall is identified Provincial Lines will coordinate and implement additional training; and
- Provincial Lines has implemented a 3 year "Journeyperson Efficiency Training" to ensure skills for lines journeyperson are kept current.

b) Hydro One competes for talent against organizations both in and outside of the utility industry. Hydro One's compensation strategy must be competitive to attract, retain and motivate employees, but must also be aligned with ratepayer interests.

c) Similar to the response in b) by being aware of the skills and demographics within the organization and what the competing market pays for similar skills, Hydro One is positioned better to retain and attract talent.

The Society of Energy Professionals (SEP) INTERROGATORY #11

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p8 ln 4-7

Interrogatory:

Progress has been made in attaining the appropriate number and mix of staff required to complete the Company's planned work programs. However, Hydro One's highly skilled jobs require long learning curves, so it is essential that the Company hire well in advance of forecasted retirements.

a) Please explain how and why "Hydro One's highly skilled jobs require long learning curves".

b) In general, how far in advance of forecasted retirements do new hires have to be made? What is the range?

c) What is the anticipated or planned overlap time at the workface of new hires with experienced staff who are to retire?

Response:

a) Hydro One, like other large utilities in the electrical sector, has many roles that require specialized skills that are often not required in other industries. Many roles within Hydro One require a minimum 3 year Technologist certification or a 4 year university degree in a specialized field of study. Common roles within Hydro One that require lengthy training periods include the following:

- Regional Maintainer – Lines – 4 Year apprenticeship + 2 years in-house training;
- Regional Maintainer - Electrical - 5 year apprenticeship + 2 years in-house training;
- New Grad - Engineer - minimum 4 year University degree in Applied Science + 2 year New Grad training + 4- 6 years additional experience to be a fully "journeyperson" engineer;
- Supervising Engineer – 10-15 years' experience required; and

- Controller - The NERC System Operator Certification program promotes reliability of the Hydro One and North American power system by ensuring that operators (Controller) meet minimum qualifications. NERC certification is a requirement to perform the Hydro One Controller function unassisted. Successful applicants to the Controller Trainee position require a 3 year electrical/electronic technologist diploma. Successful applicants are hired into the Controller Trainee position and undergo 2 years of facilitated and on-the-job training before becoming a Controller 1 enabling them to work in the control room unassisted. The trainee must become NERC certified within the first 3 months of hire. Once the NERC exam is passed an individual must complete a set amount of related training (200 hours over 3 years) to remain certified. The Controller training program is designed to maintain NERC Certification as well as other required annual training

b) For Hydro One's major trade classifications, employees are hired a minimum of four years in advance of potential future retirements. The range for all classifications would range from zero to approximately five years in advance of potential retirements.

c) For Hydro One's major trade classifications, the overlap would be generally the length of an apprenticeship program. During the apprenticeship program, apprentices can perform appropriate level of work for their experience level and the journeyperson is then available for higher skilled tasks.

The Society of Energy Professionals (SEP) INTERROGATORY #12

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p9 Figure 6

Interrogatory:

In the referenced figure over the two year period the minimum number of temporary workers is 244.

a) Please explain why a number of these temporary workers are not regular staff if the minimum number is so high over a two year period?

b) What is the number of temporary workers who have been continuously employed over this two year period?

Response:

a) Typically, there are a variety of reasons why Hydro One hires temporary employees: short term peak work; project work; seasonal work; co-op opportunities; maternity leaves; and short and long term sicknesses. Since these temporary resources are not filling an ongoing position, it would not be appropriate to reclassify them to regular status.

b) There are five temporary employees who have been continuously employed over this two year period.

The Society of Energy Professionals (SEP) INTERROGATORY #013

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p10 ln7-8

Interrogatory:

"Since January 1, 2004, 473 graduate trainees have been hired through the Company's on-campus recruitment program."

a) Please provide the annual number of graduate trainees hired for each of 2004 to 2018.

b) Please explain any year over year variances greater than +5%.

c) What is the annual attrition rate for new hires? If it is greater than the attrition rate for the rest of the Hydro One please explain why and the common reasons for this at Hydro One. It is assumed that Hydro One, like other successful billion dollar companies, performs exit interviews and has this information readily at hand as well as the analysis thereof to assist it in future hires into this program. Hydro One does perform voluntary exit interviews with a new grad employee who terminates.

d) Please explain how these annual hire levels for new grads tie into the roughly 200 staff per year that have retired between 2011 and 2015 as well as the accelerating number of retirees expected in 2016-2018 and beyond.

Response:

a)

Year	New Grads Hired
2000	25
2001	31
2002	24
2003	7
2004	21
2005	29
2006	0
2007	0
2008	86
2009	80
2010	70
2011	25
2012	27
2013	19
2014	17
2015	7
2016	5
Total	**473**

New grad hiring for 2017 and 2018 has not been finalized at this time.

b) Fluctuations in New Graduate hiring from year to year is a function of retirements, a desire to maintain the Hydro One "brand" on University campuses and the need to monitor headcount growth.

c) The overall attrition rate for employee hired into the New Graduate Program is 15.2% or on average 0.95% per year.

d) New graduate hiring is a way in which Hydro One can replenish the professional skills and experience lost through retirement.

The Society of Energy Professionals (SEP) INTERROGATORY #14

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p10 ln21-22

Interrogatory:

"Hydro One will also continue its support of the University and College Co-Op Education Program, hiring approximately 300 co-op students a year. "

a) Please provide the annual number of co-op students hired for each of 2004 to 2018.

b) Please explain any year over year variances greater than +5%.

c) Please provide the annual number of co-op students hired into graduate trainee positions for each of 2004 to 2018.

Response:

a)

Year	No. of Co-op Students Hired
2004	112
2005	111
2006	193
2007	233
2008	193
2009	409
2010	403
2011	385
2012	401
2013	389
2014	395
2015	371
2016	306

b) Between the years 2004- 2008, the number of co-ops hired was relatively consistent. Beginning in 2009 and continuing to 2016, Hydro One has expanded the use of the co-op hiring program. In 2008, Hydro One established the College Consortium which led to the first large group of college-level Co-op students being hired in subsequent years. Hydro One also introduced the Fellowship Student program which also increased the number of co-op students.

Witness: Keith McDonell

c)

Year	No. of New Grads Hired	No. of New Grads Hired with H1 Co-op Experience
2004	21	11
2005	29	11
2006	**	**
2007	**	**
2008	86	19
2009	80	23
2010	70	36
2011	25	19
2012	27	17
2013	19	10
2014	17	15
2015	7	5
2016	5	4

The Society of Energy Professionals (SEP) INTERROGATORY #15

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p11 ln4-7

Interrogatory:

"Hydro One believes a sustainable and longer term strategy is to invest in programs where knowledge transfer is the key objective. Programs such as new Graduate and Apprentice Hiring, and knowledge documentation all contribute to ensuring knowledge is transferred to more junior staff."

a) Explain Hydro One's knowledge documentation program.

b) What are the other programs, other than new Graduate & Apprentice Hiring, which Hydro One utilizes where knowledge transfer is the key objective? Please explain those programs.

c) Please explain the programs Hydro One has in place to transfer knowledge to regular staff from temporary staff and external contractors, including external engineering as well as design & construction firms.

Response:

a) Hydro One utilizes a number of approaches to facilitate knowledge transfer, as such, there is no single or formal knowledge documentation program. Current examples include:

- Rotational opportunities- allow employees the opportunity to learn new skills from senior employees and then return to their home base with greater knowledge.
- New Grad hiring – a 2 year program where new university graduates receive company and industry knowledge from more senior employees.
- Apprentice hiring – 4 or 5 year apprentice programs where new trades employees receive training from more senior trades co –workers.
- Mentoring Program- informal mentoring facilitates the transfer of knowledge to more junior staff.
- Project and Committee work for junior staff to work alongside more senior staff
- Consulting engagements where consultants are required to transfer knowledge to Hydro One employees.
- Increase use of SharePoint - created a central depository of data/information for easy access by all staff.

b) See answer a)

c) Opportunities transfer knowledge from temporary employees or contractors include:

- Where temporary employees are more knowledgeable than Hydro One regular employees, there are opportunities for interaction between the temporary and regular employee during the day-to-day execution of the work.
- Transfer of knowledge and/or processes from an external contractor. An example would be the engagement of a number of external contractors with experience to assist Hydro One establish and update business processes to become compliant with cyber security regulations under the NERC CIP version 5 framework. Prior to the external contractor assignments winding down, key business processes and the associated knowledge to sustain them would be built within HONI.
- When engaging external engineering firms, Hydro One may assign an entire phase of engineering on a project such as the detailed engineering to refurbish a transmission station. Hydro One prepares the specifications and design requirements for the external engineering firm and the external engineering firms deliver design packages to Hydro One for review prior to finalization. All externally engineered work is subject to review and approval by Hydro One staff prior to finalization of the design solution. The review of the work is an opportunity for the external engineering firm to provide their expertise and potential alternative suggestions to Hydro One for consideration.
- Hydro One also holds regular dialogue with external engineering & construction firms soliciting their input and advice as to how our standards and practices can further evolve based on the perspective of the external company.
- Construction partnered with an external service provider in 2016 to provide Hydro One with Site Inspection services for all of our externally constructed work. This organization has a managed system that is respected by peer utility companies and it will ensure Construction services will have a consistent approach and proper oversight.

The Society of Energy Professionals (SEP) INTERROGATORY #16

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation" p18 ln4-7

Interrogatory:

"Willis Towers Watson conducted market assessments for MCP Bands 3-10 (SVP to Administration roles). Executive level (Bands 3-4) compensation was assessed against a peer group consisting of twenty-one companies that included utilities and other Canadian publicly traded companies."

a) Please provide the market assessments referenced above along with related materials which were provided by Willis Towers Watson to Hydro One.

Response:

a) See Exhibit I, Tab 06, Schedule 57, Attachments #2 and #3 for the Willis Towers Watson reports.

The Society of Energy Professionals (SEP) INTERROGATORY #17

Reference:

Exhibit C1 Tab 4 Schedule 1 "Corporate Staffing and Compensation", "Pensions" pp28-30 and pp32-34
APPENDIX A: "Employee Pension Contributions for Other Employee Groups"

Interrogatory:

In collective bargaining since 2013, The Society has agreed to increases in pension contributions made by its members. This has resulted in the cost ratio of pension contributions [Hydro One to Society Employees] shifting from 4.3 prior to 2013 to 1.6 in 2018 for those Society members of the legacy pension plan [so-called "Tier 1"]. For Post November 2005 Society pension plan members [so-called "Tier 2"] this ratio has shifted from 2.6 to 1.0 over the same time period.

As shown in Appendix A figure 3, for MCP staff this ratio has shifted from 3.0 prior to 2013 to 1.9 in 2016. No 2017 and 2018 values are provided.

a) Please update Appendix A figure 3 to provide the MCP pension contribution data for 2017 and 2018. Please explain the rationale and methodology to derive these figures for 2017 and 2018.

b) Does the data provided in a) change Hydro One's pension contribution costs in 2017 and 2018? If it does, please revise these Hydro One pension contribution cost figures in evidence.

c) If the 2018 MCP contribution figures provided in a) vary from the 2018 Society Tier 2 pension contribution levels please explain why. In particular, if the MCP pension contribution levels are lower than Society Tier 2 please justify this discrepancy.

d) Please provide in one table all the data found in Exhibit C1 Tab 4 Schedule 1, Figure 8 "Employee Pension Plan Contributions - PWU" and Appendix A Figures 1, 2, 3. In this table please use the updated figures asked for in a) above [the MCP pension plan contributions for pre-2013 to 2018].

Response:

a) MCP employee contributions have not been finalized for 2017 or 2018. However, it is expected that MCP employee contributions will be increased.

b) With the current MCP employee contribution rate, it would not be expected that the service cost ratio would change in the short term.

c) See a)

d)

Representation	Pre 2003			2013			2014			2015			2016			2017			2018		
	Employee Contribution		Ratio	Employee Contribution		Ratio	Employee Contribution		Ratio	Employee Contribution		Ratio	Employee Contribution		Ratio	Employee Contribution		Ratio	Employee Contribution		Ratio
PWU	4.50%	6.50%	4.00	5.50%	7.50%	3.17	6.25%	8.25%	2.70	7.25%	9.25%	2.13	8.25%	10.25%	1.78	8.75%	11.25%	1.50	8.75%	11.25%	1.50
Society - Legacy	4.0%	6.0%	4.3	5.3%	7.3%	3.2	6.3%	8.3%	2.7	7.0%	9.0%	2.3	7.5%	9.5%	2.1	8.3%	10.3%	1.9	8.8%	11.3%	1.6
Society - Post 2005	4.0%	6.0%	2.6	4.8%	6.8%	2.1	5.8%	7.8%	1.7	6.5%	8.5%	1.4	7.0%	9.0%	1.3	7.8%	9.8%	1.2	8.3%	10.8%	1.0
MCP	4.0%	6.0%	3.0	4.8%	6.8%	2.7	5.5%	7.5%	2.3	6.3%	8.3%	2.1	7.0%	9.0%	1.9						

The Society of Energy Professionals (SEP) INTERROGATORY #18

Reference:

Exhibit C1 Tab 4 Schedule 1"Corporate Staffing and Compensation"

Interrogatory:

This referenced exhibit does not mention that there is a diversity program underway in Hydro One. Numerous studies have shown that a key characteristic of successful companies is employee diversity in particular gender diversity [e.g. assorted studies by McKinsey & Company, Mercer, Credit Suisse Research Institute etc.]. In striving to improve itself and become a more "commercial" business an obvious initiative for Hydro One would be to focus upon employee diversity.

a) Does Hydro One have a diversity program in place?

b) If there is no diversity program in place in Hydro One please explain why. If there is such a program underway please explain the program and its targets in terms of matching the diversity of the population of Ontario.

c) Provide a chart showing the Hydro One staff diversity profile 5 years ago, in 2015 and its target levels in 2018. Include a breakdown of this data by union representation [Society, PWU, non-represented] as well as the Hydro One total. Explain the changes between those three points in time.

d) With the over 1,000 Hydro One staff who retired in the past five years as well as the large number of retirements expected in the next five years, one would expect that the Hydro One staff diversity profile provided in answer to part c) would demonstrate substantial gains at each point in time. If it has not, please explain why and what impactful changes Hydro One is implementing to improve its employee diversity.

e) For its MCP staff, Hydro One apparently has in place a performance management system as well as a variable, at risk pay component (Short Term Incentive Plan "STIP"). A small number of key leadership employees also has a long term variable pay component ("LTIP") as part of their compensation. Does Hydro One tie in its performance management system and payments of STIP and LTIP for all MCP staff to achieving notable gains in diversity? If not, explain why not and why it believes that it can make significant gains in employee diversity without doing so.

Witness: Keith McDonell

Response:

a) Yes, Hydro One has a Diversity and Inclusion Policy.

b) Hydro One's Diversity and Inclusion Strategy has two goals:

- Increase the workforce representation of women, aboriginals and visible minorities to match external workforce availability based on geography
- Inclusion of these designated groups in Hydro One's corporate culture to ensure their full participation and the full capture of their capabilities.

While these two goals are the same for each designated group, the tactics to reach these goals will differ for each designated group, due to the characteristics of the group, including labour force availability and systemic barriers. Success will be measured by annual review of progress towards workforce availability against Hydro One's internal workforce, and by positive engagement with critical external communities and stakeholders.

Hydro One has been very active in the promotion of a variety of diversity and inclusion initiatives. Examples include:

- The Tri-Partite Diversity Committee (Equal representations of PWU, MCP, Society)
- Hydro One Diversity Calendar
- Diversity Lunch and Learns Series
- Hydro One Women in Engineering University Partnership
- The Hydro One Women In Engineering Scholarship
- Women In Trades Technology and Engineering Network
- Ontario Engineering Competition
- Women In Trees through Fleming College
- OnWiE Sponsorship and Go Eng Girl
- Catalyst Membership
- EHRC Connected Women Steering Committee
- Hydro One Women In Leadership Program
- WXN – Women's Executive Network Membership
- Skills Canada – Ontario – Mentorships and Workshops and Career Fairs
- Scientist in School
- Confederation College Pre-Tech program for Aboriginals
- Leonard S. (Tony) Mandamin Scholarship
- Aboriginal Network Circle

- First Nation & Métis Relations Department
- Nation Talk Membership
- The Aboriginal Procurement Procedure
- William Peyton Hubbard Memorial Award
- The Hydro One AID Network (Accessibility, Inclusivity, Disability)
- Hydro One College Consortium

c)

Representation	Women	Women	Women Targets
Year	**2010**	**2015**	**By 2018**
MCP	28.6%	29.3%	30%
Society	24.4	25.7%	30%
PWU	19.1%	18.7%	30%
Total of Employees	21.4%	21.7%	30%
Representation	Aboriginal	Aboriginal	Aboriginal Targets
Year	**2010**	**2015**	**2018**
MCP	2%	2.3%	3%
Society	0.4%	0.7%	1%
PWU	3.0%	2.9%	3%
Total of Employees	2.3%	2.3%	3%
Representation	Visible Minority	Visible Minority	Visible Minority Targets
Year	**2010**	**2015**	**2018**
MCP	13.9%	18.0%	19%
Society	26.6%	27.1%	32%
PWU	4.1%	3.7%	4%
Total of Employees	10.7%	11.4%	15%
Representation	Disability	Disability	
Year	**2010**	**2015**	
MCP	2%	1.1%	
Society	1.7%	2.1%	
PWU	3.3%	1.7%	
Total of Employees	2.7%	1.9%	

d) The trajectory of designated group representation in the years 2010 to 2015 is not as positive as Hydro One might have hoped, however, it must be recognized that during this time Hydro One has been in transition to its new public entity and dealing with other business priorities. In this five year period, Hydro One implemented a number of programs as highlighted in (b).

e) MCP employees who supervise other employees are assessed and rewarded under the STIP program based on their individual performance against specific goals as well as how their manager assesses their overall managerial accountabilities This discretionary component of the overall assessment encompasses a variety of managerial accountabilities, including his /her visible support and advancement of corporate objectives, such as Diversity and Inclusion.

Canadian Manufacturers & Exporters (CME) INTERROGATORY #014

Reference:

Exhibit C1, Tab 4, Schedule 1, pages 17 to 18

Interrogatory:

Please provide a copies of all materials prepared by Willis Towers Watson on behalf of Hydro One relating to compensation levels and design on behalf of Hydro One, including market assessments.

Response:

See Exhibit I, Tab 06, Schedule 57, Attachments #2 and #3 for the Willis Towers Watson reports.

Energy Probe INTERROGATORY #020

Reference:

Exhibit C1, Tab 4, Schedule 1, Figure 6

Interrogatory:

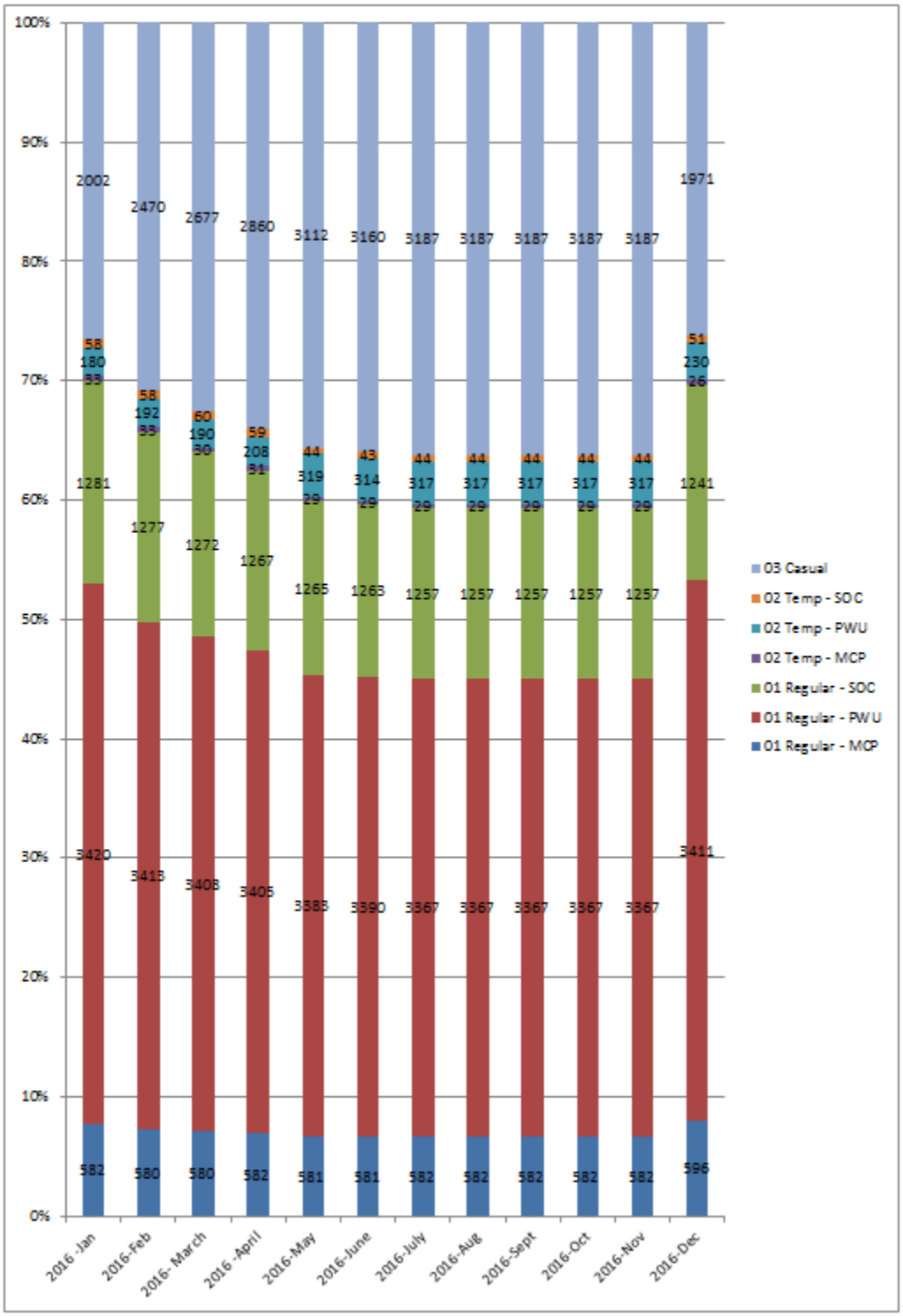
a) Provide a copy of the chart with incumbent employees by category by month, rather than % of total workforce.

b) Please provide a chart with employees by category YTD 2016 and projection for rest of year.

c) Please provide projection of Total Employees by category for 2017 and 2018 listing all relevant assumptions

Response:

a) The chart below indicates a) the incumbent employees by category by month and b) employees by category YTD 2016 and projection for rest of year.



Percent Use of Employee Categories (Monthly 2016)

b) Please refer to chart provided for a).

c) Please refer to Payroll Table at Exhibit C1, Tab 4, Schedule 1, Attachment 1.

Energy Probe INTERROGATORY #021

Reference:

Exhibit C1, Tab 4, Schedule 1, Table 1

Interrogatory:

a) Given the workforce profile and projected planned retirements, explain why Hydro One is not significantly increasing hiring of apprentices.

b) Please provide the current sourcing for Apprentices, including Community Colleges.

Response:

a) For Provincial Lines, the apprentice pool is maintained to keep approximately 350 apprentices in the talent pool at any given time. Based on projected future retirement and work program forecasts, Hydro One hired 80 apprentices earlier in 2016 and a further 16 will be hired in the fall of 2016 for a total of 96 new apprentices in 2016.

Stations electrical apprentice hiring is less in 2016 due to lower than expected retirements in the electrical trade classification.

b) Hydro One posts apprentice hiring opportunities on the Hydro One Career site as well through the PWU's external website. If required, postings will also be in a local community newspaper.

Energy Probe INTERROGATORY #022

Reference:

Exhibit C1, Tab 4, Schedule 1, Page 17

Interrogatory:

Preamble: Hydro One engaged Willis Towers Watson to undertake competitive market assessments and sought advice from Hugessen Consulting to determine the basis for the components of a new management compensation program.

Please provide a copy of the Towers Watson Report and the Advice provided by Hugessen Consulting.

Response:

See Exhibit I, Tab 06, Schedule 57, Attachments #2 and #3 for the Willis Towers Watson report and Attachment #1 for the Hugessen report.

Energy Probe INTERROGATORY #026

Reference:

Exhibit C1, Tab 4, Schedule 1, Page 21

Interrogatory:

Preamble: MCP employees are eligible to participate in an ESOP. MCP employees can contribute up to 6% of their base salary and Hydro One will provide a 50% match on contributions to a maximum of 3% of base salary.

a) Clarify the terms under which Executives participate in the ESOP (as opposed to MCP as described in Section 10.5).

b) Given the addition of the ESOP, what reductions in MCP and Executive Base Pay have been made as an offset to balance the additional potential future compensation from ESOP?

c) Alternatively, explain why incremental Compensation above Base Compensation and Incentive-Based pay (in the form of ESOP) is being provided and why ratepayers rather than shareholders should pay this cost.

Response:

a) Executives are eligible to participate in the ESOP program on the same terms and conditions as all other eligible MCP employees.

b) No specific reductions in MCP or Executive base pay have been implemented to offset any additional ESOP compensation. However, Hydro One has introduced a lower cost Defined Contribution Pension Plan for new externally hired MCP employees as of September 30, 2015.

c) Employee Share Ownership Plans (“ESOPs”) instil a sense of ownership for employees and since the value of their shares fluctuates with the success of the company, employees are incented to perform better. Equity based programs such as ESOP’s are a common market practice to align the interests of employees with those of the shareholder and the ratepayer. Since Hydro One is expecting better results from employees as a result, both the cost and the associated benefits should be should be experienced by ratepayers.

The rate recovery of incentive-based compensation has been previously considered by the OEB in regulatory decisions relating to Ontario's natural gas distributors. As an example, in a 2003 OEB Decision with Union Gas, the OEB ruled on the recoverability of incentive-based compensation programs. The Board agreed "with Union's use of incentive payments as a legitimate element of the total compensation package offered to retain qualified managers and staff in a competitive market for human resources". The Board also commented that "the use of incentive payments is a reasonable element of Union's employee compensation and benefits ratepayers over the longer term by allowing Union to compete for higher quality human resources, leading to a more efficient operation of the utility". (Reference RPO-2003-0063/EB2003-0087/EB-2003-0097 Decision with Reasons dated March 18, 2004 p.89).

Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #020

Reference:

C1/T4/S1

Interrogatory:

a) What (if any) performance requirements are included in the share grant program.

b) Please provide the terms of the share grant program.

Response:

a) The PWU and the Society share grant program does not have any specified performance requirements. Eligible employees receive common shares beginning April 1, 2017 (PWU) and April 1, 2018 (Society). The value of these shares will be determined by the stock performance.

b) See Attachment #1 for the PWU and Society Share Grant Plan from the 2016 Hydro One Management Information Circular.

Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #021

Reference:

C1/T4/S1

Interrogatory:

a) Please explain the increase in employees from 2015 (7,283) to 2018 (7,489). Please show how many positions related to overlapping due to forecast retirements and how many are new (long-term incremental) positions.

Response:

a) The increase in employees between 2015 and 2018 would be a result of an increasing work program. Due to the data limitations, it is very difficult to show a direct correlation between hires due to retirements and hires due to new incremental positions. When an employee retires, it is often the case that the vacated position is filled by internal resources and the resulting backfill may be an external hire. In an effort to monitor and control headcount, all internal and external vacancies must be approved by the Line of Business Vice President and then approved by the SVP, People and Culture, Health Safety and Environment.

Consumers Council of Canada (CCC) INTERROGATORY #021

Reference:

Ex. C1/T4/S1/p. 16

Interrogatory:

Please provide all documentation related to the Willis Towers Watson and Hugessen Consulting engagements. Were these contracts the subject of an RFP process? If not, why not?

Response:

See Exhibit I, Tab 06, Schedule 57, Attachments #2 and #3 for the Willis Towers Watson reports and Attachment #1 for the Hugessen report.

Hugessen Consulting was awarded a contract following a RFP process in 2008. No formal RFP was issued for the Willis Towers Watson study although Hydro One did speak with two other leading consulting firms and Willis Tower Watson was subsequently engaged to complete these benchmarking studies.

UNDERTAKING – TCJ2.1

Undertaking

To provide a percentage increase in total compensation for PWU and Society staff, including base rate increase, as well as the increase in the share grants.

Response

The PWU Shares are not issued to eligible PWU members until 2017. On April 1, 2017, there is a 1% base wage adjustment and eligible PWU employees will receive their 1st installment of Hydro One Limited shares equal to 2.7% of their April 1, 2015 base rate/ by IPO share price. An increase to pension contributions of on average 0.7% will also be implemented, which brings the total pension contribution increase on average to 2.7% since April 1 2015.

The Society Shares are not issued to eligible Society members until 2018. On April 1, 2018, there is a 0.5% base wage adjustment and eligible Society employees will receive their 1st installment of Hydro One Limited shares equal to 2.0% of their September 1, 2015 base rate/ by IPO share price. An increase to pension contributions of 0.5% will also be implemented, which brings the total pension contribution increase to 1.75% above the contribution rate in effect on September 1, 2015.