

TECHNICAL CONFERENCE UNDERTAKING RESPONSES TO SEC

JT 3.16

References:

4-CCC-60

Question(s):

MAKE A REQUEST OF MERCER TO PROVIDE A RESPONSE TO THE QUESTION AS POSED IN 4-CCC-60, PART B, WITH RESPECT TO THE METHODOLOGICAL DIFFERENCES, AND AS POSED IN 4-CCC-60, PART C; AND MAKE INQUIRIES OF THEM AS TO WHAT THE SPECIFIC UNIQUE CONTEXTUAL FACTORS AND TALENT STRATEGY FOR ELEXICON ARE AND WHAT ELEXICON'S PARTICULAR CIRCUMSTANCES ARE THAT WOULD REQUIRE A DIFFERENT BENCHMARKING METHODOLOGY THAN MERCER HAS DONE FOR OTHER ONTARIO LDCS SUCH AS ALECTRA.

RESPONSE FROM MERCER:

To appropriately contextualize Mercer's response to this question, please see Mercer's response to JT 3.18 for an explanation of the distinction between Mercer's methodological framework and varied approaches utilized within it.

Given that Alectra and Elexicon are different organizations and have differing contextual factors and talent strategies, the peer group approach used in each of their studies differs and is specific to their particular situation, while remaining grounded in sound compensation benchmarking standards. In Elexicon's context and circumstances, the peer groups that were used are reflective of Elexicon's primary desire for industry specific knowledge across the majority of jobs, while also recognizing the general industry as a source of talent for non-sector specific jobs for the organization. The blended approach that was used in the study appropriately reflects Elexicon's talent strategy objective to source talent with industry specific knowledge for non-sector specific jobs, including taking into account the composition of its particular workforce and needs.

1 Details pertaining to Alectra and its study, which Mercer does not consider to be pertinent to
2 Elexicon's benchmarking study and application, can be found in the report prepared by Mercer that
3 was filed in Alectra's rate application.
4 In light of the foregoing, applying Alectra's benchmarking approach to Elexicon, as this question
5 requests, disregards critical variable components reflective of Elexicon's particular context and
6 circumstances as discussed above.
7 However, despite Mercer's concerns raised above, for illustrative purposes and to be supportive of
8 this rate application, the table below (Table 1) presents the results of the Mercer Study for Elexicon
9 if the same peer group approach used in Alectra's study was also used for Elexicon. Mercer notes
10 that these results **should be considered for illustrative purposes only** as they do **not** reflect an
11 appropriately contextualized benchmarking approach for Elexicon. **The accurate and representative**
12 **results for Elexicon within the scope of this Study are the results that have been presented in the**
13 **Mercer Report filed in this application.**
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Table 1: Illustrative Results Using the Peer Group Approach from the Alectra Study

Elexicon			Base Salary			Target Total Cash Compensation ("TCC")			Total Direct Compensation ("TDC")		
Grade	# of Jobs	# of EEs	Elexicon ¹	Market Median	% Var.	Elexicon ²	Market Median	% Var.	Elexicon ³	Market Median	% Var.
E11	7	7	\$158	\$182	87%	\$180	\$210	86%	\$180	\$228	81%
E10	7	8	\$147	\$155	96%	\$167	\$182	94%	\$167	\$192	90%
E9	8	9	\$133	\$150	90%	\$151	\$173	89%	\$152	\$179	86%
E8	12	23	\$117	\$134	89%	\$135	\$150	91%	\$134	\$150	91%
E7	5	6	\$110	\$111	99%	\$125	\$126	100%	\$125	\$131	97%
E6	5	9	\$104	\$98	107%	\$119	\$106	113%	\$119	\$106	113%
E4&E5 ⁴	8	11	\$98	\$92	107%	\$108	\$97	112%	\$108	\$97	112%
Non-Union Total	52	73	\$121	\$130	95%	\$138	\$147	97%	\$138	\$151	96%
Union - PWU	18	126	\$94	\$100	97%	\$94	\$100	97%	\$94	\$100	97%
Aggregate Total	70*	199	\$104	\$111	97%	\$110	\$117	97%	\$110	\$119	97%

¹ Reflects Average Actual Base Salaries of Elexicon incumbents in the benchmark job.

² Reflects Average Target Total Cash ("TCC"), which is Elexicon's actual base salaries plus target short-term incentive levels.

³ Reflects Total Direct Compensation ("TDC") of Elexicon, which is TCC plus Long-Term Incentives (Elexicon does not have long-term incentives for jobs in scope).

⁴ Within the study, grade E4 consists of only 1 benchmark job with 1 employee in the job. Due to this, to protect the personal and confidential compensation information of that individual, the table presents a combined view of grades E4 and E5. We note that this does not affect the aggregate total results or Elexicon's overall positioning in any way.

*We note that the original table in the Mercer Report had a typo in the total number of jobs. This typo does not affect the results in the original table.

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3 **JT 3.18**

4 **Question(s):**

5 IDENTIFY ALL ASPECTS OF THE MERCER METHODOLOGY THAT WERE JOINTLY DETERMINED WITH
6 ELEXICON, IDENTIFY ANY ASPECTS OF ITS METHODOLOGY THAT WERE DIRECTED, AND PROVIDE A
7 COPY OF THE WRITTEN DIRECTIONS OR RATIONALE THAT ELEXICON PROVIDED TO MERCER WITH
8 RESPECT TO THAT SPECIFIC ASPECT OF THE METHODOLOGY

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10 **RESPONSE FROM MERCER:**

11 The methodology and market benchmarking approach used in the Mercer Study reflects common
12 market practices and compensation benchmarking standards/principles that support the generation
13 of accurate and representative compensation review outcomes for Elexicon.

14 In these studies, Mercer applies a methodological framework grounded in sound compensation
15 benchmarking practices that is broadly consistent across organizations. However, within that
16 framework, adjustments to the specific benchmarking approach are made to account for
17 organization-specific variables. This process inherently involves discussion so that Mercer can
18 understand an organization's context and circumstances.

19 For example, one of the essential components of the framework is that an organization needs to be
20 compared to a target pay positioning (i.e. a market percentile). However, the specific pay positioning
21 is determined by the organization's business strategy, talent strategy, compensation philosophy,
22 business maturity, amongst other factors, and can differ from organization to organization.
23 Accordingly, the determination of the selected pay positioning percentile is an example of a variable
24 that requires discussion with the organization.

25 As described in the Mercer Report, Mercer was engaged by Elexicon to conduct a benchmarking
26 assessment of the market positioning of Elexicon's total direct compensation (i.e. base salary + short-
27 term incentive + long-term incentive).

1 Within the scope of the study, the methodological framework and variables of the benchmarking
2 approach were not directed by Elexicon. Accordingly, there are no such written directions or
3 rationale from Elexicon.

4 The variables of the benchmarking approach that were jointly determined by Mercer and Elexicon
5 are the comparator group and its application, the sector categorization of benchmark jobs (i.e. sector
6 specific or non-sector specific), the target pay positioning (i.e. P50), the inclusion of both union and
7 non-union employee groups, and the list of benchmarked jobs. These were determined through
8 discussion based on the key factors that underpin Elexicon's talent strategy.

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2 **RESPONSE FROM ELEXICON:**

3 Elexicon's size, location, operational structure, and investment plan objectives are key factors that
4 underpin the company's talent strategy and informed consideration of the variables described
5 above, including the decision to use a blended peer group. Each of these is explained in more detail
6 below.

7 a) Elexicon's size and location

8 Although Elexicon is considered a 'mid-sized' utility based on its workforce size and customer base,
9 the rapid growth and complexity of its operations and the scale of its planned investment program
10 require a level of expertise comparable to that of larger utilities. The company seeks candidates
11 with experience and skill sets that are in demand across these larger organizations, and therefore
12 competes for talent with much larger utilities such as OPG, Alectra, Hydro One, Toronto Hydro, all
13 of which operate within the same regional labour market. Elexicon must remain competitive
14 within this labour market to attract and retain the qualified employees required to successfully
15 execute its investment plan and achieve its operational objectives.

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17 b) Elexicon's operational structure

18 Elexicon has a relatively 'flat' operational structure, wherein several managerial roles report
19 directly into executives, and managers are typically responsible for a broader gamut of functions
20 and accountabilities than at the larger utilities named above. There is also no redundancy in the
21 senior leadership structure of Elexicon. As such, Elexicon relies on supervisors, managers, and a
22 relatively small number of directors, that have deep industry knowledge and can operate
23 autonomously. This operational reality informs the sourcing of talent for such roles. Although
24 certain positions may be sourced from "general industry" in other utilities (e.g. Finance, HR, IT,
25 Procurement), Elexicon seeks candidates from the distribution sector who can 'hit the ground
26 running' and operate efficiently as soon as possible. To source these types of candidates, Elexicon
27 must be competitive within both the utility-sector and general industry.

28 Where possible, Elexicon sources its people-leaders from within its internal talent pool. To entice
29 represented employees to apply for jobs in supervisory and managerial positions, Elexicon's non-

1 unionized compensation must be relatively competitive. As is common with utilities that have high
2 percentages of union representation, represented employees are paid for overtime, and receive
3 premiums for certain types of work . This has the effect of ‘compressing’ wages in at the supervisor
4 level and can inhibit internal candidates from moving into more senior positions. Despite Elexicon’s
5 preference for internal hiring, this ‘wage compression’ can result in the need to source talent
6 externally, and with deep industry knowledge. As noted above, to source these types of candidates,
7 Elexicon must be competitive within both the utility-sector and general industry.

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9 c) Elexicon’s investment plan objectives

10 Elexicon’s talent strategy is heavily informed by its objective of improving productivity and
11 operating as efficiently as possible to control costs and increase operational throughput. As
12 referenced in the response to 4-CCC-57, Elexicon reduced its workforce plan from 117 net new
13 positions to 63 net new positions to be added in the 2026-2031 period through its investment
14 planning process. In doing so, Elexicon considered opportunities to achieve future operational
15 efficiencies, including those associated with Dx NEXT, as described in JT 3.4. In light of these
16 anticipated productivity gains, Elexicon determined that it could constrain workforce growth
17 relative to its planned capital investments and operational requirements. The success of this
18 approach depends on maintaining a highly productive workforce capable of delivering Elexicon’s
19 investment and operational objectives.

20 To accomplish its investment plan objectives, Elexicon must attract highly experienced talent as
21 quickly as possible and retain its existing workforce. The company cannot afford significant
22 attrition, particularly within its leadership ranks, without risking its ability to deliver its planned
23 capital investments and operational initiatives. Maintaining sufficient organizational capacity to
24 execute this critical work program is therefore a key consideration underlying Elexicon’s talent
25 strategy. For Elexicon, these circumstances warranted consideration of a peer group that was not
26 strictly “general industry” given the market in which Elexicon competes for the talent required to
27 deliver its strategic objectives.

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JT 3.19

Question(s):

MAKE A REQUEST OF MERCER TO CONFIRM THE GENERAL INDUSTRY COMPARATOR COMPANIES
ALSO INCLUDES ENERGY AND UTILITY COMPANIES

RESPONSE FROM MERCER:

As noted in the Mercer Study, the General Industry Peer Group reflects Canadian organizations, across all industries, from Mercer's Benchmark Database ("MBD") – a general industry survey. Organizations in this peer group reflect all industries and organization types in Canada. Accordingly, consistent with common market practice, the general industry peer group includes a subset of energy and utility companies. Given Elexicon's desire for the majority of jobs to have industry-specific experience as discussed by Elexicon in 3.18, the Mercer Study distinctly blended the energy data set with the general industry data set. This blended peer group approach enabled Mercer to assess a dataset that more appropriately reflects Elexicon's talent strategy within the parameters of the Mercer Study.