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Frank D'Andrea
Vice President, Reliability Standards and Chief Regulatory Officer

BY EMAIL AND RESS

September 30, 2021

Ms. Christine E. Long, Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long,

EB-2021-0110 – Custom IR Application (2023-2027) for Hydro One Networks Inc. Transmission and Distribution – Supplemental Evidence

With this letter Hydro One is filing supplemental evidence consisting of a compensation benchmarking forecast prepared by Mercer as an addendum to its July 8, 2021 Compensation Benchmarking Study report, which was filed as part of the application at Exhibit E-06-01, Attachment 1. On page 2 of that report (page 4 of 39 of the Attachment) Mercer noted that it would subsequently provide a benchmarking forecast as an addendum. Accordingly, attached as supplemental evidence is this addendum from Mercer dated September 28, 2021, which is marked as Exhibit E-06-01, Attachment 1.1 to immediately follow the main Mercer report.

A copy of this letter has been filed on the OEB's electronic filing system and served on all parties.

Sincerely,

Frank D'Andrea

Frank D'Andrea

Mercer

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COMPENSATION BENCHMARKING FORECAST

ADDENDUM TO THE COMPENSATION BENCHMARKING STUDY DATED JULY 8th, 2021

HYDRO ONE NETWORKS INC.

28 SEPTEMBER 2021

Introduction

As outlined in the July 8th, 2021 Compensation Benchmarking Study ("Study") report provided by Mercer (Canada), Hydro One Networks Inc. ("Hydro One") requested that Mercer conduct a Compensation Benchmarking Forecast ("Forecast") following the ratification of the recent round of Society of United Professionals' collective bargaining in August 2021. The purpose is to forecast Hydro One's market competitive positioning as of 2027 (the end of the rate period of the current application), by projecting results of the 2020 Study.

The forecast projects both Hydro One and market compensation levels to the year 2027 – all benchmark jobs in the 2020 Study were included in the forecast. When conducting this analysis, a range of potential bargaining outcomes were considered for the union groups at Hydro One during the rate period. Similarly, assumptions were made for future salary increases relating to the Non-Represented groups over the forecast period (i.e. 2021 – 2027).

For the market, 2008 - 2020 compound annual growth rates ("CAGR") – based on previous study results – were assumed to carry forward in each year through 2027. Annual growth rates were applied within specific parameters described in the "Methodology" section.

The section below presents a summary of the methodology of the forecast as well as findings. Due to the highly confidential nature of the assumptions used for the bargaining outcomes during the rate period, the methodology has been summarized at a high level.

Methodology

The Compensation Benchmarking Study is designed to assess the competitiveness of Hydro One's total compensation packages in any given year. Due to the very nature of this type of Study, the Study results do not fully reflect the future cost saving benefits from proactive changes made to Hydro One's compensation packages (e.g. trailing impacts of changes made to the pension plans). In order to capture the impact of these changes over time, a forecasting model was developed to assess how Hydro One's total remuneration (base salary / wage + incentives + benefit value + pension value) market positioning may change, based on specific assumptions, if a similar Study was conducted in 2027.

The forecasting model is intended to quantify the impact of the following on Hydro One's employee population:

1. Workforce changes as new hires under revised plans replace retiring tenured employees under grandfathered benefits;
2. Broader changes in workforce mix;
3. Natural attrition of the workforce and replacement with less costly employees;
4. Movement of Trades and Technical employees through apprentices programs; and,
5. Assumptions in respect of a range of potential collective bargaining outcomes for the Energy Professionals and Trades and Technical employee groups covering the rate period.

We note that in Mercer's opinion, the assumptions used in the forecasting model are conservative and reasonable. However, the model does not factor in the following items below,

amongst others. As such, the actual realized outcomes may deviate, in either direction, from the forecast findings:

1. Actions taken by Hydro One in response to its changing market positioning;
2. Actual Hydro One bargaining outcomes that fall outside the modelled parameters;
3. The impact of workforce changes in comparator organizations;
4. Changes in the comparator group (i.e. additions / refusals to participate); and
5. Actions that may be taken by comparator organizations in respect of their employee costs.

Projections for Hydro One's compensation levels took into account assumptions in respect of a range of potential bargaining outcomes, during the rate period, for the union groups as well as assumed merit increases for the non-represented group. In addition to changes in compensation levels, assumptions were also made for changes in Hydro One's workforce over the forecast period. Specifically, retirements/exits from Hydro One were based on pension retirement scales, historical turnover rates as well as FTE plans.

For the market, 2008 - 2020 CAGRs – based on previous study results – were assumed to carry forward in each year through 2027. By taking this approach, the model is able to factor in annual changes in compensation elements (i.e. base salary, total cash, and total remuneration) seen in the market, movement of union employees across wage grids as well as the impact potential changes in organizations' participation and benchmark matching may have on results. In order to ensure a representative comparison, upper and lower boundaries, of 1.5% and 3.0% respectively, were applied to annual market growth rates for the union benchmark jobs. Only a lower boundary of 2.0% was applied to non-represented jobs. Mercer believes these values are reasonable based on historical salary / wage increases with consideration for other factors that impact base salary / wage increases (e.g. service based or performance based adjustments).

Findings

Based on the assumptions used, the forecasting methodology generates a range of potential outcomes that, by 2027, places Hydro One's overall total compensation **between 3% and 7% above the market 50th percentile (i.e. "P50" or "Median")**. The mid-point of this range of outcomes is **5% above the market 50th percentile**. This represents an improvement from the 9% aggregate positioning above the market 50th percentile in the 2020 Study.

This range of potential outcomes, based on the forecast assumptions, places **Hydro One's total compensation within the market competitive range (i.e. +/- 5% of the market 50th percentile)** or, **at most, 2% above it** by 2027. This represents an improvement from the 4% above the market competitive range positioning in the 2020 Study.

The key factors contributing to Hydro One's improved positioning over the forecast period, include:

- Turnover in the employee population: specifically, new non-represented employees receive less costly compensation packages than the incumbents they replace;
- Changes in Hydro One's workforce mix; and
- Faster rates of growth in market compensation levels, relative to Hydro One, for certain benchmark jobs, based on historical market compensation levels.

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