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Hydro One Network Inc.

Request for Proposal

DRAFT ONLY

Part 1: Instructions to Proponents

Part 2: Commercial Terms and Conditions

Part 3: Terms of Reference

Part 4: Format for Submission

Part 5: Attachments

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Hydro One Networks – XXX Compensation Cost Benchmarking Study Terms of Reference

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1.0 BACKGROUND

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1.1 Hydro One Networks Inc.

10 Hydro One Networks is an integrated Transmission and Distribution Utility which owns, operates
11 and maintains high voltage and low voltage electricity delivery assets in the Province of Ontario
12 and is responsible for delivering services to it's customers, including supply reliability, power
13 quality, responses to customer inquires and billing services. Hydro One Networks is wholly
14 owned by the Province of Ontario and is the leading electricity transmitter and distributor in
15 Ontario. The Transmission and Distribution Businesses are operated in an integrated manner,
16 utilizing the same workforce and many of the same business processes, systems and facilities.
17 The Hydro One Networks mission is to be an efficient and dynamic transmission and distribution
18 utility maintaining a constant attention to the development and retention of our employees, and
19 creating shareholder value.

20 Nearly all of Ontario's electricity transmission system is owned and operated by Hydro One
21 Networks. In 2010, the Transmission Business earned total transmission revenues of \$XXX
22 million primarily by transmitting approximately XXX TWhs of electricity, directly or indirectly,
23 to more than four million customers. The Hydro One Networks transmission system is one of the
24 largest in North America, and is linked to five adjoining jurisdictions through 26
25 interconnections. Through these interconnections, the Transmission Business can accommodate
26 imports of about 4,000 MWs and exports of approximately 5,800 MWs of electricity.
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1.2 Electricity Regulation Framework

30 The Transmission and Distribution Businesses are separately regulated by the Ontario Energy
31 Board (OEB); and cost allocation approaches are used within the company to appropriately assign
32 costs to the Businesses. The OEB sets rates in proceedings through oral or written public hearings
33 based on the level of revenue required to operate our regulated Businesses and to earn our
34 approved rate of return on investment capital. Existing rates were set based on cost of service rate
35 regulation.
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2.0 Hydro One Compensation Costs Study

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2.1 Compensation Costs Study Framework

1 In its August 16, 2007 Decision approving Transmission Revenue Requirements for 2007
2 and 2008, the Ontario Energy Board directed Hydro One to prepare a total compensation
3 cost benchmarking study which would gather and compare data from other regulated
4 transmission and/or distribution utilities in North America. As part of this study, Hydro
5 One was also directed to (i) consult with stakeholders about the type of information to be
6 gathered and the types of utilities and other companies that should be used for
7 comparison purposes; and (ii) provide empirical evidence which reveals the relative
8 productivity of its workforce in comparison to other utilities. Following this direction,
9 Hydro One engaged Mercer to prepare a “Compensation Cost Benchmarking Study”
10 (“the Mercer study”) which was submitted by Hydro One in September 2008 to the OEB
11 as part of its application for 2009 and 2010 Transmission Revenue Requirement. The
12 Mercer study can be downloaded here
13 <http://www.hydroone.com/RegulatoryAffairs/Documents/EB-2010-0002/EB-2008-0272%20Mercer%20Compensation%20Benchmarking%20Study.pdf>
14

15
16 In its December 23, 2010 Decision approving Transmission Revenue Requirements for
17 2011 and 2012, the Ontario Energy Board provided direction and other expectations for
18 further information on compensation and efficiency comparisons.
19

20 The Board directed “Hydro One to revisit its compensation cost benchmarking study [the
21 Mercer study] in an effort to more appropriately compare compensation costs to those of
22 other regulated transmission and/or distribution utilities in North America.”
23

24 Toward that end, the Board directed “Hydro One to consult with stakeholders about how
25 the Mercer study should be updated and expanded to produce such analyses”.
26

27 The Board went on to describe its expectation that Hydro One “be in a position to provide
28 more robust evidence on initiatives to achieve a level of cost per employee closer to
29 market value at its next transmission rate case. The Board will expect compensation
30 increase to be matched with demonstrated productivity gains”.
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34 **2.2 Deliverables**

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36 Hydro One is undertaking this Compensation Cost Benchmarking project with the
37 expectations that the project will:

- 38 • Review, expand upon and improve the previous Mercer (benchmarking) study completed for
39 Hydro One;
- 40 • Select, with justifications, after reviewing previously used comparators, an appropriate group
41 of businesses to use as comparators to Hydro One for compensation cost benchmarking;
- 42 • After reviewing previously used compensation metrics, determine the most appropriate
43 compensation metrics that each of the chosen comparators can readily measure;

- 1 • Quantify Hydro One’s Total Compensation Costs¹ in comparison to other Ontario utilities,
2 other like North American utilities, and other non-utility businesses competing in the same
3 labour market;
- 4 • Evaluate the compensation costs of the benchmark group relative to the cost drivers, to
5 assess how reasonable Hydro One’s compensation costs are compared to the benchmark
6 group;
- 7 • Identify internal productivity benchmarks used within peer groups and how or whether such
8 measures could be used by Hydro One to benchmark their readily available internal data;
- 9 • Identify academic ‘best practices’ of internal utility productivity benchmarking and how or
10 whether such measures could be used by Hydro One to benchmark their readily available
11 internal data;
- 12 • Be readily repeatable to permit periodic examination of Hydro One compensation cost
13 trends; and
- 14 • Provide a comparison, if appropriate, to the results of the previous compensation cost
15 benchmarking study [the Mercer study] completed for Hydro One.
16

17 **3.0 SCOPE OF WORK**

18 3.1 Project Requirements*

19 **Part A**

- 20 1. Design a benchmarking study to deliver the Hydro One expectations outlined in section 2.2,
21 giving due regard to intent of the Ontario Energy Board decisions referenced in section 2.1.
22
- 23 2. Present the proposed study design and proposed criteria for cohort selection to a stakeholder
24 consultative for their understanding and input.
25
- 26 3. Meet with Hydro One to review suggested changes resulting from the consultative process,
27 and then commence the study based upon the Hydro One approved study plan.
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- 29 4. Provide an interim progress report to a Hydro One steering committee if requested by Hydro
30 One.
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- 32 5. Prepare a draft of the study report for presentation to the Hydro One steering committee.
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- 34 6. Present the draft report to the stakeholder consultative, subject to any requirements for
35 confidentiality, to gain the feedback and comment from intervenors.
36
- 37 7. Present a Final Report to Hydro One for filing to the Ontario Energy Board.
38
- 39 8. The successful consultant will be expected to defend the study plan, findings and conclusions
40 within at least one and potentially two regulatory proceedings. This would include all normal
41 phases of a full hearing including a written interrogatory phase, and other discovery processes
42 defined by the regulator, and a full, formal regulatory hearing, either oral or in writing, before
43 the OEB. This would also include the preparation of other related evidence, as necessary to
44 support the methodology and measures applied related assumptions on economic parameters,
45 comparable companies, etc.
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¹ For the purposes of this benchmarking analysis “Total Compensation Costs” shall include the costs of all employee benefits, monetary compensation and other performance rewards that are paid to, or on behalf of the employee.

- 1 9. Using the Mercer study as the starting point, include in the study:
2
3 • The selection criteria for establishing a set of businesses used as comparators to Hydro One,
4 and the justification for their choice as suitable cohorts in the benchmarking study. Where
5 specific jobs are considered to be comparable to enterprises outside of the energy utility
6 sector, the benchmarking study should be expanded to include the wider group for that
7 specific job comparison.
8
9 • Utilize the same compensation metric as applied in the Mercer study i.e. base pay, total
10 cash and total remuneration.
11
12 • Findings and conclusions regarding the reasonableness of Hydro One's Total Compensation
13 costs relative to other transmission and/or distribution utilities, taking into consideration the
14 effects of the compensation metric.
15
16 • A summary of specific modifications from the Mercer study and an assessment of the impact
17 of such in using the Mercer study results for comparative purposes. If appropriate, use the
18 Mercer study results for comparative purposes.
19
20 • A summary report on internal productivity measures used within the peer group and how or
21 whether such measures could be utilized by Hydro One with readily available internal data.
22
23 10. Design the benchmarking study to be readily repeatable to permit a comparison trend analysis
24 for future reviews.
25
26 11. Prepare for and participate in a stakeholder consultative process relating to the benchmarking
27 study. This consultative process could involve as many as two (2) meetings, commencing
28 with input to the study design and the cohorts selection, and presentation of the study draft.
29 Hydro One wishes to fully inform the consultative about the study, to the extent that
30 "confidentiality" issues permit, with the objective of gaining their endorsement of the process
31 and the results. Hydro One will retain the right to unilaterally decide any question related to
32 the study.
33
34 12. Prepare a draft report for review by Hydro One on or before XXX and a final report on or
35 before XXX.
36

37 **Part B**

- 38 13. Participate fully, in cooperation with Hydro One, in the filing, discovery, hearing and
39 argument phases of the Ontario Energy Board review of the compensation cost benchmarking
40 study. Provide written responses to interrogatories on the study.
41
42 14. Defend the benchmarking study report and associated issues as an expert witness for Hydro
43 One as and when required (likely up to two days on the witness stand), before the Ontario
44 Energy Board at future Regulatory Hearings. This includes preparing expert witness
45 testimony.
46

47 *** Note: Preparation of the study and report outlined in Part A above should be**
48 **costed and a single lump sum price is to be provided. For Part B above, individual**
49 **per diem rates, as appropriate, with an estimated total hour allocation for this work**
50 **should be provided; expected reimbursable expenses must also be detailed.**
51

52 3.2 Consultant Requirements

53 The consultant required for this assignment must:

- 1 • Be able to provide all of the services outlined in Section 3.0
- 2 • Have expertise and proven experience in preparing and providing a compensation
- 3 benchmarking study and recommendations in a regulatory environment
- 4 • Have in-depth knowledge and experience in applying general regulatory principles as
- 5 they apply to the project scope
- 6 • Have knowledge of specific practices and precedents within the regulated utility industry;
- 7 • Have significant experience in acting as an expert witness at rate hearings in the subject
- 8 areas covered by this work scope
- 9 • Be able to demonstrate that they have successfully completed similar work for other large
- 10 clients, on time and on budget
- 11 • Comply with Hydro One's Code of Business Conduct
- 12 • Comply to Hydro One Commercial Terms & Conditions; Insurance and WSIB

13 3.3 Schedule

14 The schedule for carrying out the activities in Section 4.0 is driven by Regulatory requirements
15 for a new rate order application to be submitted in early July 2008. The consultant shall base
16 their response to this RFP on meeting the following schedule of major milestones:
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- 19 1. Participate in up to three, one-day stakeholder sessions: XXX
- 20 2. Deliver the Draft Report: XXX
- 21 3. Deliver the Final Report: XXX
- 22 4. Fully participate in the defense of the Benchmarking Report in an OEB hearing forecast to
23 occur in XXX
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