

# COMPENSATION COST BENCHMARKING STUDY

## Hydro One Network Inc.

19 OCTOBER 2011



*Preliminary Findings*

## Agenda

- Input from May 2011 Stakeholder Session
- Determining Benchmark Positions
- Determining the Peer Group
- Total Compensation
  - Elements
  - Methodology
- Preliminary Results (Hydro One P50 relative to Market P50)
- Preliminary Results (Hydro One P50 relative to Market Mean - Overall)

## Input from May 2011 Stakeholder Session

- **The revised Compensation Benchmarking Study will, as much as possible:**
  - Assess regulated Transmission and Distribution utilities' compensation costs benchmarks across Canada
  - Be short and simple to entice maximum number of survey participants
  - Conform to best industry standards for independence, testability and repeatable market-based assessment
  - Assure participants categorically by the study's design, methodology and process that respondent information cannot be attributed or inferred
  - Mirror the scoping included in the 2008 study for peer selection, job classes, etc and expanded selectively to increase the percentage of employees benchmarked and otherwise enhanced

**Source:** Meeting Notes from May 30, 2011 meeting prepared by Optimum SBR

## Input from May 2011 Stakeholder Session (cont'd)

- Enable reasonable comparison to the 2008 study and provide trending analysis for Hydro One's next application
- To balance the repeatability and durability of results obtained, the consultant will selectively attempt to enhance the scope of the 2008 study by targeting additional benchmark jobs and, potentially, additional comparators
- The consultant must determine the proper standards and measures for the report, but will consider the merits of approaches (including mean and median measures, as well as jurisdictions, regions, sectors, and specific comparator organizations and jobs for inclusion) suggested by various stakeholders

**Source:** Meeting Notes from May 30, 2011 meeting prepared by SBR Optimus

## Determining the Benchmark Positions

### Need to represent different functions and organization levels

- **Individual jobs**
  - Stable job content that is well understood
  - Large number of incumbents
  - Found in other organizations
- **Benchmark jobs or classes in aggregate**
  - Represent all major functions
  - Represent all levels in the organization from front-line to senior management
  - Representative of different compensation regimes
- **Balance numbers**
  - Enough to understand complete picture
  - Not so many as to cloud conclusions
- **Recognize reality of surveying**
- **Core jobs**
  - Core jobs from 2008 study plus a few additional jobs

# Benchmark Positions

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

\* Insufficient data to report

## Determining the Peer Group

**Similar approach to the 2008 study:** Considered annual revenues or total assets between 33% and 300% of Hydro One's 2010 annual revenue or total assets, from the following areas:

Selection Criteria	Type of Organizations
Located in Canada	<ul style="list-style-type: none"><li>• All Canadian Companies</li></ul>
Closely related businesses	<ul style="list-style-type: none"><li>• Transmission, Distribution, Generation</li></ul>
Other regulated and comparable businesses	<ul style="list-style-type: none"><li>• Similar regulatory regime</li></ul>
Asset Intense	<ul style="list-style-type: none"><li>• Overall asset intensive rather than people intensive</li></ul>
Similar workforce characteristics	<ul style="list-style-type: none"><li>• Highly skilled</li><li>• Significant level of unionization</li></ul>
Similar organizations	<ul style="list-style-type: none"><li>• Similar employee population</li><li>• Similar asset base</li><li>• Similar geographic footprint</li></ul>

► *The objective: create a single peer group to assess total compensation costs for the entire set of benchmark jobs*

## Peer Group

- Summarized below are the companies that were included in the compensation benchmarking:

*All values in \$CDmillions*

Company Name	Revenue (1)	Total Assets (2)
Hydro Quebec	\$11,790	\$65,938
Enbridge Gas Distribution	\$15,113	\$30,093
OPG	\$5,640	\$27,584
BC Hydro	\$3,822	\$18,093
Manitoba Hydro	\$1,737	\$11,856
Transalta Corp.	\$2,816	\$9,884
Canadian Utilities	\$2,657	\$9,415
Saskpower	\$1,751	\$5,268
NB Power	\$1,453	\$5,190
ENMAX	\$2,404	\$3,883
Toronto Hydro	\$2,612	\$3,369
Altalink	\$305	\$2,377 *
PowerStream	\$778	\$949 *
<b>75th %ile</b>	<b>\$4,731</b>	<b>\$22,839</b>
<b>50th %ile</b>	<b>\$2,404</b>	<b>\$6,436</b>
<b>25th %ile</b>	<b>\$1,503</b>	<b>\$4,312</b>
<b>Average</b>	<b>\$4,435</b>	<b>\$15,682</b>
<b>Hydro One</b>	<b>\$5,124 (3)</b>	<b>\$17,322 (3)</b>

(1) Most recently reported annual revenue.

(2) Most recently reported annual total assets.

(3) Revenue and Total Assets as disclosed in Hydro One 2010 annual report.

\* Added on recommendation of Mercer.

## Elements of Total Compensation

### Focus on items that can be monetized

- **Base wages or salaries**
- **Short-term incentives**
  - Annual incentive plans
  - Productivity incentives
- **Long-term incentives**
  - Various forms
  - Mostly at senior management level
- **Insured Benefits**
  - Health, Dental, Life, Disability
  - Company paid portion
- **Retirement plans**
  - Registered plans (DB, DC, Group RRSP)
  - Non-registered plans (SERPs)

## Total Compensation Methodology

- **Definitions and methodology:**
  - **Base Salary**
    - Base annual salary at April 1, 2011
  - **Total Cash Compensation**
    - Base salary **plus** most recent short-term incentive or bonus paid
  - **Benefits and Pensions**
    - Applied relative value process to determine standard “employer paid cost”
    - Standard actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs
    - Used open and closed plans
  - **Long-term Incentives**
    - Estimated annual value of most recent long-term incentive grant (i.e., stock options or share awards)
  - **Total Compensation**
    - Total cash compensation **plus** benefits and pensions **plus** long-term incentive

## Total Compensation Methodology (Continued)

- **Definitions and methodology (Continued):**
  - **Avg. or Average**
    - Arithmetic mean the sum of data for a particular variable divided by the number of observations
  - **P50**
    - 50<sup>th</sup> percentile the middle point in a rank listing of data for a particular variable

# Preliminary Results

## Overall – Total Compensation (P50)

Legend	
X	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the overall, preliminary results comparing Hydro One P50 to Market P50, by employee group

Total Compensation (Current)					Below P50 Compensation			Above P50 Compensation	
Sorted in descending Total Compensation					0.5	0.75	P50 = 1	1.25	1.5
#	Position	(#) of Hydro One Incumbents	2011 Multiple of P50	2008 Multiple of P50					
	Weighted Average Non-Represented	137	0.83	0.99		X	●		
	Weighted Average Professionals	779	1.05	1.05			X		
	Weighted Average Power Workers	2,411	1.18	1.21				X●	
	Weighted Average All	3,327	1.13	1.17				X●	

# Preliminary Results

## Non Represented - Total Compensation (P50)

Legend	
X	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the preliminary results for the Non-Represented group comparing Hydro One P50 to Market P50

Total Compensation (Current)					Below P50 Compensation			Above P50 Compensation	
Sorted in descending Total Compensation					0.5	0.75	P50 = 1	1.25	1.5
#	Position	(#) of Hydro One Incumbents	2011 Multiple of P50	2008 Multiple of P50					
1	Financial Director	3	1.09	0.94		●	X		
2	Top Rates and Regulatory Affairs Executive	4	0.66	1.05	X		●		
3	Senior Legal Counsel	8	1.10	n/a			X		
4	Engineer F	91	0.79	0.90		X ●			
5	Area Superintendent	15	0.97	n/a			X		
6	Human Resource Manager / Consultant	10	0.70	0.75	X ●				
7	Administrative Assistant	6	1.06	0.99			● X		
8	Field Service Coordinator	n/a	n/a	1.37					●
	<b>Weighted Average Non-Represented</b>	137	<b>0.83</b>	0.99		X	●		

**Note:**

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In the case where insufficient data exists, "n/a" will appear.

Preliminary Findings

# Preliminary Results

## Professionals - Total Compensation (P50)

Legend	
X	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the preliminary results for the Professionals group comparing Hydro One P50 to Market P50

### Total Compensation (Current)

Sorted in descending Total Compensation

Below P50 Compensation

Above P50 Compensation

#	Position	(# of Hydro One Incumbents)	2011 Multiple of P50	2008 Multiple of P50	Below P50 Compensation			Above P50 Compensation	
					0.5	0.75	P50 = 1	1.25	1.5
9	Engineer E	130	0.97	1.01			X ●		
10	Business Analyst C	12	1.28	1.18				● X	
11	Engineer D	256	0.97	1.01			X ●		
12	Engineer C	15	1.23	1.29				X ●	
13	Engineer B	239	1.12	1.14				X ●	
14	Business Analyst A	13	1.14	n/a				X	
15	Engineer A	114	1.14	1.01			●	X	
	<b>Weighted Average Professionals</b>	779	1.05	1.05				X	

MERCER **Note:**  
In the case where insufficient data exists, "n/a" will appear.

Preliminary Findings

# Preliminary Results

## Power Workers - Total Compensation (P50)

**Legend**

- X 2011 Hydro One position relative to market
- 2008 Hydro One position relative to market

- Summarized below are the preliminary results for the Power Workers group comparing Hydro One P50 to Market P50

**Total Compensation (Current)**

Sorted in descending Total Compensation

Below P50 Compensation

Above P50 Compensation

#	Position	(# of Hydro One Incumbents)	2011 Multiple of P50	2008 Multiple of P50	Below P50 Compensation		Above P50 Compensation		
					0.5	0.75	P50 = 1	1.25	1.5
16	System Operator (Controller)	91	1.30	1.26				● X	
17	Regional Maintainer - Lines (Supervisor)	89	1.31	1.43				X ●	
18	Protection and Control Technician	86	1.38	1.26				● X	
19	Area Distribution Engineering Technician	179	1.27	1.22				● X	
20	Regional Maintainer - Lines	756	1.19	1.27			X	●	
21	Regional Maintainer - Electrical	233	1.27	1.29				X ●	
22	Fleet Mechanic	66	1.27	1.20				● X	

# Preliminary Results

## Power Workers - Total Compensation (P50) (cont'd)

Legend	
X	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the preliminary results for the Power Workers group comparing Hydro One P50 to Market P50

### Total Compensation (Current)

Sorted in descending Total Compensation

#	Position	(# of Hydro One Incumbents)	2011 Multiple of P50	2008 Multiple of P50	Below P50 Compensation			Above P50 Compensation	
					0.5	0.75	P50 = 1	1.25	1.5
23	Lineman - Journeyman*	52	1.18	1.15				● X	
24	Regional Maintainer - Forestry	304	1.04	1.05			X		
25	Service Dispatcher	21	1.45	1.42					● X
26	Drafter II	32	1.44	1.28				●	X
27	Stock keeper	51	1.43	1.42					X
28	Data Entry Clerk	79	1.27	1.13			●	X	
29	Production Field Administrator III	3	1.04	0.95		●	X		

**Note:**

In the case where insufficient data exists, "n/a" will appear.

\*Hydro One data effective June 1, 2011.

# Preliminary Results

## Power Workers - Total Compensation (P50) (cont'd)

Legend	
X	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the preliminary results for the Power Workers group comparing Hydro One P50 to Market P50

Total Compensation (Current)					Below P50 Compensation			Above P50 Compensation	
Sorted in descending Total Compensation					0.5	0.75	P50 = 1	1.25	1.5
#	Position	(#) of Hydro One Incumbents	2011 Multiple of P50	2008 Multiple of P50					
30	Electrical Apprentice	71	0.98	n/a			X		
31	Lines Apprentice	255	0.95	n/a			X		
32	Meter Reader	15	0.87	1.13		X		●	
33	General Labourer*	28	0.87	0.83		● X			
34	Tree Trimmer - Journeyman	n/a	n/a	n/a					
	<b>Weighted Average Power Workers</b>	2,411	1.18	1.21				X●	

**Note:**  
 In the case where insufficient data exists, "n/a" will appear.  
 \*Hydro One data effective June 1, 2011.

# Preliminary Results

## Overall – Total Compensation (Average)

Legend	
×	2011 Hydro One position relative to market
●	2008 Hydro One position relative to market

- Summarized below are the overall, preliminary results comparing Hydro One P50 to Market mean, by employee group

Total Compensation (Current)					Below P50 Compensation			Above P50 Compensation	
Sorted in descending Total Compensation					0.5	0.75	Avg = 1	1.25	1.5
#	Position	(#) of Hydro One Incumbents	2011 Multiple of Avg	2008 Multiple of P50					
	Weighted Average Non-Represented	137	0.84	0.99		×	●		
	Weighted Average Professionals	779	1.06	1.05			×		
	Weighted Average Power Workers	2,411	1.15	1.21			×	●	
	Weighted Average All	3,327	1.12	1.17			×	●	

