SEC Interrogatory #149

Interrogatory

Reference: F4-3-1, Attachment 2

With respect to the Total Compensation Benchmarking Study: For each of the PWU and Society, please provide an estimate of the dollar difference between the weighted average total compensation for OPG's employees allocated to its nuclear business and the P50 median used in the study. Please provide the amount for the year the study is representative of and for each year between 2022 and 2026. Please provide a step-by-step explanation of how the estimate was reached and include all supporting calculations so they can be verified.

Response

Willis Towers Watson ("WTW") prepared the following response.

Table 1 below provides an estimate of the dollar difference, by year, between total remuneration (TR) (excluding Hydro One shares) for each of PWU, Society, and Management employee groups and the market 50th percentile:

Table 1: Estimated Dollar Difference between Total Remuneration – OPG Overall and Market P50

[redacted]

Table 2 below provides, by year, the portion of the variance from Table 1 that is allocated to the nuclear operations and the portion of the allocated nuclear values that are attributed to OM&A expenses.

Table 2: Estimated Dollar Difference between Total Remuneration – Amounts allocated to Nuclear Facilities and attributable to OM&A portion of Total Compensation

[redacted]

The 2019 values for PWU, Society, and Management employee groups in Table 1 are consistent with the results of WTW's 2019 compensation benchmarking report (Ex. F4-3-1, Attachment 2), extrapolated to reflect the full OPG population within each representation based on relative percentage of benchmarked employees.[1]

The dollar differences in each year over the 2022-2026 IR term were determined based on the following steps and assumptions:

- Update the OPG benchmark data based on changes in salary assumed in OPG's business plan as provided in the Table 3 below.

Table 3: OPG Salary Assumptions – 2020-2026

[redacted]

- Adjust the market benchmark data based on future wage / salary increases determined by WTW and set out in Table 4 below, reflecting the following assumptions:

[1] As the overall OPG results shown are based on the extrapolated total across all three representations, it may not align to the overall OPG results in the 2019 compensation benchmarking report that was based on benchmarked incumbents.

- Salary increase assumptions for 2020 and 2021 are sourced from WTW's 2020 Canadian General Industry Salary Budget Survey.
- For the remaining years, estimated market increases for Management group employees are based on estimated CPI plus a market-based premium of 1.0%, which represents the average premium of salary increases above CPI over the past five years.
- Salary increase assumptions for represented employees tend to track more closely with CPI; however, the market for PWU and Society positions includes a mix of represented and non-represented employees, therefore the salary premium was adjusted to reflect an estimate of the unionized versus non-unionized workforce. Specifically, salary increase assumptions include estimated CPI plus a market-based premium of 0.7%, based on an estimate that 70% of the Canadian workforce is non-unionized.

Table 4: Adjustments to Market Benchmark Data for Future Wage / Salary Increases

[redacted]

[1] Salary increase assumptions sourced from WTW's 2020 Canadian General Industry Salary Budget Survey
[2] 2022 forecast based on TD Economics, Quarterly Economic Forecast (March 18, 2021)
[3] 2023 to 2026 estimates based on Bank of Canada's inflation-control target

- Update for changes in OPG's projected headcount through the IR term in Table 5, expressed as a percentage of the 2019 values as provided by OPG. OPG and market dollar values for the benchmarked positions (as adjusted for future wage / salary increases) were grossed up to reflect OPG's total projected population based on the percentage of the total headcount benchmarked as identified at Ex. F4-3-1, Attachment 2, p. 3.

Table 5: OPG Projected Headcount – 2022-2026

OPG Group	OPG Headcount Projections					
	2019	2022	2023	2024	2025	2026
PWU	100.0%	[redacted]				
PWU Terms	100.0%					
Society	100.0%					
Management	100.0%					
Overall	100.0%					

- Estimate dollar differentials based on the difference between OPG's total remuneration and the market median total remuneration for the corresponding employee group for each year.

- Allocate the total remuneration differentials (results shown in Table 1 above) to the nuclear operations based on the percentage of OPG's total compensation cost attributed to the nuclear operations by employee group, and then further attribute the results to OM&A expenses on the basis of the percentage of OPG's total compensation cost attributed to the nuclear operations that is represented by OM&A expenses by employee group (results shown in Table 2 above); these percentages as provided by OPG are set out in Table 6 below:

Table 6: OPG Allocations

Nuclear % of Total	2022	2023	2024	2025	2026
Management	80%	80%	79%	77%	71%
Society	79%	79%	79%	77%	72%
PWU- Reg	76%	76%	74%	74%	72%
PWU- Term	100%	100%	100%	100%	100%
OM&A % of Total Compensation	**2022**	**2023**	**2024**	**2025**	**2026**
Management	79%	79%	78%	76%	73%
Society	75%	75%	74%	69%	62%
PWU- Reg	85%	84%	82%	76%	57%
PWU- Term	99%	99%	99%	97%	0%

WTW notes that Society ETEs were excluded from the 2019 compensation benchmarking report and are also excluded from this analysis. Given that Society ETEs cannot join OPG's pension plan, WTW expects that including Society ETEs would improve OPG's positioning relative to market and therefore the total remuneration dollar variance between OPG and the market.

WTW also notes that in the total remuneration calculation, total direct compensation reflects the cost of the employer providing the target level of compensation, while pension and benefits values represent the estimated employer provided value. The pension and benefit values may not align directly with the cost for OPG to provide these programs; therefore, WTW suggests caution in using total remuneration, which reflects

a mix of cost and value, to assess OPG's overall cost competitiveness relative to the market 50th percentile.