

# Hydro One

## Competitive Compensation Review

Management Compensation Plan  
Non-Executive Bands  
October 16, 2015

Draft for Discussion

# Executive Summary

- Hydro One engaged Towers Watson to complete a competitive market assessment of its total rewards package for management compensation plan (MCP) employees (588 incumbents)
- Our analysis is based on Hydro One’s current organizational structure and role responsibilities, and will need to be refreshed as it transitions to an autonomous publicly-traded company. As such, use of this data and any program changes it informs should be paced with the evolution of the organization
- This benchmark review focuses on non-executive roles (Bands 5-10). A review of executive roles is underway and will be provided separately. The market research was conducted on a segmented basis (refer to **Appendix II** for the peer groups used in the analysis). Consistent with Hydro One’s compensation philosophy, roles are benchmarked against comparator organizations best representing the underlying skill sets required. The two segments identified for benchmarking purposes include: Core Operational and Support segments, each representing 50% of the Band 5 – 10 population
- Seventy seven percent of Hydro One’s incumbents are in roles covered by this benchmark review. In our experience, this is a strong representative sample
- On an aggregate basis, Hydro One’s position to market is aligned “at” or slightly above market median; with above market variances more attributable to the support segment***

Band	# Hydro One Benchmarked Incumbents	Base Salary			Total Target Cash (TTC)			Total Direct Compensation (TDC)		
		Avg. Hydro One	Avg. P50	% +/- P50 Base Salary	Avg. Hydro One	Avg. P50	% +/- P50 TTC	Avg. Hydro One	Avg. P50	% +/- P50 TDC
Band 5 (Director)	49	\$167	\$150	11%	\$204	\$183	12%	\$204	\$191	7%
Band 6 (Mgr/Prof)	118	\$135	\$129	5%	\$155	\$142	9%	\$155	\$142	9%
Band 7 (Mgr/Prof)	229	\$117	\$107	10%	\$130	\$116	12%	\$130	\$116	12%
Band 8 (Admin)	19	\$74	\$68	9%	\$80	\$73	9%	\$80	\$73	9%
Band 9 (Admin)	35	\$64	\$61	6%	\$69	\$65	7%	\$69	\$65	7%
Band 10 (Admin)	3	\$55	\$50	10%	\$57	\$52	8%	\$57	\$52	8%
<b>Weighted Average</b>	<b>453</b>	<b>\$121</b>	<b>\$112</b>	<b>8%</b>	<b>\$137</b>	<b>\$124</b>	<b>11%</b>	<b>\$137</b>	<b>\$125</b>	<b>10%</b>

# Results by Hydro One Band by Segment – Core Operational

## Core Operational Roles - Definition

Requires specific education, skills and knowledge in a professional area that is directly related to concepts and methods associated with the transmission, distribution and regulation of power. Examples include: Operations, Engineering, Skilled Trades

### Core Operational

Band	# Hydro One Benchmarked Incumbents	Base Salary					Total Target Cash (TTC)					Total Direct Compensation (TDC)				
		Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50
Band 5 (Director)	14	\$169	\$153	\$173	\$184	-2%	\$207	\$174	\$207	\$231	0%	\$207	\$174	\$222	\$267	-7%
Band 6 (Mgr/Prof)	64	\$137	\$128	\$145	\$159	-6%	\$158	\$136	\$164	\$183	-4%	\$158	\$136	\$164	\$200	-4%
Band 7 (Mgr/Prof)	125	\$122	\$108	\$120	\$131	2%	\$136	\$117	\$131	\$148	4%	\$136	\$117	\$131	\$151	4%
Weighted Average	203	\$130	\$118	\$132	\$144	-1%	\$148	\$127	\$146	\$165	1%	\$148	\$127	\$147	\$174	0%

- In aggregate, the core operational segment of Hydro One is aligned with the market median of Base Salary and Target Total Cash (TTC)
- Market positioning is also aligned with market median on a Total Direct Compensation (TDC) basis, although relative positioning drops somewhat at Band 5 due to some market comparators providing long-term incentives at this level (Director).
- *Implications – development of a segmented salary structure aligned with market 50<sup>th</sup> percentile, that is also aligned with current pay levels, will minimize compression concerns relative to bargaining unit “feeder roles”. Any adjustment to target bonuses needed would be limited although consideration for implementation of long-term incentive eligibility at Band 5 may be warranted as these plans are finalized*

# Results by Hydro One Band by Segment – Support

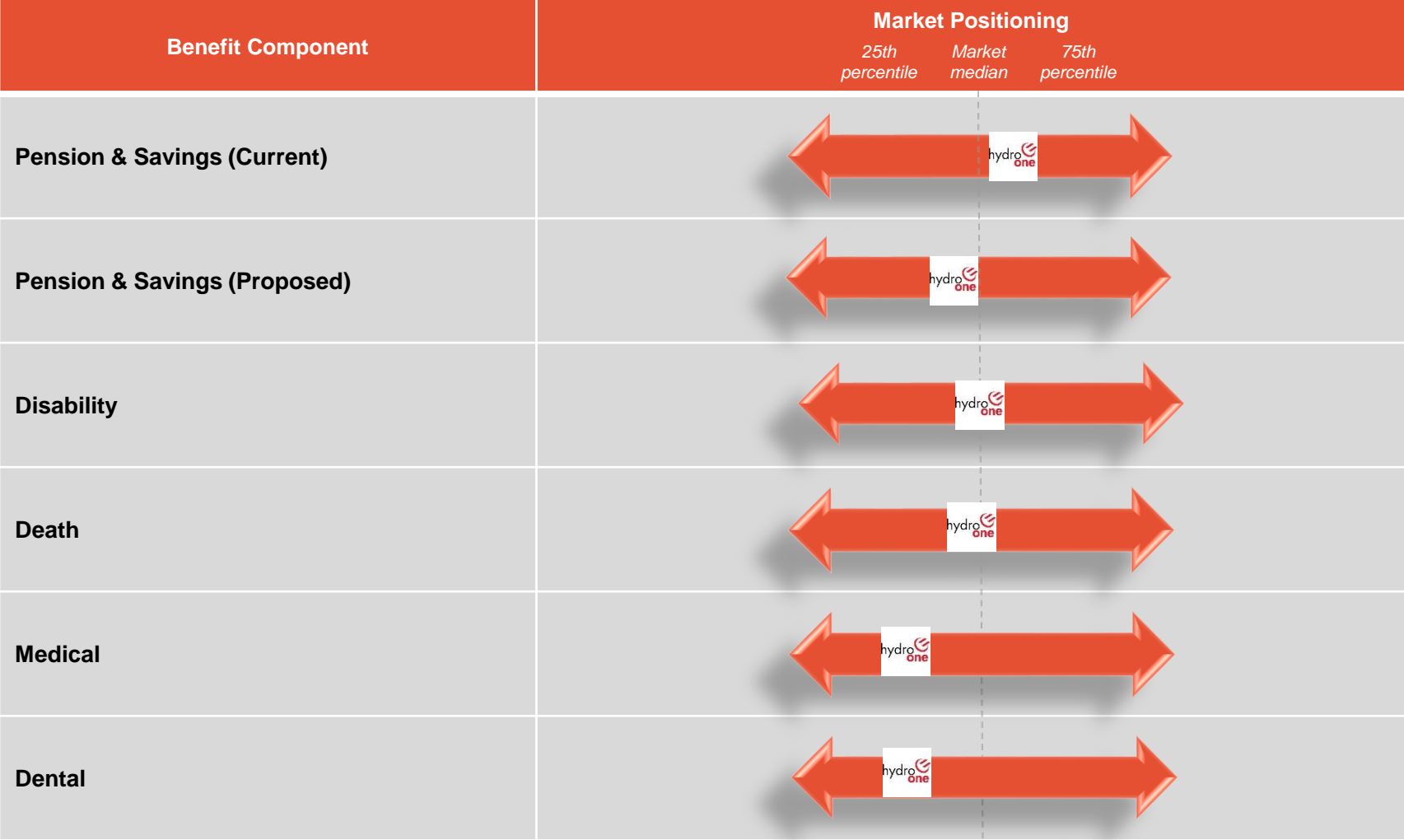
## Support Roles - Definition

Roles that require education, skills and knowledge that are not specific to the transmission, distribution and regulation of power. Examples of such functions include Finance, Human Resources and Information Technology.

Band	# Hydro One Benchmarked Incumbents	Base Salary					Total Target Cash (TTC)					Total Direct Compensation (TDC)				
		Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	Avg. P75	% +/- P50
Band 5 (Director)	35	\$166	\$129	\$141	\$160	18%	\$203	\$156	\$173	\$197	17%	\$203	\$156	\$179	\$213	14%
Band 6 (Mgr/Professional)	54	\$132	\$100	\$109	\$121	22%	\$152	\$107	\$116	\$132	31%	\$152	\$107	\$116	\$136	31%
Band 7 (Mgr/Professional)	104	\$111	\$82	\$91	\$102	22%	\$124	\$89	\$100	\$115	24%	\$124	\$89	\$100	\$115	24%
Band 8 (Admin)	19	\$74	\$61	\$68	\$76	9%	\$80	\$65	\$73	\$85	9%	\$80	\$65	\$73	\$85	9%
Band 9 (Admin)	35	\$64	\$56	\$61	\$67	6%	\$69	\$59	\$65	\$70	7%	\$69	\$59	\$65	\$70	7%
Band 10 (Admin)	3	\$55	\$44	\$50	\$54	10%	\$57	\$46	\$52	\$56	8%	\$57	\$46	\$52	\$56	8%
Weighted Average	250	\$113	\$87	\$95	\$107	19%	\$129	\$96	\$106	\$121	22%	\$129	\$96	\$107	\$124	21%

- In aggregate, the support segment of Hydro One is at or above the market 75<sup>th</sup> percentile of Base Salary and TTC for management level roles and closer to the 50<sup>th</sup> percentile for administrative levels
- Similar findings with respect to TDC as per the core operational segment
- *Implications – development of a segmented salary structure that is lower than the core operational structure, but slightly higher than the market 50<sup>th</sup> percentile to address compression with bargaining unit “feeder roles”, particularly in Bands 6/7. This would enable management of actual salaries against lower range midpoints over time. Any adjustment to target bonuses needed would be limited although consideration for implementation of long-term incentive eligibility at Band 5 may be warranted as these plans are finalized*

# Role of Pension & Benefits in Total Reward Positioning



Hydro One and market comparators reflect pension and benefit plans available to new hires, the impact of grandfathered or legacy benefits are not reflected

# Next Steps Based on Benchmarking Results

- Develop recommendations (including transition planning considerations):
  - Before the end of 2015:
    - Salary structures and related administrative guidelines
    - 2016 merit increase budget and implementation guidelines
    - STI / LTI target recommendations for 2016
    - Integration with executive benchmarking and resulting STI & LTI design recommendations to ensure appropriate cascade
  - Q1 2016:
    - Actual 2016 LTI awards (if applicable)
    - Any identified benefit considerations

# Appendices

# Compensation Benchmark Methodology

- The following outlines the various data elements summarized in this report:

Element	Hydro One	Market	Peer Group
<b>Salary</b>	Average salary for all incumbents in specific benchmark job codes (as of April 2015)	2015 actual salaries	Segmented peer groups: <ul style="list-style-type: none"> <li>• Core Operational</li> <li>• Support</li> </ul>
<b>Target bonus</b> <i>(as a % of salary)</i>	Target bonus by band (target bonus is adjusted to 75% of potential bonus)	Short-term incentive target	
<b>Target total cash (TTC)</b>	Salary + target bonus	Salary + target bonus	
<b>Long-term incentives</b> <i>(as a % of salary)</i>	Target long-term incentive by band	Expected value of long-term incentives	
<b>Total direct compensation (TDC)</b>	TTC + long-term incentives	TTC + long-term incentives	



# Peer Group

## Core Operational

Company n=28							
Core Utility Peers			Other Utility Peers				
1	ATCO Group	8	Alberta Electric System Operator	15	GDF SUEZ	22	Northland Power Inc.
2	Capital Power Corporation	9	AltaLink	16	Horizon Utilities Corporation*	23	Nova Scotia Power Inc.
3	Emera Inc*	10	BC Hydro Power & Authority	17	Hydro Ottawa Limited*	24	Ontario Power Generation
4	Enbridge Inc.	11	Bruce Power LP	18	Hydro-Quebec	25	Powerstream Inc.*
5	Fortis Inc.*	12	Enersource Hydro Mississauga Inc.*	19	Independent Electricity System Operator	26	SaskEnergy Incorporation*
6	TransAlta Corporation	13	ENMAX Corporation	20	NB Power Holding Corporation*	27	SaskPower
7	TransCanada Corporation	14	EPCOR Utilities Inc.	21	Newfoundland and Labrador Hydro Electric Corporation	28	Toronto Hydro Electric

\*Not currently included in 2015 analysis database

# Peer Group

## Support

Company n=76

1	AGCS North America	20	Compass Group Canada	39	Loblaw Companies Limited	58	Samuel, Son & Co., Ltd
2	AIG Insurance Company of Canada	21	CPP Investment Board	40	Magna International Inc.	59	Scotia Bank
3	Allstate Insurance Company of Canada	22	Deloitte	41	Manulife Financial Corporation	60	Shoppers Drug Mart
4	Amex Canada, Inc.	23	Delta Hotels and Resorts	42	Maple Leaf Foods Inc.	61	Siemens Canada Limited
5	Bank of America (BANA)	24	Economical Mutual Insurance Company	43	McCain Foods Limited	62	Sun Life Financial
6	Bank of Montreal	25	Export Development Canada	44	Molson Coors Canada	63	Tech Data Canada
7	Barrick Gold Corporation	26	Ford Motor Company of Canada, Limited	45	NAV CANADA	64	The Coca-Cola Company - Canada
8	Bruce Power	27	GDF SUEZ	46	Nissan Canada, Inc	65	The Co-operators General
9	Cadillac Fairview Corporation Limited	28	GE Energy	47	Northbridge Financial Corporation	66	The Law Society of Upper Canada
10	Canada Post	29	General Dynamics Land Systems - Canada	48	Northland Power Inc.	67	TMX Group Limited
11	Canadian Broadcasting Corporation/Radio Canada	30	General Electric Canada	49	Ontario Power Generation	68	Toronto Hydro Electric
12	Canadian Imperial Bank of Commerce	31	Gerdau Long Steel North America	50	OPSEU Pension Trust	69	Toronto-Dominion Bank
13	Canadian Nuclear Safety Commission	32	Healthcare of Ontario Pension Plan	51	Parmalat Canada	70	Toyota Motor Manufacturing Canada
14	Capital One Canada	33	Honda of Canada Manufacturing	52	Procter & Gamble Inc.	71	Treasury Board of Canada Secretariat
15	Celestica Inc.	34	Hospital for Sick Children	53	Purolator Inc.	72	Unilever Canada
16	Chartwell Retirement Residences	35	Hyundai Auto Canada Corp.	54	RBC Financial	73	United States Steel Canada
17	Chrysler Canada Inc.	36	Independent Electricity System Operator	55	Revera Inc	74	University Health Network
18	Cineplex Entertainment	37	Intact Financial Corporation	56	Rogers Communications Inc.	75	Whirlpool Canada LP.
19	Coca-Cola Refreshments	38	Kinross Gold Corporation	57	Royal & SunAlliance Canada	76	Ontario Workplace Safety & Insurance Board

# Peer Group

## Pension & Benefits

### Company n=21

1	ATCO Group	12	EPCOR Utilities
2	Bombardier Inc.	13	Fortis Inc.
3	British Columbia Hydro and Power Authority	14	Hydro Quebec
4	Bruce Power	15	Intact Financial Corporation
5	Canadian National Railway Company	16	Ontario Power Generation
6	Canadian Tire Corporation, Limited	17	Rogers Communications Inc.
7	Capital Power Corporation	18	SNC Lavalin Inc.
8	CGI Group Inc.	19	Toronto Hydro-Electric System Limited
9	Emera Inc.	20	TransAlta Corporation
10	Enbridge Gas Distribution Inc.	21	TransCanada Pipelines Limited
11	ENMAX Corporation.		