

HEALTH WEALTH CAREER

HYDRO ONE NETWORK INC. COMPENSATION COST BENCHMARKING STUDY

November 30, 2016



AGENDA

- Introduction – Key Features of the Study
- Methodology
 - Determining Benchmark Positions
 - Determining the Peer Group
 - Total Compensation
 - Elements
 - Methodology
 - Factors Impacting The Results
- Results (Hydro One P50 relative to Market P50)
- Results (Hydro One P50 relative to Market Average - Overall)

2016 COMPENSATION COST BENCHMARK STUDY FEATURES

- **Below are some of the major features of this year's study:**
 - Assesses regulated Transmission and Distribution utilities' and comparable regulated businesses' compensation costs benchmarks across Canada
 - Conforms to best industry standards for independence, testability and repeatable market-based total compensation assessment
 - Assures participants' confidentiality by the study's design, methodology and process that respondent information cannot be attributed or inferred
 - Mirrors the scoping included in the 2013, 2011 and 2008 studies for peer selection, job classes, etc.
 - Mirrors the questionnaire used in the 2013, 2011 and 2008 studies for ease of participation by returning participants
 - Enables reasonable comparison to the 2013, 2011 and 2008 studies and provides trending analysis for Hydro One's next application

2016 COMPENSATION COST BENCHMARK STUDY FEATURES (CONT'D)

- To balance the repeatability and durability of results obtained, the scope of the 2016 study was enhanced by targeting the same benchmark jobs and organizations as the 2013 study.
 - Four (4) organizations that declined to participate in previous years' studies agreed to participate in 2016. This resulted in an increase of two (2) organizations over the number of 2013 participants.
 - The Regional Maintainer – Forestry position was not surveyed in 2016 due to limited data in the market from previous years
- The benchmark jobs in the study represent approximately 57% of Hydro One's employee population (excluding non-full time employees).

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 2013 study

BENCHMARK POSITIONS NON-REPRESENTED AND PROFESSIONAL

- Below is the list of Non-Represented and Professional benchmark positions included in the 2016 study.

Hydro One Group	Job #	Benchmark Survey Title
Non-Represented	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	Field Service Coordinator
	8	Administrative Assistant
Professionals	9	Engineer E
	10	Business Analyst C
	11	Engineer D
	12	Engineer C
	13	Engineer B
	14	Business Analyst A
	15	Engineer A

BENCHMARK POSITIONS

POWER WORKERS

- Below is the list of Power Workers benchmark positions included in the 2016 study.

Hydro One Group	Job #	Benchmark Survey Title
Power Workers	16	System Operator (Controller)
	17	Regional Maintainer - Lines (Supervisory)
	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	Service Dispatcher
	25	Drafter II
	26	Stock Keeper
	27	Data Entry Clerk
	28	Production Field Administrator III
	29	Electrical Apprentice
30	Lines Apprentice	
31	Meter Reader	
32	General Labourer/Roustabout*	

*Vacant Hydro One position.

DETERMINING THE PEER GROUP

- **Similar approach to the 2013 study:** Considered annual revenues between 33% and 300% of Hydro One's 2015 annual revenue or total assets, from the following areas:

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

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:

Company Name	Revenue ¹	# of Employees ^{1,2}
Bell Canada*	\$21,514.0	31,394
Hydro-Québec	\$13,754.0	19,250
TransCanada Corporation*	\$11,300.0	6,795
BC Hydro Power & Authority	\$5,657.0	5,641
Ontario Power Generation Inc.	\$5,476.0	9,247
Enbridge Gas Distribution Inc.	\$3,609.0	2,491
Toronto Hydro Electric System Ltd.	\$3,539.9	1,471
Bruce Power L.P.	\$3,126.8	4,151
ENMAX Corporation	\$3,065.7	1,765
SaskPower	\$2,296.0	3,238
TransAlta Corporation	\$2,267.0	1,653
EPCOR Utilities, Inc.	\$2,193.0	2,316
Manitoba Hydro	\$1,800.0	6,300
New Brunswick Power	\$1,791.0	2,403
PowerStream Inc.	\$1,213.5	559
AltaLink*	\$829.0	825
Veridian*	\$339.3	230
75th %ile	\$5,476.0	6,300
50th %ile	\$3,065.7	2,491
25th %ile	\$1,800.0	1,653
Average	\$4,927.7	5,866
Hydro One	\$6,538.0	5,256

¹ Data as reported by survey participants in CAD (\$MM)

² Representative of full-time employees and equivalents only

* New participants in 2016

Participated in 2013, Not in 2016

- Enersource Corporation
- Horizon Utilities Corporation

New Participants in 2016

- AltaLink
- Bell Canada
- TransCanada Corporation
- Veridian

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)
 - Company paid portion

TOTAL COMPENSATION METHODOLOGY

- **Definitions and methodology:**
 - **Base Salary / Wage**
 - Effective date: September 1st, 2016
 - **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
 - **P50**
 - 50th percentile - the middle point in a rank listing of data for a particular variable
 - **Avg. or Average**
 - Arithmetic mean - the sum of data for a particular variable divided by the number of observations

FACTORS IMPACTING THE RESULTS

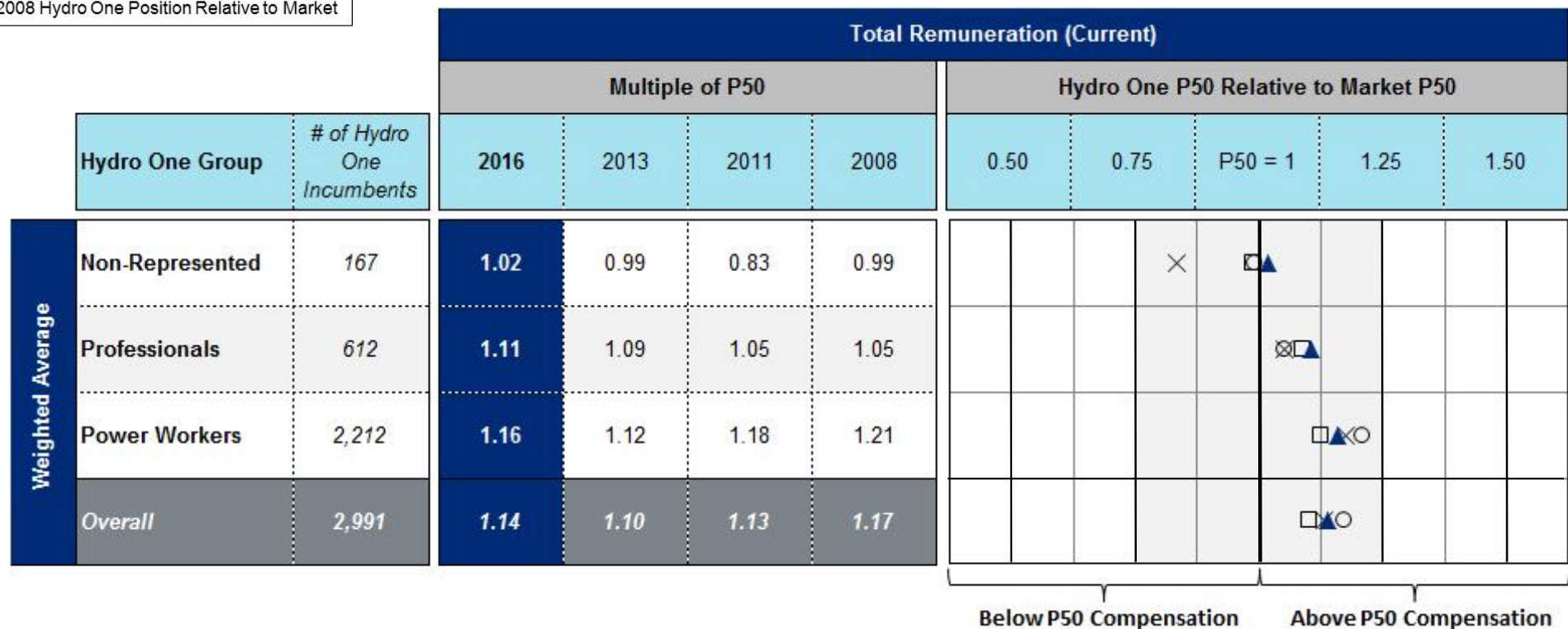
- The results are driven by a combination of factors the most significant of which are the following:
 - The introduction of long-term incentives for certain roles in the Non-Represented group to align with market practices among publicly-traded companies
 - Reduction in the headcount of Professional entry level role through promotion/attrition and not backfilling the lower paid roles.
 - Highly competitive base wages, especially for the most highly skilled Power Workers' Union ("PWU") positions
 - The relatively high value of legacy collective agreement wages, pension and benefits programs (the legacy non-represented pension and benefit and Society pension plans are now closed to new members)
 - Changes in the organizations participating in the study

RESULTS

OVERALL – TOTAL COMPENSATION (P50)

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

Legend	
▲	2016 Hydro One Position Relative to Market
□	2013 Hydro One Position Relative to Market
×	2011 Hydro One Position Relative to Market
○	2018 Hydro One Position Relative to Market



RESULTS

NON REPRESENTED - TOTAL COMPENSATION (P50)

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

Legend	
▲	2016 Hydro One Position Relative to Market
□	2013 Hydro One Position Relative to Market
×	2011 Hydro One Position Relative to Market
○	2008 Hydro One Position Relative to Market

		Total Remuneration (Current)											
		Multiple of P50				Hydro One P50 Relative to Market P50							
Hydro One Group	# of Hydro One Incumbents	2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50			
Non-Represented	Financial Director	3	1.31	1.21	1.09	0.94			○	×	□	▲	
	Top Rates and Regulatory Affairs Executive	2	0.77	0.99	0.66	1.05	×	▲		□	○		
	Senior Legal Counsel	7	1.07	1.12	1.10	n/a				▲	□		
	Engineer F	53	0.84	0.85	0.79	0.90		×	▲	○			
	Area Superintendent	15	0.86	1.00	0.97	n/a			▲	×	□		
	Human Resource Manager / Consultant	7	0.80	0.74	0.70	0.75	×	○	▲				
	Field Service Coordinator	77	1.19	1.14	n/a	1.37				□	▲		○
	Administrative Assistant	3	0.98	0.97	1.06	0.99				▲	×		
	Weighted Average Non-Represented	167	1.02	0.99	0.83	0.99		×		□	▲		

Note: Where there is insufficient data, "n/a" will exist

Below P50 Compensation Above P50 Compensation

RESULTS

PROFESSIONALS - TOTAL COMPENSATION (P50)

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

Legend	
▲	2016 Hydro One Position Relative to Market
□	2013 Hydro One Position Relative to Market
×	2011 Hydro One Position Relative to Market
○	2018 Hydro One Position Relative to Market

		Total Remuneration (Current)									
		Multiple of P50				Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Professionals	Engineer E	121	0.92	0.97	0.97	1.01			▲ □ ○		
	Business Analyst C	2	1.30	1.38	1.28	1.18			○	▲ □	
	Engineer D	274	1.04	1.07	0.97	1.01			×	▲ □	
	Engineer C	17	1.20	1.19	1.23	1.29				□ × ○	
	Engineer B	176	1.30	1.12	1.12	1.14			□	▲	
	Business Analyst A	10	1.39	1.30	1.14	n/a			×	□ ▲	
	Engineer A	12	1.17	1.12	1.14	1.01			○	□ ▲	
	Weighted Average Professionals	612	1.11	1.09	1.05	1.05			□ ▲		

Note: Where there is insufficient data, "n/a" will exist

Below P50 Compensation
Above P50 Compensation

RESULTS

POWER WORKERS - TOTAL COMPENSATION (P50)

- Summarized below and on the following pages are the results for the Power Workers group comparing Hydro One P50 to Market P50

Legend	
▲	2016 Hydro One Position Relative to Market
□	2013 Hydro One Position Relative to Market
×	2011 Hydro One Position Relative to Market
○	2008 Hydro One Position Relative to Market

		Total Remuneration (Current)									
		Multiple of P50				Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	System Operator (Controller)	103	1.31	1.28	1.30	1.26				○▲	
	Regional Maintainer - Lines (Supervisory)	66	1.05	1.24	1.31	1.43			▲	□ × ○	
	Protection and Control Technician	90	1.36	1.30	1.38	1.26				○ □ ▲ ×	
	Area Distribution Engineering Technician	151	1.33	1.23	1.27	1.22				○ × ▲	
	Regional Maintainer - Lines	769	1.25	1.22	1.19	1.27				× □ ○	
	Regional Maintainer - Electrical	249	1.16	1.17	1.27	1.29				▲ × ○	

Note: Where there is insufficient data, "n/a" will exist

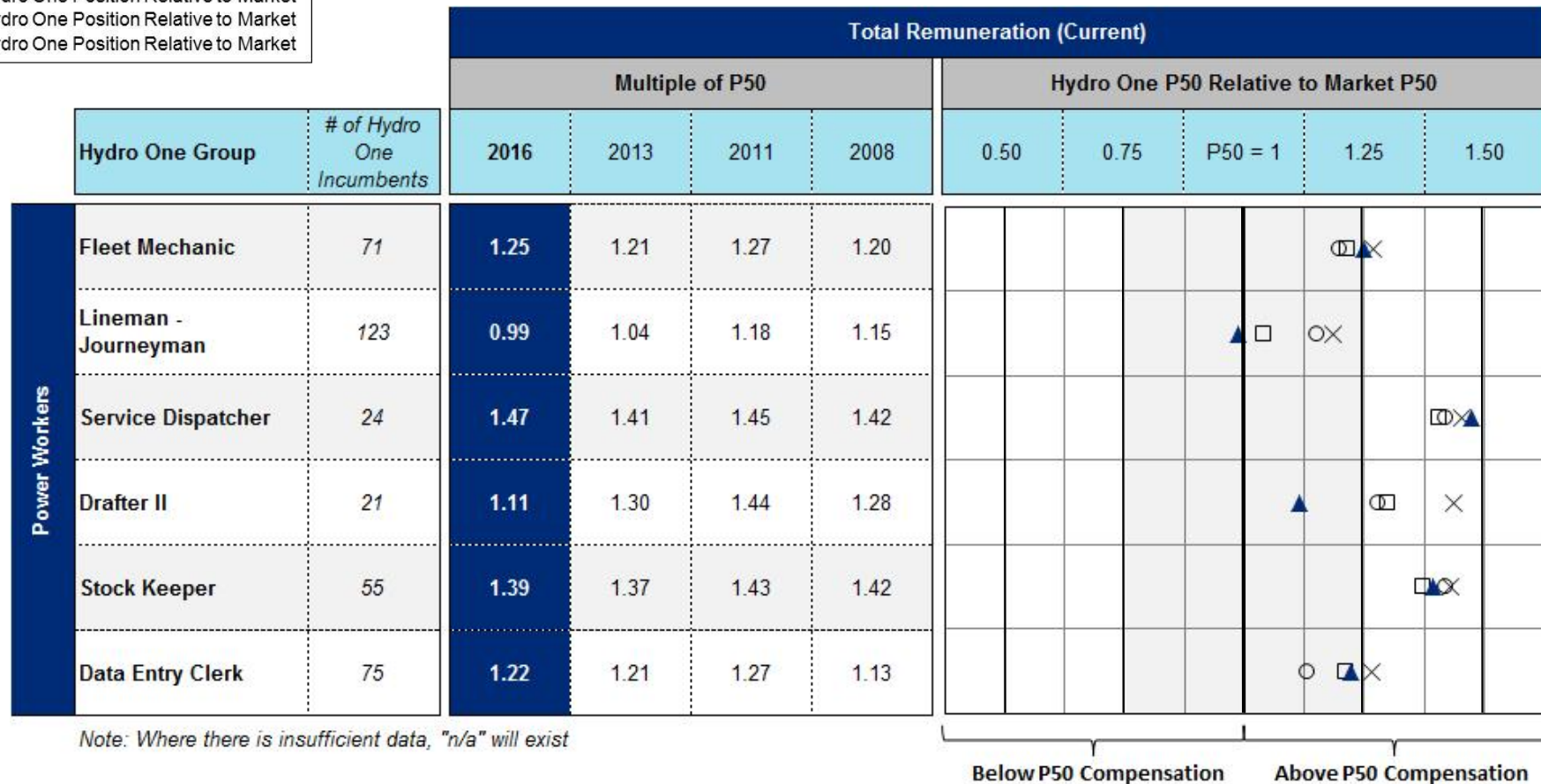
Below P50 Compensation
Above P50 Compensation

RESULTS

POWER WORKERS - TOTAL COMPENSATION (P50) (CONT'D)

Legend

- ▲ 2016 Hydro One Position Relative to Market
- 2013 Hydro One Position Relative to Market
- × 2011 Hydro One Position Relative to Market
- 2008 Hydro One Position Relative to Market



RESULTS

POWER WORKERS - TOTAL COMPENSATION (P50) (CONT'D)

Legend	
▲	2016 Hydro One Position Relative to Market
□	2013 Hydro One Position Relative to Market
×	2011 Hydro One Position Relative to Market
○	2008 Hydro One Position Relative to Market

		Total Remuneration (Current)									
		Multiple of P50				Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2016	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	Production Field Administrator III	1	1.07	0.69	1.04	0.95		□	○	×	▲
	Electrical Apprentice*	62	0.69	0.76	0.98	n/a	▲	□	×		
	Lines Apprentice	348	0.84	0.87	0.95	n/a		▲	□	×	
	Meter Reader	4	1.01	0.93	0.87	1.13		×	□	▲	○
	General Labourer/Roustabout	-	n/a	0.73	0.87	0.83		□	○	×	
	Weighted Average Power Workers	2,212	1.16	1.12	1.18	1.21				□	▲

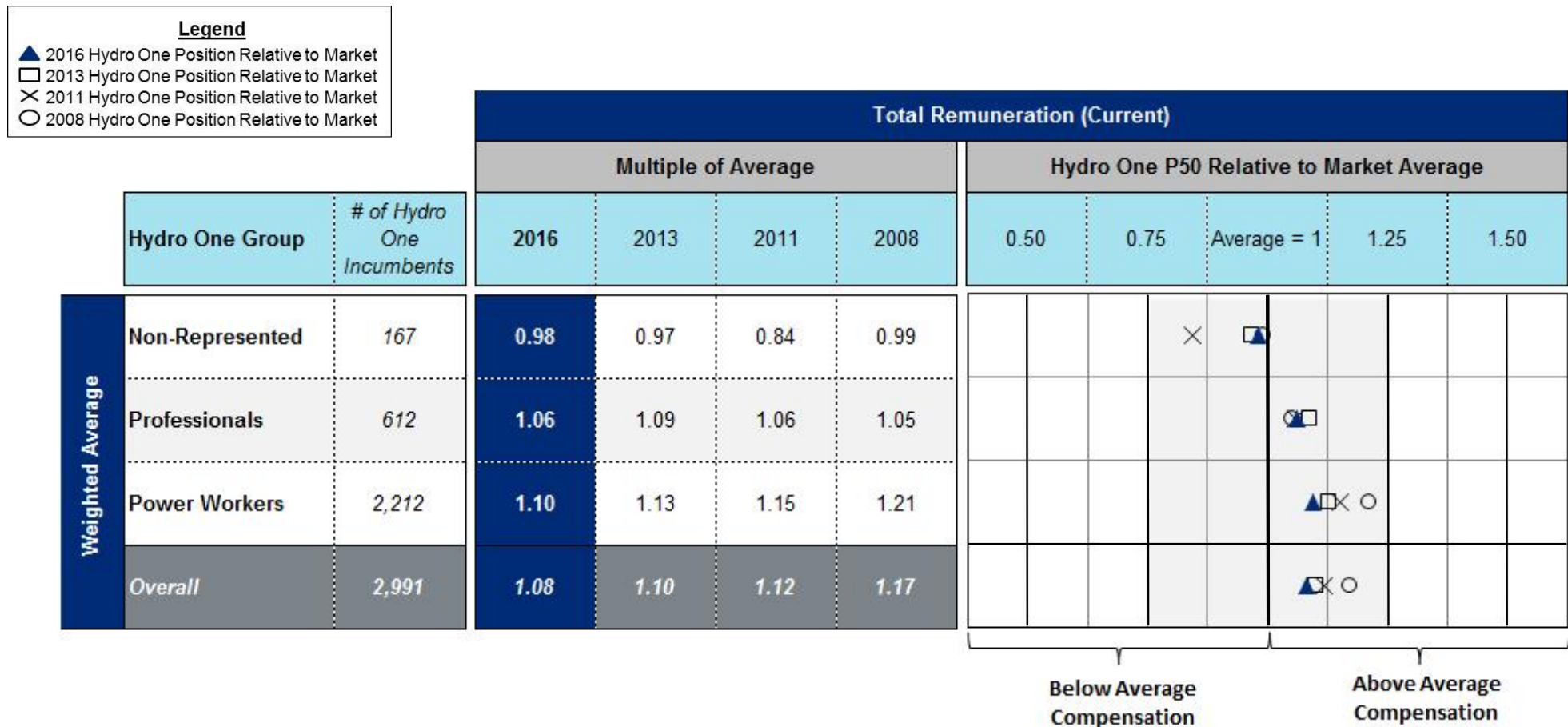
Below P50 Compensation
Above P50 Compensation

Note: Where there is insufficient data, "n/a" will exist
 * Average market data reported as median for comparison purposes

RESULTS

OVERALL – TOTAL COMPENSATION (AVERAGE)

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



MAKE



**TOMORROW,
TODAY**