

30 May 2011

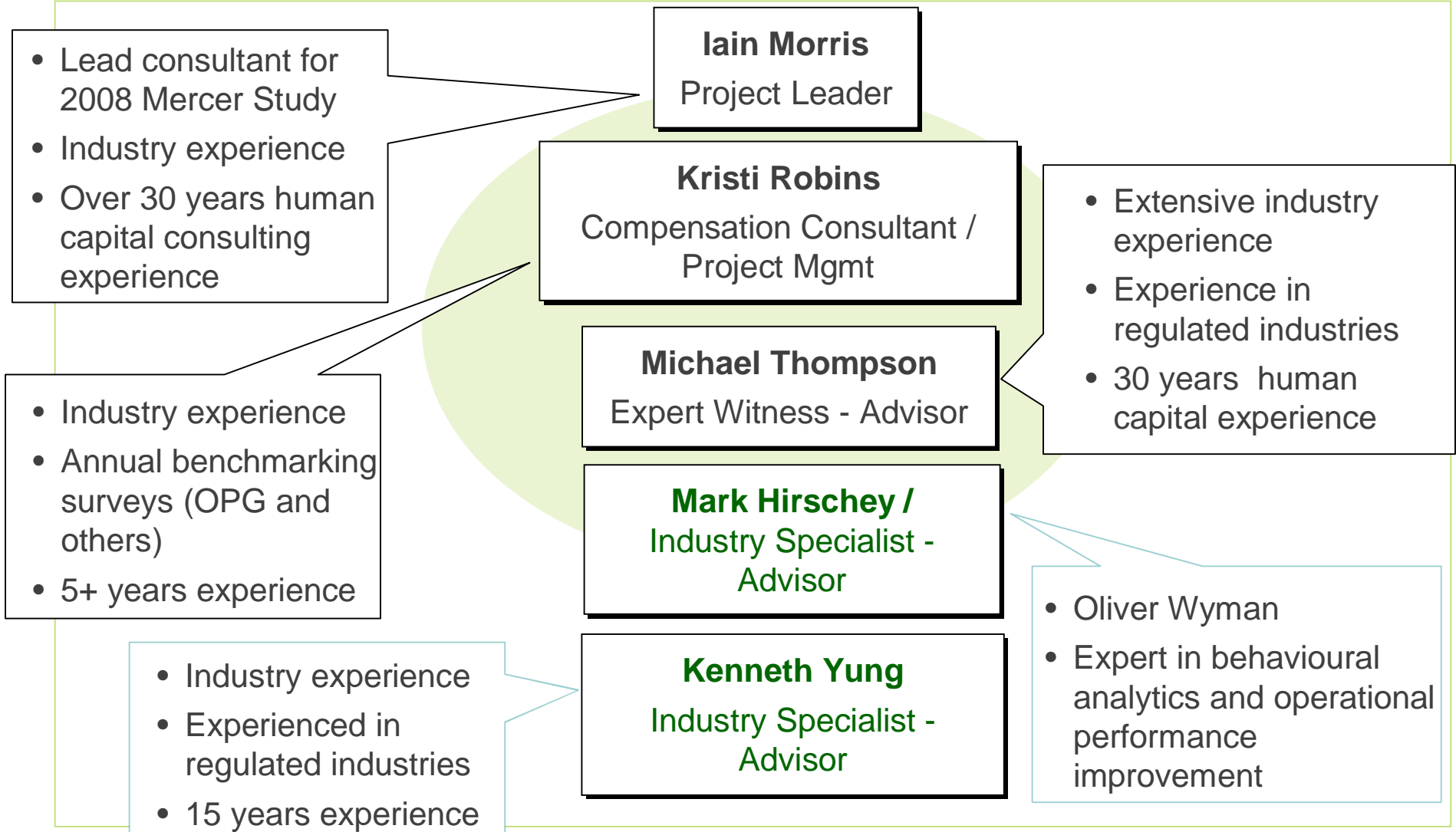
## **Hydro One Networks Inc.** Compensation Cost Benchmark Study



## Today

- Introduction & Overview
  - Mercer & Oliver Wyman
  - Our Mandate
- Our Approach
  - Total Compensation Cost Benchmarking
  - Productivity Measures & Consulting Advice
- Further Discussion and Next Steps

# Introduction – Mercer Project Team



## Introduction - Our Energy and Utilities business

Over 75 of the largest energy/utility companies & unregulated service providers, across North America.



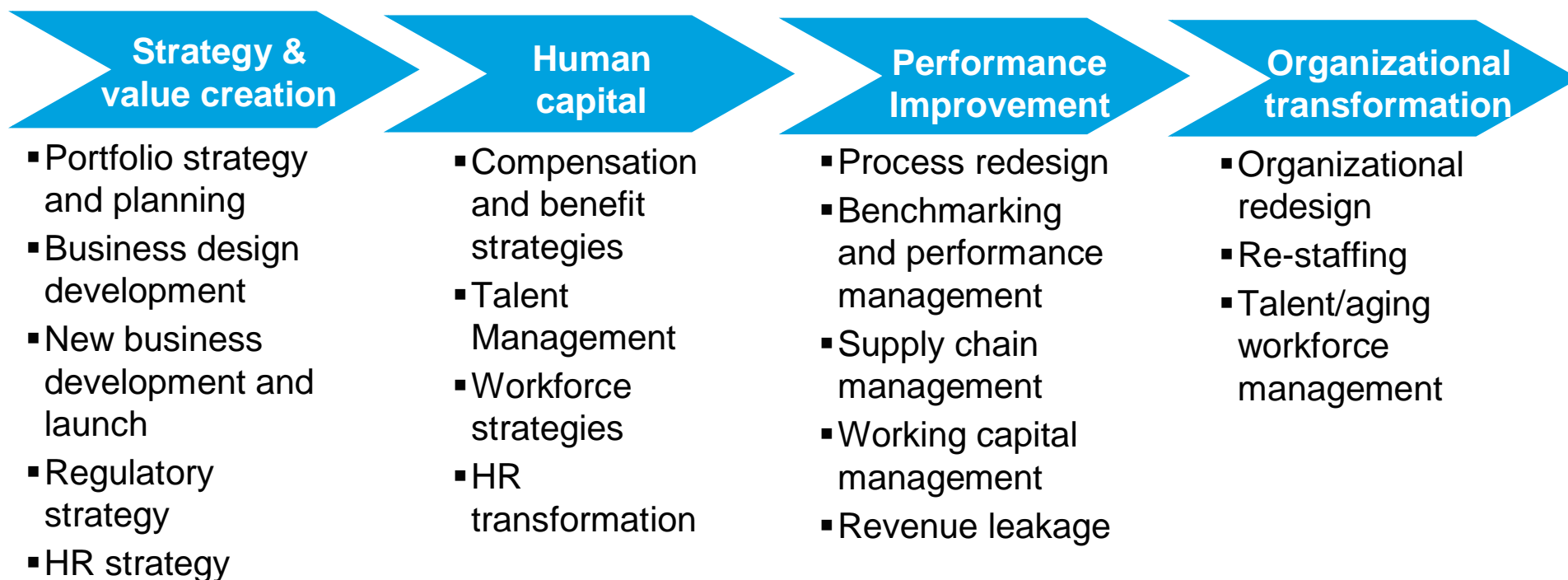
- About Mercer
  - Consulting, investment, outsourcing
  - 17,000 employees in 180 cities in 41 countries
  - Over 1,500 in Canada
  - Dedicated Human Capital business (over 60 in Canada)
- About Oliver Wyman (formerly Mercer Management consulting)
  - General management consulting
  - 2,500 employees in 40 cities in 16 countries
  - Dedicated global Utility business

Mercer and Oliver Wyman have a successful track record in delivering value, as evidenced by our many long-term client relationships.

## Introduction – Our Capabilities

Our energy & utility practices help clients create value by providing strategic and operational consulting advice to address the issues facing energy & utility companies.

### Enterprise-Wide



## Introduction – Mercer Survey Expertise

- Annually, Mercer conducts more than 1,000 rewards surveys in over 100 countries
- Mercer’s benchmark TRS (Total Remuneration Survey) is conducted in more than 100 locations worldwide
- Industry focused surveys include:
  - Chemical Industry
  - Consumer Goods Industry
  - Energy
  - Global Marketing Survey
  - High-tech Industry
  - Pharmaceutical Industry
  - Other Industries: retail industry, hospitality and more
- Other surveys include: quality of living, cost of living, employment policies & practices
- Global standards, methodology, and analysis



## Introduction – Our Mandate

- Reliable and “repeatable” total compensation cost benchmarking study
  - improving on the “Mercer Study”
- Identify internal productivity measures used by other regulated transmission and distribution utilities in North America
- Recommend internal productivity measure for Hydro One based on:
  - Key performance/productivity metrics
  - Labour cost drivers
  - Network characteristics
- Defend our findings and recommendations as required

## Our Approach – Benchmarking

Our general approach to custom surveys

Determine  
survey sample  
and benchmark  
jobs

- Select comparator companies based on scoping criteria
- Select benchmark jobs to include in survey
- Identify contacts within target organizations

Design survey

- Identify clear objectives
- Select specific data requirements including rewards elements, demographics, etc.
- Create detailed survey data collection tool and results templates

Identify method  
of contact

- Identify method of contact (e.g., one-on-one discussions, phone calls, emails)
- Coordinate logistics to ensure consistent approach, e.g., using pre-structured teams

Test survey and  
modify as  
needed

- Test completed survey based on length of time to complete and level of responsiveness
- Modify survey as needed

Collect data and  
analyze results

- Distribute surveys
- Collect raw data
- Review submitted data and clarify as needed and conduct analysis

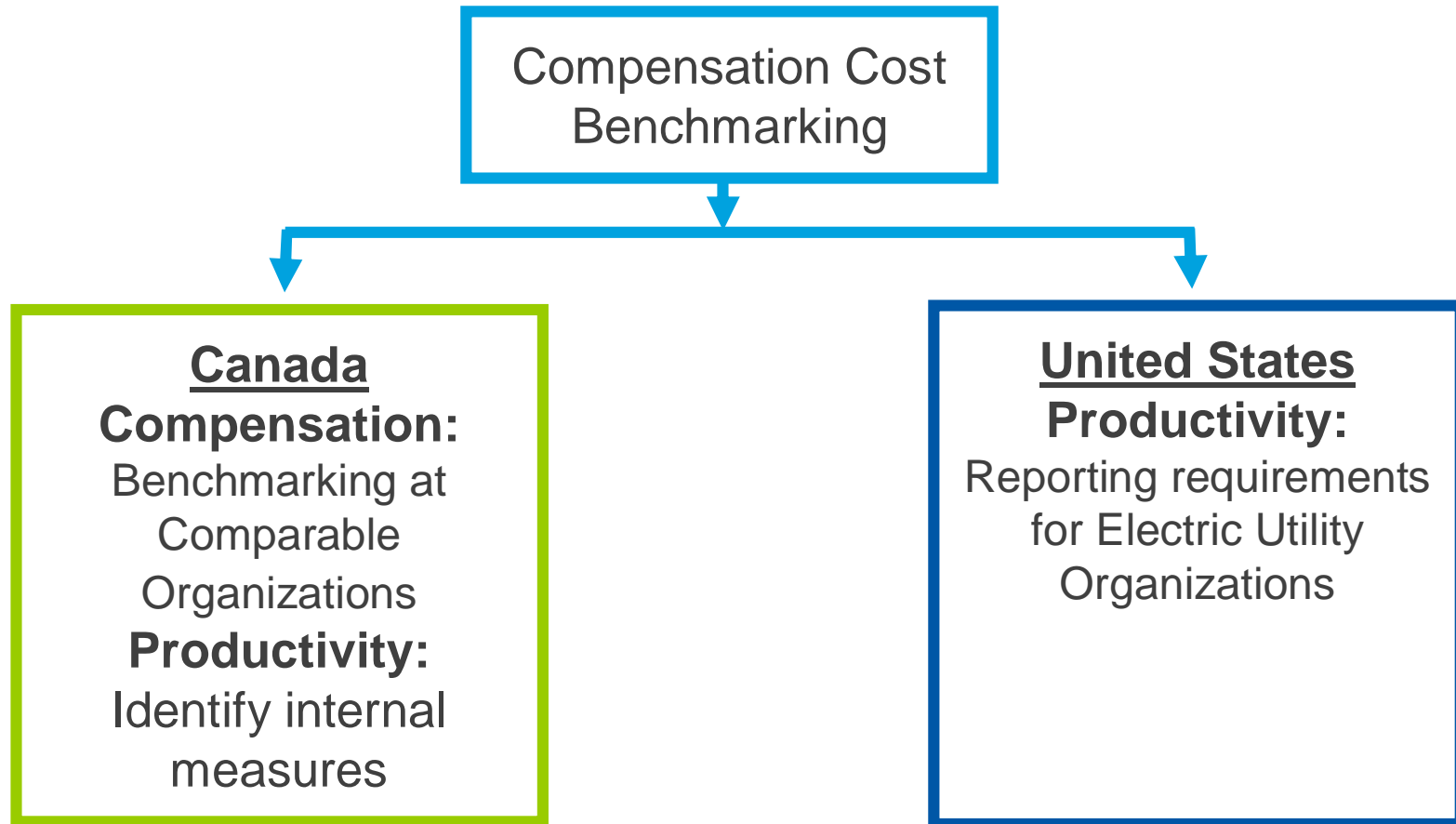
## Total compensation cost benchmarking

### Challenges in the Canadian market

- Specific industry samples are usually limited by the market size
- Regional differences in the compensation market can be significant
  - Today greatest private sector differences are found east of Ontario and in Alberta
  - Quebec is a unique market
  - Cost of living not always correlated with cost of labour
- Cross-border compensation comparisons can be difficult to understand and are rarely helpful at a job level
  - Differences in taxation and benefits costs, for example
  - Currency fluctuations
  - Cultural and statutory differences appear in pay lines
- Sample selection requires understanding of factors that impact a company's approach (or philosophy) to compensation

## Our Recommended Approach

An integrated survey to benchmark costs and identify productivity measures



*Reliable and repeatable study that is the foundation for assessing current and future compensation costs and performance improvement*



## Our Approach - 2011 Compensation Cost Benchmark Study

Capitalize on our Experience

- Similar methodology to Mercer Study 2008
  - Similar data collection methodology
  - Same analytical methodology for compensation benchmarking
  - Keep “core” participant list, expand slightly
  - Keep “core” benchmark jobs, consider expanding sample
  
- Improve data management process
  - Data Collection
    - Streamline data collection process
    - Ensure comparator group has clear interest in results and in participating
    - More intensive follow-up

## Our Approach - Sample Selection

Selecting an appropriate market sample is the first step to total compensation cost

- In the 2008 study, a sample of Canadian electrical utilities, multi-utilities, gas utilities and local distribution companies with total assets between 33% and 300% of Hydro One were used for comparison
  - The 2008 peer group may be expanded, where appropriate, based on the above criteria likely adding LDC's
- Canadian companies operating in a similar regulatory environment were invited to participate in the 2008 study (i.e., telecom, railroads and pipelines).
  - The majority of these companies did not participate in the study, and we recommend limiting the sample in the current study to those organizations that participated in 2008.

## Peer Groups

### Transmission, Distribution & Generation

- Electrical transmission, distribution and generation companies in Canada that were invited to participate in the 2008 study:

*All values in \$CDmillions*

Company Name	Participated?	Revenue (1)	Assets (2)
Hydro Quebec	Yes	\$12,330	\$64,852
OPG	Yes	\$5,564	\$22,750
BC Hydro and BC Transmission	Yes	\$4,387	\$12,991
EPCOR Utilities Inc.	Yes	\$3,663	\$6,562
Toronto Hydro	Yes	\$2,389	\$2,673
ENMAX	Yes	\$2,110	\$2,456
Bruce Power	Yes	\$1,986	\$5,154
Manitoba Hydro	Yes	\$1,761	\$10,964
NB Power	Yes	\$1,512	\$4,151
<b>75th %ile</b>		\$4,387	\$12,991
<b>50th %ile</b>		\$2,389	\$6,562
<b>25th %ile</b>		\$1,986	\$4,151
<b>Average</b>		\$3,967	\$14,728
<b>Hydro One</b>		<b>\$4,655</b>	<b>\$12,790</b>

(1) Annual revenue as reported in 2008 study.

(2) Total assets as reported in 2008 study.

## Peer Groups (cont'd)

### Similar Regulatory Environment

- Other Canadian companies operating in a similar regulatory environment (i.e., telecom, gas utilities, railroads and gas pipelines) that were invited to participate:

*All values in \$CDmillions*

Company Name	Participated?	Revenue (1)	Assets (2)
Bell Canada / BCE	Yes	\$17,866	\$37,797
Rogers Communications	Declined	n/a	n/a
TELUS Corp.	Declined	n/a	n/a
TransCanada Corp.	Limited	\$8,828	\$30,330
CN Rail	Declined	n/a	n/a
Canadian Pacific Railway Ltd	Declined	n/a	n/a
Bell Aliant Regional Comm Fd	Declined	n/a	n/a
Shaw Communications	Declined	n/a	n/a
Enbridge Gas Distribution	Yes	\$2,873	\$5,921
TransAlta Corp	Yes	\$2,775	\$7,179
Union Gas	Declined	n/a	n/a
Gaz Metropolitan	Declined	n/a	n/a
MTS Allstream	Declined	n/a	n/a
Terasen Inc.	Declined	n/a	n/a
<b>75th %ile</b>		<b>\$11,088</b>	<b>\$32,197</b>
<b>50th %ile</b>		<b>\$5,850</b>	<b>\$18,754</b>
<b>25th %ile</b>		<b>\$2,848</b>	<b>\$6,864</b>
<b>Average</b>		<b>\$8,085</b>	<b>\$20,307</b>
<b>Hydro One</b>		<b>\$4,655</b>	<b>\$12,790</b>

(1) Annual revenue as reported in 2008 study.

(2) Total assets as reported in 2008 study.

## Determining the Benchmark Positions

Need to represent different functions and organization levels

- Individual jobs
  - Stable job content that is well understood
  - Large population
  - Found in other organizations
- Benchmark jobs in aggregate
  - Represent all major functions
  - Represent all levels in the organization from front-line to senior management
  - Representative of different compensation regimes

## Determining the Benchmark Positions

Need to represent different functions and organization levels (continued)

- Balance numbers
  - Enough to understand complete picture
  - Not so many as to cloud conclusions
- Recognize reality of surveying
- We recommend 30 to 40 jobs for this study
- Ensure like to like comparisons
  - Apply Mercer's matching standard
  - Gather “quality of match” assessments
  - Add supplemental questions about skills & flexibility for selected benchmarks



## Elements of Total Compensation

Focus on items that can be monetized

- Base wages or salaries
- Short-term incentives
  - Annual incentive plans
  - Productivity incentives
  - Etc.
- Long-term incentives
  - Various forms mostly at senior management level
- Insured Benefits
  - Company paid portion
- Retirement and Savings plans
  - Registered plans
  - Non-registered plans
- Pay for time not worked



## Providing Data That is Understandable

### Minimizing assumptions and adjustments

- Focus on jobs that are directly comparable
  - However, need to understand differences in some key jobs
  - Identify key job content – compare and contrast market
- Confirm that sample is representative of the entire organization
  - Review high level methods and processes are effective
- Understand market trends in compensation management



## Productivity Metrics

Summarize measures used in the marketplace

- Study very different than what was attempted in 2008
  - Canadian market practices
    - Gather internal metrics from Canadian benchmark survey participants
  - United States market reporting requirements
    - Identify productivity measures required by a sample of U.S. regulators, if any
    - Supplement findings with Oliver Wyman expertise
  - Understand market trends in productivity / performance management



## Productivity Metrics

### Consultant recommendations

- Work with Hydro One
  - Understand internal metrics currently in use or under development
  - Develop further understanding of unique business, market and territory characteristics
  - Understand key labour cost drivers
  - Share knowledge of relevant practices
- Recommend performance metric(s)
  - Metric to track internal performance and improvement over time

## 10 February 2011 Consultative Meeting

### Key Points of Agreement

- a) Principle objective - to revisit the Mercer Study to appropriately compare HONI compensation costs to those of regulated Transmission and Distribution utilities in North America.
- b) Keep it simple to entice survey participants
- c) Be independent, testable, repeatable and market based
- d) Provide participants with the assurance that their information could not be attributable to them
- e) Be based on the groups surveyed in the Mercer Study and expanded as deemed appropriate by the consultant

**Source:** Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR

## 10 February 2011 Consultative Meeting

### Key Points of Agreement

- e) Mirror the scoping in the Mercer study for peer selection, job classes, etc, changed as deemed appropriate by the consultant
- f) Enable reasonable comparison to the last Mercer study and provide trending analysis for Hydro
- g) Consider median, or the mean, or both
- i) Consider adjustments to reflect regional costs of living amongst the study participants
- j) No attribution of data to particular participant

**Source:** Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR

## 10 February 2011 Consultative Meeting

### Key Points of Agreement

- i) Request data about pension as a percentage of total benefits, and benefits as a percentage of compensation
- j) Rely on the expertise of the selected consultant to recommend appropriate changes in methodology and assumptions
  - Gather information on metrics required by regulators across North America, if any
  - Consultant to recommend productivity metric or metrics that can be used for internal comparisons using readily available internal data

**Source:** Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR



## Further Discussion and Next Steps

- Questions?
- Concerns?

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