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BY EMAIL AND RESS

February 4, 2022

Ms. Nancy Marconi
Acting Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Marconi,

EB-2021-0110 – Custom IR Application (2023-2027) for Hydro One Networks Inc. Transmission and Distribution ("Hydro One") – Updated Undertaking Responses

Further to the settlement reached on January 19, 2022 in respect of motions brought by SEC and AMPCO in the above-noted proceeding and the updated interrogatory and undertaking responses provided on January 28, 2022, attached please find Hydro One's updated responses to undertakings JM 1.1 (including tables in KT 1.1 and KT 1.2), JT 5.10 and JT 5.13.

Sincerely,

Kathleen Burke

Encls.

cc. EB-2021-0110 parties (electronic)

UNDERTAKING JM-1.1

Reference:

Exhibit JM-1.1, KT1.1
Exhibit JM-1.1, KT1.2

Undertaking:

To provide responses to exhibit KT1.1 and exhibit KT1.2 prepared by SEC and AMPCO. Hydro One will complete the table with the exception of any information for any asset class in which the specific sub-index information is not included in the composite score (i.e. if the sub-index score for a given asset class is weighted 0% in deriving the assets composite index, then the sub-index information for that asset class need not be provided). Hydro One will also provide the information for the 3 other categories (obsolescence, PCB, HS&E) for all assets.[1]

Response:

Please see Attachments 1 (transmission data) and 2 (distribution data) for the requested data. Obsolescence, PCB, and HS&E information have not been provided on an aggregated basis as this information is not used to derive the Composite Index score included in the attached tables.

The requested index data is a simplified, series of singular inputs used in a sub-component of the much larger Asset Management process which considers many other asset-data inputs in the Asset Needs Assessment stage.

There are two key parts to Hydro One's system planning process as described in SPF Section 1.7:

- Asset Management: Hydro One assesses the current state of its assets, evaluates specific asset condition and system requirements, formulates potential options and develops a list of candidate investments.
- Investment Planning: Based on the candidate investments, Hydro One uses its investment planning process to identify, prioritize and optimize investments. Risk taxonomies guide the assessment of candidate investments, based on safety, reliability and environmental consequences.

As part of the Asset Management stage (SPF Section 1.7.3), Hydro One completes an Asset Needs Assessment (referred to as the ARA in prior transmission proceedings) to determine individual asset needs. The comprehensive needs assessment considers multiple aspects: (i) asset-specific investment needs, particularly condition, (ii) customer needs and preferences, (iii) system needs (including regional and bulk planning considerations), (iv) operational needs, and (v) other external influences. For each of these sub-parts of the Needs Assessment, Hydro One relies on various data and information to develop candidate investments.

[1] EB-2021-0110, Motions Hearing Transcript, January 19, 2022, p7-8.

The identification aspect of (i) above, asset-specific investment needs, is based on a variety of inputs and considerations that vary by asset-type, and are described in TSP 2.2 and DSP 3.2. The inputs are largely asset-related data, which may include some of the requested six index categories (condition, utilization, performance, criticality, economics, demographics) in whole or in part, which may help planners screen the asset fleet to identify assets that require further assessment and confirmation i.e. the requested index data is supplemented by additional asset data to complete the asset-specific needs assessments.

The relevant index data, in conjunction with other asset information is used to develop a comprehensive assessment of each individual asset's condition. Other asset information may include the technical obsolescence, future loading requirements, known health, safety and environmental factors, equipment ratings, operating restrictions, data collected from site visits, and/or the presence of PCB contamination, etc.[2] Since Obsolescence, PCB, and HS&E information may be used to supplement the index data when assessing an individual asset (for example see B2-Staff-076 for transmission), Hydro One has not provided this information on an aggregated basis because this information would not be meaningful nor is it used at this level.

The requested index data may only reflect the current state of the data (at a point-in-time) and not reflect the trend/historical data. For example the condition index data for transmission transformers reflects only Dissolved Gas Analysis (DGA) data at a point-in-time. To comprehensively assess the condition of a transformer a detailed condition assessment is completed using the most recent condition data as well as historical data relating to four main indicators: (i) insulation deterioration within the main tank, (ii) oil leaks, (iii) cooling system failure, and (iv) tap changer malfunction. In addition, the assessment also takes into account other factors like defect reports and PCB contamination. See B2-Staff-076 Attachment 1 as an example. For Distribution station transformers, in addition to index data for condition, historical condition trending, and under load tap changer condition as identified through inspections are also considered to determine transformer condition.

The requested index data is derived for each individual asset and when aggregated as in the attached tables do not provide interpretative value to the proposed investments. Moreover the Composite Score is not used by Hydro One.

As discussed in JT1.05, the requested composite score (a weighted average of the requested data) is not used in the Asset Needs Assessment and Investment Candidate Risk Assessment processes and is therefore, not a driver of, nor relevant to, any specific asset decisions or investments.

[2] SPF Section 1.7, p 12.

Comparison of the various aggregated index data in the attached tables (which represent a portion of the data used to assess asset condition) is not appropriate as assets in one category are likely to be different in another such that the basis of comparison is not consistent and no real conclusion can be made. Moreover, Hydro One does not assess its assets nor plan its investments in this way.

For all these reasons, the attached index data does not provide full insight into the asset needs and cannot be used for that purpose.

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Transmission Index Data

Please see Undertaking JM1.1 for background on the data below.

Composite Index

Asset	Population	(1-15)	(>15-30)	(>30-50)	(>50-70)	(>70-100)
Transformers (#)	721	371	246	103	1	-
Conductors (km)	28,552	3,738	13,506	9,780	1,522	6
Circuit Breakers (#)	4,756	1,533	2,067	1,065	91	-
Protection and Control Systems (#)	12,494	7,984	2,153	1,631	637	89
Insulators (#)						
Wood Poles (#)	40,000	9,831	14,167	12,638	3,195	169
U/G Cable (km)	273	133	84	56	-	-

Condition

Asset	Population	(1-15)	(>15-30)	(>30-50)	(>50-70)	(>70-100)
Transformers (#)	721	457	102	56	46	60
	-					
Conductors (km)	28,552	11,766	2,280	3,357	2,320	1,101
Circuit Breakers (#)	4,756	1,762	2,235	643	105	11
Protection and Control Systems (#)	12,494	12,070	146	-	-	278
Insulators (#)	-					
Wood Poles (#)	40,000	16,882	4,591	4,277	1,531	1,237
U/G Cable (km)	273	141	31	53	38	10

Utilization

Asset	Population	(1-15)	(>15-30)	(>30-50)	(>50-70)	(>70-100)
Transformers (#)	721	721	-	-	-	-
	-					
Conductors (km)	28,552	28,552	-	-	-	-
Circuit Breakers (#)	4,756	1,167	724	2,030	157	678
Protection and Control Systems (#)	12,494	-	-	-	-	-
Insulators (#)	-					
Wood Poles (#)	40,000	-	-	-	-	-
U/G Cable (km)	273	248	12	4	3	6

Performance

Asset	Population	(1-15)	(>15-30)	(>30-50)	(>50-70)	(>70-100)
Transformers (#)	721	683	38	-	-	-
	-					
Conductors (km)	28,552	24,797	1,066	1,038	711	941
Circuit Breakers (#)	4,756	4,004	98	17	617	20
Protection and Control Systems (#)	12,494	8,714	221	1,156	302	2,101
Insulators (#)	-					
Wood Poles (#)	40,000	19,093	3,104	9,029	7,519	1,255
U/G Cable (km)	273	249	16	8	-	-

Criticality						
Asset	**Population**	**(1-15)**	**(>15-30)**	**(>30-50)**	**(>50-70)**	**(>70-100)**
Transformers (#)	721	-	456	157	80	28
	-					
Conductors (km)	28,552	7,858	2,248	8,794	8,701	952
Circuit Breakers (#)	4,756	-	2,653	1,299	784	20
Protection and Control Systems (#)	12,494	7,017	2,536	361	1,678	902
Insulators (#)	-					
Wood Poles (#)	40,000	23,186	6,673	8,161	1,975	5
U/G Cable (km)	273	204	15	43	10	-

Economics						
Asset	**Population**	**(1-15)**	**(>15-30)**	**(>30-50)**	**(>50-70)**	**(>70-100)**
Transformers (#)	721	436	149	60	19	57
	-					
Conductors (km)	28,552	-	-	-	-	-
Circuit Breakers (#)	4,756	3,310	401	284	186	575
Protection and Control Systems (#)	12,494	-	-	-	-	-
Insulators (#)	-					
Wood Poles (#)	40,000	-	-	-	-	-
U/G Cable (km)	273					

Demographics						
Asset	**Population**	**(1-15)**	**(>15-30)**	**(>30-50)**	**(>50-70)**	**(>70-100)**
Transformers (#)	721	298	14	60	62	287
	-					
Conductors (km)	28,552	5,188	3,098	6,990	7,253	6,024
Circuit Breakers (#)	4,756	1,826	60	597	686	1,587
Protection and Control Systems (#)	12,494	9,761	397	611	367	1,358
Insulators (#)	-					
Wood Poles (#)	40,000	10,107	6,789	3,621	1,769	17,714
U/G Cable (km)	273	-	-	-	-	-

Distribution Index Data

Please see Undertaking JM1.1 for background on the data below.

Composite Index						
Asset	**Population**	**Very Good (1-15)**	**Good (>15-30)**	**Fair (>30-50)**	**Poor (>50-70)**	**Very Poor (>70-100)**
Station Transformers (#)	1197	727	56	250	146	18
Mobile Unit Substations (#)	35	21	1	9	4	0
Reclosers (#)	2288	1229	297	322	281	159
Circuit Breakers (#)	152	69	80	3	0	0
Station Structures (#)	2143	1430	75	614	18	6
MUS Structures (#)	787	468	45	206	56	12
Poles (#)	1612341	1373022	162324	16398	34729	25868

Condition						
Asset	**Population**	**Very Good (1-15)**	**Good (>15-30)**	**Fair (>30-50)**	**Poor (>50-70)**	**Very Poor (>70-100)**
Station Transformers (#)	1197	727	56	250	146	18
Mobile Unit Substations (#)	35	21	1	9	4	0
Reclosers (#)	2288	1229	297	322	281	159
Circuit Breakers (#)	152	69	80	3	0	0
Station Structures (#)	2143	1430	75	614	18	6
MUS Structures (#)	787	468	45	206	56	12
Poles (#)	1612341	1373022	162324	16398	34729	25868

Demographics						
Asset	**Population**	**Very Good (1-15)**	**Good (>15-30)**	**Fair (>30-50)**	**Poor (>50-70)**	**Very Poor (>70-100)**
Circuit Breakers (#)	152	25	0	7	12	108

UNDERTAKING JT-5.10

Reference:

I-22-E-SEC 212

Undertaking:

To further consider and consult with Mercer, and either provide a further full response to E-SEC-212, including all the underlying and supporting calculations, for each year between 2023 and 2027, for each of non-represented, PWU and SUP, or to advise if not able to do so or if Hydro One objects to doing so.

Response:

Response from Mercer:

The methodology for calculating total compensation differentials has been outlined in I-22-E-SEC-212, page 2. In summary, to calculate the total compensation differentials, Mercer has undertaken the following steps:

Based on Hydro One's 2020 compensation data, as well as forecast projections as discussed in Exhibit E-06-01, Attachment 1.1 calculate Hydro One's annual total compensation from 2020 to 2027

Based on market data collected in the 2020, 2017, 2016, and 2013 compensation studies, calculate compound annual growth rates (CAGRs) for market data by position, and apply the CAGRs to the market data collected in the 2020 study to simulate market movements between 2020 and 2027

Based on the results from steps A. and B., calculate the total compensation differentials based on Hydro One's projected headcounts

In respect of the methodology, see also Mercer's response in JT 5.13.

The total compensation differentials for 2024, 2025, 2026 are discussed as follows (note that the results for 2023 and 2027 have been provided in E-SEC-212, along with OM&A calculations).

Table 1 - Weighted Average Total Compensation Differentials for Forecast Years 2024, 2025, 2026 Relative to P50 Market Median

Total Compensation - 2024	Total Compensation - 2025	Total Compensation - 2026
40.0 to 52.0	28.3 to 49.3	17.9 to 48.2

All data presented in CAD ($M)

Table 2 - Weighted Average Total Compensation Differentials for Forecast Years 2024, 2025, 2026, between Hydro One and the market competitive range (i.e., P50 plus/minus 5%)

Total Compensation - 2024	Total Compensation - 2025	Total Compensation - 2026
11.0 to 23.0	Up to 19.5	Up to 17.5

All data presented in CAD ($M)

Response from Hydro One:

Hydro One's position, in connection with this question, is that further breakdowns by employee group are irrelevant for purposes of this rate application.

Updated Undertaking

On January 19, 2022 in connection with a settlement of a motion relating to this undertaking, it was agreed that the following additional information would be provided in response to JT-5.10 (and the request in the question would be revised accordingly):[1]

i. Mercer will provide the dollar differential to market, using the 2 percent assumption referred to in response to SEC 203.

ii. Mercer will provide a further, more detailed explanation of the methodology used to get from the 2020 study result to the 2020 dollar differential that is included in the response to SEC 212.

iii. In respect of the forecast/projection component of the response, for each of the years during the rate period -- so that's 2023 to 2027 -- for each of the three employee groups, Mercer will provide greater details of its methodology, including, to the extent its methodology works this way, the total Hydro One compensation amount and the total market compensation amount that drives the dollar differential.

Updated Response:

Response from Mercer:

i. Tables 3 and 4 below present the dollar differential to market using a 2 percent compensation increase assumption in the forecast calculations for PWU and SUP, and Non-represented group. We note that the results provided, in tables 3 and 4 below, do not reflect a range because a single assumption was used for this analysis rather than the four (4) bargaining outcomes considered in Mercer's forecast. We also note that the numbers in the tables below do not reflect the OM&A allocated components for transmission and distribution. The allocations, broken down by transmission and distribution, have been provided by Hydro One in the response to SEC 212, for the Study year 2020 and the forecast years 2023 and 2027.

[1] EB-2021-0110 Motions Hearing, January 19, 2022, page 18, lines 7-23

Table 3 - Weighted Average Total Compensation Differentials for Forecast Years 2023 - 2027 Relative to P50 Market Median – 2% Assumption

[redacted]	[redacted]				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

All data presented in CAD ($M). Numbers may not add up to total due to rounding

Table 4 - Weighted Average Total Compensation Differentials for Forecast Years 2023 – 2027, between Hydro One and the market competitive range (i.e., P50 plus/minus 5%) – 2% Assumption

[redacted]	[redacted]				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

All data presented in CAD ($M). Numbers may not add up to total due to rounding

ii. The market position of Hydro One, as outlined in the Mercer Study, does not directly convert, in and of itself, into the total dollar differential amounts. The process for calculating the 2020 dollar differential is further explained below. We note that the data of the 2020 Study forms the basis for the calculation.

- **Step 1**: Mercer calculated the total weighted average compensation for Hydro One, and the market, for each employee group. In order to do this, Mercer first calculated the total compensation for each job within the employee group for Hydro One and the market.

  For illustrative purposes, if Job A and Job B are the only two jobs in the same employee group at Hydro One, and Hydro One Job A makes $100K in total

compensation with 10 incumbents while Hydro One Job B makes $120K in total compensation with 5 incumbents, the weighted average total compensation for that employee group would be (100 x 10 + 120 x 5) / (10 + 5) = $106.67K.

Similarly, if the market P50 for Job A and Job B are $90K and 130K respectively, their weighted average total compensation would be (90 x 10 + 130 x 5) / (10 + 5) = $103.33K

- **Step 2:** The dollar difference between Hydro One and the market P50 was determined and grossed up by the regular full-time equivalents[2], for each employee group in the Study.

  Continuing with the illustration above, the total dollar differential for that Hydro One employee group would be [($106.67 - $103.33) x (10 + 5)] = $50.05K

- **Step 3:** The total dollar differential for each employee group was calculated and summed up to determine the 2020 overall total dollar differential.

- **Step 4:** The resulting 2020 overall total dollar differential was adjusted downwards to reflect STI payments made, to the non-represented group, above target incentive levels. This approach is taken with the understanding that STI payouts made above target levels are not included in the rates application.

Mercer does not use a simple average approach to calculate the weighted average overall total compensation differential because this approach would not accurately reflect the distinct variations in market positioning for each employee group. In order to understand the overall dollar differential to market, it is important to consider instances where Hydro One is both below and above the market.

The approach for calculating Hydro One's total dollar differential to the market competitive range (Table 4 above) is similar to the steps outlined above. However, there is a slight difference in approach, as outlined below:

- Mercer calculates the dollar differential to get Hydro One to within the defined market competitive range (i.e., P50 plus/minus 5%). This involves:
  - Calculating any amounts by which Hydro One was above the top of the market competitive range, i.e. above P50 plus 5%. Specifically, this means that for any employee group, in any given year, for which Hydro One's market positioning is above 5%, the approach was to compare Hydro One

[2] The regular full-time equivalents for the year 2020, as indicated on E-06-01, page 18, Table 1: 647 for Non-Represented, 1,449 for Energy Professionals and 3,603 for Trades and Technical.

to the market P50 plus 5% instead of market P50 as outlined in the Step 1 above;

- Calculating any amounts by which Hydro One was below the bottom of the market competitive range, i.e. below P50 minus 5%. Specifically, this means that for any employee group, in any given year, for which Hydro One's market positioning is below the P50 minus 5%, the approach was to compare Hydro One to the market P50 minus 5% instead of market P50 as outlined in the Step 1 above; and,
- If an employee group of Hydro One is within the competitive range (on a weighted average basis), there are no dollar differences included in this calculation. Specifically, this means a "0" was indicated as the differential for that employee group.

iii. The total overall dollar differential calculation for the forecast years takes a similar approach as stated in response (ii) above. The only difference is that the results for forecast years 2023 – 2027 are based on projections for both Hydro One and the Market. In addition, there are no downward STI payout adjustments due to the forward looking nature of the forecast (i.e. those STI payouts have not been made).

As outlined in the methodology presented in Steps 1 – 3 in response (ii) above, Mercer does not calculate a separate overall total compensation value for Hydro One and a separate overall total compensation value for the market to determine the overall total dollar differential.

Please refer to Mercer's response to JT-5.13 for an overview of the methodology used for the forecast. The tables below present Hydro One's total dollar differential for forecast years 2023 – 2027 across all forecast assumptions.

We also note that the numbers in the tables below do not reflect the OM&A allocated components for transmission and distribution. The allocations, broken down by transmission and distribution, have been provided by Hydro One in the response to SEC 212, for the Study year 2020 and the forecast years 2023 and 2027.

Table 5 - Weighted Average Total Compensation Differentials for Forecast Years 2023 - 2027 Relative to P50 Market Median – All Bargaining Outcome Assumptions

[redacted]	[redacted]				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

All data presented in CAD ($M). Numbers may not add up to total due to rounding.

Table 6 - Weighted Average Total Compensation Differentials for Forecast Years 2023 – 2027, between Hydro One and the market competitive range (i.e., P50 plus/minus 5%) – All Bargaining Outcome Assumptions

[redacted]	[redacted]				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

All data presented in CAD ($M). Numbers may not add up to total due to rounding

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UNDERTAKING JT-5.13

Reference:

I-22-E-SEC-213

Undertaking:

With reference to E-SEC-213, to ask Mercer if they are prepared to provide further detail beyond what they have already provided and, if so, to provide their full calculations, on similar basis as requested in JT5.10.

Response:

Response from Mercer:

The Mercer 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. The 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 Mercer Study was conducted in 2027.

The approach to forecasting the market and Hydro One's future total remuneration is briefly described below:

Market Total Compensation Levels

1. Calculate the 2008 - 2020 compound annual growth rate ("CAGR") for each market benchmark job. The lower and upper boundaries of the rates were established at 1.5% to 3.0% annually for the Energy Professional and Trades & Technical categories with a lower boundary of 2.0% for the non-represented group.

2. The calculated rates were applied to market the total compensation determined in the 2020 Mercer study, for each job, on an annual compound basis, through 2027.

Hydro One Total Compensation Levels

1. Establish and apply a range of potential bargaining outcomes following the end of the current collective agreements for the union groups (SUP and PWU) at Hydro One during the rate period. Make similar assumptions for future salary increases relating to the Non-Represented group over the forecast period (i.e. 2021 – 2027).

2. Make and apply specific assumptions about non-salary elements of total rewards.

3. Make (at a job category level) and apply (at a job incumbent level) turn-over and retirement rate and replacement cost assumptions.

4. Calculate Hydro One's total compensation, each year through 2027.

Please note that item 1. above, has the most significant impact on the forecast results and yields a range of total compensation outcomes each year for the Energy Professional and Trades & Technical categories.

Hydro One Relative to the Market Median

Similar to the methodology used in the Mercer Study, the forecast model leverages a weighted average approach to determine the overall market positioning. Specifically, the market positioning of each benchmark job is weighted relative to the number of employees in that job in order to determine the overall market positioning for Hydro One. Hydro One's position, relative to the market 50th percentile and the market competitive range, were calculated in percentage terms, each forecast year.

Updated Undertaking

On January 19, 2022 in connection with a settlement of a motion relating to this undertaking it was agreed that the following additional information would be provided in response to JT-5.13 (and the request in the question would be revised accordingly):[1]

i. Mercer will provide further details regarding its methodology and assumptions.

Updated Response:

Response from Mercer:

The following provides additional information in response to this request. The Study forecast was conducted by taking the following steps:

Step 1: Determine the Projected Total Compensation Values for Hydro One:

- Mercer calculated the projected total compensation levels for the group of 31 benchmark jobs up to 2027, using Hydro One's 2020 compensation program, and a 2% escalation rate for the non-represented group, as well as a range of assumptions for the PWU and SOC.

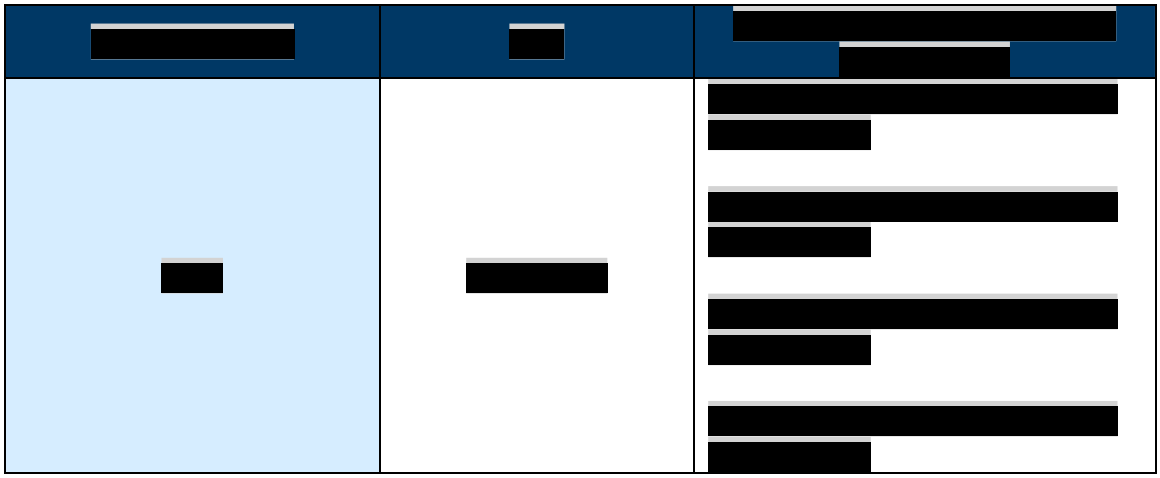
[redacted]

[redacted]

[redacted]

[1]EB-2021-0110 Motions Hearing, January 19, 2022, page 19, lines 1-3

Witness: MERCER, LILA Sabrin



- In addition to the bargaining outcome assumptions, Mercer leveraged the following information to forecast the changes in workforce mix within Hydro One:
    1. Retirement scales – to determine the likelihood of individual employees exiting the organizations at different years;
    2. FTE plans – to understand if there were targeted changes in FTEs which impact benchmarked jobs; and,
    3. Historical turnover rates – to ensure the forecast was producing a representative level of "exits" across each forecast year. We note that retirements drove the majority of exits in the forecast
- Assumptions were inputted for appropriate replacements for employees that were exiting Hydro One across the forecast years. Some of these assumptions included:
    1. The majority of unionized hires added to the workforce during the rate period will be hired at the terminal rate of the wage grid, given the likelihood of an internal hire (due to collective agreement requirements) and high level of tenure in the workforce;
    2. Depending on the level of the role vacated, some of the unionized replacement hires in trades roles will be placed at the lower end of the wage grid, or will be replaced with an apprentice. Trades-based jobs rely on an apprentice program to replace the workforce and once these employees finish their apprenticeship program, they tend to progress through the wage grids in a systematic fashion; and,
    3. The majority of replacement internal hires will be eligible for legacy pension plans.

Step 2: Determine the Projected Total Compensation Values for the Market:

- Mercer leveraged market P50 results from previous studies and calculated the 2008 - 2020 compound annual growth rate ("CAGR") for each market benchmark job. The lower

and upper boundaries of the rates were established at 1.5% to 3.0% annually for the Energy Professional and Trades & Technical categories with a lower boundary of 2.0% for the non-represented group.

- Following this, these CAGRs were then applied to the market P50 results for each benchmark job in the 2020 Study to determine the market medians for each forecast year.
- Given the lack of workforce data (i.e. turnover, FTE plans, retirement scales etc.) for the market, Mercer did not make any changes to the workforce mix at participant organizations.

Step 3: Calculate Hydro One's Total Compensation Positioning Relative to Market Median:

- The approach for determining Hydro One's market positioning for each employee group in the forecast is similar to the approach used in the 2020 Study. Specifically, in each year, for each bargaining outcome assumption, Mercer calculated the market variance for each Hydro One benchmark job (i.e. Hydro One's compensation level relative to the market P50 for that job).
- Following this, a weighted average was taken of the job positioning results, at the employee group level and the overall level, to determine Hydro One's market positioning

  For illustrative purposes, if Job A is positioned 5% above market P50 and have 10 incumbents, and job B is positioned 2% above market P50 and has 1 incumbent, the weighted average market position would be (5% x 10 + 2% x 1) / (10 + 1) = 4.7%

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