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**MERCER**

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23 September 2008

Ms. Ruth Greey  
Director - Special Projects (Acting)  
Hydro One Networks Inc.  
483 Bay Street  
Toronto, Ontario  
M5G 2P5

Private & Confidential

Subject: Compensation Cost Benchmarking Study

Dear Ruth,

Please find attached the results of the combined Mercer / Oliver Wyman Compensation Cost Benchmarking Study for Hydro One Networks Inc.

If you have any questions on our findings, please do not hesitate to give me a call.

Sincerely,



Iain Morris  
National Partner

Copy:  
Mark Hirschey, Oliver Wyman  
Mark MacCharles, Mercer  
Scott Munn, Mercer

23 September 2008

Compensation Cost  
Benchmarking Study  
Hydro One Networks Inc.

**MERCER**



MARSH MERCER KROLL  
GUY CARPENTER

**OLIVER WYMAN**

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## Executive Summary

Hydro One Inc. (“Hydro One”) has retained Mercer and Oliver Wyman to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One’s total compensation levels including pension and employer paid health and group benefits relative to Hydro One’s workforce productivity.

The preliminary results of our analysis were presented at the September 4, 2008 stakeholder session in Toronto. This document represents the final results of our analysis. Specifically:

### ***Compensation Benchmarking***

Consistent with the Stakeholder feedback, the compensation benchmarking component of the study was the Transmission, Distribution and Generation group, supplemented with participants from the Similar Regulatory Environment group.

The study reflected approximately 2,700 Hydro One employees in 28 benchmark positions representing 47% of Hydro One’s employee population. In total, our analysis reflected approximately 14,000 incumbents employed in the Canadian energy and/or adjacent sectors.

Overall, depending on the employee group, Hydro One is currently between slightly below median (“P50”) and 21% above the market P50. ***On an overall weighted***

## Executive Summary (cont'd)

**average basis for the positions we reviewed, Hydro One is approximately 17% above the market P50.** This positioning appears to be driven by a combination of competitive base salaries, especially for the most highly skilled Power Workers' Union ("PWU") positions, and legacy collective agreement wages, pension and benefits programs (the legacy Management pension and benefit and Society pension plans are now closed to new members).

### **Productivity Benchmarking**

Consistent with stakeholder feedback, our initial survey set out to obtain productivity measures and underlying process performance drivers that would allow comparison between peers. Key challenges were initially experienced by Oliver Wyman in conducting this productivity analysis. Oliver Wyman contacted 24 peer utilities with limited success due to peer company unwillingness to provide this information, peer company inability to collect the information (i.e., it wasn't tracked, systems were not designed to capture it), lack of resources within the peer companies required to gather this information and differing organizational structures providing difficulty to standardize functional groups. In turn, Oliver Wyman simplified the survey and the process to gather the information to the elements of data that the participants agreed they could provide.

Based on the results of this simplified survey, Hydro One's productivity for Transmission and Distribution function and Customer Service functions are each measured along four indicators. **All indicators measured ranked better than median (i.e., more productive) except one, which is slightly below median (i.e., less productive).** Hydro One Customer Service productivity indicators ranked the best among the peer group for all indicators examined. Examining the mix of indicators leads to the conclusion that Hydro One requires less workforce compensation to generate various units of output.

## Executive Summary (cont'd)

Based on both our compensation and productivity benchmarking, the table below summarizes the results of our analysis.

Table 1

Total Compensation (Current)			Below P50 Compensation			Above P50 Compensation	
Position	(#) of Hydro One Incumbents	Multiple of P50	0.5	0.75	P50 = 1	1.25	1.5
Non-Represented	151	0.99			X		
Represented Engineering	578	1.05			X		
Power Workers	1,966	1.21				X	
All	2,695	1.17			X		

T & D Productivity			Least Productive			Most Productive	
Indicator	(#) of Observations	Multiple of P50	0.5	0.75	P50 = 1	1.25	1.5
MWh Sold	6	2.07					X
Gross Asset Value	6	1.02			X		
KM of Line	6	1.08			X		
Service Territory	5	0.86		X			

Result exceeds range of graph

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## Introduction

Hydro One Inc. (“Hydro One”) has retained Mercer and Oliver Wyman to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One’s total compensation levels including pension and employer paid health and group benefits relative to Hydro One’s workforce productivity.

This report is intended to provide objective market analysis to assist Hydro One in responding to the request from the Ontario Energy Board (“OEB”) in Decision with Reasons EB 2006-0501. We understand that Hydro One has been asked to provide “useful and reliable information concerning Hydro One’s compensation costs, and how they compare to those of other regulated transmission and/or distribution utilities in North America.” In addition, we understand that the OEB requested “empirical evidence that reveals the relative productivity of its workforce in comparison to other utilities”.

To provide independent and reliable information on Hydro One’s compensation costs and relative productivity, we have organized our analysis into two distinct modules to study both **total compensation costs relative to the market** (“Compensation Benchmarking”) and Hydro One’s **productivity relative to the market** (“Productivity Benchmarking”).

## Introduction (cont'd)

Both benchmarking analyses focused on assessing Hydro One's overall competitiveness and productivity on a **total compensation** basis (i.e., base salary, short-term incentives, long-term incentives, pension and benefits).

Mercer conducted the compensation benchmarking and Oliver Wyman conducted the productivity benchmarking.

**The objective of this study was to provide independent benchmarking information using generally accepted benchmarking approaches and not to review the appropriateness of Hydro One's compensation levels or workforce productivity.**

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## Guiding Principles

Based on our typical benchmarking approach and input at the March 17, 2008 Stakeholder meeting in Toronto<sup>1</sup>, the benchmarking principles and stakeholder input that guided both the compensation and productivity benchmarking include:

1. Stakeholders preferred the use of Canadian comparators versus US comparators for the compensation benchmarking in order to avoid the foreseeable debate over differences, limitations and qualifications.
2. In general, regulated utilities are the best comparators, but other companies may be very suitable depending on specific jobs being compared and their interaction with Hydro One in the labour market.
3. Comparison should be at the “job” or “class” level, and should focus on the fewest number of positions as possible, while representing the largest portion of employees possible.
4. Compensation costs and productivity should be compared among the same group of comparators.

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<sup>1</sup> Meeting Notes from March 17, 2008 meeting prepared by Regulatory Support Services.

## Guiding Principles (cont'd)

5. While it is acknowledged that compensation costs need to be evaluated in light of relative productivity, the difficulty in assessing useful and reliable productivity comparison may create questionable results.
  
6. Productivity comparisons may be most useful as a means of evaluation Hydro One's performance in controlling or improving productivity over time, rather than effectively measuring it at a point in time.

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## Compensation Benchmarking

### Peer Groups

Typically where there is a small sample of potential organizations, we select a scoping criteria of 33% to 300% of the organization we are benchmarking on a stable metric that reflects the size and operating complexity of the organization (typically, this is revenue and/or total assets).

As a result, to develop peer groups for Hydro One, we included all organizations from the electric utilities, multi-utilities and gas utilities industries in Canada as classified by their Global Industry Classification Standard (“GICS”), with 2006 or 2007 annual revenues or total assets between 33% and 300% of Hydro One’s 2006 annual revenue or total assets.

We also reviewed approximately 80 Local Distribution Companies (“LDCs”) in Ontario to determine if any of these companies met the scoping criteria above (i.e., between 33% and 300% the size of Hydro One on revenue or total assets).

In addition, we included other comparable regulated businesses (i.e., integrated telecommunication services, railroads, etc.), which met our scope criteria of annual revenues between 33% and 300% of Hydro One’s 2006 annual revenue.

## Compensation Benchmarking (cont'd)

After reviewing multiple data sources to ensure a mix of size, geographic location and ownership, we developed the following two preferred peer groups:

- **Transmission, Distribution & Generation (“T, D & G”)** – Reflects other electrical transmission, distribution and generation companies in Canada with revenue or assets approximately 33% to 300% the size of Hydro One.
- **Similar Regulatory Environment** - Reflects other Canadian companies operating in a similar regulatory environment (i.e., telecom, gas utilities, railroads and gas pipelines) with revenue or total assets 33% to 300% the size of Hydro One. Where possible, we have selected companies with significant operations in Ontario.

All of the T, D & G companies that met the scoping criteria participated in the compensation benchmarking in some capacity (i.e., all T, D & G organizations participated, but as is common with compensation benchmarking, were not able to provide matches to all positions).

Several participants in the broader Similar Regulatory Environment sample initially agreed to participate in the Study, but subsequently indicated that they were unable to participate as they did not have a sufficient number of relevant benchmark positions.

As a result, and consistent with stakeholder feedback, we have presented our analysis in this report based on the T, D & G companies and the participants from the Similar Regulatory Environment sample who were able to provide survey data.

With the market data we compared the median compensation of Hydro One's incumbents for each position to the market median or 50th percentile (i.e., “P50”) on base salary, total cash compensation and total remuneration.

## Compensation Benchmarking (cont'd)

Given unique attraction, retention, geographic, labour relation and/or pay equity considerations, it may be appropriate for an organization to compensate specific employee groups either higher or lower than the market P50. For example, we understand that for non-represented roles, Hydro One benchmarks compensation to the 75th percentile (“P75”) of a broad market sample. The objective of this study, however, was to provide independent benchmarking information relative to a generally accepted independent view of the market and not to review the appropriateness of compensation levels for any one specific position or employee group.

To ensure that no one organization biased the results, we have weighted our analysis by organization for each job class and not by incumbents to determine Hydro One’s position relative to the market for each job class (i.e., the analysis is “Org Weighted”). To preserve the confidentiality of compensation data at both Hydro One and participating organizations, we have aggregated our results.

## Compensation Benchmarking (cont'd)

### Peer Groups (cont'd)

#### **Full Sample**

Summarized below are the participating organizations in the compensation benchmarking.

Table 2

**All values in \$CDmillions**

<b>Company Name</b>	<b>Participated?</b>	<b>Revenue (1)</b>	<b>Assets (2)</b>
Bell Canada / BCE	Yes	\$17,866	\$37,797
Hydro Quebec	Yes	\$12,330	\$64,852
TransCanada Corp.	Limited	\$8,828	\$30,330
OPG (3)	Yes	\$5,564	\$22,750
BC Hydro and BC Transmission (4)	Yes	\$4,387	\$12,991
EPCOR Utilities Inc.	Yes	\$3,663	\$6,562
Enbridge Gas Distribution	Yes	\$2,873	\$5,921
TransAlta Corp	Yes	\$2,775	\$7,179
Toronto Hydro	Yes	\$2,389	\$2,673
ENMAX	Yes	\$2,110	\$2,456
Bruce Power (3)	Yes	\$1,986	\$5,154
Manitoba Hydro	Yes	\$1,761	\$10,964
NB Power	Yes	\$1,512	\$4,151
<b>75th %ile</b>		\$5,564	\$22,750
<b>50th %ile</b>		\$2,873	\$7,179
<b>25th %ile</b>		\$2,110	\$5,154
<b>Average</b>		\$5,234	\$16,445
<b>Hydro One</b>		<b>\$4,655</b>	<b>\$12,790</b>

(1) Most recently reported annual revenue.

(2) Most recently reported total assets.

(3) Excluded from productivity benchmarking as generation companies do not have relevant productivity indicators.

(4) For purposes of determining eligibility for study, treated as one T & D organization.

## Compensation Benchmarking (cont'd)

### Benchmark Positions

The compensation survey was designed to benchmark compensation levels from a cross-section of Hydro One's population. To develop the roles to be included in our benchmark analysis, we reviewed positions that represented all of Hydro One's major business units and at least 50% of Hydro One's employee population.

To assist with developing the benchmark roles, Hydro One provided a list of all employee classifications with at least 10 incumbents. From this list, we developed an initial list of approximately 20 benchmark positions. To supplement this list, we worked with Hydro One to include standardized engineering roles and to select a cross section of management positions to ensure that all major business units were reflected in the benchmarking. Among the benchmark positions, the number of Hydro One incumbents ranged from one to 594.

Based on this analysis, we developed a list of 30 benchmark positions to be included in this compensation benchmarking study. These 30 benchmark roles reflected 52% of Hydro One's full-time employee population. Once we began collecting market data, however, we noted that most participants outsource forestry operations. As a result, we were not able to include the Tree Trimmer – Journeyman in our analysis. Also, we reclassified the Network Mgmt/Eng Officer role as Engineer D as there was limited data in the market for this role.

As a result of these changes, ***our study reflected approximately 2,700 Hydro One employees in 28 benchmark positions representing 47% of Hydro One's employee population.***

In the market, we collected over 11,000 individual observations across the benchmark positions (excluding the 2,700 Hydro One incumbents). ***Based on the combined Hydro One and market data, our analysis reflected approximately 14,000 incumbents employed in the Canadian energy and/or adjacent sectors.***

## Compensation Benchmarking (cont'd)

### Benchmark Positions (cont'd)

Summarized below are the benchmark positions organized by major employee group. The results in this report are summarized by the following employee groups. Specifically (sorted in descending total compensation by Group):

Table 3

Group	(#)	Job or Class
Non-Represented	1	Top Rates and Regulatory Affairs Executive
	2	Financial Director
	3	Engineer F (Non-Represented)
	4	Field Service Coordinator
	5	Human Resource Manager / Consultant
	6	Administrative Assistant
Represented Engineering	7	Engineer E
	8	Business Analyst C
	9	Engineer D
	10	Engineer C
	11	Engineer B
	12	Engineer A
	13	Network Mgmt Eng/Off
Power Workers	14	System Operator (Controller)
	15	Regional Maintainer - Lines (Supervisor)
	16	Protection and Control Technician
	17	Area Distribution Engineering Technician
	18	Regional Maintainer - Lines
	19	Regional Maintainer - Electrical
	20	Fleet Mechanic
	21	Regional Maintainer - Forestry
	22	Service Dispatcher
	23	Drafter II
	24	Lineman - Journeyman
	25	Stock keeper
	26	Data Entry Clerk
27	Production Field Administrator III	
28	Meter Reader	
29	General Labourer/ Roustabout	
30	Tree Trimmer - Journeyman	

See Appendix A for a summary of position descriptions. Represented Engineering refers to positions represented by the Society of Energy Professionals (i.e., “Society”) and Power Workers refers to positions represented by the Power Workers’ Union (i.e., “PWU”).

## Compensation Benchmarking (cont'd)

### Methodology

As outlined in Appendix B, summarized below is the methodology used to determine compensation levels. Specifically:

**Base Salary** - Base annual salary at April 1, 2008. If an hourly rate was reported, we annualized the value by multiplying the standard number of hours per week by 52 weeks per year. If a weekly rate was reported, we annualized the value by multiplying by 52 weeks per year.

**Total Cash Compensation** - Base salary *plus* most recent short-term incentive or bonus paid.

**Benefits and Pensions** – To value benefit and pension programs, we applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans.

**Total Compensation<sup>2</sup>** - Total cash compensation *plus* estimated annual value of most recent long-term incentive grant (i.e., expected value of stock options or share awards) and pensions and benefits.

We also requested information regarding overtime policies from study participants, but given the complexity in overtime policy design we were unable to collect reliable information that could be benchmarked.

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<sup>2</sup> To provide our best estimate of current and future compensation costs, we have collected all data in the compensation benchmarking section as of April 1, 2008. In the productivity benchmarking section, to provide consistency between productivity indicators and compensation costs, we have used 2006 total compensation costs to align with the year of the productivity indicator.

## Compensation Benchmarking (cont'd)

### Findings

Summarized below are the results of our compensation benchmarking analysis. Overall, depending on the employee group, Hydro One is currently slightly below P50 (non-represented) and 21% (PWU) **above the market median with a weighted average on Hydro One's headcount of 17%** above market median. Specifically:

**Table 4**

Total Compensation (Current)			Below P50 Compensation			Above P50 Compensation	
Position	(#) of Hydro One Incumbents	Multiple of P50	0.5	0.75	P50 = 1	1.25	1.5
Non-Represented	151	0.99			X		
Represented Engineering	578	1.05			X		
Power Workers	1,966	1.21				X	
All	2,695	1.17				X	

The results appear to be driven by a combination of competitive base salaries, especially for the most highly skilled Power Workers' Union ("PWU") positions, and legacy collective agreement wages, pension and benefits programs (the legacy Management pension and benefit and Society pension plans are now closed to new members).

For new employees hired into Management and Society job classifications, the value of pensions and/or benefits, where applicable, have decreased due to recent amendments to these plans (see "Future" on the following pages). We understand that these legacy plans relate to collective agreements negotiated prior to the formation of Hydro One. All PWU employees continue to be covered by the legacy plans. If all employees were covered by these new plans, the difference in overall cost on a weighted average basis appears to be minimal as the high population Power Worker positions are still covered by the legacy plans.

## Compensation Benchmarking (cont'd)

### Findings (cont'd)

When measured on revenue, Hydro One is fifth largest in the sample. Although size has a limited impact on middle management and unionized roles, size may have an impact on compensation for executive roles as these roles tend to be larger and more complex in larger organizations.

Although further study is needed, the use of the “hiring hall” for the Lineman – Journeyman role (#24) does appear to reduce compensation costs relative to both other PWU positions and our market data.

## Compensation Benchmarking (cont'd)

### Findings (cont'd)

#### **Non-Represented**

Summarized below are our results for the Non-Represented roles that we benchmarked at Hydro One relative to the full sample group.

Based on our analysis below, most of the non-represented roles that we benchmarked appear to be near or below the market P50 on average with the exception of the Field Service Coordinator role. The above market positioning for this role at Hydro One may be due to the Hydro One role being more complex than similar roles at other utilities.

Table 5

	Hydro One # of Incs.	Hydro One P50 Relative to Market P50 (1)			
		Base Salary	Total Cash Comp'n (2)	Total Remuneration (3)	
				Current (4)	Future (5)
Top Rates and Regulatory Affairs Executive	5	7%	4%	5%	1%
Financial Director	1	-9%	-8%	-6%	-10%
Engineer F (Non-Represented)	82	-6%	-12%	-10%	-14%
Field Service Coordinator	42	22%	28%	37%	31%
Human Resource Manager / Consultant	9	-12%	-26%	-25%	-26%
Administrative Assistant	12	3%	2%	-1%	-1%
<b>Weighted Average Non-Represented</b>	<b>151</b>	<b>-2%</b>	<b>-4%</b>	<b>-1%</b>	<b>-5%</b>

(1) Market results weighted by organization (i.e., for each participating company we determined one average value per position).

(2) Base salary, plus short-term incentive (i.e., bonus).

(3) Total cash compensation, plus estimated value of long-term incentives, benefits and pensions.

(4) Based on Hydro One's employee population assuming current pension and benefit program eligibility.

(5) Based on Hydro One's employee population assuming all in the new pension and benefit programs.

## Compensation Benchmarking (cont'd)

### Findings (cont'd)

#### **Represented Engineering (“Society”)**

Summarized below are our results for the Engineering roles that we benchmarked at Hydro One relative to the full sample group.

Table 6

	Hydro One P50 Relative to Market P50 (1)				
	Hydro One	Base Salary	Total Cash Comp'n (2)	Total Remuneration (3)	
	# of Incs.			Current (4)	Future (5)
Engineer E	110	8%	-2%	1%	-2%
Business Analyst C	13	23%	11%	18%	17%
Engineer D	256	1%	-6%	1%	-2%
Engineer C	11	32%	10%	29%	24%
Engineer B	136	19%	5%	14%	13%
Engineer A	52	5%	-7%	1%	1%
Network Mgmt Eng/Off	n/a	n/a	n/a	n/a	n/a
<b>Weighted Average Engineering</b>	<b>578</b>	<b>8%</b>	<b>-2%</b>	<b>5%</b>	<b>3%</b>

(1) Market results weighted by organization (i.e., for each participating company we determined one average value per position).

(2) Base salary, plus short-term incentive (i.e., bonus).

(3) Total cash compensation, plus estimated value of long-term incentives, benefits and pensions.

(4) Based on Hydro One's employee population assuming current pension and benefit program eligibility.

(5) Based on Hydro One's employee population assuming all in the new pension program (no change to benefits).

## Compensation Benchmarking (cont'd)

### Findings (cont'd)

#### **Power Workers**

Summarized below are our results for the Power Worker roles that we benchmarked at Hydro One relative to the full sample group.

Table 7

	Hydro One # of Incs.	Hydro One P50 Relative to Market P50 (1)		
		Base Salary	Total Cash Comp'n (2)	Total Remuneration (3)
				Current (4)
System Operator (Controller)	77	26%	20%	26%
Regional Maintainer - Lines (Supervisor)	87	36%	35%	43%
Protection and Control Technician	33	26%	20%	26%
Area Distribution Engineering Technician	216	17%	17%	22%
Regional Maintainer - Lines	594	31%	20%	27%
Regional Maintainer - Electrical	145	20%	20%	29%
Fleet Mechanic	61	8%	8%	20%
Regional Maintainer - Forestry	272	-1%	-1%	5%
Service Dispatcher	8	38%	36%	42%
Drafter II	34	19%	17%	28%
Lineman - Journeyman	161	30%	30%	15%
Stock keeper	27	39%	36%	42%
Data Entry Clerk	56	6%	2%	13%
Production Field Administrator III	7	-14%	-14%	-5%
Meter Reader	176	4%	4%	13%
General Labourer/ Roustabout	12	-14%	-17%	-17%
Tree Trimmer - Journeyman	n/a	n/a	n/a	n/a
<b>Weighted Average Power Workers</b>	<b>1,966</b>	<b>20%</b>	<b>16%</b>	<b>21%</b>

(1) Market results weighted by organization (i.e., for each participating company we determined one average value per position).

(2) Base salary, plus short-term incentive (i.e., bonus).

(3) Total cash compensation, plus estimated value of long-term incentives, benefits and pensions.

(4) Based on Hydro One's employee population assuming current pension and benefit program eligibility.

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## Productivity Benchmarking

### Project Overview and Approach

#### ***Measurement Approach***

The Ontario Energy Board has asked Hydro One to provide a compensation cost benchmarking that includes a productivity component that provides “empirical evidence that reveals the relative productivity of its workforce in comparison to other utilities”.

Initially, a standardized approach was utilized to perform the productivity benchmark analysis. This was split out into 5 distinct steps.

- **Determine the survey population:** Oliver Wyman selected “panel/cohort” companies based on criteria that were coordinated with the compensation study and identified the key contacts within the target organization.
- **Design survey:** Oliver Wyman selected specific metrics and data requirements including compensation elements and normalizing factors and created a detailed survey tool and results template.
- **Identify method of contact:** Oliver Wyman identified methods of contact such as telephone surveys, small discussion groups and one-on-one discussions. In addition, Oliver Wyman coordinated logistics to ensure a consistent approach with the compensation study.

## Project Overview and Approach (cont'd)

### Measurement Approach (cont'd)

- **Test survey and modify as needed:** Oliver Wyman tested the completed survey based on length of time and level of responsiveness and modified the survey as needed
- **Conduct data collection and analyze results:** Oliver Wyman distributed surveys and conducted interviews. It collected raw data and conducted analysis. In addition, the results obtained were validated with other benchmarking data/analysis such as analyst reports, total cost performance and compensation.

Key challenges were experienced by Oliver Wyman in conducting this productivity analysis. First, in Oliver Wyman's experience there are currently no standard industry-wide measures for workforce productivity in the electric T&D industry. Traditionally, the measurement focus has been on total cost (e.g., Total Transmission O&M expense per MWh), and this is not a direct measure of workforce. Total cost has traditionally been the focus because this is the measure that stakeholders are typically concerned about. Cost is also the measure that enterprise data systems are built around, because it is a requirement for financial reporting purposes. The same requirements have not historically existed for worker productivity.

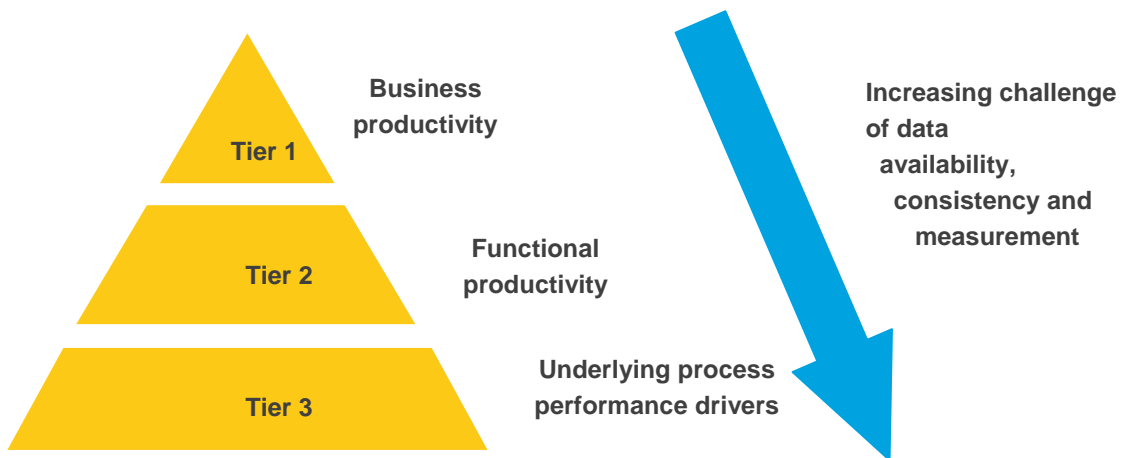
There is also no standard way of collecting and reporting information throughout Canadian utilities. US electric utilities must file standard regulatory forms (FERC and EIA forms) that report with a Uniform System of Accounts that facilitates comparison of a number of key financial metrics across companies. This has not been consistently implemented across Canadian utilities.

An additional key challenge was the Board's request to understand productivity across the entire workforce. The workforce, however, is composed of a number of disparate functions with many discrete activities. Potential metrics that measure these discrete activities (even if those could be captured uniformly) do not roll up to a single metric.

## Project Overview and Approach (cont'd)

### ***Measurement Approach (cont'd)***

Oliver Wyman initially designed a survey that set out to obtain productivity measures and underlying process performance drivers that would allow comparison between peers. The goal was to obtain metrics that directly measured the workforce (not just cost) at a high enough level to provide insight at a “workforce” level. Additionally, the study was designed to gather underlying process and work practice information that would allow the determination of any particular practices that affected the productivity metrics. This step would allow any adjustments to be made across the peer set to account for any non-worker related factors that affected productivity. Examples of this are degree of system automation (Automated meter reading, automated switching, etc.) usage of GPS or mobile computing devices to streamline execution of work, percentage of inside meters (increasing difficulty of access), etc. The diagram below illustrates the approach in collecting various levels of information.



## Project Overview and Approach (cont'd)

### Measurement Approach (cont'd)

Oliver Wyman set out to obtain productivity and compensation measures for a number of functional groups to obtain as thorough a picture as possible of total workforce productivity. The functional groups were divided into the following areas:

- Transmission
- Distribution
- Asset Management
- Finance
- HR
- Customer Service
- All Other groups

Each functional area contained as the primary metrics, total compensation for work input, several measures of work output and a number of potential adjustment factors:

	Transmission	Distribution	Customer service	Asset management	Finance	HR	Other	
<b>Total work input</b>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation</li> <li>▪ Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total compensation \$/\$ assets managed</li> <li>▪ Total budget/ \$ assets managed</li> </ul>	
<b>Total “production”/ work output (normalizers)</b>	<ul style="list-style-type: none"> <li>▪ \$ Assets managed</li> <li>▪ Line KM</li> <li>▪ MWh delivered</li> <li>▪ Service territory</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$ Assets managed</li> <li>▪ Line KM</li> <li>▪ MWh delivered</li> <li>▪ Customers</li> <li>▪ Service territory</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$ Assets managed</li> <li>▪ Line KM</li> <li>▪ MWh delivered</li> <li>▪ Customers</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$ Assets managed</li> <li>▪ Line KM</li> <li>▪ MWh delivered</li> <li>▪ Service territory</li> </ul>	<ul style="list-style-type: none"> <li>▪ Revenue</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$ Assets</li> <li>▪ Employees</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$ Assets managed</li> </ul>	
<b>Potential adjustment factors</b>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Age of system</li> <li>▪ Acres of vegetation managed</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Age of system</li> <li>▪ KM vegetation managed</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of AMR integration</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of integration of work management software</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of integration of work management software</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of integration of work management software</li> <li>▪ Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of employee self-service</li> <li>▪ Turnover rate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Level of outsourcing</li> <li>▪ Level of integration of work management software</li> </ul>

With this survey approach, Oliver Wyman contacted 24 peer utilities with several detailed interactions each, yet could secure little participation in the very detailed study because of a number of factors summarized in the executive summary.

## Project Overview and Approach (cont'd)

### Measurement Approach (cont'd)

As a result of these attempts, Oliver Wyman simplified the survey and the process to gather the information to the elements of data that potential participants would be able to provide. As indicated in the graphic below, the simplified survey focused collection of “work input” measures to total compensation of the workforce, as it was deemed most relevant to worker productivity. Most of the original components of “work output” or “production” were captured. The main area of lower than desired response rate was on the various “adjustment factors”. The simplified survey also grouped some functional areas by combining Transmission, Distribution and Asset Management (because most companies could not separate them organizationally), and capturing customer service. The other functions, mostly administrative in nature, were deemed less meaningful and less relevant to overall worker productivity.

	Transmission	Distribution	Customer service	Asset management	Finance	HR	Other
<b>Total work Input</b>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation</li> <li>Total Budget</li> </ul>	<ul style="list-style-type: none"> <li>Total compensation \$/\$ assets managed</li> <li>Total budget/\$ assets managed</li> </ul>
<b>Total “production” Normalizers</b>	<ul style="list-style-type: none"> <li>\$ Assets managed</li> <li>Line KM</li> <li>MWh delivered</li> <li>Service territory</li> </ul>	<ul style="list-style-type: none"> <li>\$ Assets managed</li> <li>Line KM</li> <li>MWh delivered</li> <li>Customers</li> <li>Service territory</li> </ul>	<ul style="list-style-type: none"> <li>\$ Assets managed</li> <li>Line KM</li> <li>MWh delivered</li> <li>Customers</li> </ul>	<ul style="list-style-type: none"> <li>\$ Assets managed</li> <li>Line KM</li> <li>MWh delivered</li> <li>Service territory</li> </ul>	<ul style="list-style-type: none"> <li>Revenue</li> </ul>	<ul style="list-style-type: none"> <li>\$ Assets</li> <li>Employees</li> </ul>	<ul style="list-style-type: none"> <li>\$ Assets managed</li> </ul>
<b>Potential adjustment factors</b>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Age of system</li> <li>Acres of vegetation managed</li> <li>Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Age of system</li> <li>KM vegetation managed</li> <li>Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Level of AMR integration</li> <li>Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Level of integration of work management software</li> <li>Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Level of integration of work management software</li> <li>Level of unionization</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Level of employee self-service</li> <li>Turnover rate</li> </ul>	<ul style="list-style-type: none"> <li>Level of outsourcing</li> <li>Level of integration of work management software</li> </ul>

#### Data element focus



Focus on Total Compensation



Most “production” components captured



Focused on key areas, but still experienced low response

### Resulting Functional Groupings



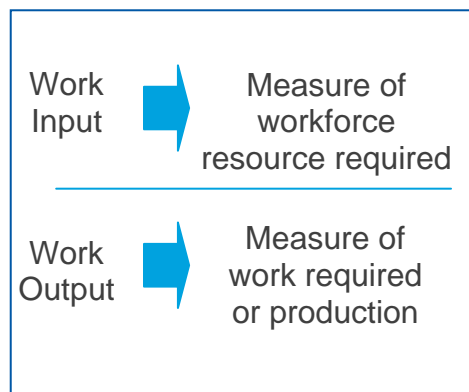
- Transmission, Distribution and Asset management were combined because most companies could not separate them
- Customer Service captured
- Other functions deemed less meaningful and less relevant

## Project Overview and Approach (cont'd)

### ***Productivity Indicators***

To determine the indicators that revealed productivity of the entire workforce, Oliver Wyman evaluated various components of potential productivity indicators and determined those that would best reflect 1) measures of “work input” of the entire workforce at an appropriate level and 2) measures of “work output” or “production” that could be gathered.

#### **Productivity Indicator Composition**



In measuring “Work Input”, **Total Compensation** was selected as the most comprehensive and readily available measure to represent work “input” of a company’s workforce. However in measuring “Work Output”, several measures of “production” were selected as being most relevant for Transmission and Distribution utilities. These work output measures are Gross Fixed Asset \$, MWh sold, Km of line and Service Territory size.

- **Gross Fixed Asset \$** is an overall measure of the total system infrastructure that is required to service customer needs and that needs to be maintained
- **MWh sold** is a measure of system requirements and activity required on that infrastructure to deliver energy. It impacts wear on the system and levels of capacity.
- **Km of line** is a measure of the volume of infrastructure and dispersion of the infrastructure.

## Project Overview and Approach (cont'd)

### ***Productivity Indicators (cont'd)***

- **Service Territory size** is a measure of the dispersion of the system assets and territory must be staffed and managed by personnel to provide adequate service levels and response times.

The resulting indicators that are included in the study are outlined below:

<u>Total Compensation</u>	<u>Total Compensation</u>	<u>Total Compensation</u>	<u>Total Compensation</u>
Gross Fixed Assets (T&D)	MWh sold	KM of line	Service Territory (km <sup>2</sup> )

Examining all of these measures in combination provides a relatively complete productivity picture of the workforce required to sustain a Transmission and Distribution infrastructure. The various measures of “output” or “production” reflect the various components of a Transmission and Distribution network.

These indicators were developed for various functions in the panel companies to provide a slightly more granular view of productivity, while keeping the concept of measuring the “workforce”. The two functions focused upon in the study are Transmission & Distribution and Customer Service. Transmission & Distribution represents the most significant functions in the panel companies. A number of companies in the study, including Hydro One, have joint workforces for Transmission and Distribution so these functions were combined and measured together. Customer Service is another component of panel companies that have a direct impact on the operation of the system assets and service provided to customers.

Throughout this document we use total Transmission & Distribution compensation for 2006. 2006 was selected to gather full year information because it was deemed that this would be the most available from peer companies. Total Transmission & Distribution compensation and Customer Service compensation were “Work Input” for these functions. Total Compensation for both Transmission & Distribution and Customer Service is made up of the following components provided by the peer panel.

## Project Overview and Approach (cont'd)

### ***Productivity Indicators (cont'd)***

Total Compensation is the sum of total annual salary, total annual overtime, total annual bonus, and pensions and benefits. Total annual salary refers to the current cumulative (across all employees in this area) annual salary. Total annual overtime refers to overtime pay to non-salaried employees. Total annual bonus refers to plans that reward performance for short-term results (e.g., one year or less) and usually involve lump sum payments in addition to base salary. They are not considered as part of any re-earnable lump sum merit initiatives. Pensions and Benefits information was provided by participants and calculated by Mercer for each peer in the panel.

As discussed earlier, the study focuses on the following four measures for “Work Output”: Gross Fixed assets, MWh sold, Line Km and Service Territory. This information was requested in the survey but in the event that it was not provided, we relied on secondary sources from publicly available data (annual reports, websites, rate filings, etc.) to gather this information. In all cases, all information obtained through the survey was validated by triangulating with secondary data.

“Gross Fixed assets” refers to the sum of both Transmission and Distribution gross fixed assets. “MWh” refers to the amount of MWh sold by the company in 2006. “Km of line” refers to the sum of distribution line km and transmission line km. “Service territory” refers to the service territory that is covered by T&D operations in square km.

## Project Overview and Approach (cont'd)

### **Peer Groups**

Consistent with the compensation study peer group above, Oliver Wyman used the following methodology and process to develop the productivity study peer group. Specifically, the “Canadian Transmission & Distribution” peers reflect utilities identified in the compensation peer group that had significant transmission and/or distribution activities. OPG and Bruce Power were excluded from the productivity peer group as both are predominantly generation companies and not transmission and/or distribution companies. “US transmission and Distribution” reflects major US electric utilities that have both transmission and distribution assets between 33% and 300% the size of Hydro One.

The following table summarizes the selection criteria.

Selection Criteria	Relevance
Industry	<ul style="list-style-type: none"> <li>▪ It was necessary to compare electric utilities with T &amp; D activities because they provide a similar work comparison</li> </ul>
Size	<ul style="list-style-type: none"> <li>▪ Size is important for comparison component for T&amp;D electric utilities</li> <li>▪ Need to deal with similar complexities of management, diverse customers, different systems requirements, diverse geographic considerations</li> </ul>
Regulated business	<ul style="list-style-type: none"> <li>▪ The businesses in comparison are regulated businesses and have to conform to regulatory standards set out by respective regulatory bodies; this sets parameters for standards of service, cost and price that companies must adhere to</li> </ul>
Customer density mix	<ul style="list-style-type: none"> <li>▪ Hydro One operates a very spread out territory with a very low customer density</li> <li>▪ Hydro One has a large transmission network to service LDCs and has a responsibility to maintain these assets for LDCs as end users in addition to its own end user customers</li> <li>▪ Serving a low density service territory imposes restrictions on the type of infrastructure and resulting investment as well as introduces additional complexity in managing and staffing far reaching assets</li> </ul>
Other geographic considerations	<ul style="list-style-type: none"> <li>▪ Similar geographic considerations were considered as they impact work processes and policies</li> <li>▪ Hydro One’s territory is vast, and a particular weather patten can impact multiple locations simultaneously increasing the frequency of outages relative to other less expansive utilities</li> </ul>

## Project Overview and Approach (cont'd)

### ***Peer Groups (cont'd)***

A list of the organizations included in the productivity study peer groups is shown below and the details of their Transmission & Distribution activities as well as those of other utilities considered for this study is shown in the Benchmark Panel in Appendix A:

- BC Hydro
- Energie NB Power
- ENMAX
- Hydro Quebec
- Manitoba Hydro
- National Grid

The Canadian utilities are consistent with those in the Mercer compensation study and represent five of the seven Canadian companies that met our criteria. Although many US utilities were approached, only National Grid participated amongst the US companies. Low participation rate among this group was primarily because the availability and willingness to share information as well as the fact that there was less incentive to participate since they were not included in the compensation study. This peer panel, however, that represents a bulk of the comparable Canadian utilities, provides a good measure against which to assess Hydro One's overall workforce productivity.

## Key Findings

Hydro One's productivity for Transmission and Distribution function and Customer Service functions are each measured along four indicators. All indicators rank better than median (more productive) except one, which is slightly below median.

Examining the mix of indicators leads to the conclusion that Hydro One requires less workforce compensation to generate various units of output.

For Transmission and Distribution the indicators are the following:

T&D compensation per MWh sold ranked as the best amongst the peer group of 7 peers

T&D compensation per gross asset value ranked as the fourth best amongst the peer group of 7 peers

T&D compensation per territory size and km of line were about median against a group of 6 and 7 peers respectively

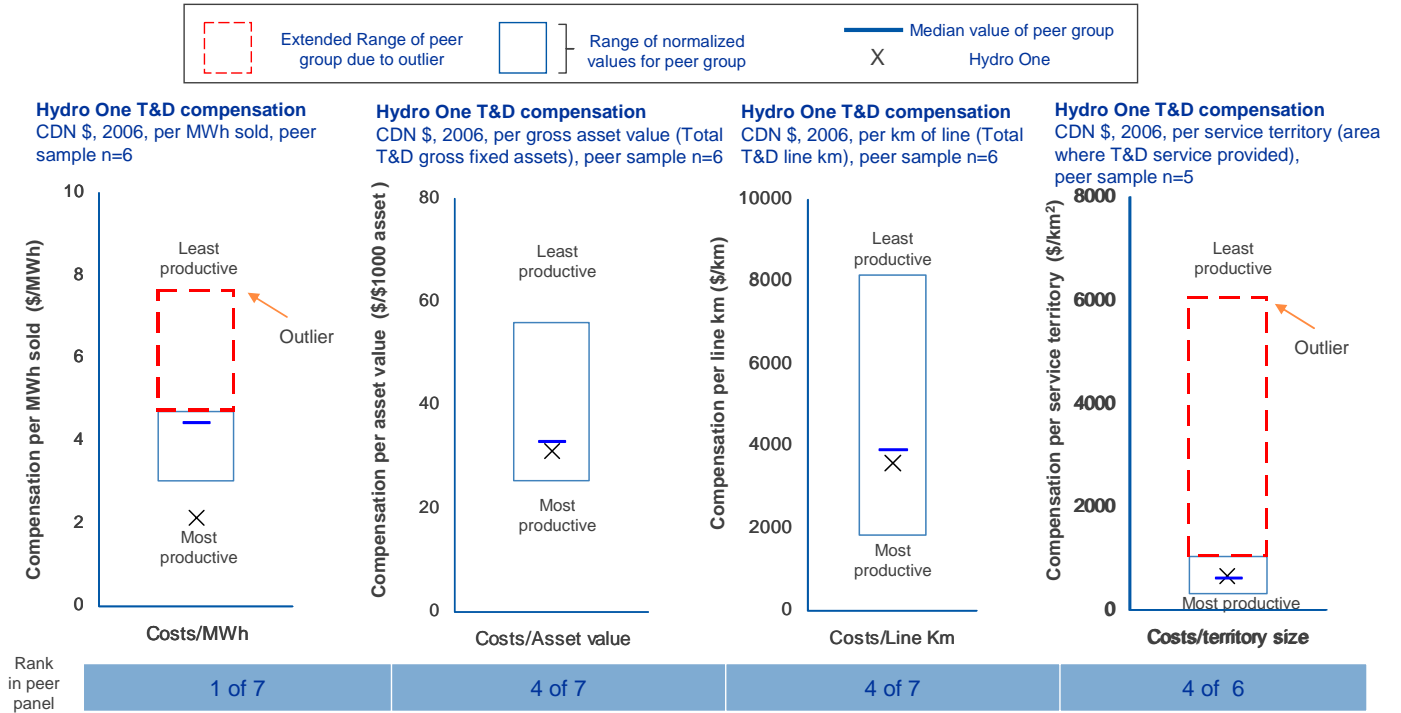
Hydro One Customer Service productivity indicators ranked the best among the peer group for all indicators examined.

## Findings (cont'd)

### Transmission and Distribution - Summary

Summarized below is Hydro One's productivity across all indicators for Transmission and Distribution. Hydro One's productivity indicators for Transmission & Distribution are better than the median for all indicators except for service territory. Transmission & Distribution per MWh sold rank best amongst peers.

Table 8



In the following pages, Hydro One's position relative to its peers is highlighted for each productivity indicator.

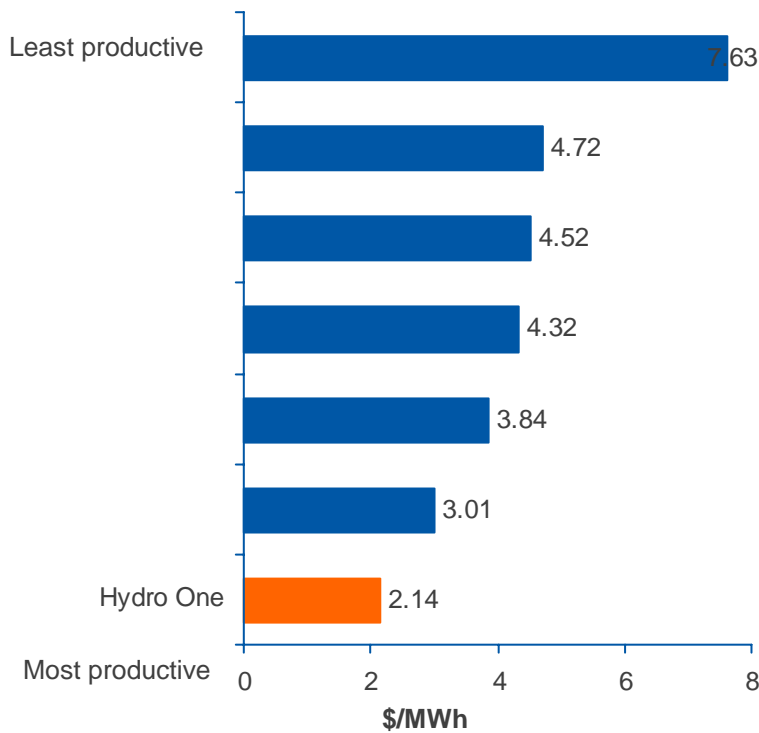
## Findings (cont'd)

### **Transmission and Distribution – Compensation per MWh**

Shown below is Hydro One’s position relative to its peer group when measured for Transmission & Distribution compensation per MWh sold. Hydro One ranks as the most productive relative to its peer group for this measure

Table 9

**T&D compensation per MWh sold**  
 CDN \$<sup>1</sup>, 2006, peer sample n=6



► This chart reflects that Hydro One requires less T&D compensation than peers in the study to manage its MWh throughput

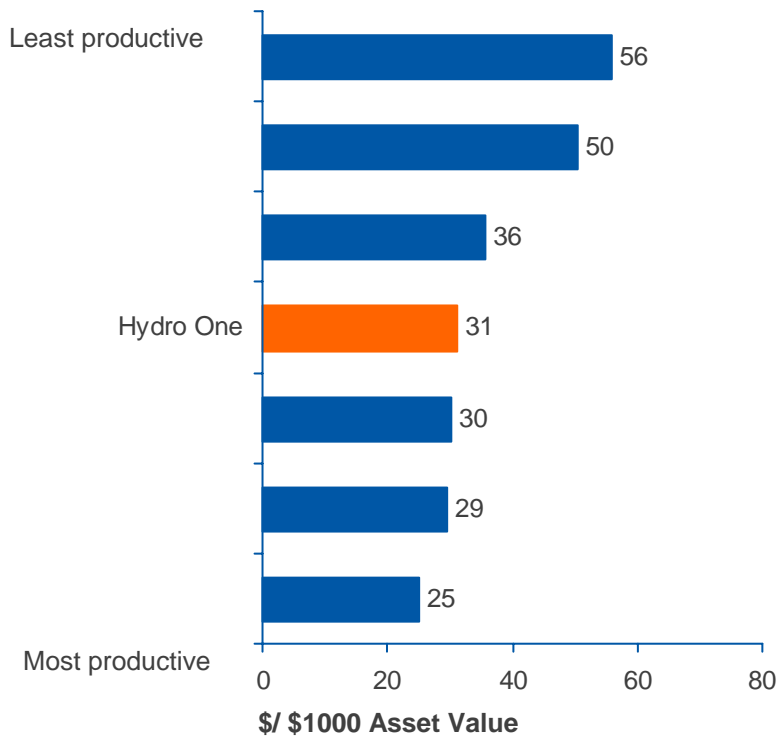
## Findings (cont'd)

### **Transmission and Distribution – Compensation per Gross Asset value**

Shown below is Hydro One’s position relative to its peer group when measured for Transmission & Distribution compensation per Asset value. Hydro One ranks as the fourth most productive relative to its peer group for this measure.

Table 10

#### **T&D compensation per gross asset value** CDN \$<sup>1</sup>, 2006, peer sample n=6



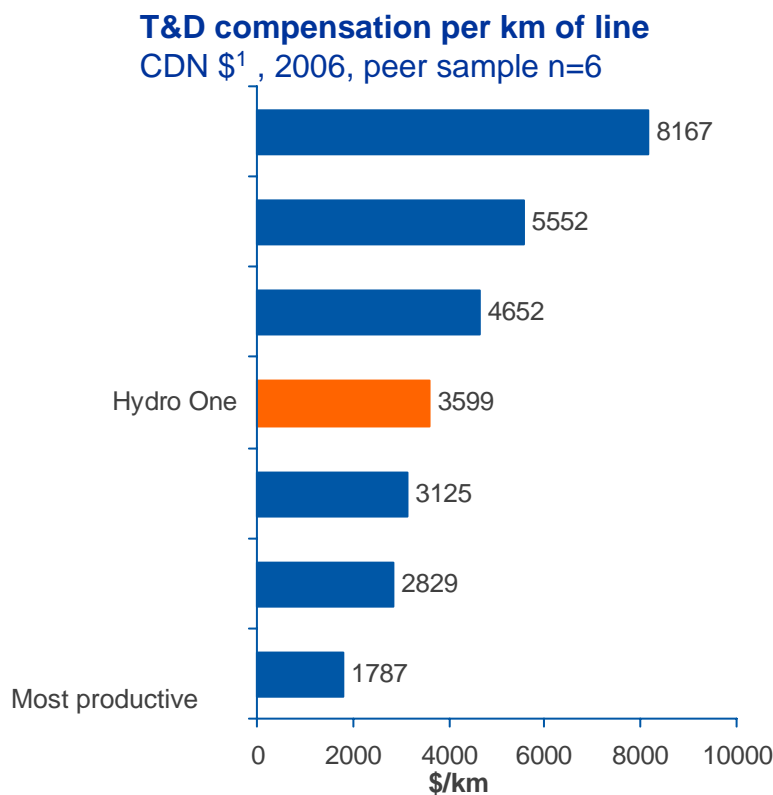
▶ This chart reflects that Hydro One requires less T&D compensation than three of the peers in the study to manage gross assets.

## Findings (cont'd)

### ***Transmission and Distribution – Compensation per Km of line***

Shown below is Hydro One’s position relative to its peer group when measured for compensation per Km of line. Hydro One ranks at the median per km of line. Hydro One is moderately efficient at managing its total line km relative to its peers.

Table 11



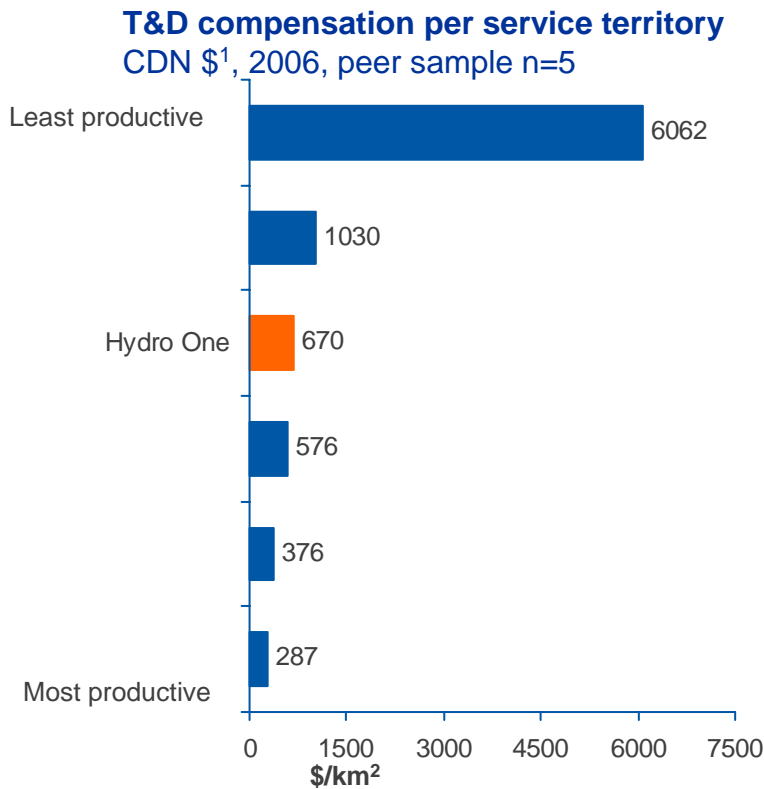
▶ This chart reflects that Hydro One requires the median level T&D compensation compared to peers in the study to manage its km of line

## Findings (cont'd)

### ***Transmission and Distribution – Compensation per service territory***

Shown below is Hydro One’s position relative to its peer group when measured for compensation per service territory. Hydro One ranks slightly worse than the median per km<sup>2</sup> of service territory.

Table 12



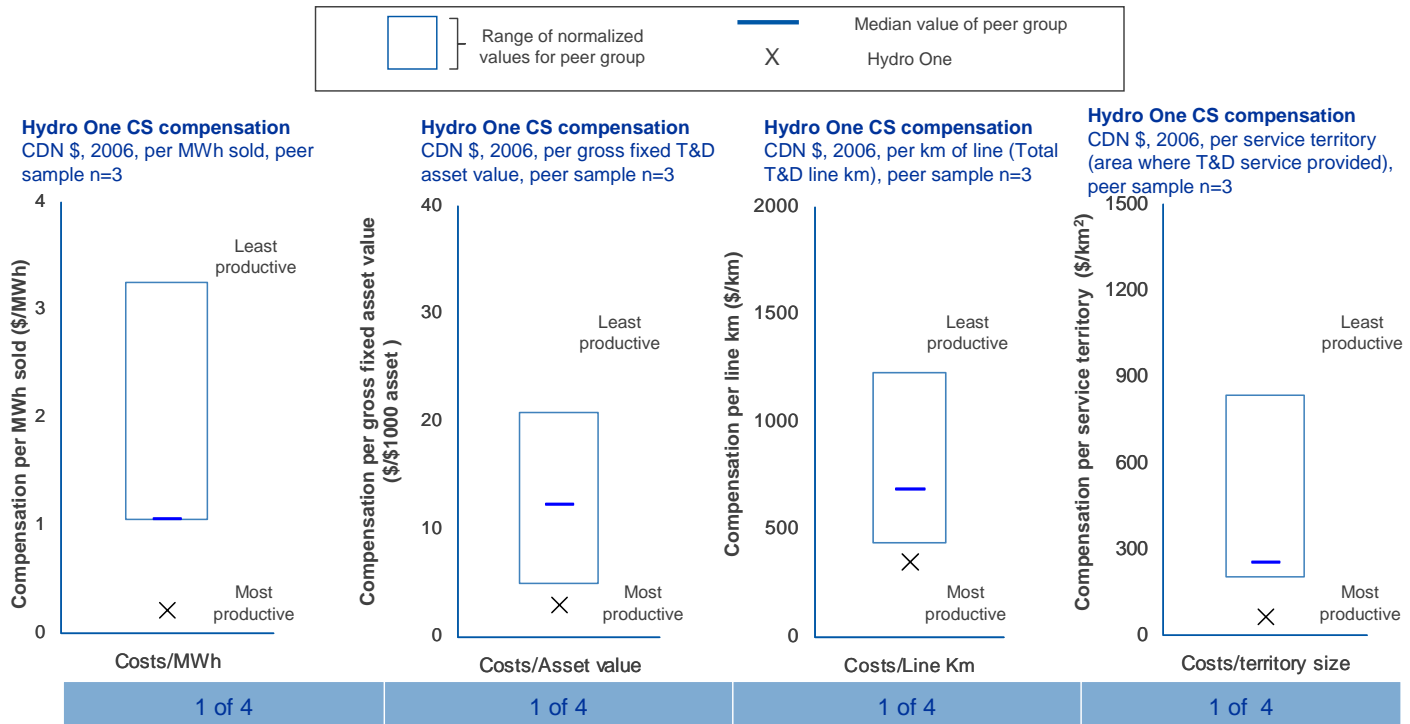
► This chart reflects that Hydro One requires slightly more T&D compensation than approximately half of its peers in the study to manage its service territory

## Findings (cont'd)

### Customer Service - Summary

Summarized below is Hydro One's productivity across all indicators for Customer Service. Hydro One's productivity indicators for Customer Service are better than the median for all indicators and ranks as the best relative to its peers.

Table 13



In the following pages, Hydro One's position relative to its peers is highlighted for each productivity indicator.

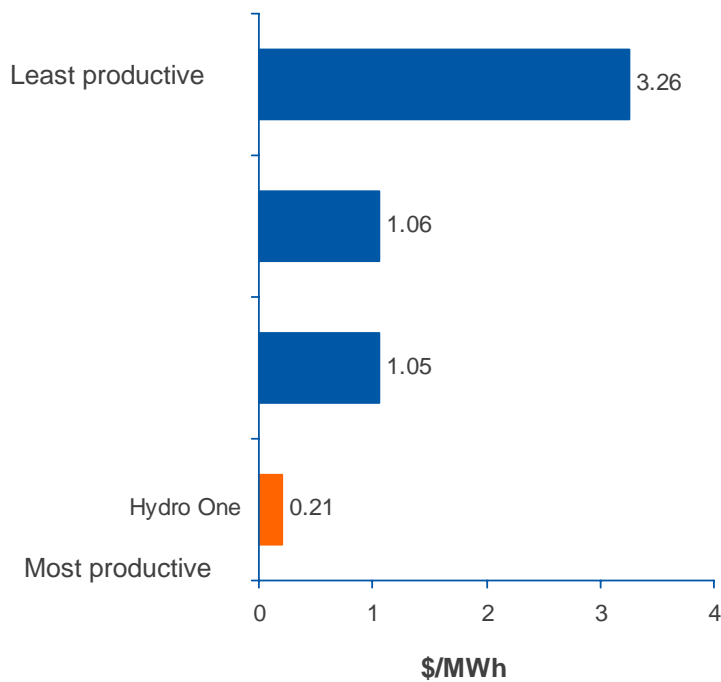
## Findings (cont'd)

### **Customer Service – Compensation per MWh**

Shown below is Hydro One’s position relative to its peer group when measured for Customer Service compensation per MWh sold. Hydro One ranks as the most productive relative to its peer group for this measure

Table 14

#### **Customer service compensation per MWh sold** CDN \$<sup>1</sup>, 2006, peer sample n=3

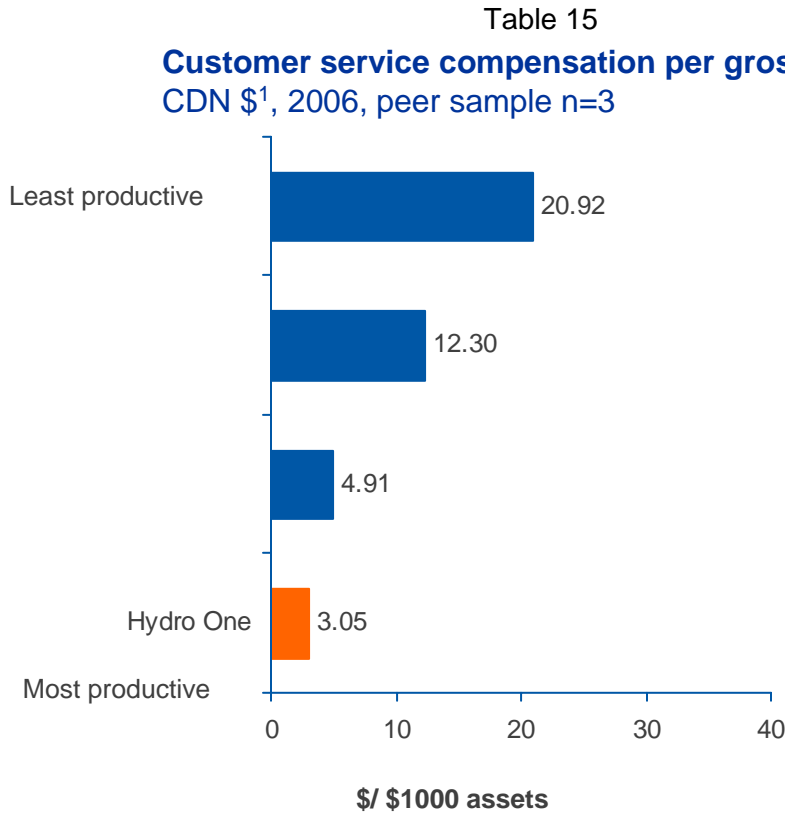


▶ This chart reflects that Hydro One requires less Customer Service compensation than peers in the study to manage its MWh throughput

## Findings (cont'd)

### **Customer Service – Compensation per Asset value**

Shown below is Hydro One’s position relative to its peer group when measured for Customer Service compensation per Asset value. Hydro One ranks as the most productive relative to its peer group for this measure.



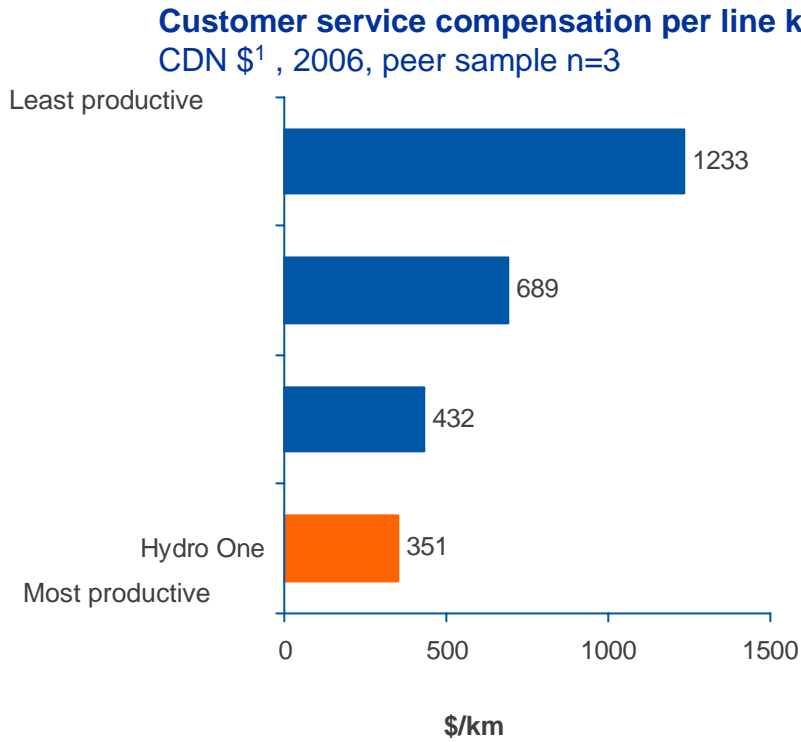
▶ This chart reflects that Hydro One requires less Customer Service compensation than peers in the study to manage its asset value

## Findings (cont'd)

### **Customer Service – Compensation per Km of Line**

Shown below is Hydro One’s position relative to its peer group when measured for Customer Service compensation per Km of Line. Hydro One ranks as the most productive relative to its peer group for this measure.

Table 16



▶ This chart reflects that Hydro One requires less Customer Service compensation than peers in the study to manage its MWh throughput

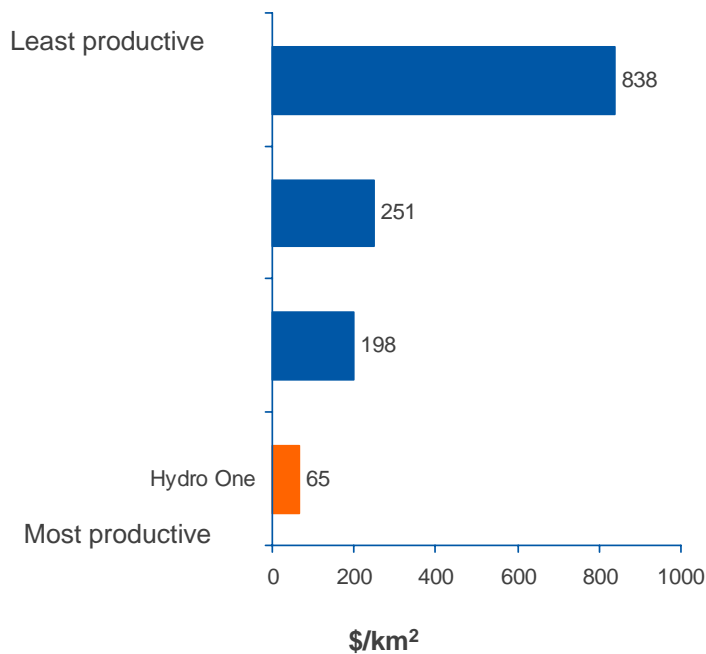
## Findings (cont'd)

### **Customer Service – Compensation per Service Territory**

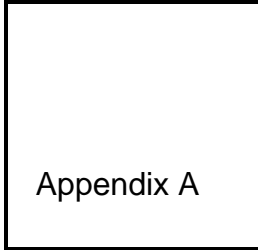
Shown below is Hydro One’s position relative to its peer group when measured for Customer Service compensation per Service Territory. Hydro One ranks as the most productive relative to its peer group for this measure.

Table 17

#### **Customer service compensation per service territory** CDN \$<sup>1</sup>, 2006, peer sample n=3



▶ This chart reflects that Hydro One requires less Customer Service compensation than peers in the study to manage its asset value



## Position Descriptions

## Position Descriptions (cont'd)

#	Generic Position	Survey Code	Generic Description
7	Engineer E	510.780.320	May have responsibility for co-ordinating engineering work assignments and making recommendations on technical applications developed by other professional personnel or consultants . May involve the direct supervision of a group of professionals. Provides guidance and training to less experienced staff. Checks work for accuracy and completeness. As a specialist, conducts special, complex and advanced level studies. Work is generally reviewed for results only. Makes independent decisions within broad guidelines and policies. May make recommendations concerning selection, training, discipline and remuneration of staff. May also responsible for construction.
8	Business Analyst C	320.392.340	Analyzes internal metrics. Performs responsible and varied business analytical or administrative functions. Prepares documents, forecast summaries, status reports, budget reports, etc. Duties may include interpreting and processing company contracts, AFEs, and government agreements. Assignments are given in terms of objectives and relative priorities. Problems may be solved by adapting standard methods or by practical applications of knowledge. Usual qualifications include a university degree with a minimum of 4 years' related experience; technical diploma with a minimum of 6 years' related experience.
9	Engineer D	510.780.330	This is the first level of full engineering specialization and is considered the senior level position. Alternatively may be the level at which an individual acts as group leader or work task force leader of a small group of technical personnel. Requires application of well developed technical knowledge in planning, conducting and co-ordinating difficult assignments. The position requires the modification of established guidelines and initiation of new approaches. Makes independent decisions in planning, organizing and completing technical assignments. Work is reviewed for soundness of judgement but accepted technically as accurate and feasible. Work is assigned in terms of objectives and priorities but informed guidance is available. Advises on technical problems and supervision, and may plan, schedule and review work of professional engineers and technicians. May make recommendations concerning selection, training, discipline and remuneration of staff.
10	Engineer C	510.780.340	Incumbent is responsible for varied engineering assignments requiring a broad knowledge of an engineering specialty and the effect the work has upon other fields. Solves problems using a combination of standard or modified procedures. Participates in planning objectives. Performs independent studies, and analyzes, interprets and draws own conclusions; more complex work projects are referred to more senior authorities. Not supervised in detail except on more difficult assignments. May give periodic technical guidance to less experienced professionals or technicians assigned to work on a common project. Usual qualifications include a university degree in engineering with a minimum of 4 years' related experience.
11	Engineer B	510.780.350	Uses a variety of standard problem solving techniques. May assist more senior engineers in carrying out technical tasks requiring computation methods. Duties are assigned with detailed oral, and occasionally written instructions. Work is reviewed in detail with guidance given. May give limited technical guidance to junior professionals or technicians working on a common project. Usual qualifications include a university degree in engineering with a minimum of 2 years' related experience.
12	Engineer A	510.780.360	Incumbent receives "on-the-job" training in various phases of office, plant or field engineering through assignments or, in some cases, classroom instruction. Tasks assigned are simple and routine in nature. Assists more senior engineers in the preparation of plans, calculations, reports, etc. Few technical decisions are made and these are routine, with clearly defined procedures and guidelines. Works under close supervision and work is reviewed for accuracy, adequacy and conformance with prescribed procedures. Usual qualifications include a university degree in engineering with minimal experience.
13	Network Mgmt Eng/Off	999.999.003	Develop and recommend network asset management strategies, policies, commercial agreements, and processes as well as provide customer interface and coordinate activities in areas of asset management, system investment, and regulator code/approvals related areas. Develop Network Management and System Investment regulatory positions, assist in meeting legal, regulatory and Market Rule requirements, and undertake activities related to maintaining customer work priorities. Establish policies and products to address expectations of Transmission and Distribution customers. Participate and lead, teams to conduct economic and technical analyses in the areas of asset management, system investment and regulator code/approvals related areas.

## Position Descriptions (cont'd)

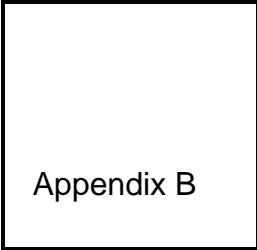
#	Generic Position	Survey Code	Generic Description
14	System Operator (Controller)	999.999.010	Monitor and operate the transmission/distribution system assets on a 24-hour basis. Determine condition and recommend on availability of equipment. Carry out Manual Block and Rotational Load Shedding Schedules procedures. Monitor, approve and report LV - load transfers. Direct / monitor personnel on a 24 hour basis (i.e. - switching agents, field crews) in the operation of the Transmission / Distribution network system assets. Troubleshoot & sectionalize for low voltage feeder faults.
15	Regional Maintainer - Lines (Supervisor)	999.999.008	This position is responsible for the safety, quality and quantity of the work performed by his/her crew. They plan work including staffing requirements, assigning work, co-ordinate work with other work groups, ensure proper work practices are followed, report on work performed and engage in good public relations. He/she performs the following physical work activities. Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers.
16	Protection and Control Technician	999.999.004	Perform initial inspections, conduct trouble-shooting and preventative maintenance, carry out modifications and repairs as required, on all types of protection, telecommunications, metering and control equipment which comes under Protection and Control (P&C) jurisdiction. Discuss and review results with supervisor, if the equipment is highly critical from the standpoint of system operation, before putting the equipment into service.
17	Area Distribution Engineering Technician	999.999.001	Perform Technical support work for the Distribution Section of the area: such as monitoring the performance of the distribution system by performing various technical studies, identifying and recommending solutions to the supervisor, providing field data and preliminary analysis for engineering studies. Negotiate property settlements on distribution lines and perform joint use activities. Provide administrative support related to preparation of estimates and work orders (WO) work schedules, line layouts, joint use, provision of underground cable and fault location service. Perform staking activities and prepare design packages for new connections, service upgrades, extensions, betterments and relocations.
18	Regional Maintainer - Lines	999.999.006	Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers. Understands and is able to operate the tools of his/her trade, and is familiar with the various instruments, i.e. voltmeters, ammeters and hometers. Must be familiar with hydraulically-operated articulated or telescopic aerial devices. Must provide at own expense any tools listed for the classification if required in his/her work in accordance with the attached tool list. This classification also includes the requirement to hold a Power Line Technician certification (or equivalent).
19	Regional Maintainer - Electrical	999.999.007	Responsible for the general maintenance and repair work on electrical systems and equipment at various geographical locations. Requires overhauling, maintaining and inspecting equipment such as conductors & insulators i.e. batteries, station bus, cable, compressed air systems, fire protection equipment switchgear i.e. circuit breakers, load interrupters metalclad switchgear, oil circuit breakers, SF6 breakers, air blast breakers, transformers, rotating machines, distribution stations & equipment. Has the necessary knowledge of the trade theory, operating principles, charts, tables, testing equipment and other reference works, to test, dismantle, repair, clean and assemble station electrical equipment within the required specifications. Requires certification as a construction and maintenance electrician.
20	Fleet Mechanic	999.999.011	Be responsible for the inspection, repair and maintenance, as well emergency repair of vehicles (e.g. bucket truck, all terrain vehicles, go track, digger truck, ladder truck forklift, backhoe, manlift, vans/pickup trucks and the hydraulic equipment of the vehicles e.g. booms, buckets. Maintain inspection schedules and coordinate scheduling repairs to be contracted out. Work is performed in a garage or on site.

## Position Descriptions (cont'd)

#	Generic Position	Survey Code	Generic Description
21	Regional Maintainer - Forestry	999.999.005	<p>Perform line clearing adjacent to power lines and associated apparatus. Carries out all phases of vegetation management including the application of pesticides. Understands and operates tools associated with the trade, various types of vehicles and aerial equipment, hand or power-operated pesticide application equipment. Must provide at own expense, any tools listed for this classification if required in his/her work, in accordance with the attached tool list.</p> <p>In addition to the above, may have the following skills:</p> <ul style="list-style-type: none"> <li>• Lead Hand Skills (including documentation, job planning and knowledge of work management systems as required)</li> <li>• Work Protection Code Skills (including establishing, and holding)</li> <li>• Contract Monitoring Skills</li> <li>• Environment Skills (such as PCB management, WHMIS, waste management, etc).</li> </ul>
22	Service Dispatcher	430.612.340	<p>Responsible for handling incoming consumer calls to schedule and dispatch service technicians to problem areas (including high voltage switching). Maintains documentation of crew activities for continuous knowledge of line and substation work. Key coordinator during power failures provides notification to internal and external customers regarding restoration of power services.</p>
23	Drafter II	510.656.420	<p>Incumbent works on standard drafting assignments. Methods are detailed and standard but judgement is required in planning tasks and choice of methods. Accountable for accuracy and adequacy of work performed. May provide technical guidance to less experienced Drafters. Usual qualifications include a technical school diploma or equivalent, with a minimum of 5 years' related experience.</p>
24	Lineman - Journeyman	920.788.410	<p>Responsible for the installation, maintenance, removal, and inspection of transmission/distribution power lines. Typically requires 4 years of experience and certification as a Power Line Technician (or equivalent).</p>
25	Stock keeper	999.999.009	<p>Receives, receipts, stores, issues and ships materiel used in operations. Manages materiel, in accordance with established practices and regulations. Is responsible for materiel under his/her control. Performs maintenance, not requiring formal trades qualifications, and assists in tasks where unskilled or semi-skilled ability is required.</p>
26	Data Entry Clerk	999.999.002	<p>Perform data processing services including inputting, updating, to various computerized databases and applications of external service providers. Perform clerical/administrative duties in support of system processes. Work with various internal and external contacts and customers in the set up, maintenance, reporting and follow up of non-electricity accounts, customer service orders, materials, corporate charge cards, time reporting, management reporting, damage claims, accounts receivable, etc. Perform administrative services for provincial client group and special projects.</p>
27	Production Field Administrator III	220.778.413	<p>Works independently. Works closely with field operations. Assists in all areas of production and general accounting duties, clerical and office administration functions. Provides analysis and input of operational accounting information and codes and inputs all payables and production volumes. May assist in preparing special production reports. Requires broad knowledge of department procedures. Orders all stationery/supplies and runs office. Monitors, troubleshoots and co-ordinates with head office maintenance of existing computer systems. May check work of junior staff and provide guidance. Working with a Supervisor, assists in preparing field accruals and analyzes actual performance versus budget. Possesses a solid understanding of basic accounting principles. Requires advanced PC and database management knowledge. An accounting background or diploma with 8 years' office experience is typically required.</p>

## Position Descriptions (cont'd)

#	Generic Position	Survey Code	Generic Description
28	Meter Reader	920.680.430	Responsible for reading electric, gas, or water meters and keeping track of their average use by recording information. Other duties would include inspecting meters for damages and defects. Entry level position which typically requires a high school education.
29	General Labourer/ Roustabout	700.792.431	This is the level at which individuals with no previous experience enter into the company. Acts as a general labourer. Works under close supervision within well defined procedures. Duties involve general field/plant maintenance or clean-up work. Minimum qualifications include a high school diploma with minimal related experience.
30	Tree Trimmer - Journeyman	550.790.410	Trims and clears small trees and brush around electric lines.



Appendix B

## Compensation Benchmarking Methodology

Summarized in this appendix is supporting descriptions of how we determined values for each of the major components of compensation. Specifically:

**Base Salary** - Base annual salary at April 1, 2008. If an hourly rate was reported, we annualized the value by multiplying the standard number of hours per week by 52 weeks per year. If a weekly rate was reported, we annualized the value by multiplying by 52 weeks per year.

**Total Cash Compensation** - Base salary *plus* most recent short-term incentive or bonus paid.

**Benefits and Pensions** – To value benefit and pension programs, we applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans. See detailed methodology below.

**Total Compensation**<sup>3</sup> - Total cash compensation *plus* estimated annual value of most recent long-term incentive grant (i.e., expected value of stock options or share awards) and pensions and benefits.

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<sup>3</sup> We also requested information regarding overtime policies from study participants, but given the complexity in overtime policy design we were unable to collect reliable information that could be benchmarked.

# Compensation Benchmarking Methodology

(cont'd)

**Detailed Benefits and Pension Methodology** – Total remuneration includes the following values for benefits and pensions:

- Mercer's relative value process applies a broad set of standard cost factors, plus actuarial and demographic assumptions to measure all of the financially significant features of benefit programs on a benefit line basis.
- Effectively, this process isolates the plan design and removes variable factors such as historical experience, demographics, and utilization trends specific to each participant in the study. For example, if two survey participants have an identical benefit offering, the values will be equal regardless of the actual plan costs to each of the employers.

## **Aligning Values with Hydro One's Actual Costs**

- For the purpose of this Total Compensation study, we adjusted the manual rates within our relative value tools so that the results by line of benefit more closely reflect Hydro One's actual benefit costs and liability figures.

## **Participation & Anti-Selection:**

### **Active Flex Benefits:**

- **Participation:** We use a standardized set of participation assumptions for all participants that vary only by the number of options that are offered under the plan. Therefore, two identical flex programs will produce similar relative Total Values.
- **Anti-Selection:** A unique feature of flex plans is that employees who choose richer options are likely to be higher claimers than those choosing poorer options. This is reflected within our methodology by increasing the value of the richer options and reducing the value of the poorer options. The final relative values of the flex plan is a weighted average of the values of each of the options.

## Compensation Benchmarking Methodology

(cont'd)

- Optional plans that are fully employee-paid (such as optional life) are excluded from the review.
- Low value core plans / catastrophic core plans and spousal top-up plans are excluded from the valuation.

### **Projection Methodology for Pension Plans**

#### **Defined Benefit Plans**

- For defined benefit plans, annual service costs were estimated for each company's plan design at various earnings levels using a common sample employee demographic (age and years of service). The annual service costs were converted into company provided values by deducting any required employee contributions under each plan. The resulting company provided values were converted into earnings based formulas and applied to the individual membership data for each company.

#### **Defined Contribution Plans**

- For defined contribution benefit plans, the company provided value was set equal to the company contributions.
- Where employees are entitled to choose the level of their contributions, employees were assumed to contribute at the level that would maximize company contributions.

### **Projection Methodology for Post Retirement Non-Pension (PRNP)**

- Employee-specific factors including earnings and service are projected to each of the assumed retirement ages at which point the benefit payable is determined, actuarially valued and discounted with interest to the current age of the employee. The resulting values are split pro-rata on service into the benefit in respect of past service and the benefit in respect of future service, and the future service benefit value is converted to a level percentage of future pensionable earnings.

## Compensation Benchmarking Methodology

(cont'd)

- The results are weighted by the assumed retirement rates and combined to produce a single value of future benefit accruals, as a percentage of future earnings, per member.
- Benefits are projected both before and after retirement based on benefit-specific (e.g. medical, dental) inflation assumptions.
- Benefits are coordinated with provincial medical and drug plans.
- Lifetime maximums are reflected where applicable.

### **Flex Premium Cost Sharing & Credit Allocation:**

- Cost sharing is determined using each participants actual price tag and credit formula.
- Assumptions are made as to where credits would commonly be used, unless they are allocated to specific benefits. These assumptions coordinate with the standardized participation assumptions outlined earlier.

### **Standard Demographic Assumptions:**

- A common population reflecting the general demographics of a Canadian workforce group and adjusted to more closely mirror Hydro One's workforce is used in the analysis.
  - This population reflects a group of employees with an average age of 45, average service of 15 years, and average annual earnings of \$80,000 (average earnings used for benefit purposes).

## Compensation Benchmarking Methodology

(cont'd)

- For Pension and Post Retirement Non-Pension benefits, the above population is assumed to retiree approximately as follows:
  - 25% of the group retire at age 55
  - 60% of the group retire at age 60
  - 15% of the group retire at age 65
  - 70% of the active members are assumed to be married over their career while
  - 90% of members are assumed to be married at the time of their retirement

### **Other Actuarial Assumptions:**

- The following assumptions were used in the review:
  - Discount rate: 5.50% per annum
  - Inflation: 2.25% per annum
  - Salary Increase: 4.50% per annum
  - Post Retirement mortality UP 1994 generational mortality (80% male)
  - Termination rates of 2% each year prior to age 55 (for pension values)
  - Medical and Dental inflation/utilization increases

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