EB-2017-0049

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act*, *1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Hydro One Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2018 to December 31, 2022.

COMPENDIUM OF THE SCHOOL ENERGY COALITION
(Finance & Compensation)

Shepherd Rubenstein P.C.
2200 Yonge Street, Suite 1302
Toronto, Ontario M4S 2C6

Mark Rubenstein
Jay Shepherd
Tel: 416-483-3300
Fax: 416-483-3305

Counsel for the School Energy Coalition

UNDERTAKING – JT 1.19

Undertaking

To point out the derivation of the numbers from the Black & Veach study and the breakdown; to explain how that may be the same or different from the calculation in attachment 6 to C1 to 10.

Response

The purpose of this undertaking is to reconcile (a) the application of the Labour Content Method in Hydro One's compensation evidence on page 7 of Attachment 6 to Exhibit C1, Tab 2, Schedule 1, with (b) Exhibit I-40-SEC-083.

This response provides a step-by-step explanation of the allocation of the dollar difference between the weighted average total compensation for Hydro One's employees allocated to its distribution business and the P50 median used in the Mercer compensation study.

1. In Exhibit I-40-SEC-083, Hydro One first obtained the total dollar amount above market median from Mercer.

2. Subsequently, Hydro One applied the Labour Content Method to allocate this figure to Hydro One Transmission OM&A, Hydro One Transmission capital, Hydro One Distribution OM&A and Hydro One Distribution capital (TDOC). The labour splits detailed in Table 1 are consistent with those used in the Labour Content Method for the Black & Veatch report "Review of Overhead Capitalization Rates" (provided as Attachment 1 to Exhibit D1, Tab 3, Schedule 1).

Table 1: Labour Splits

	2016	2017	2018	Row Reference
Tx OM&A (%)	12.3%	17.6%	16.4%	A
Dx OM&A (%)	27.4%	26.0%	24.7%	B
Tx Capital (%)	32.6%	31.0%	30.3%	C
Dx Capital (%)	27.7%	25.3%	28.6%	D

In completing this response, Hydro One found an error in the "Total OM&A Distribution Comp" and "Total Capital Distribution Comp" figures provided on page 7 of Attachment 6 to Exhibit C1, Tab 2, Schedule 1. They were calculated incorrectly using the transmission labour splits, instead of the distribution labour splits set out in

Table 1. Note that the total "Distribution Compensation" figures remain unchanged. The corrected distribution OM&A and capital figures are provided below in Table 2.

Table 2: Corrected Allocation of Dx Compensation to OM&A and Capital

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Capital Dx Comp	169,193,807	330,855,675	321,004,661	299,243,081	342,404,569	347,815,408	333,225,316	324,634,686	327,669,257
Total OM&A Dx Comp	459,493,279	294,441,835	317,999,965	307,505,404	295,373,937	294,715,310	298,050,034	291,614,056	294,339,962
Total Dx Compensation	**628,687,087**	**625,297,510**	**639,004,626**	**606,748,484**	**637,778,506**	**642,530,718**	**631,275,350**	**616,248,742**	**622,009,219**

a) In deriving total compensation in the tables filed in evidence, figures are first allocated to Hydro One Transmission and Hydro One Distribution. The allocation employs two methodologies: (a) the Black & Veatch methodology for all regular employees and (b) the application of management expertise for casual employees. This is outlined in Exhibit C1, Tab 2, Schedule 1, Attachment 7, Page 4, Table 1. The allocation of casual employees to Hydro One Transmission and Hydro One Distribution does not reconcile with the Black & Veatch TDOC splits provided in Table 1 of this Exhibit. As a result, a direct reconciliation between Exhibit I-40-SEC-083 and Table 2 of this Exhibit is not possible.

b) Once the allocations to Hydro One Transmission and Hydro One Distribution are complete, amounts are further allocated to OM&A and capital following the Labour Content Method precisely. The supporting calculations are provided in Table 3.

Table 3: Reconciling Table 1 & Table 2

	2016	**2017**	**2018**	**Row Reference**
Dx OM&A (%)	27.4%	26.0%	24.7%	B (table 1)
Dx Capital (%)	27.7%	25.3%	28.6%	D (table 1)
% OM&A	49.76%	50.68%	46.31%	B / (B+D)
% Capital	50.24%	49.32%	53.69%	D / (B+D)
Dx Comp ($m)	$639.0	$606.7	$637.8	See Table 2
Dx Comp ($m - OM&A)	$318.0	$307.5	$295.4	= Dx Comp x B
Dx Comp ($m - Capital)	$321.0	$299.2	$342.4	= Dx Comp x D

each year is reflected in Table 4, together with the revised 2018 OM&A forecasts escalated by the OEB's approved 2018 inflation factor of 1.2%, (less the stretch factor of 0.45%) over the 2019-2022 period.

Table 4: Summary of Distribution Capital and OM&A Expenditures ($ Millions)

	Historical (previous plan and actual)											Forecast (planned)				
	2013 [1]	2014 [1]	2015			2016			2017 Bridge [2]			2018	2019	2020	2021	2022
	Plan	Plan	Plan	Actual	Var	Plan	Actual	Var	Plan	Actual	Var	Test	Test	Test	Test	Test
CATEGORY	$M	$M	$M		%	$M		%	$M		%	$M	$M	$M	$M	$M
System Access	159.5	199.4	183.3	188.1	2.6	182.6	182.7	0.0	176.1	168.3	(4.4)	154.6	157.6	160.9	165.9	170.0
System Renewal	265.7	262.7	250.7	308.4	23.0	265.4	288.3	8.6	285.0	252.2	(11.5)	248.6	318.7	336.7	362.5	451.1
System Service	96.5	85.5	120.1	71.6	(40.4)	103.3	77.4	(25.1)	110.1	66.6	(39.5)	81.8	93.4	85.6	78.8	69.5
General Plant	115.3	99.9	94.8	110.1	16.2	103.3	145.9	41.2	90.1	146.3	62.3	143.1	166.7	116.2	103.7	105.9
Total	637.0	647.5	648.9	678.3	4.5	654.7	694.2	6.0	661.4	633.5	(4.2)	628.1	736.4	699.3	711.0	796.5
System OM&A [3]	610.6	674.5	543.1	572.5	5.4	589.1	562.6	(4.5)	593.0	572.8	(3.4)	579.6	584.0	588.3	603.5	608.0

1) 2013 and 2014 were IRM years and therefore do not have Board-approved capital expenditure figures.
2) Bridge year 2017 is a forecast as of end of 2016
3) System OM&A values include all Operations, Maintenance and Administration expenses.

Exhibit Reference: B1-1-1

The decreased capital forecast is the result of (a) reduced pension and OPEB expenses and (b) changes to General Plant (i.e Common Corporate Capital) investments driven by modified productivity targets and project-level changes, as indicated in Table 5 below.

Table 5: Changes to Capital Forecast

$Millions	**2018**	**2019**	**2020**	**2021**	**2022**
Original Forecast	**633.9**	**756.8**	**719.0**	**740.7**	**827.2**
Pension Capital Reduction	(8.2)	(8.9)	(10.6)	(11.9)	(12.5)
OPEB Capital Reduction	(1.8)	(1.9)	(2.0)	(2.1)	(2.0)
Common Corporate Capital Adjustments / Productivity	4.2	(9.5)	(7.0)	(15.7)	(16.2)
Total Capital December Update	**628.1**	**736.4**	**699.3**	**711.0**	**796.5**

Since Hydro One filed its Application in March 2017, in addition to the OPEB and pension forecast changes reflected in Table 5, the Common Corporate Capital forecasts have changed as follows.

Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2013-0416/EB-2014-0247

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2015 TO 2019

DECISION
March 12, 2015

Despite general agreement by parties that the overall budget was reasonable, parties criticized employee compensation (including pensions and benefits), vegetation management costs and the conservation and demand management budget. Each of these areas is addressed below.

4.1 Compensation

In 2014, Hydro One's total compensation for all of its 5,400 regular employees[5] was approximately $617 million[6]. Compensation includes employee base salary, short and long term incentives, pensions and benefits. The total compensation for all employees, including temporary and casual, is $807 million in 2014. Along with the total number of employees Hydro One requires to complete its work programs, the proportional mix of those employees (regular, temporary and casual) directly affects the compensation cost total.

Many parties expressed concern with the richness of Hydro One's employees' compensation. The OEB has ruled on this issue in previous Hydro One rate applications. The last Hydro One distribution cost of service proceeding for 2010/2011 rates reviewed this issue and the OEB's findings included a reduction in the OM&A envelope to account for this high compensation cost relative to the industry. In Hydro One's transmission case (EB-2010-0002) the OEB also expressed concerns about compensation levels and the productivity being achieved.

The Mercer Study, commissioned by Hydro One and filed in this proceeding showed that compensation is about ten per cent higher than industry comparators at the market median.[7]

In this proceeding, many parties acknowledged that the evidence demonstrated that Hydro One is moving towards the market median for compensation. Hydro One has done so through a number of cost-cutting measures such as adjusting the staff mix to increase the use of temporary and casual staff, a strategic approach to contract

[5] This includes both Hydro One's Transmission and Distribution businesses.
[6] Exhibit C1-3-2 Attachment 1, p. 3 and Attachment 2
[7] Exhibit C1-3-2, Attachment 1: Mercer Compensation Cost Benchmarking Study, December 9, 2013

negotiations, and other hiring practices. However, parties argued that the ten per cent premium in compensation costs should not be recovered in full from ratepayers. The Mercer market median was suggested as a suitable level of recovery. Hydro One indicated that bringing the compensation to the market median level would result in a reduction of about $15.4 million per year in OM&A costs.[8]

This argument about reducing compensation was made with awareness of the legal context in which Hydro One operates, which requires the company to negotiate and abide by collective agreements with its unionized workers, who make up the majority (about 90%) of Hydro One's staff. Only the Power Workers' Union argued that Hydro One's compensation is reasonable and that Hydro One has behaved prudently and achieved reasonable results through collective bargaining.

Findings

The OEB recognises Hydro One's challenge in managing its compensation levels in a highly unionized environment. However, the OEB must determine a reasonable compensation amount to be included in the revenue requirement and thus borne by ratepayers.

A consideration of the appropriateness of compensation levels should be influenced by what a company can demonstrate is necessary to attract and retain employees with the skills and competencies it requires to accomplish its required outcomes. Hydro One's recent positive movement in getting closer to the market median has, in part, been a result of its compensation packages for new hires.

There has been a considerable focus on the market median of compensation levels over several years now. While Hydro One may focus on the market median as a benchmark, and target parity with it as a goal, it does not negate the OEB's need for evidence that illustrates the level of compensation required to allow Hydro One to attract and retain employees with the skills and competencies it requires.

[8] Undertaking J3.12

As is the case with any benchmark comparison, the need for cogent evidence to justify a level of spending or level of service quality is commensurate with its deviation from the level demonstrated by similar distributors. For instance, if a company spends more for a particular service or activity than most other comparable companies, it must provide more evidence for the level of proposed spending than if its level of spending was less than comparable companies. The OEB uses benchmarking as a tool to focus and prioritize its attention on certain costs. Benchmarking increases the efficiency of regulatory oversight. It does not replace the need for substantiating evidence in support of spending levels.

Hydro One did not provide sufficient evidence in support of its proposed compensation spending. The company did not demonstrate that the market requires the level of compensation proposed in order to attract and retain the necessary employees. In the absence of such evidence the OEB will use the market median as a reference point for the percentage of compensation costs that will be included in the rates paid by Hydro One's customers.

As previously stated, in arriving at an appropriate OM&A budget it is critical to ensure that Hydro One has sufficient funds to operate a safe and reliable system. The OEB must balance the ability of Hydro One to perform the work that is necessary to maintain the system and the fairness to its customers in paying for a level of compensation that has not been satisfactorily substantiated. In the absence of evidence indicating that higher levels of compensation are justified, the market median compensation level provides an indication that Hydro One customers are being asked to pay too much for the provision of the service they receive. As noted above, Hydro One indicated that if its compensation level were set at the market median level it would result in a reduction of about $15.4 million per year in OM&A costs.

While the OEB recognizes the progress that Hydro One has made over the last few years in getting closer to the market median, the OEB does not find that it is fair that ratepayers pay for a 10% premium over the market median. The OEB, however, will not disallow the entire 10% premium. Rather, the OEB will require efficiency from Hydro One by disallowing half of that amount from the revenue requirement, or $7.7 million per year, each year for 2015, 2016 and 2017. The OEB still expects Hydro One

to accomplish the work programs as outlined. In addition, the OEB directs Hydro One, in its next rates application, to file a compensation study similar to the one filed in this proceeding so that the OEB can continue to benchmark Hydro One's compensation against that paid by comparable companies.

A few parties raised concerns regarding Hydro One's pension and benefits plan, including the plan's long-term sustainability, the level of contribution by employees, and the possible need to review the accounting for other post-employment benefits. Hydro One has reduced the employer pension contribution level such that the employer/employee ratio for 2015 is planned to be 72/28. Hydro One has indicated that it plans to move to a 65/35 ratio by 2019.[9] This progress must continue, and the OEB encourages Hydro One to continue to move toward a 50/50 ratio, the generally recognized norm in public sector defined benefit pension plans.

Submissions were made concerning the need for a generic review of pension and other post-employment benefits. The OEB agrees that this issue is more appropriately dealt with on a generic basis. A generic proceeding could enhance understanding of the different rate making options, establish policy and decide on how best to apply that policy to Hydro One and other Board-regulated entities. Any changes to pensions and other post-employment benefits for Hydro One, if required, could be addressed by the OEB in Hydro One's next cost of service proceeding, having been informed by the outcomes of a generic proceeding. The OEB will not adjust the pension costs or pension accounting methodology at this time, but expects that a generic review may result in some changes applicable to Hydro One's next rates application. No specific disallowance with respect to pension or other pension and benefits costs is made in this Decision.

4.2 Vegetation Management

Most parties objected to Hydro One's proposed increased vegetation management budget (which includes cost for tree and brush clearing). The OEB agrees with the concerns expressed and is concerned that overall, Hydro One's vegetation

[9] Exhibit I/Tab4.03/Schedule 1/Staff 68

MERCER
MAKE TOMORROW, TODAY

HEALTH WEALTH CAREER

COMPENSATION COST BENCHMARKING STUDY

HYDRO ONE NETWORKS INC.

04 APRIL 2018

STRICTLY PRIVATE & CONFIDENTIAL

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

			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

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.

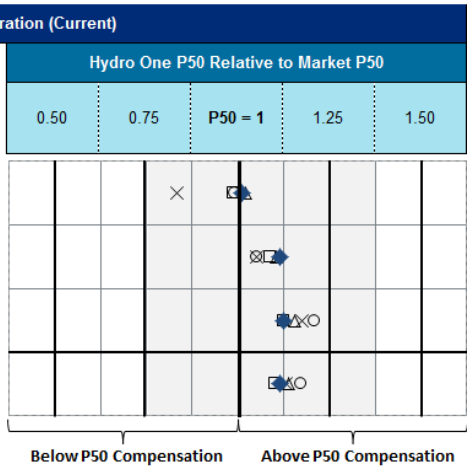
Overall, **on a weighted average basis, Hydro One's total compensation cost is 12% above market median**. Hydro One is consistently positioned above the market 50th percentile for all employee groups, ranging from a low of 1% for the Non-Represented group and a high of 12% above the market P50 for the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

	Hydro One Group	# of Hydro One Incumbents	Total Remuneration (Current) Multiple of P50 2017	2016	2013	2011	2008
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*



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 Group	# of Hydro One Incumbents	Hydro One P50 Relative to Market P50[1]				
			Base Salary	Total Cash[2]	Total Compensation[3]		
					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 Group	# of Hydro One Incumbents	Hydro One P50 Relative to Market P50[1]		
			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.

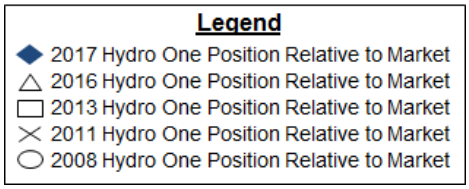
APPENDIX A

Hydro One vs. Market Average

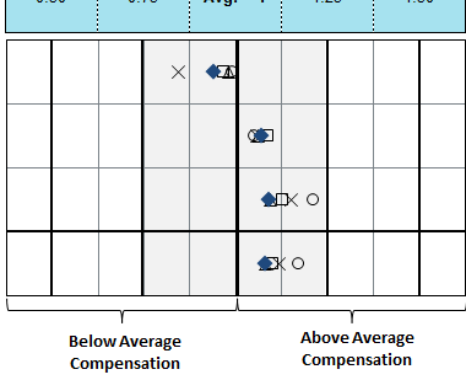
As requested by stakeholders, summarized below are the results of our compensation benchmarking analysis comparing Hydro One median to market average.

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.

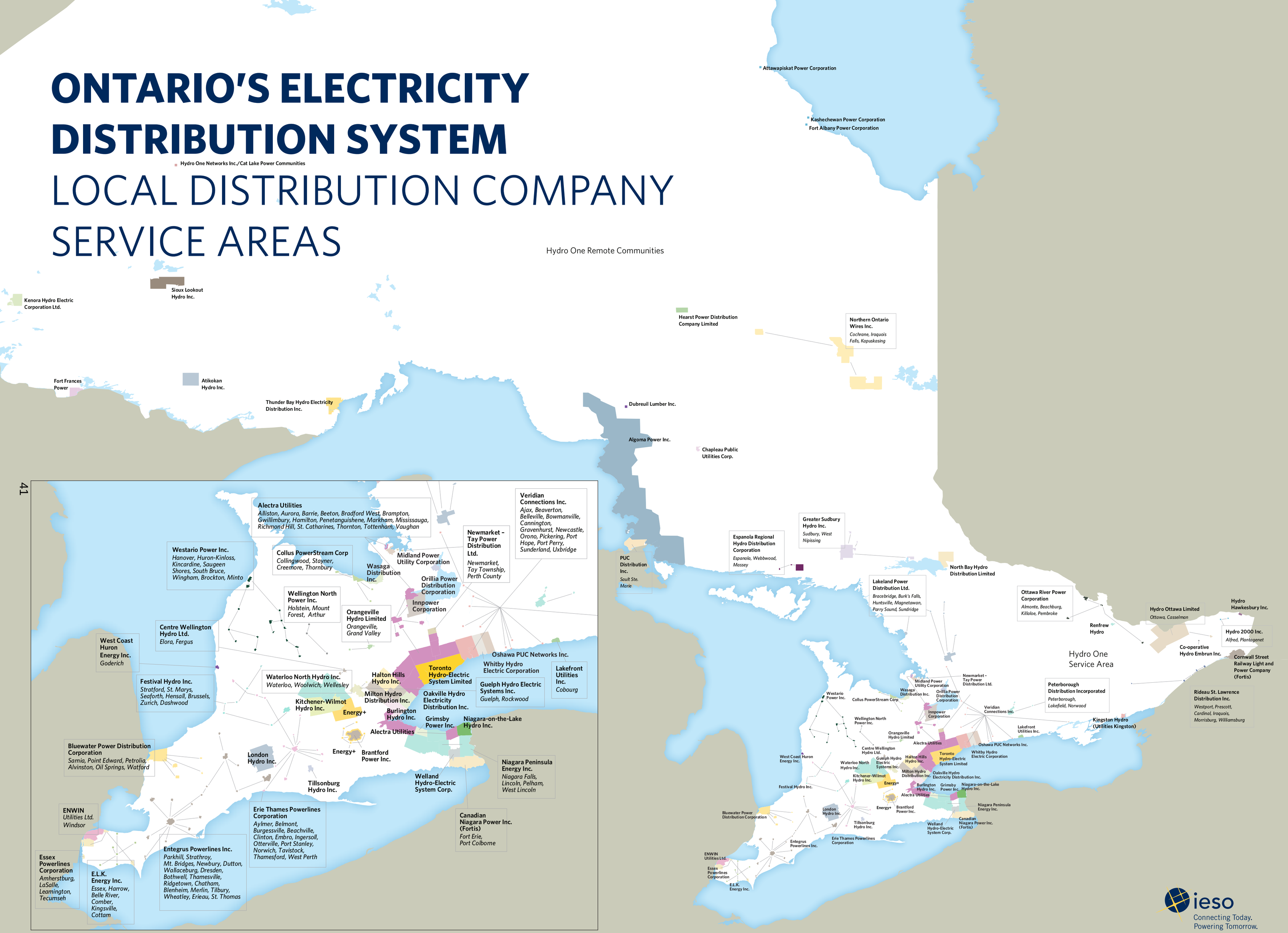
- For Pension and Post Retirement Non-Pension benefits, the above population is assumed to retiree approximately as follows:
  - 25% of the group retire at age 55
  - 60% of the group retire at age 60
  - 15% of the group retire at age 65
  - 70% of the active members are assumed to be married over their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

ONTARIO'S ELECTRICITY DISTRIBUTION SYSTEM

LOCAL DISTRIBUTION COMPANY SERVICE AREAS



Service areas shown here are approximate.

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Powering Tomorrow.

May 2018

Table 5: Negotiated PWU and Society Base Rate and Lump Sum Increases

Year	PWU	Society
2015	1% Base rate 1% Lump Sum	2.25 % base rate
2016	1% Base Rate 2% Lump Sum	.5% Base rate 1% lump sum
2017	1% Base Rate	.5% Base rate 2% lump sum
2018	-	.5% Base Rate

2) As part of the collective bargaining settlements with the PWU and Society, represented employees will be eligible to receive shares of Hydro One Limited. The philosophical shift to a compensation model that provides for below average base wage increases, combined with lump sum payments and share grants reduces the overall cash portion of compensation. Awarding share grants also instils a sense of ownership in employees. Aligning company interests with employee interests has produced consequential ratepayer benefits.

The first share grant day for eligible PWU represented employees is April 1, 2017. Additional shares will be granted in each of the following eleven years. The first grant date for eligible Society represented employees is April 1, 2018, with additional shares granted for the following eleven years. In order to be eligible for share grants, employees must remain employed with Hydro One.

3) Pension costs were reduced by increasing employee pension contributions and reducing future pension benefits. In addition to advancing the progression to a 50-50 cost-sharing for pension benefits, it is also significant in that the increase in pension contributions more than offsets the costs of the share grant program for both unions.

Other notable negotiated outcomes include:

Hydro One
PWU Benchmarking

Willis Towers Watson

Segmented Workforce Philosophy

Comparator Group Approach and Criteria

Hydro One's comparator groups have been differentiated to reflect the segmented labour markets for talent, i.e., Operations and Core Services roles, and will be applied consistently for the following employee groups to ensure a consistent end-to-end approach for understanding market position holistically:

- Executives
- Management Group
- PWU represented roles
- Society represented roles *(benchmarking has yet to commence)*

	Segment Definition	Comparator Group Selection Criteria
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, Maintenance	▪ *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
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

A detailed company listing of both peer groups are noted in Appendix I

Background and Context

Willis Towers Watson was engaged by Hydro One to benchmark its represented roles. This preliminary report provides competitive market data for Hydro One's PWU represented roles

Current Workforce Population Composition*

Hydro One 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

PWU population accounts for approximately **80%** of the represented population. Society represents approximately **20%**

The represented population accounts for over **90%** of total Hydro One employees, accounting for **88%** of total 2016 payroll.

*Source: Hydro One 2016 Actual Payroll Summary
Society roles to be benchmarked at a later date

Background and Context

Willis Towers Watson benchmarked over 90% of Hydro One's PWU represented workforce in this review

Hydro One PWU workforce summary

PWU Segment	N count	% of PWU Incumbents benchmarked
Core Services	533	13%
Operations	3711	87%

Over **90%** of all PWU represented staff are in jobs included in the benchmarking analysis *(4244 of 4671)*

The prevalence of represented roles matched to Willis Towers Watson's compensation surveys varies significantly across the segmented peer groups

Peer Group Summary Statistics

Hydro One Peer Group	Prevalence of Annual Incentive Plan (AIP)*	% of unionized roles in the survey
Core Services	60%	9%
Operations	80%	56%

Broad-based AIP's are common among western-based utility comparators as a means to remain competitive with the oil & gas sector

Salary surveys are typically used as a means to review the competitiveness of an organization's non-represented workforce. A higher proportion of unionized roles are prevalent in the operations peer group (a reflection of the nature of work)

* Represents the percentage of peer companies offering a broad-based AIP *(levels below Management & Professional roles)*

Hydro One Salary Schedules

- PWU compensation is administered across a wide range of salary schedules that create internal equivalencies between jobs that are typically differentiated in the market place. Market benchmarking results provide some indication as to the differences

- At a high level, a summary of the typical titles and types of roles by schedule and by segment are summarized below:

PWU Schedule	Typical Titles by PWU Schedule
	Operations & Core Services
Schedule 20	Clerical/Technical/Technologist
Schedule 21	Helicopter Positions
Schedule 25	Trades
Schedule 26	Working Supervisors
Schedule 27	Motive Power Trades
Schedule 28	Regional Maintainers
Schedule 30	Controller/Dispatcher
Schedule 32	Trades - Services
Schedule 50	Certified Trades (other than civil trades)
Schedule 86/87	University/College Students

Benchmarking Methodology

- PWU job steps within each schedule have been matched to a comparable job within Willis Towers Watson's Compensation Database, based on segmented peer groups outlined on Page 2
- For the purposes of this internal exercise, an additional comparator group is used for the Core Service segment which reflects the utility and energy sector companies used to assess operations jobs. This peer group is not aligned with the segmented compensation philosophy, nor does it reflect direct competitors for talent in Ontario for these roles. This perspective is provided as an additional data point, as it reflects a highly unionized sample
- The following pages outline market comparison as follows:
  - **Operations Segment** – aligned to the agreed operations peer group
  - **Core Services (Primary Comparison)** – aligned to the agreed core services peer group
  - **Core Services (Secondary Comparison)** – reflecting core services roles (i.e., clerical positions), assessed against companies in the Operations peer group
- All market data is presented on a base salary and total target cash compensation basis as follows:

Compensation Element	Hydro One	Market
Base salary	Actual base salary	Actual base salary
Total Target Cash Compensation	Actual base salary + actual share grant plan award *(target 2.7% of salary)*	Actual base salary + target incentive plan awards

Executive Summary

- Market Compensation benchmark results have been provided on a segmented basis for the benchmarked PWU roles, covering 90% of the PWU represented workforce

Competitive Analysis

- On an overall basis, Hydro One's target total cash is, on average positioned at market (within +/- 10%) of its 50th percentile target market reference

Hydro One Segment	% +/- Target Market Positioning		Employee Distribution
	Base Salary	Target Total Cash (TTC)	
Operations	-4%	-8%	87%
Core Services	63%	64%	13%
Overall	**9%**	**7%**	**100%**

Note: Overall market positioning represents an incumbent weighted average spanning both employee segments

Over **90%** of all PWU represented staff are included in the benchmarking analysis *(4244 of 4671 incumbents)*

Compensation Element	Hydro One	Market Data
Base salary	Actual base salary	Actual base salary
Total Target Cash Compensation	Actual base salary + actual share grant plan award *(target 2.7% of salary)*	Actual base salary + target incentive plan awards

Market data were sourced from Willis Towers Watson's 2017 General Industry and 2017 Energy Services, Middle Management, Professional and Support (MMPS) database

Competitive Positioning

Detailed Summary by Schedule

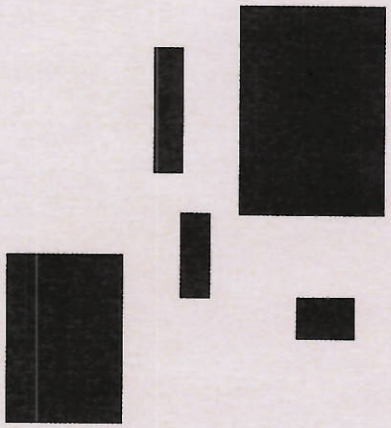
PWU Schedule	Average Competitive Positioning vs. Market Median							
	Operations & Core Services		Operations		Core Services (Primary)		Employee % Distribution	
	Base Salary	Target Total Cash (TTC)	Base Salary	Target Total Cash (TTC)	Base Salary	Target Total Cash (TTC)	Operations	Core Services
Schedule 20	26%	25%	6%	5%	78%	77%	18%	8%
Schedule 21	-	-	-	-	-	-	0%	0%
Schedule 25	7%	-18%	7%	-18%	-	-	2%	0%
Schedule 26	-11%	-18%	-11%	-18%	-	-	4%	0%
Schedule 27	-15%	-14%	-15%	-14%	-	-	2%	0%
Schedule 28	-12%	-14%	-12%	-14%	-	-	36%	0%
Schedule 30	-	-	-	-	-	-	3%	0%
Schedule 32	43%	47%	-	-	43%	47%	0%	2%
Schedule 50	-2%	-5%	-11%	-16%	45%	46%	22%	3%
Schedule 86	-	-	-	-	-	-	0%	0%
Schedule 87	-	-	-	-	-	-	0%	0%
Overall	9%	7%	-4%	-8%	63%	64%	87%	13%

Hydro One PWU workforce summary

PWU Segment	N count	% of PWU Incumbents benchmarked
Core Services	**533**	**13%**
Operations	**3711**	**87%**

Appendix I

Comparator Groups by Segment



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Peer Group – Operations

For 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

ONTARIO ENERGY BOARD

FILE NO.:	**EB-2016-0160**	**Hydro One Networks Inc. Transmission**

VOLUME:	**9**	
DATE:	**December 8, 2016**	
BEFORE:	**Ken Quesnelle**	**Presiding Member**
	Emad Elsayed	**Member**
	Peter C.P. Thompson, Q.C.	**Member**

MR. DeROSE: We are going to try and put you back on schedule. We have no questions for this witness, thank you.

MR. QUESNELLE: Thank you very much.

Mr. Rubenstein.

CROSS-EXAMINATION BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Just a couple short questions.

If I can ask you to turn to your second report. This is I 6-57, attachment 3. And am I correct this report is for non-executive bands?

MR. RESCH: Yes.

MR. RUBENSTEIN: And as I understand this report, and you can see this on page 3 and 4, you have divided your benchmarking exercise into two groups. One is what you call the core operational roles, which is -- and you have the peer group, you have a separate peer group for that, and that is on page 9 of the report, and then you have the support group, and you have a separate peer group for that?

MR. RESCH: Yes.

MR. RUBENSTEIN: And the support roles -- so those are, as I understand it, non-specific to utility functions; is that sort of a fair characterization?

MR. RESCH: Yes.

MR. RUBENSTEIN: And it's much broader group; am I correct?

MR. RESCH: Yes.

MR. RUBENSTEIN: Why have you done the two separate peer groups? Why are you not just using the core -- why

are we comparing support cost -- support functions to just other -- what those functions would be at other utilities?

MR. RESCH: Yeah, no, that's a good question. And we step back as part of our compensation philosophy and guiding principles, and one of them was around affordability and segmentation. And so working with management we thought through the broader non-executive workforce to understand what is the relevant labour market for this group, and consistent with best practice, I believe, and what we are doing more and more with clients is segmenting the workforce so that we can target the peer groups appropriately.

So rather than saying that every management role needs to be compared to a utility peer group, we have taken a much more, I think, conservative approach to separate out and ensure that the core operational or the roles that you would typically recruit from or lose to other utility organizations are bucketed together and aligned to one peer group of other utility organizations, whereas the support roles where you are drawing from a much broader general industry market, we are looking at a different peer group for them.

And essentially what you find -- and you see this in the data within our reports for similar levels -- is that market data is higher amongst utility companies in Canada, and then general industry, and so again, going back to the conservative nature of the approach, it was to ensure that we weren't inflating market levels by comparing non-utility

roles to other utility organizations.

MR. RUBENSTEIN: And that's because the market for human resources or IT professionals, it's not just other utilities, it's, you know, other organizations in the market.

MR. RESCH: Right. It's the -- you have transferable skill sets to a certain degree, and so the segmentation process was something that was very closely looked at, because there are -- you know, you really had to sort of think through for a position what was required of that position, and as you can see in the definition, you know, do they require, you know, education skills and knowledge that's directly related to, you know, the transmission, distribution, and regulation of power or not.

MR. RUBENSTEIN: And so on page 4 where you show the results of the support, Hydro One versus the broader -- for the support roles, if you had compared those positions to just similar positions in, say, the utility peer groups, directionally would Hydro One be closer to the 50th percentile or farther away?

MR. RESCH: They would be closer, because if you look at the market data that you see on page 3 for similar bands, the market data is higher amongst the core operational, so by default if you were to match those support roles into the core operational peer group, you would tend to find that Hydro One's would be positioned closer to median.

MR. RUBENSTEIN: All right. Thank you very much.

School Energy Coalition Interrogatory # 83

Issue:

Issue 40: Are the proposed 2018 human resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate (excluding executive compensation)?

Reference:

C1-02-01-05
With respect to the Mercer Compensation Cost Benchmarking Study:

Interrogatory:

a) Please provide an estimate of the dollar difference between the weighted average total compensation for Hydro One's employees allocated to its distribution business and the P50 median used in the study. Please provide the amount in 2016 (the year the study was completed) ***[2017 in this update]*** and for the 2018 test year. Please provide a step-by-step explanation of how the estimate was reached.

b) Please provide a list of all types of compensation (i.e. salary, overtime, share grant, LTIP, etc.) that were paid in 2016 ***[2017 in this update]*** that: i) were included in the study, and ii) were not included in the study.

c) Are there any additional types of compensation that will be paid in 2018 that were not in 2016?

d) Did Hydro One undertake a RFP process to select Mercer to undertake Compensation Cost Benchmarking Study? If so, please provide a copy of the RFP. If not, please explain how Mercer was selected.

Response:

The interrogatories above relate to the 2016 Mercer Compensation Cost Benchmarking study; however, the responses below have been updated to reflect outcomes of the 2017 Mercer Compensation Cost Benchmarking study filed on April 20th, 2018.

a) The dollar amount over market median ($70.92 million) is provided by Mercer, using its study data. Hydro One then applies to the amount (a) the transmission-distribution ratio, and

(b) the OM&A-capital ratio determined by the Labour Content Method described in Exhibit D1, Tab 3, Schedule 1, Attachment 1.

The calculation is provided below in Table 1. As shown in Table 1, the amounts for 2017 and 2018 for the difference between the weighted average total compensation for employees allocated to the distribution business are $18.46 million and $17.48 million, respectively.

Table 1

	2017	**2018**
	Bridge	**Test**
$ Over Median	$70.92	$70.92
TDOC Splits*		
*Consistent with Labour Content Method in Exhibit D1, Tab 3, Schedule 1, Attachment 1		
Tx OMA (%)	17.6%	16.4%
Dx OMA (%)	26.0%	24.7%
Tx Cap (%)	31.0%	30.3%
Dx Cap (%)	25.3%	28.6%
Allocation of $		
Tx OMA ($)	$12.49	$11.64
Dx OMA ($)	$18.46	$17.48
Tx Cap ($)	$22.00	$21.52
Dx Cap ($)	$17.96	$20.27
Total	**$70.92**	**$70.92**

b) The compensation elements in the Mercer Study included base wages, STIP, LTIP, Share Grants, lump sum, pension and benefits. Overtime compensation was not included.

c) In 2018, MCP and Society employees were eligible to participate in the ESOP.

d) A RFP process was not undertaken for the performance of this study. Mercer was selected by using a single source authorization in accordance with Hydro One's Supply Chain Policy.

Application, Hydro One has provided reporting on FTEs[2]. In the future, Hydro One expects to incorporate the FTE metric into its business planning and performance management processes. Table 1 illustrates the forecast FTEs for 2017 to 2022. Total Regular FTEs and total Networks FTEs in 2022 are expected to be 2.0% and 1.3% lower respectively than in 2017.

Table 1: Full Time Equivalents (FTE) - 2017 to 2022

		2017	2018	2019	2020	2021	2022
Regular	MCP	679	675	671	669	668	668
	Society	1375	1380	1376	1370	1363	1363
	PWU	3480	3444	3423	3413	3403	3395
	Total	**5534**	**5499**	**5470**	**5452**	**5434**	**5426**
Non-Regular	MCP	29	28	28	28	27	27
	Society	51	46	41	41	41	41
	PWU	165	140	138	138	137	137
	Total	**245**	**214**	**207**	**207**	**205**	**205**
Casual	PWU HH	1374	1465	1400	1401	1407	1408
	Casual Construction	1428	1428	1428	1428	1428	1428
Total FTE's		**8581**	**8606**	**8505**	**8488**	**8474**	**8467**

Figure 3 illustrates that Hydro One employs a large number of non–regular casual employees (PWU Hiring Hall and Construction Hiring Hall) and temporary employees through the year to execute on its various work programs. The use of non-regular resources reduces overall compensation costs since non-regular staff do not join pension or benefit programs, are not entitled to paid vacation days off, and can be deployed in a more flexible manner. The Company uses casual labour to appropriately supplement its

[2] FTE assumptions: (1) A budgeted regular position is 1 FTE; (2) For non-regular positions, unless budgeted for less than 1 year, a non-regular position is 1 FTE; and (3) For casual (Hiring Hall and Casual Construction), FTE's are determined by "person months"/12.

		2012	2013	2014	2015	2016	2017
Regular	MCP	655	634	605	597	611	679
	Society	1342	1318	1291	1282	1267	1375
	PWU	3476	3396	3342	3356	3391	3480
	Total	**5473**	**5348**	**5238**	**5235**	**5269**	**5534**
Non-Regular	MCP	19	23	29	29	33	29
	Society	56	55	56	55	47	51
	PWU	259	321	328	212	230	165
	Total	**334**	**399**	**413**	**296**	**310**	**245**
Casual	PWU HH	1301	1330	1338	1188	1383	1374
	Casual Cor	1104	1116	1319	1358	1402	1428
Total FTE's		**8212**	**8193**	**8308**	**8077**	**8364**	**8581**

Vulnerable Energy Consumers Coalition Interrogatory # 49

Issue:

Issue 38: Are the proposed OM&A spending levels for Sustainment, Development, Operations, Customer Care, Common Corporate and Property Taxes and Rights Payments, appropriate, including consideration of factors considered in the Distribution System Plan?

Reference:

C1-02-01 Page: 26

Interrogatory:

a) What is the current value (liability) of the share grant (ESOP) in 2018 for each of the employee categories (MCP/Society/PWU).

Response:

a) Please see the table below for the current value of the 2018 share grants (separate from ESOP) to the PWU and Society.

Share Grant Plan	Share Grants to be issued on April 1, 2018	Value of Share Grants (Share Price $20.50)
Power Works Union	358,614	$ 7,351,587
The Society of Energy Professionals	129,757	$ 2,660,019
Total	488,371	$ 10,011,606

The PWU is not eligible for the Employee Share Ownership Plan. For MCP employees, in 2018, $1.26 million is allocated to Hydro One Distribution OM&A for ESOP.

No 2018 ESOP figure is available for Society employees. Society employees were first eligible to participate in the ESOP program in September 2016. Employees could contribute up to 4% of their base earnings, and Hydro One would match 25%. There is a two-year holding period at which time Hydro One will make the required matching contribution. Since the first payroll deduction for Society represented ESOP contributions did not occur until October 20, 2016, by following the ESOP Plan rules, the required Hydro One contributions would not be made until early Q1 2019.