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Kathleen Burke

Director, Applications Delivery
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BY EMAIL AND RESS

February 15, 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 – Updated Undertaking Response JT-4.27

Attached please find Hydro One's updated response to undertaking JT-4.27.

An electronic copy of this response has been submitted using the Board's Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Burke". The signature is written in a cursive, flowing style.

Kathleen Burke

Encls.

cc. EB-2021-0110 parties (electronic)

UNDERTAKING JT-4.27

1

2

3 **Reference:**

4 I-01-E-Staff-260

5

6 **Undertaking:**

7 To follow-up with Willis Towers Watson and advise as to when the report is expected.

8

9 **Response:**

10 The Willis Towers Watson report is provided as attachment 1 to this undertaking response. |

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Hydro One Inc.

Management Compensation Benchmarking Study

February 2022

Prepared by Willis Towers Watson
130 King Street West
Suite 1500
Toronto, Ontario
M5X 1E3

Filed: 2022-02-15
EB-2021-0110
Exhibit JT-4.27
Attachment 1
Page 1 of 18

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Introduction

- Hydro One engaged Willis Towers Watson (“WTW”) to conduct a competitive assessment of its compensation structure relative to market for all management employees (excluding CEO and direct reports)
- This review is based on Target Total Direct Compensation (TTDC), defined as salary range midpoint + target bonus + target long-term incentives (if applicable)
- For benchmarking compensation, Hydro One has taken a segmented approach and uses three different segmented peer groups to better align with the underlying labour market of each segment:
 - Executives (47 peer companies)
 - Operations (23 peer companies)
 - Core Services (129 peer companies)
- Refer to pages 5 and 6 for segment definitions and a summary of all peer group selection criteria. Refer to **Appendix I** for detailed peer group listings

Segment	Total # of Hydro One Incumbents		Total Incumbents in Benchmark Roles	
	N Count ¹	% of Management Distribution	N Count ¹	% Benchmarked
Executives (Level 8 - 10)	32	5%	23	72%
Operations (Levels 4 - 7)	284	40%	224	79%
Core Services ³ (Levels 1 - 7)	389	55%	335	86%
Overall	705	100%	582	83%

1. Excludes any incumbents with "INACTIVE" status

2. Represents incumbents with sufficient competitive market data

3. Reflects Core Services and Premium - Core Services Segments

The compensation benchmarking analysis reflects results for over 83% of the population, a robust sample size that is reflective of the entire population

Methodology

Segment Definitions

- As defined below, roles are benchmarked against peer groups appropriately representing the underlying required skill sets. These are categorized as three unique employee segments for benchmarking purposes

Segment	Rationale	Segment Definition
1) Executive (excluding CEO and direct reports) (~5% of management)	<ul style="list-style-type: none"> Core Services Executives: Limited to publicly-traded companies of a similar size and scope to Hydro One based on revenue and assets. Broader sample provides a sample of large Canadian companies for executive roles that are not industry-specific Operations Executives: Limited to utility peers, consistent with the broader operations peer group 	<ul style="list-style-type: none"> Vice President and above roles that are required to set the strategy and direction of Hydro One through leadership of functions that are critical to the long-term success of the organizations
2) Operations (~40% of management)	<ul style="list-style-type: none"> Reflects organizations where comparable specialized skill sets reside Balance of public- and private-sector ownership models Geographic representation from across Canada, but with minority Alberta representation 	<ul style="list-style-type: none"> Requires specific education, skills and knowledge in a professional area that is directly related to concepts and methods associated with the transmission, distribution and regulation of power. Examples include: Operations, Engineering, Skilled Trades
3) Core Services (~55% of management)	<ul style="list-style-type: none"> Incorporates a variety of private and public sector organizations based on labour market No one industry comprises more than 10% of the total sample Includes large number of Canadian headquartered organizations (56% of sample) to ensure benchmarking coverage of roles that require specific expertise 	<ul style="list-style-type: none"> Roles that require education, skills and knowledge that are not specific to the transmission, distribution and regulation of power. Examples of such functions include Finance, Human Resources and Information Technology

Peer Group Selection Criteria

- Peer groups by segment were derived from the full list of organizations participating in the 2021 Willis Towers Watson compensation databases, based on the criteria below. The peer groups' criteria are reviewed and approved by the Human Resources Committee of the Board of Directors and the same groups are used to benchmark compensation for internal oversight of Hydro One's compensation programs
- Refer to **Appendix I** for detailed peer group listings

Segment	Industry	Region	Size (Revenue)	Ownership
1.) Executives (Levels 8 to 10)	<ul style="list-style-type: none"> Operations: Utility* Core Services: Large Canadian companies 	<ul style="list-style-type: none"> Canada 	<ul style="list-style-type: none"> Operations: >\$500M Core Services: >\$2B and <\$20B 	<ul style="list-style-type: none"> Operations: All structures Core Services: Publicly-traded
2.) Operations roles (Levels 4 to 7)	<ul style="list-style-type: none"> Utility* 	<ul style="list-style-type: none"> Canada 	<ul style="list-style-type: none"> >\$500M 	<ul style="list-style-type: none"> All structures
3.) Core Services roles (Levels 1 to 7)	<ul style="list-style-type: none"> General Industry (excluding subsidiary Retail and Consumer Products, primary emphasis on non-subsidiaries) 	<ul style="list-style-type: none"> Ontario-based employers 	<ul style="list-style-type: none"> Private sector >\$500M Public sector: >\$100M Subsidiaries: >\$1B 	<ul style="list-style-type: none"> All structures

* An aligned utility peer group is used for all operations roles, including operations segmented executives to provide a consistent market reference point

Compensation Elements and Market Statistics

- Consistent with Hydro One's compensation philosophy to target compensation at the 50th percentile, market statistics reported reflect the market 50th percentile of the benchmark samples for the data elements summarized below:
 - 50th percentile represents the level where 50% of the data points are positioned below, and above this level
- The use of a market range when defining compensation competitiveness is consistent with typical methodologies for compensation benchmarking purposes
 - Given the limitations inherent in market data sources and the wide range of factors influencing individual compensation levels (e.g., nature of role, role criticality, expertise, scarcity of skillset/experience, value of role to the organization now and in the future, tenure and performance etc.), it is important to keep in mind that market data reflect an approximation of the overall market for a job
 - The specific range may vary depending on the circumstances, including the underlying variability in the market data
 - Based on WTW's analysis of the market data and consulting experience with other utility organizations, WTW considers Hydro One's compensation to be aligned with the competitive market when it falls within a range of +/- 10% of the target market position

Compensation Element	Hydro One	WTW Competitive Market Data
Salary Range Midpoint	2021 salary range midpoint of incumbents in benchmark roles	2021 actual reported comparator organization salaries of incumbents in benchmark roles
Target Total Cash Compensation (TTC)	2021 salary range midpoints of incumbents in benchmark roles + target bonus	2021 actual reported comparator organization salary + target bonus of incumbents in benchmark roles
Target Total Direct Compensation (TTDC)	2021 salary range midpoints of incumbents in benchmark roles + target bonus + target long-term incentives (if applicable)	2021 actual reported comparator organization salary + target bonus + long-term incentives (if applicable) of incumbents in benchmark roles

Compensation Benchmark Results Presentation

- The benchmark results are provided both on a total sample and on a segmented basis. Results are summarized by the following Hydro One levels

Hydro One Level	Hydro One Level Descriptor
10 (Executive)	Senior Vice President
9 (Executive)	Vice President
8 (Executive)	Vice President
7	Director
6	Director
5	Manager
4	Manager / Associate
3	Executive Assistant
2	Assistant
1	Assistant

- Hydro One has implemented a segmented approach to competitive benchmarking and salary structures, supported by market differences in competitive compensation. Hydro One maintains three segmented salary structures:
 - Operations structure:** Applies to roles in the operations segment (levels 4-7)
 - Core services structure:** Applies to roles in the core services segment (levels 1-10) and to executive roles in the operations segment (levels 8-10)
 - Premium core services structure:** Applies to roles in tax and legal job functions (levels 4-7)
- The percentage above/below the market reflects the difference between the sum of Hydro One's target compensation and the sum of market results (i.e., 50th percentile), for all incumbents in benchmark roles within the respective level and segment of the compensation element illustrated

Overview: Overall Compensation Analysis Results

Overview: Overall Compensation Analysis Results

- Overall, by weighted average, Hydro One's Target Total Direct Compensation (TTDC) is positioned at the market 50th percentile which is an improvement from the 2019 positioning of 3% above the market 50th percentile
- Results by segment and compensation element are outlined below
 - Executives are positioned, on average, 11% below market 50th percentile
 - Executives were positioned, on average, 8% below the market 50th percentile in 2019
 - Operations roles are positioned, on average, 4% below market 50th percentile
 - Operations roles were positioned, on average, 3% below the market 50th percentile in 2019
 - Core Services roles are positioned, on average, 2% above market 50th percentile
 - Core Services roles were positioned, on average, 8% above the market 50th percentile in 2019

Segment	Number of Incumbents Benchmarked	Hydro One Target Compensation (% above / below market median)		
		Salary Range Midpoint	Target Total Cash (TTC)	Target Total Direct Compensation (TTDC)
Executives	23	-8%	-10%	-11%
Operations ¹	224	-4%	-4%	-4%
Core Services ^{1,2}	335	0%	2%	2%
Overall ³	582	-1%	-1%	0%

1. Operations and Core Services Positioning excludes Levels 8-10

2. Reflects Core Services and Premium - Core Services Segments

3. Represents incumbent-weighted results across all Segments

Compensation Analysis Results

Segment: All Segments

- On an overall basis, Hydro One is positioned, on average, at the market 50th percentile on a Target Total Direct Compensation (TTDC) basis

Level	Employees	Segment	Salary (Structure Midpoint vs. Market P50)	Target Total Cash (Structure Midpoint vs. Market P50)	Target Total Direct Compensation (Structure Midpoint vs. Market P50)
SVP - 10	6	All Segments	-5%	-12%	-4%
VP - 9	13	All Segments	-2%	-4%	-1%
VP - 8	13	All Segments	-11%	-14%	-20%
Director - 7	36	All Segments	-4%	-5%	2%
Director - 6	51	All Segments	-1%	-1%	4%
Manager - 5	242	All Segments	-2%	-1%	-2%
Mgr./Associate - 4	282	All Segments	2%	2%	2%
Executive Asst. - 3	39	All Segments	1%	2%	2%
Assistant - 2	43	All Segments	-11%	-7%	-7%
Assistant - 1	0	All Segments	--	--	--
Incumbent Weighted Averages			-1%	-1%	0%

Compensation Analysis Results

Operations

- Overall, operations roles are positioned 5% below the market 50th percentile on a Target Total Direct Compensation (TTDC) basis with some variation by level

Level	Count	Operations Segment	Base Salary (\$000s)			Target Total Cash (\$000s)			Target Total Direct Compensation (\$000s)		
			Hydro One	Market 50th	Salary Range Midpoint vs. Market P50	TTC Midpoint	Market 50th	TTC Range Midpoint vs. Market P50	TTDC Midpoint	Market 50th	TTDC Range Midpoint vs. Market P50
			Salary Range Midpoint								
SVP - 10	0	Operations	\$301	--	--	\$421	--	--	\$676	--	--
VP - 9	5	Operations	\$266	\$290	-8%	\$372	\$394	-5%	\$532	\$579	-8%
VP - 8	4	Operations	\$231	\$279	-17%	\$312	\$377	-17%	\$428	\$550	-22%
Director - 7	16	Operations	\$200	\$212	-6%	\$250	\$270	-7%	\$300	\$306	-2%
Director - 6	18	Operations	\$170	\$180	-6%	\$203	\$216	-6%	\$229	\$240	-5%
Manager - 5	118	Operations	\$144	\$150	-4%	\$166	\$174	-5%	\$166	\$176	-6%
Mgr./Associate - 4	132	Operations	\$122	\$126	-3%	\$134	\$138	-3%	\$134	\$139	-3%
Incumbent Weighted Averages					-4%				-4%		

Compensation Analysis Results

Core Services

- Overall, Core Services roles are positioned 1% above the market 50th percentile on a Target Total Direct Compensation (TTDC) basis

Level	Count	Core Services Segment	Base Salary (\$000s)			Target Total Cash (\$000s)			Target Total Direct Compensation (\$000s)		
			Hydro One	Market 50th	Salary Range Midpoint vs. Market P50	TTC Midpoint	Market 50th	TTC Range Midpoint vs. Market P50	TTDC Midpoint	Market 50th	TTDC Range Midpoint vs. Market P50
			Salary Range Midpoint								
SVP - 10	6	Core Services	\$301	\$316	-5%	\$421	\$480	-12%	\$676	\$703	-4%
VP - 9	8	Core Services	\$266	\$270	-1%	\$372	\$391	-5%	\$532	\$530	0%
VP - 8	9	Core Services	\$231	\$258	-10%	\$312	\$364	-14%	\$428	\$541	-21%
Director - 7	17	Core Services	\$173	\$179	-4%	\$216	\$226	-4%	\$259	\$251	3%
Director - 6	33	Core Services	\$146	\$146	0%	\$175	\$173	1%	\$197	\$185	7%
Manager - 5	113	Core Services	\$117	\$116	1%	\$134	\$132	2%	\$134	\$134	0%
Mgr./Associate - 4	144	Core Services	\$93	\$89	5%	\$103	\$97	5%	\$103	\$97	5%
Executive Asst. - 3	39	Core Services	\$75	\$75	0%	\$80	\$79	1%	\$80	\$79	1%
Assistant - 2	43	Core Services	\$63	\$71	-12%	\$67	\$73	-8%	\$67	\$73	-8%
Assistant - 1	0	Core Services	\$55	--	--	\$58	--	--	\$58	--	--
Incumbent Weighted Averages					0%	1%			1%		

Compensation Analysis Results

Premium – Core Services

- Overall, Premium – Core Services roles are positioned 2% below the market 50th percentile on a Target Total Direct Compensation (TTDC) basis

Level	Count	Core Services Segment	Base Salary (\$000s)			Target Total Cash (\$000s)			Target Total Direct Compensation (\$000s)		
			Hydro One	Market 50th	Salary Range Midpoint vs. Market P50	TTC Midpoint	Market 50th	TTC Range Midpoint vs. Market P50	TTDC Midpoint	Market 50th	TTDC Range Midpoint vs. Market P50
			Salary Range Midpoint								
Director - 7	3	Premium - Core Services	\$190	\$200	-5%	\$237	\$238	0%	\$285	\$279	2%
Director - 6	0	Premium - Core Services	\$162	--	--	\$194	--	--	\$218	--	--
Manager - 5	11	Premium - Core Services	\$128	\$136	-6%	\$148	\$152	-3%	\$148	\$153	-4%
Mgr./Associate - 4	6	Premium - Core Services	\$103	\$103	0%	\$113	\$110	3%	\$113	\$113	0%
Incumbent Weighted Averages					-4%			-1%			-2%

Note: Premium Core Services includes roles in Tax & Legal functional roles

Appendix I

Peer Group: Executives

Executives Peer Group (n=47)

AltaGas	Celestica	Intact Financial Corp.	Québecor Media
ATCO	Cenovus Energy	Interfor	Restaurant Brands International
Barrick Gold	CGI - Conseillers en Gestion et Informatique	Kinross Gold	Riocan Management
Bombardier	Colliers International	Lululemon Athletica	Rogers Communications Canada Inc.
Broadridge Financial Solutions	Crescent Point Energy	Maple Leaf Foods	Saputo Produits laitiers Canada s.e.n.c.
Canadian Imperial Bank of Commerce	Emera	MEG Energy	Stantec
Canadian National Railway	Empire Life	Methanex	TC Energy
Canadian Natural Resources	Finning International	Northland Power	Teck Resources
Canadian Pacific Railway	Fortis	Otis Elevator Company	Telus
Canadian Tire Corporation	Gibson Energy	Ovintiv	TransAlta Corporation
Canfor Corporation	Gildan Activewear	Parkland Corporation	WSP
Capital Power	Industrial-Alliance Life Insurance Company	Pembina Pipeline	

Percentile Statistics	Revenue	Assets
25th Percentile	\$3,814,250,000	\$6,645,900,000
50th Percentile	\$6,196,000,000	\$14,469,000,000
75th Percentile	\$13,113,000,000	\$32,770,000,000

Hydro One	\$7,290,000,000	\$30,294,000,000
<i>Percentile Rank</i>	<i>56P</i>	<i>69P</i>

Peer Group: Operations

Also used for operations executive roles requiring an industry focus

Operations Peer Group (n=23)			
Alberta Electric System Operator	Corix	Fortis	Nova Scotia Power
ATCO	Emera	FortisAlberta	Ontario Power Generation
Boralex	Enbridge	Hydro-Québec	TC Energy
British Columbia Hydro and Power Authority	ENGIE Energy North America	Innergex Renewable Energy Inc.	Toronto Hydro Electric Systems
Bruce Power	Enmax Corporation	Newfoundland Power	TransAlta Corporation
Capital Power	EPCOR Utilities	Northland Power	

Percentile Statistics	Revenue	Assets
25th Percentile	\$1,642,500,000	\$5,642,250,000
50th Percentile	\$2,423,279,000	\$10,573,235,000
75th Percentile	\$5,887,500,000	\$34,562,500,000

Hydro One	\$7,290,000,000	\$30,294,000,000
<i>Percentile Rank</i>	<i>82P</i>	<i>71P</i>

Ownership Structure	% of Total
Public Parent	43%
Government Agency	30%
Wholly Owned Subsidiary	17%
Private Parent	4%
Joint Venture	4%

Peer Group: Core Services

Core Services Peer Group
(n=129)

AbbVie	Cisco Systems	Kruger	Shell
ABC Technologies	Cognizant	Lactalis	Siemens
Accenture	Colliers International	LKQ	Stantec
Agropur Cooperative	Corix	Magna International	Starbucks
AIG	Dorman Products	Manulife Financial	Sun Life Financial
Air Canada	Dow Chemical	Maple Leaf Foods	Suncor Energy
Alberta Investment Management	Economical Insurance	Maple Leaf Sports & Entertainment	Sunwing Travel Group
Allstate	Element Fleet Management	Mars	TC Energy
Alorica	Enbridge	MCAP Financial Corporation	TD Bank Financial Group
Altus Group	EPCOR Utilities	McCain Foods	Teck Resources
Apotex	Equitable Bank	McKesson	Telus
ATCO	Export Development Canada	Moneris Solutions	Textron
Aviva	ExxonMobil	National Bank of Canada	The Master Group
AXA XL	FCA Canada	NAV Canada	The Wawanesa Mutual Insurance Company
Barrick Gold	Fiera Capital	Northbridge	Thermo Fisher Scientific
Bayer	Ford	Northland Power	Thomson Reuters
Bell Canada	Four Seasons Hotels and Resorts	NOVA Chemicals	TMX Group Limited
Black & McDonald	Fugro	Ontario Power Generation	Toronto Hydro Electric Systems
Boeing	General Electric	Pacific Life Re	TransAlta Corporation
Bombardier	Gerdau Long Steel North America	Parkland Corporation	Transat A.T.
Boralex	GROWMARK	Pembina Pipeline	Travelers
Boston Consulting Group	Home Trust Company	PepsiCo	UAP
Bunge	HSBC Bank	Plains Midstream Canada	United Rentals
Canada Post	Ilitch Holdings	Pomerleau	Univar
Canadian National Railway	Imperial Oil	Premier Tech	Valero Energy
Canadian Pacific Railway	Industrial Alliance	Purolator	Vidéotron Ltée
Canadian Tire Financial Services	Investment Management Corporation of Ontario	Quartz Enterprises	Viterra
Capital Power	Irving Oil	Rayonier Advanced Materials	Westlake Chemical
Cargill	Ivanhoe Cambridge	Refinitiv	Weyerhaeuser
CBI Health	Ivari	Richardson International	Wood
Celestica	Johnson & Johnson	Rio Tinto	
Cenovus Energy	Kinross Gold	Rotork	
CIBC	KONE	Scotiabank	

Percentile Statistics	Revenue	Assets
25th Percentile	\$1,350,000,000	\$4,986,847,500
50th Percentile	\$3,000,000,000	\$13,575,023,500
75th Percentile	\$7,885,000,000	\$41,791,500,000

Hydro One	\$7,290,000,000	\$30,294,000,000
Percentile Rank	71P	67P