

**CDM and Compensation Cost
Benchmarking Study
Stakeholder Consultation
Notes of Meeting**

Thursday, February 10th, 2011

1:30 – 5:30 p.m.

**Special Events Room, Ground Floor
483 Bay Street, North Tower, Toronto**

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The presentation materials used in this session and background materials can be found at this link: <http://www.hydroone.com/RegulatoryAffairs/Pages/TxRates.aspx>

1.0 Participant References

STAKEHOLDERS

Bill Harper—Vulnerable Energy Consumers Coalition
Duane Fecteau—Great Lakes Power Transmission
David MacIntosh—Energy Probe
Dana Silk—Enviro Centre
Elena Yampolsky—PowerStream Inc.
Frank White—The Society of Energy Professionals
Harold Thiessen—Ontario Energy Board
Julie Girvan—Consumers Council of Canada
Judy Simon—Low Income Energy Network
Michelle Byck Johnston—The Society of Energy Professionals
Marion Fraser—Canadian Energy Efficiency Alliance
Marcie Zajdeman—Brookfield Asset Management
Roger Higgin—Vulnerable Energy Consumers Coalition
Richard Stephenson—Power Workers’ Union
Shelly Grice—Association of Major Power Consumers in Ontario
Steve Zebrowski – Veridian Connections Inc.
Greg Towstego – Ontario Power Generation

Hydro One

Allan Cowan—Hydro One
Alexandra Stadnyk—Hydro One
Bill Christie—Hydro One
Bohdan Dumka—Hydro One
Enza Cancilla—Hydro One
Ian Innis—Hydro One
Ian Malpass—Hydro One
Jim Malenfant—Hydro One
Keith McDonnell—Hydro One
Stan But—Hydro One
Susan Frank—Hydro One
Vicki Power—Hydro One

OPTIMUS | SBR

Bob Betts—OPTIMUS | SBR
Miles Smit—OPTIMUS | SBR
Paige Murray—OPTIMUS | SBR
Steve Klein—OPTIMUS | SBR

START 1:30pm

2.0 Welcome by Allan Cowan

Allan Cowan welcomed the attendees and advised the purpose of the session was to get input from stakeholders in accordance with the Ontario Energy Board (OEB) direction to Hydro One Network Inc. (Hydro One) in its recent Transmission business cost of service application [EB-2010-0002] Decision.

In accordance with this directive, stakeholder input was being sought in advance of two studies:

- 1) Conservation Demand Management (CDM) and the impact of CDM on the load forecast used in the establishment of transmission rates;
- 2) An update of the Mercer compensation cost benchmarking study completed in 2008.

Hydro One was also directed to undertake a review of its methodology for determining CDM impacts in its Distribution load forecast. It is Hydro One's intention to engage one firm through an RFP process to conduct this review for both distribution and transmission aspects to be ready for its next rate application.

Allan indicated that Hydro One cost of service application filings are on the following timeline:

- 2012/2013 Distribution application for rates is targeted for the 4th quarter of 2011;
- 2013/2014 transmission rate application is targeted for the late 1st quarter or early 2nd quarter of 2012.

3.0 Bob Betts' Introductory Remarks

1:35pm

Bob indicated the session was being recorded to ensure the notes being captured by OPTIMUS | SBR are correct and complete. These recordings will be destroyed once the notes are approved.

Stakeholders would be representing themselves and their clients when they speak. Accordingly, stakeholders were asked to first state their name when asking a question or making a comment to ensure appropriate attribution.

Ontario Power Authority Participation

- 1) Ian Malpass provided information to the stakeholder pertaining to the OPA participation. Part of the direction from the OEB for the Transmission CDM load forecasting study was for Hydro One to work with the Ontario Power Authority (OPA). Hydro One had received written confirmation that the OPA has chosen not to participate in this stakeholdering session.

The OPA letter set out its rationale for not participating; with OPA's permission copies were provided to the stakeholders. A copy of the letter can be found in Appendix B & on the Regulatory Affairs website at:

<http://www.hydroone.com/RegulatoryAffairs/Documents/EB-2010-0002/Feb%209%202011%20-%20OPA%20Letter.pdf>

Bob reviewed house keeping matters - room and facilities logistics, along with fire, safety and evacuation procedures and meeting etiquette outlined. After a brief review of the Agenda, the participants were asked to introduce themselves and identify the party they represented. The first presenter, Stan But, was introduced.

See list of attendees (Section 1.0).

4.0 CDM Impacts Presentation, Stan But, Manager—Economics and Load Forecasting, Hydro One

1:55pm

Stan referenced the earlier interpretation of the CDM impacts and outlined his objectives:

- Provide additional insight as to how Hydro One incorporates CDM impacts in load forecasting
- Seek stakeholder views/opinions as input to the upcoming RFP in this area.

In its findings in EB-2010-0002, the Board accepted the Hydro One CDM impacts estimate used in the load forecast but directed Hydro One to:

"...work with the OPA to build a robust, effective and accurate means of measuring the expected impacts of CDM programs" for future applications. The Board was concerned there does not appear to be a broadly accepted methodology in place to identify reasonably anticipated effects of any CDM program on the throughput of the respective distribution or transmission systems".

More clarity was needed for Hydro One and any other local distribution company (LDC) in establishing credible load forecasts.

In both Hydro One's Transmission and Distribution cases, Hydro One had included the CDM impact in its load forecast; a chart was presented for illustration (CDM Impacts Presentation, Slide 4). For historical effects of CDM, Hydro One uses the actual activity and adds back CDM estimated impacts obtained from the OPA. Statistical models are then used to get future years forecast with a reduction for the expected CDM impact applied.

Bill Harper asked several questions about this methodology focussing on the CDM impact estimates that get added back into the model. Bill identified that the accuracy of the forecast is dependent on the OPA estimates of the CDM impacts and whether they used the same five categories as Hydro One show in their next slide.

Using the next slide, Stan stated that the provincially-mandated energy conservation targets for LDCs for the 2011-2014 period specify persistent peak demand of 1330 megawatts and cumulative 6000 gigawatt hours of reduced electricity consumption embracing the following two CDM categories:

- 1) OPA-contracted programs (in the past Hydro One used OPA-initiated or –funded programs);
- 2) OEB-approved programs by LDC and funding drawing on the global adjustment.

Hydro One additionally considers three (3) other CDM impacts in their load forecasts:

- 3) Codes and standards (e.g. EnergyStar, etc.), lighting and efficiency;
- 4) Government initiatives—Federal and Provincial incentives to use better equipment, such as tax rebates on efficient appliances and consumer efficiencies, other incentive programs from municipalities such as energy audits, etc;
- 5) Customer-driven conservation actions beyond LDC control, e.g. turning off lights and air conditioning when away from home, using cold water for laundry, etc. Smart meter time-of-use rate impacts are also included; these are not captured by any specific program, but collectively have implications on total load forecasts.

1 and 2 can be grouped as “LDC CDM target programs” or “program specific”, and 3, 4 and 5 can be grouped as “Other CDM programs to be incorporated in the load forecast) or “non-program specific”.

Hydro One, in its rate case load forecasting, used “total” CDM as a reduction which included everything that impacts CDM—both program and non-program specific. While measuring and tracking non-program specific impacts is very challenging, Hydro One has done a lot of additional analysis to improve data accuracy over the last 2 years including econometric analysis, end-use analysis, customer billing analysis, and customer surveys.

This concluded the formal CDM presentation.

5.0 Editorial—CDM Discussion Summary

Following Hydro One’s formal presentation, the floor was opened to a free-flowing question and answer format. The main themes throughout these Stakeholder discussions related to defining the categories of measures for CDM, the known data limitations and the associated influences such as Natural Conservation, Time-of-Use and the Integrated Power System Plan. Underlying all this was the group’s focus on the directives in the Ontario Energy Board’s 2011-2012 Transmission Decision. Through open and generally constructive interactions, much agreement was reached as summarized in the following section.

6.0 CDM—Key Points of Agreement

- 1) The categories of CDM programs for consideration in any study should, where possible:
 - a) Include:
 - i) OPA contracted programs
 - ii) Board-approved LDC programs
 - iii) Codes and standards
 - iv) Federal, provincial and other initiatives
 - v) Customer conservation actions, including Time of Use (TOU) prices
 - vi) Other OPA contracted programs – OPA programs delivered by others
 - vii) Natural Conservation
 - b) Identify what categories are in use in other jurisdictions
 - c) Be chosen so they are easily tracked and provide reasonable historic data
 - d) Be considered in light of four categories in the original Integrated Power System Plan (IPSP): energy efficiency, demand response, customer own actions and customer generation, to understand how they were defined and used in the load forecast.
- 2) Determining CDM impacts in Distribution should involve a breakdown by customer class, because it is important to identify which distribution customer class is providing the savings in order to properly forecast the effect of the savings.
- 3) A 3rd party review study on CDM impacts for Transmission is not required. The best approach recommended is for Hydro One to work closely with the OPA.
- 4) Hydro One will meet with interested stakeholders to clarify how Hydro One uses the OPA's megawatts peak reduction to create monthly charge determinants for use in the forecasting methodology.
- 5) Hydro One will work with the OPA to better define and measure the CDM impacts for use in its load forecast and rate applications submitted to the OEB.
- 6) Hydro One will be guided by the findings of this consultative to prepare more detailed evidence on CDM impacts for the Transmission and Distribution rate applications. This focus should be on what Hydro One, in working with the OPA, can reasonably do in getting better definition and information from the OPA for its rate applications.

7.0 Compensation Cost Benchmarking Study Presentation, Keith McDonnell, Manager—HR Operations, Hydro One

3:45pm

Keith McDonnell provided a brief contextual background to the current situation, noting two relevant Board decisions in the last few years:

- 1) The 2007/2008 Transmission case, wherein the Board directed Hydro One to conduct a compensation benchmarking study of Hydro One's compensation against North American Transmission and Distribution utilities. This resulted in "the Mercer Study", initially filed in 2008 in Hydro One's 2009/2010 Transmission rate application, and a referenced resource in subsequent applications.
- 2) The December, 2010 OEB Decision in the 2011/2012 Transmission application directing Hydro One to revisit the compensation study and consult with stakeholders about how the Mercer Study could be updated and improved.

Hydro One would need outside expertise from a consultant not yet chosen to help guide this update, and provide expertise and methodology. The survey should be kept simple because the peer groups needed as participants will be less inclined to take part if it is difficult to track, gather and report data.

The study should be an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One's compensation.

The confidentiality of the responses is very important. In the past, participants were reluctant to participate without assurance their data would remain confidential.

In the Mercer Study, 13 companies participated, 11 of which were in transmission, distribution and/or generation, and two regulated, non-electrical utilities—Bell and Enbridge. Twenty-one (21) classifications were benchmarked, representing about 47% of the total employee population. The Mercer Study focused on three areas—base salary, total cash, and pension and benefits.

The Mercer Study reported Hydro One results relative to the median. On a weighted average basis, Hydro One compensation was 17% above the market median.

To facilitate the stakeholder discussion, Hydro One put together a possible RFP or "Straw Dog", which could be revised using the input of the group. One of the directives from the OEB was to improve the Mercer Study; a trend comparison using the 2008 study results would be one way to this end. In terms of the peer group, Hydro One has suggested the updated study should be based on the groups from the Mercer Study and expanded as deemed appropriate by the consultant perhaps including more LDCs.

The peer selection criteria might mirror those used in the Mercer Study—participants between 33% and 300% of Hydro One's annual revenue or total assets. However, other participants could be considered if doing so would add validity to the study. In terms of jobs benchmarked, job classifications with a large

number of incumbents are key. Ideally, an even comparison is desired, therefore when selecting internal Hydro One jobs, the consultant will need to consider the ease of finding like jobs from the external population.

As to productivity, in its December 2010 Transmission Decision the Board indicated that if there are increases in compensation then Hydro One should be able to map to demonstrated productivity gains. The consultant might be able to report on productivity benchmarks used within peer groups and give advice and guidance as to how those metrics could apply to the Hydro One data to be used. It is also a plus if the consultant brings a knowledge of any applicable academic research pertaining to best practices or metrics to the table.

8.0 Editorial—Compensation Cost Benchmarking Study Discussion Summary

Two issue streams quickly evolved:

- How to effectively update and improve the 2008 Mercer Compensation Cost Benchmarking Study to assist both Hydro One and the Ontario Energy Board in better understanding this significant controllable expense item;
- Meaningful exploration of related factors such as operating and regulatory environments, recruitment and resource influences, internal productivity trends and other compensation related measures.

While a wide range of views and opinions were aired, discussions were consistently productive and in keeping with the Board's 2011-2012 Transmission Directive. As a result, Stakeholders reached general consensus on how to move forward with an independent compensation cost study. Additionally, the group recommended Hydro One seek the consultant's counsel on what productivity metric or metrics could be used for internal comparisons using readily available internal data.

9.0 Compensation Cost and Productivity—Key Points of Agreement

- 1) An update to the Mercer Compensation Cost Benchmarking Study should, where possible:
 - a) Identify its principle objective as being to revisit the compensation cost benchmarking study in an effort to appropriately compare compensation costs to those of regulated Transmission and Distribution utilities in North America.
 - b) Be kept simple to entice the maximum number of survey participants
 - c) Be an independent, testable and repeatable market-based assessment
 - 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
 - f) As much as possible mirror the scoping included in the Mercer study for peer selection, job classes, etc, but changed as recommended by the consultant to improve the results
 - g) Enable reasonable comparison to the last Mercer study and provide trending analysis for Hydro One's next application, with an eye to establishing a possible path of improvement
 - h) Consider whether it is more appropriate to compare using the median, or the mean, or both.
 - i) Consider adjusting compensation levels to reflect the different regional costs of living amongst the study participants
 - j) Acknowledge that to ensure any respondent-specific information would not be withheld from the report, all parties have agreed that they would not request that data be attributed to individual respondents during a review of the study.
 - k) Request data supporting an interest in the issue of pension as a percentage of total benefits, and benefits as a percentage of compensation,
 - l) Rely on the expertise of the selected consultant to recommend appropriate changes in methodology and assumptions.
- 2) The study to measure productivity should:
- a) Acknowledge that to ensure any respondent-specific information would not be withheld from the report, all parties have agreed that they would not request that data be attributed to individual respondents during a review of the study.
 - b) Request that the consultant recommend a productivity metric or metrics that can be used for internal comparisons using readily available internal data

10.0 Close

5:10pm

10.1 Allan Cowan thanked everyone for their participation and valuable input.

To conclude, Allan summarized Hydro One's assessment of the meeting results as follows:

For the compensation study, the RFP should be drafted and available by the end of February.

Once a successful proponent is selected, the stakeholders would be reconvened to meet with the consultant on the project, with a further meeting in the fall to present the findings.

A CDM study is in abeyance for the moment, but more robust evidence for the 2012/2013 Distribution application will be sought and likewise for the 2013/2014 Transmission application in terms of the charge determinants.

Hydro One expects to advise the OEB of a suggested plan to continue to work with the OPA as they move forward with IPSP 2 and use that to improve the next submission for Distribution and select key pieces for incorporation into the next Transmission submission.

At an upcoming stakeholder session proposed productivity measures will be examined.

5:25pm ADJOURN

APPENDICES

A. Meeting Agenda

B. OPA Letter

C. CDM Discussion Notes

D. Compensation Cost & Productivity Discussion Notes

A. Meeting Agenda**Stakeholder Consultation**

Rate Applications

Compensation and CDM Studies in Support of Hydro One Rate Applications**AGENDA**

February 10, 2011
 Hydro One Networks
 Special Event Room, Ground Floor
 483 Bay Street, North Tower
 1:15 p.m. – 5:30 p.m.

1:15 pm	Registration and Refreshments	
1:30 pm	Welcome	Allan Cowan, Director, Major Applications, Hydro One Networks
1:40 pm	Introductions and Review Agenda	Facilitator
1:45 pm	Review of CDM Forecasting and OEB Directive	Stan But, Manager, Economics and Load Forecasting, Hydro One Networks
2:00 pm.	Facilitated Discussion about CDM RFP	Facilitator
3:15 pm	Break	
3:30 pm	Overview of OEB Directive & Considerations for Compensation Benchmarking Study	Keith McDonnell, Manager, Human Resources Operations, Hydro One Networks
3:45 pm	Facilitated Discussion about Compensation Benchmarking	Facilitator
5:15 pm	Next Steps	Facilitator/Allan Cowan
5:25 pm	Closing Remarks	Allan Cowan
5:30 p.m.	Adjourn	

B. OPA Letter



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February 9, 2011

Susan Frank
Vice President and Chief Regulatory Officer
Hydro One
8th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5

Dear Ms. Frank,

RE: Hydro One Compensation Benchmarking and Load Forecasting Studies - Stakeholder Session

The Ontario Power Authority (OPA) is writing to thank you for Hydro One's invitation to attend a facilitated stakeholder session on Thursday, February 10th to seek input on two studies that Hydro One is proposing to undertake. The OPA understands that these studies are intended to respond to the Ontario Energy Board's (the Board's) December 23, 2010 Decision relating to Hydro One Networks Inc.'s application for *2011 and 2012 Transmission Revenue Requirement and Rates* (Proceeding EB-2010-0002).

In particular, the OPA is writing with respect to the proposed load forecasting study. The OPA recognizes the Board's direction to Hydro One to work with the OPA to devise a means of measuring the expected impacts of conservation and demand management (CDM) programs promulgated by the OPA. The OPA appreciates the importance of continued collaboration with Hydro One with respect to this matter, and is committed to on-going dialogue with stakeholders in keeping with our guiding principle of transparency.

The OPA is of the view that further discussions are required between the OPA and Hydro One to ensure that both organizations have a complete appreciation of the information that is already available to assist in responding to the Board's direction and the options for responding. Ensuring that a proper inventory of existing information and methodological approaches exists is advisable in order to support stakeholder activities related to this matter. The OPA is concerned that initiating broader discussions prior to such an inventory and a full understanding of the options being in place is premature and could potentially lead to confusion and inefficiency. As a result, the OPA does not anticipate participating in this stakeholder session.

The OPA looks forward to continuing to work with both Hydro One and stakeholders with respect to the Board's direction on CDM forecasting over the coming months.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Lyle", is written over a light blue horizontal line.

Michael Lyle
General Counsel and Vice President
Legal, Aboriginal and Regulatory Affairs

C. CDM Discussion Notes

The vast majority of the CDM discussion focused upon the directive in the Board's 2011/2012 Transmission Decision.

2:15 pm

1. Julie Girvan sought clarity on what Stan But meant by "program- plus non-program-specific". Stan advised the first two categories are program-specific while the other three categories are non program-specific. Hydro One captured both program- and non-program specific CDM reduction impacts in their load forecasts. Julie Girvan asked whether the OPA used non-program specific categories. Stan stated past government targets and forecasts for CDM basically reflected a total impact in terms of both program and non-program components.
2. Elena Yampolsky asked whether natural conservation is a non-program category. Stan clarified natural conservation is part of the load forecasting exercise but was not counted in this CDM forecast.
3. Bill Harper raised historical CDM savings and asked if these were applied to the 5 categories (both program plus non-program) and then included in the historical observed provincial load for the analysis.

Stan stated that 2004 was the reference year when there were no CDM activities in place with the exception of natural conservation. For later years, such as 2010, presuming a CDM reduction was achieved, this would have been added back.

Bill —As this CDM reduction would be achieved through factors in varying amounts for all 5 categories, how did Hydro One avoid comparing apples and oranges as it looked both forward and back in its forecasting?

Stan indicated that from a load forecast modeling point of view, Hydro One added back the CDM result. For modeling using OPA information, Hydro One also added back the CDM component to get an activity base level without CDM impacts and then forecasted forward. Looking ahead, this will be dependent on solid EM&V (Evaluation, Measurement and Verification) results.

Susan Frank clarified that Hydro One could not rely entirely upon the OPA's simple assessment that the targets were actually achieved. Hydro One needed to understand how they were met to reasonably provide the background and the rationale for the definition/target number in its rate case; it had to undertake its own analysis looking beyond the OPA-contracted programs. In Hydro One's view these programs alone did not amount to savings the OPA claimed Hydro One achieved; using the 5 categories provided a more complete picture and collectively amounted to the savings estimate.

4. Judy Simon found the additional clarification helpful and asked whether Hydro One included non LDC-contracted OPA programs. Stan advised OPA-contracted programs only pertains to the LDC CDM target. For example, the CDM target does not cover First Nations.
5. Marion Fraser inquired how Hydro One will account for the transmission side of the industrial load forecast targets. Stan believed that industrial customers directly connected to transmission are outside

the LDC CDM targets further highlighting the inadequacy of only capturing the LDC CDM targets in load forecasting.

Marion stated these targets have not been set and results are not known or as yet not published. Stan presumed the OPA would release more details in the IPSP proceeding.

Susan asked whether Hydro One needed another box for OPA-delivered programs. Marion concurred. And it was agreed that another category would be added.

6. Roger Higgin, looking beyond the transmission level province-wide, asked whether Hydro One needed to have distribution system data by customer class. Stan agreed stating ‘the more information, the better the forecasting’—but the concept would need to be the same for all 5 categories in looking at the CDM impact on all sectors.

Roger Higgin raised other modeling techniques such as normalized average-use modeling.

Stan advised Hydro One has done past analysis on a defined set of customers for data consistency and found consumption was reduced over several years. This has been documented in the attachment and published on the website.

7. Shelly Grice inquired why the OPA does not provide details as to how targets are being met. Stan could not answer that saying that Hydro One has the same published information as everyone else, but he acknowledged that the OPA, Hydro One and the Independent Electricity System Operator (IESO) meet regularly to discuss load forecasting which provides increased understanding of what is being planned and the various assumptions involved.
8. Marion Fraser asked if Hydro One has access to the EM&V reports that the OPA has done on their own programs, and if so are they the same as the reports published on the website or more detailed. Stan stated he personally is not on the CDM group working with these reports, but expected they are the same as those published on the website.
9. Dana Silk referenced an OPA document entitled ‘Net Load Analysis of Conservation and Demand Management’ dated September 2009, page 47 of 49, Appendix K, and wanted clarification on “achieved its projected savings by 73%” (net load analysis). Did this mean that the OPA was projecting to achieve only 73% of the target?

There was further discussion about that reference and the numbers on the chart, but the question was left unresolved.

10. Bob reiterated the need to focus on the Board’s direction to formulate the terms of reference for a request for proposal (RFP). He read from the Board’s findings in EB-2010-0002: *“It is important that the terms of reference for the development of this methodology should to the extent possible, be devised with input from and consultation with a sufficiently broad range of stakeholders so as to ensure that the resulting product has credibility within the sector”*. Everyone was requested to focus on establishing the

rules and parameters for the study which had to be completed within a timeline so that the results would inform Hydro One's next rate application.

11. Julie Girvan was concerned about the lack of OPA involvement and the absence of its associated knowledge and information would impede the exercise. Bob acknowledged this would leave a gap and asked Susan Frank how Hydro One reacted to OPA's decision. Was Hydro One still comfortable going forward when the Board clearly stated the cooperation with the OPA was important?

Susan said Hydro One had numerous conversations with the OPA and also recently with the OEB. She emphasized it would be preferable to have the OPA here but their letter explained why they weren't in attendance. Susan was confident that the OPA would work with Hydro One on the study, for the programs that either they deliver or that they get the LDC's to deliver, but anything beyond the stated OPA mandate remained uncertain.

12. Bill stated Hydro One, like other LDCs, relies on the OPA's IPSP forecast for the province to establish its share of CDM. The OPA forecasts the conservation target impact on peak, which is one hour a year, and in total gigawatt hours for the year. But for transmission rates and the charge determinant, Hydro One and other transmitters had to come up with the maximum billing demands for 12 months of the year. How did Hydro One (or the others) realistically get from one number to 12 numbers? He stated as an example if the entire summer peak was being saved by demand response programs, then you may only impact one month of the year and have no impact on the others. He felt that while peak demand was important for transmission system planning and design, the real issue in transmission rates was how Hydro One came up with the monthly billing determinants from the information they receive from the OPA.

Susan Frank acknowledged that Bill added an element that previously was not appreciated as part of the scope of work—the notion of getting to monthly charge determinants.

Bill Harper further stated that for the load forecast for transmission, it is ideal to get to the charge determinants within a global forecast. The peak demand in the province is immaterial from a billing perspective, it is important from a transmission perspective and whether expansion is required.

Susan again acknowledged something useful was being added to the scope. Susan also wanted to know in defining peak whether considering the OPA/government numbers from history and for the future, which would be an apples-to-apples scenario, would be OK.

Bill Harper stated he could not endorse this from a program perspective; the need was to understand the charge determinants and which programs make up those numbers. In addition, it is important to identify which distribution customer class is providing the savings in order to properly forecast the effect of the savings.

Stan But clarified they use the monthly energy and peak profile impact given to them by the OPA for Hydro One's transmission rate case. The details now being discussed are beyond the detail available from the OPA, but the total CDM monthly peak and energy reductions are consistent with the OPA.

13. Bob Betts refocused the group in an effort to concentrate on the task at hand. He asked whether the 5 Hydro One-identified CDM categories were the right ones or whether some were more or less appropriate.

Ian Malpass reminded that a category needed to be added for programs not contracted or carried out by the OPA. Judy Simon stated referring to these as OPA-contracted was misleading as OPA-delivered programs are typically contracted out. Judy cited the example of the high performance construction program which until December 2010 was delivered through a contract with Enbridge Gas. Judy suggested the right terminology and distinction could perhaps be LDC-contracted and OPA-delivered or Other OPA-contracted in order to track an LDC's own contribution. Judy concluded that sector-level analysis requires categories for the distribution rates.

For Bill Harper, the key issue pertained to commonly-used categories and maintaining consistency in reporting across the system.

Roger Higgin pointed out the OPA letter, in its last paragraph, highlighted:

- Proper inventory of existing information;
- Methodological approaches.

Roger recognized that was an important starting point for this research. He wondered whether other jurisdictions categorized CDM into these categories and what the implications were for modeling and other purposes, as opposed to inventing new categories. He proposed leveraging some of the work the OPA did for the IPSP on categories and end use modeling.

Bob suggested the consultant's scope could include the review of categories used in other North America jurisdictions. Roger endorsed this.

Elena stated interest in the programs delivered by the utilities that can be tracked, as opposed to the OPA programs delivered by others that cannot be tracked. Roger clarified he was referencing the last three categories as the other 2 are standard.

Susan Frank asked the group to narrow the scope to ensure the study would be focused and maximum value achieved. Roger suggested to start with the IPSP which used the University of British Columbia modeling exercise as it included natural conservation and well-defined codes and standards. Marion Fraser pointed out California is another jurisdiction where codes and standards are a major factor for the California Energy Commission, and in New York State, conservation is run by a centralized group.

Susan suggested the study should look at the IPSP plus the two jurisdictions mentioned for any insight. This encountered some stakeholder pushback as the results may not be aligned to the information Ontario has collected and tracked to date. This led to discussions around current methodology and Hydro One practices in calculating the load forecast.

14. Bob Betts asked Bill Harper what he would need from this study. Bill replied he would want to see how Hydro One effectively translates OPA's megawatts peak reduction into a forecast—how one CDM reduction number gets turned into monthly reduction targets.

Bob restated that if the methodology defined how Hydro One takes that basic information and converts it into the monthly determinants, then that would be a valuable and important part of the methodology. Bill confirmed this.

Susan Frank then inquired whether Bill Harper would be prepared to meet with Hydro One to better scope this. Allan Cowan wondered whether this was a study issue or whether it was more detailed evidence to support the filing issue. Bill suggested the Board views this more from the perspective of OPA and Hydro One determining how the numbers are derived, as opposed to engaging a 3rd party to study the process.

Susan offered to work with the OPA and stay within their mandate, but wondered whether the Board would be satisfied if they looked at overall OPA-managed programs and how Hydro One gets that into the charge determinants.

Bill hesitated as the demand reductions Hydro One is using include more than OPA programs. Susan acknowledged this is the current reality. Bill clarified the issue is how province-wide forecast savings, for codes and standards for example, translates into a billing reduction that determines the regional 12-month transmission forecast, i.e. the charge determinants used by Hydro One.

Susan acknowledged the concern of taking a total number and turning it into monthly charge determinants needed to be addressed, but Hydro One had not understood this to be a concern before the session. Hydro One believed a 3rd party study would have given the Board comfort, but in light of the discussions now wondered whether an external study was required. It was still unclear whether Hydro One should look past the program-driven tier. The group suggested conservation elements beyond program-driven citing examples from the IPSP, New York, California. She posed the question whether the Board would like Hydro One to consider any other items, for example natural reductions.

15. The discussion then shifted to what the difference was between natural savings and consumers' own actions. The example of an Energy-Star refrigerator being purchased as a replacement for a unit at life's end was considered natural, while buying a better, more efficient unit to replace a reasonably functioning unit was a customer-initiated action. For Stan, natural was defined as anything that was not program-driven.
16. Roger Higgin noted the original IPSP had four categories, such as energy efficiency, demand response, customer own actions and customer generation. The need to understand exactly how these categories were defined, and what the OPA did to run those through to the load forecast would be beneficial. With another forecast underway, the OPA may be expecting to use those categories again. The study would need to be aligned with this.

17. Bob noted the question on the table was whether Hydro One needed to go out and hire a consultant or was it a matter of providing improved information and evidence to the Board. Susan expressed a concern that Hydro One's efforts, despite being done to the best of its abilities, may again be questioned or deemed less than comforting to the Board. Elena concluded it was timely to engage a 3rd party to do what Bill Harper suggested, looking at the methodology and how the peak demand was translated.

Bob enquired if there was an opposing view. Susan sought the Board's perspective on the matter.

18. Harold Thiessen referred to the decision on page 6, which did not say a study had to be done by a consultant. It called for a "robust and accurate means of measuring expected impacts of CDM programs". The decision talked about how the Board had trouble understanding how CDM fit into the load forecast and the quality of the CDM estimate. It therefore concluded that as the OPA is focused on CDM, Hydro One should work with the OPA to set a unified methodology. CDM assumptions either agree with OPA actions or not, but Hydro One might want to try to get the OPA to agree and have clear evidence that demonstrates that all are on the same page.

Harold did not know whether the prior distribution decision called for a 3rd party study. However, this (the transmission) decision further stated that learnings from this study should be shared. This would help address distributor issues as some information could be used in the next distribution rate application to improve rate forecasts for CDM. In addition this knowledge-share with the OPA should be documented. The OPA letter did not say they would not participate, but that they weren't ready to do so at this time.

19. Bob Betts suggested that while parties continue to disagree with CDM impact methodology, the OEB will need to seek resolution. The methodology needs to be acceptable to all parties. He again asked whether the group would be satisfied with this study being done by Hydro One, obviously with the support of the OPA, or whether a 3rd party was required. The group generally agreed that a 3rd party review was not required.

The issue of timing was raised because there was view the study should include the new IPSP as well as general OPA input. To delay the study until the new IPSP, Hydro One would need to seek relief from the Board in terms of the timing; the Board would have to agree that Hydro One would not be required to have this study done for the next rate application.

This again generated considerable discussion, recognizing the need to assure the Board that the OPA and Hydro One, in the context of the new IPSP, would be working together on what the deliverables would be which would include the additional information about calculating the charge determinants of transmission.

Harold Thiessen added that, in Hydro One's letter to the Board seeking relief, good evidence and reasoning in what was being done would go a long way. Also with the additional insights gained at this stakeholder session, Hydro One's distribution filing should reflect an appreciable boost in the CDM portion of the load forecast for added clarity. Telling a clear story of what Hydro One wants to do and

what it is doing in transition, in conjunction with the OPA, would be taking a meaningful step in the right direction and into the areas questioned in prior cases.

Susan Frank noted this might not involve a 3rd party; Harold acknowledged this for the distribution case. But this might still be a consideration for the subsequent transmission case once Hydro One conducted an intensive effort with the OPA. Harold reiterated the Board's decision doesn't expressly look for an external study.

Bob Betts sought consensus that all would support Hydro One seeking relief from the Board in terms of the distribution application. All agreed but David MacIntosh emphasized that the entire matter could not wait for 2 years before something happened, the distribution case next year should reflect some improved information.

Bob asked Susan whether Hydro One could focus on the transmission application. Susan pointed out the time between the two applications was quite short; a matter of months. The focus should be on what Hydro One, in working with the OPA, can reasonably do in getting better definition and information from the OPA and in enhancing Hydro One's applications to the Board. While Hydro One appreciated the suggestion it didn't need to do an external study for the distribution case, the scope of work required must be determined and the necessary steps taken to improve its Distribution submission and avoid similar disputes at the Board.

As this addressed David MacIntosh's issue, Bob ascertained there now was unanimous agreement that Hydro One could at least make the request of the Board.

The CDM portion of the session concluded.

BREAK 3:30pm–3:45pm

D. Compensation Cost & Productivity Discussion Notes

3:55pm

1. Roger Higgin noted the concern of mixing productivity and compensation studies together. Potentially some consultants might have utility-specific strength in both areas, but they are different disciplines. Common productivity measures and trends could be one piece of work.

Keith McDonnell added that in Hydro One's experience it has been very difficult to find metrics that are common among the utilities and suggested the issues be included in the RFP and scoring based on the experience of conducting productivity measures and compensation measures.

For the Mercer Study, Oliver Wyman, a unit of MMC [March & McLennan Companies] as is Mercer, was brought in for the productivity benchmarking portion but could not execute on this as intended, generating some criticism.

To the question of whether a productivity study per se is required, Harold Thiessen and Allan Cowan cited the EB-2010-0002 Decision direction whereby "The Board will expect compensation increases to be matched against demonstrated productivity gains. Either one will risk not recovering all of its compensation costs if it fails to tie compensation and cost increases to measureable productivity increase"...while "the Board directs Hydro One to revisit its compensation cost benchmarking study in an effort to appropriately compare compensation costs to those of regulated Transmission and Distribution utilities." Susan Frank summarized that the OEB stated that Hydro One must comment on productivity in its next application however the Board did not direct that a specific productivity study was to be done.

2. Allan Cowan observed that in the previous Mercer Study, Oliver Wyman had trouble getting anyone to participate in the productivity study because of the great deal of effort needed to provide the unique input whereas little benefit was seen to be gained for this effort at the end of the day. Oliver Wyman ended up using high level macro measures which the Board rejected outright.

Bohdan Dumka added that a separate benchmarking study was conducted by First Quartile Consulting, specialists in performance benchmarking utilities in North America. As part of the transmission performance benchmarking study, Hydro One had asked First Quartile for productivity benchmarking. However, First Quartile encountered the same difficulties as Oliver Wyman did and could not gather sufficient data to provide a productivity benchmark study.

Bob Betts suggested to first focus the discussion on the compensation benchmarking study update and then discuss how Hydro One could move ahead on productivity.

Bob suggested that the Mercer Study should be updated to enable reasonable comparison to the last study and to provide trending analysis as meaningful as possible for Hydro One's next application, with an eye to establishing a possible path of improvement.

3. Frank White asked if it was not better to have the employee groups broken down into separate trends and to not have an overall weighted average. In compensation, the tendency is to focus on median numbers although potentially the Mercer study data was aimed at taking samples to predict broader populations. This approach leans on mean averages and standard deviations. Therefore, Frank suggested updating the previous Mercer study to extract mean averages, providing both median and mean average comparisons, as these tend to be distributed differently.

Bob noted that if this is done without using the Mercer Study classification breakdown it would be a major change rather than an update.

Roger suggested that Hydro One must rely on the expertise of the company that is contracted to do the survey, but proposed that the question of median and mean average renderings should at least be offered as a question in the RFP, so that the cost and feasibility of dual rendering could be gauged.

4. Roger Higgin further asked if there should be some benchmarking among the peer groups to assess cost of living. For instance, comparative numbers from StatCan show that it costs 7% more to live in Toronto than the Canadian average.

Bob added that one would want to clarify understanding of the interpretation of cost of living as to:

- 1) How compensation applies an annual incremental increase that usually relates to cost of living;
- 2) How compensation relates to actual cost of living.

Bohdan noted one of the dilemmas in the Mercer Study was how to come up with the cost of living metric, based on the employee population, in part because many of the entities did not have the time or resources to ascertain and submit the information needed and therefore would decline participation.

5. Susan Frank suggested stakeholders focus on the peer group question as the Board directed a full North American coverage—the sample and what is to be included. At the time of the original Study there were significant differences in economic performance, patterns and statistics. There is greater convergence now but differences remain. Susan invited comments on considering Transmission and Distribution utilities in the US as well as Canada.

Richard Stephenson argued that using American utilities produces data that requires too much massaging to make it comparable, such as—the drastic changes in compensation by virtue of foreign exchange issues year over year, underlying currency differences, tax differences, health care differences, and different labour laws, including Right-to-Work states. Likewise Richard suggested company profiles varied by US region making the data much more heterogeneous than it is in Canada. Richard further asked if European or Australasian comparators might be better.

Bob Betts pointed out that the issue for the Mercer Study was getting a large enough research peer group within Canada. Thus, confining the peer group to Canada might be optimal but not feasible, and the Board's direction now was to include the US, thus any deviation would have to be justified. Nonetheless, the RFP could state that while the Board has requested the peer group be pulled from

North America, Hydro One was seeking the expert advice of the consultant on the question of the optimal peer group to be used.

Julie Girvan, Bob and Susan Frank summarized the discussion, to the effect that the consultant will need to decide what is relevant and most workable in terms of methodology and peer group selection, and this could be included in the RFP. The stakeholder consensus was for a broad peer group that includes other North American Transmitters and Distributors, however the consultant would provide their expert advice as to where the peer group should be selected from.

6. Roger Higgin raised the question of the Board's concern about a "ratchet effect" among Ontario utilities and others in the energy industry such that when there is a compensation increase in one LDC, it affects others. Perhaps in part for this reason the Mercer Study opted to use a broader peer group.
7. Bob, Susan and Bohdan clarified for stakeholder acceptance the Ontario players covered by the scope used in the Mercer report included Hydro One and THC, and may now possibly also include PowerStream after the Barrie Hydro merger, but not others such as Ottawa Hydro.
8. Frank White raised the question of product market comparatives versus a possible alternative focus for Hydro One on labour market comparatives, namely the *de facto* labour market for Hydro One, OPG, etc. Frank suggested a possible way around the sample size might be to have the study consider possible benchmarking of, for example a typical lineman per se—not a specialized role—against the national published data that Mercer typically publishes in labour market surveys.
9. Bob Betts suggested that Board members may be looking for a comparison of Hydro One to the peers that the Board regulates. From that perspective, they would be less concerned about the issue of attracting hires. Bob and Richard Stephenson did however accept the RFP could address issues beyond the written concerns of the Board, such as to establish some understanding of the compensation at Hydro One relative to the broader employment market.
10. Susan raised the principle issue of confidentiality of responses. Potential respondents are chiefly concerned that their information remain confidential. Susan added the more basic constraint imposed by benchmarked parties is that their particular information will not be exposed; if this assurance is not provided, the consultant's ability to gather a reasonable sample of data is severely restricted.

To ensure any respondent-specific information would not be withheld from the report as it might be identifiable or reproducible, there was no contest from the stakeholder group present to stipulating that only anonymous and aggregate data would be disclosed. It was also the group's desire that the Board also would be guided by this principle of utmost confidentiality.

11. Regarding the participants in the Mercer Study, the 13 comparators who agreed to participate fell well short of the Mercer objective. Several of the participants were Transmission and Distribution only, however many of them were vertically integrated utilities or generation utilities. BC Hydro participated as both a Generation and Transmission concern, and the other participants were Bell Canada, Hydro Québec, TransCanada Corp., OPG, BC Hydro and BC Transmission, EPCOR, Enbridge, TransAlta, THC,

Bruce Power, ENMAX, Manitoba Hydro and New Brunswick Power. Consensus was reached that the Mercer Study participants and similar types of utilities should be included in the new study in order to maximize the peer group population.

12. Roger Higgin asked about the granularity of reporting. To the possibility of a rolled-up report, Susan indicated they would take the idea of asking the successful proponent to consider aggregating the data to higher levels for regulatory reporting purposes.
13. Richard Stephenson asked if there might be greater detail in the trend analysis, asking for internal year-over-year changes, rather than just a trend analysis based on a data set for 2008 and one for 2011. Bob therefore noted respondents should be asked for trends during the intervening years.
14. Susan Frank asked about the challenge of comparing like jobs. Keith McDonnell singled out the Power Workers' Union (PWU) classification of regional maintainer, a higher-paid job because the broad multi-skill set is very different from a typical power-line maintainer (PLM). This may invalidate a comparison to another LDC's PLM. It was suggested the apples and oranges debate is complex enough that the Board will have to accept a reasonable argument for differences, with help from the expert consultant.
15. Harold Thiessen asked if expanding the survey to North America would tend to include more large US Transmission companies to enable better matching of job descriptions. Susan's synopsis was that the back and forth with Mercer last time led to an *ad hoc* job matching solution. Bohdan added that this is why some of the non-electricity utilities seeing they had only several of the 30 comparison jobs dropped out of the study, feeling it was not a fit.
16. Bob Betts recalled the consultant ended up dropping a lot of the classifications originally intended for survey because the responses were not forthcoming. Therefore, Mercer ended up presenting the best data they felt they could use.

Frank White pointed out that Mercer declared 80% match to be a pretty good result. He suggested another approach is to conduct composite benchmarking—enter the level of engineer and the level of finance and take an average of the two numbers to get a kind of weighted value. This could help with job roles that do not fall into one category or the other.

Mercer does accept composite benchmarking but attempted to match jobs one-for-one. David MacIntosh recalled that Mercer opined that the greater the massaging required to make categories look more similar would have made the results less credible.

17. Bob suggested that every effort be made to retain the Mercer approach.

The closer the new and old reports aligned in assumptions used, the less needless debate will arise.

18. Keith clarified definitions of base pay as hourly rate, total cash as base pay plus any short term incentive, and total remuneration as total cash plus pension and benefits. Roger noted the Board interest in the issue of pension as a percentage of total benefits, and benefits as a percentage of compensation, which

was not fully broken out in the Mercer Study. The latter change was set as a consideration within the RFP.

19. Bob Betts asked what is feasible at this stage to help settle or make some decisions about productivity. Roger Higgin indicated that perhaps the first item would be to identify 2 or 3 measures acceptable to everyone.

He commented that the productivity results could be of interest to the Board in two ways: first to compare Hydro One's productivity to its peers and second as a metric to identify if and how Hydro One internal productivity is changing.

20. While benchmarking would determine whether a difference in productivity justifies Hydro One's compensation position in the comparator group the key would be to determine if Hydro One is positively addressing productivity improvements over time. Based upon the difficulty that exists in getting a productivity benchmarking analysis that is acceptable to all, perhaps the internal productivity approach is the most meaningful for all interested stakeholders.

21. Susan Frank reminded the group that with the last study, no one liked the broad benchmark comparison for productivity. Benchmarking at high level across the metrics was a near-fiasco. Thus, as suggested it may be better to look at something in the area of internal productivity measurement and find a way to deliver work in a less costly manner?

Roger countered that it depends on what one is trying to do. The Board has had spreadsheets for years that compare the OM&A per customer for all Distribution utilities and if those are available, there may be some value in having this information, but agreed it may not be applicable here.

Susan pointed out that in any given information there are inconsistencies and problems with what is reported as OM&A; while the Mercer Study had said Hydro One fared well on the benchmark items, Hydro One itself decided it did not.

22. Bob added that the Board finding referred to the need to compare compensation to productivity and that this comparison could be more precisely made by comparing internal productivity year-over-year to compensation changes.

Richard Stephenson suggested it may well be appropriate for a fresh start, with 2011 as the year Hydro One starts collecting data though it likely would not have any meaningful trend for the next 5 years.

23. It was discussed that the consultant may establish appropriate productivity metrics that could be used for internal productivity measurement and that there would be merit in beginning to analyze these against comparable internal data to begin to measure changes in those productivity metrics, and wherever possible to back-cast to historic data.

24. Roger added that there are different ways to express productivity, one of the newer ways being to measure capital. The Board's main interest is on labour productivity. Therefore the charge to Hydro One

is clearly to devise a metric and be able to demonstrate labour productivity, by hours per standard task, or some other measure.

Richard Stephenson argued that measuring higher labour hours is not the solution. The role of technology in capital and the changing role of technology are generally overlooked in setting productivity metrics. There might be added pressure on the entity that spends the most to show the highest productivity.

25. Susan Frank asked the group whether they were aware of any productivity measures that other major utilities used which they could bring to the table. Hydro One would hold another stakeholder consultation to bring forward for discussion and consideration potential metrics for measuring productivity, particularly internal productivity.