



Stakeholder Consultation

Distribution Custom Rate Application 2015-2019

Stakeholder Session #3

October 16, 2013

Agenda



1:00 p.m.	Registration	
1:05 p.m.	Welcome	Allan Cowan, Director Major Applications Hydro One Networks
1:10 p.m.	Introductions and Agenda	Bob Betts, Facilitator, OPTIMUS SBR
1:20 p.m.	2015-19 Distribution Application	Allan Cowan, Director Major Applications Hydro One Networks
1:35 p.m.	Business Planning Process and Facilitated Discussion	Glenn Scott, Director Corporate Planning & Finance Hydro One Networks Bob Betts, Facilitator, OPTIMUS SBR
2:25 p.m.	Break	
2:35 p.m.	Asset Investment Planning & Asset Analytics Demonstration and Facilitated Discussion	Lyla Garzouzi, Manager Distribution Development Hydro One Networks Bob Betts, Facilitator, OPTIMUS SBR
3:25 p.m.	Compensation Cost Benchmarking Study and Facilitated Discussion	Allan Cowan, Director Major Applications Hydro One Networks Iain Morris, Consultant, Mercer Bob Betts, Facilitator, OPTIMUS SBR
4:20 p.m.	Closing Remarks/Next Steps	Allan Cowan, Director Major Applications Hydro One Networks
4:30 p.m.	Adjourn	

Facilitator's Remarks



- Introductions Facilitator, Bob Betts & OPTIMUS | SBR support team
- Meeting Facilities
- Safety Review
- Note taking process
- Participant Introductions

Meeting Process



- Mobile phones “Off” or “Silenced”
- Avoid side discussions while others speaking
- All questions are good ones
- All comments are appreciated
- Materials and notes will be posted on Hydro One’s Regulatory Website:

www.HydroOne.com/RegulatoryAffairs

2015-19 Distribution Application

- 5 year Custom Cost of Service application, including:
 - Annual Adjustments / Adjustments outside of normal course of business,
 - Rate Smoothing, and
 - Annual Reporting Metrics

- Study Inputs into Plan:
 - Rate Class Review, Seasonal Rate Initiative, Line Loss Study
 - Depreciation, Overhead Capitalization, Corporate Cost Allocation, Lead-Lag
 - Compensation Cost Benchmarking Study
 - Customer Research

- Timeline:
 - Business Plan Approval by Hydro One Board – Nov 14/13
 - Stakeholder Session #3 (*Approved Business Plan & Stakeholder Feedback Update*) – Nov 27/13
 - File Application with the OEB – Q1 2014



Business Planning Process

October 16, 2013

Glenn Scott

Director, Corporate
Planning & Finance

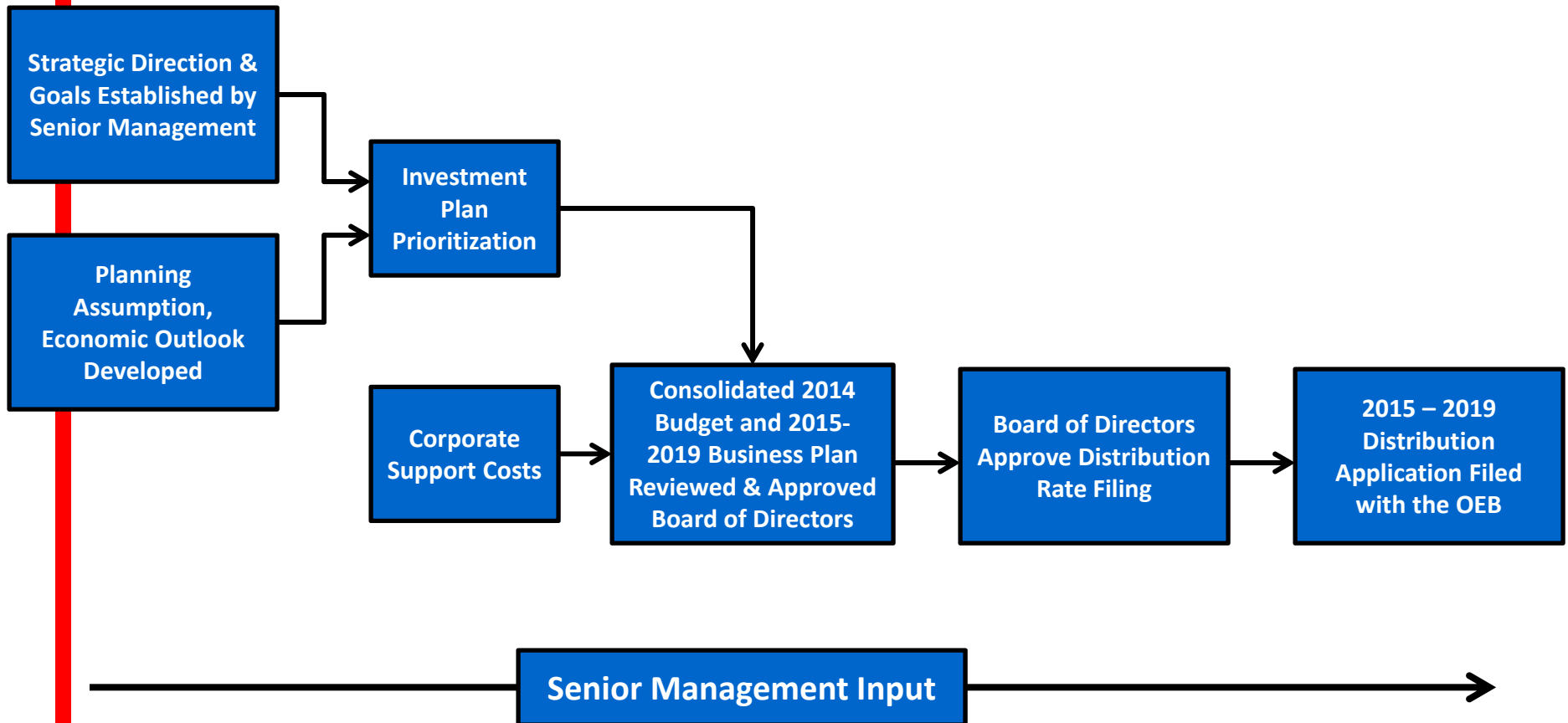


Overview

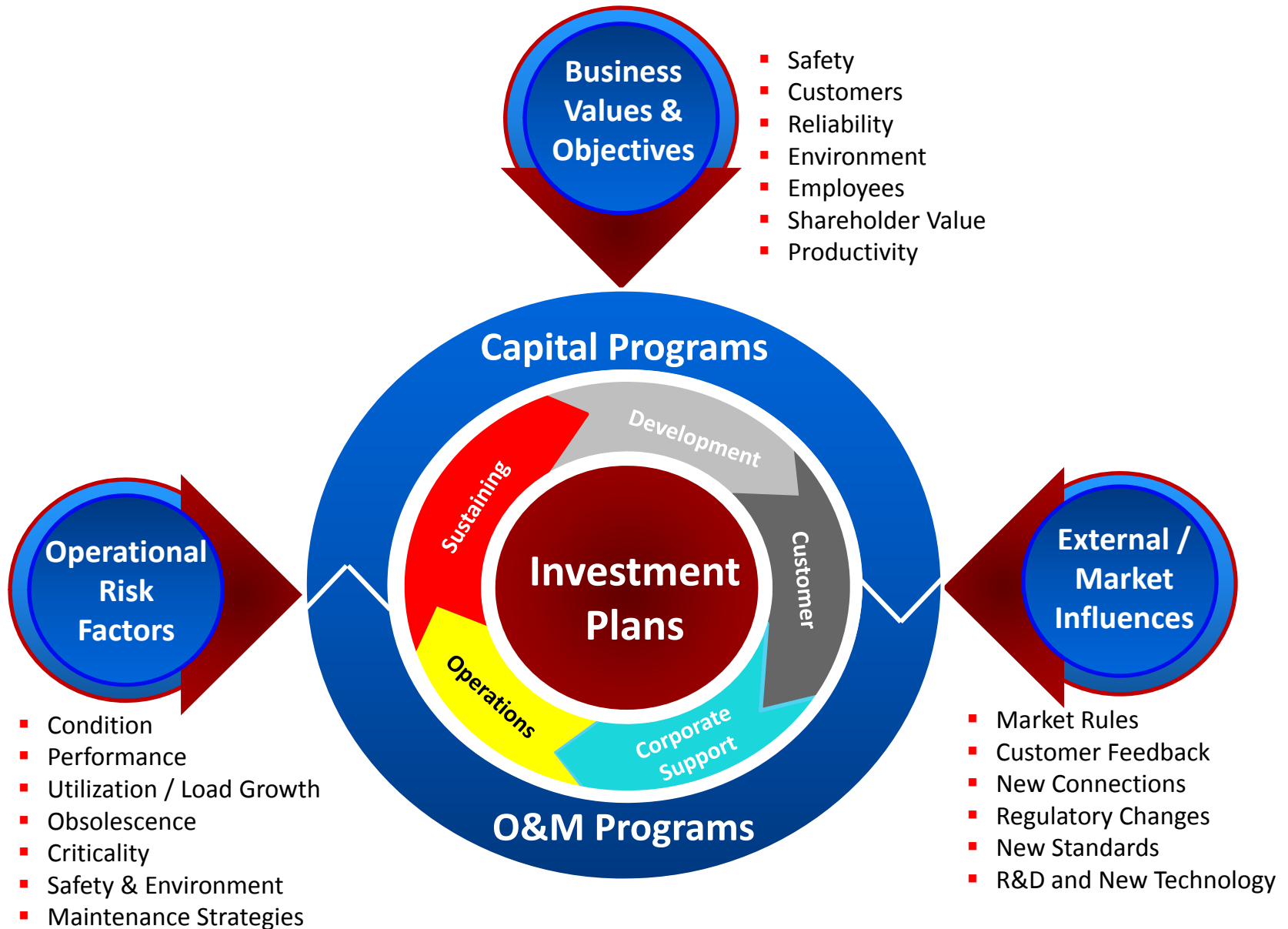


- Hydro One undertakes a rigorous planning process on an annual basis
- For 2013 the planning process will produce a 2014 budget and 2015-2019 Business Plan
- Provides the foundation for our 2015 to 2019 distribution rate application
- It is a detailed bottom up planning exercise with executive oversight throughout the process

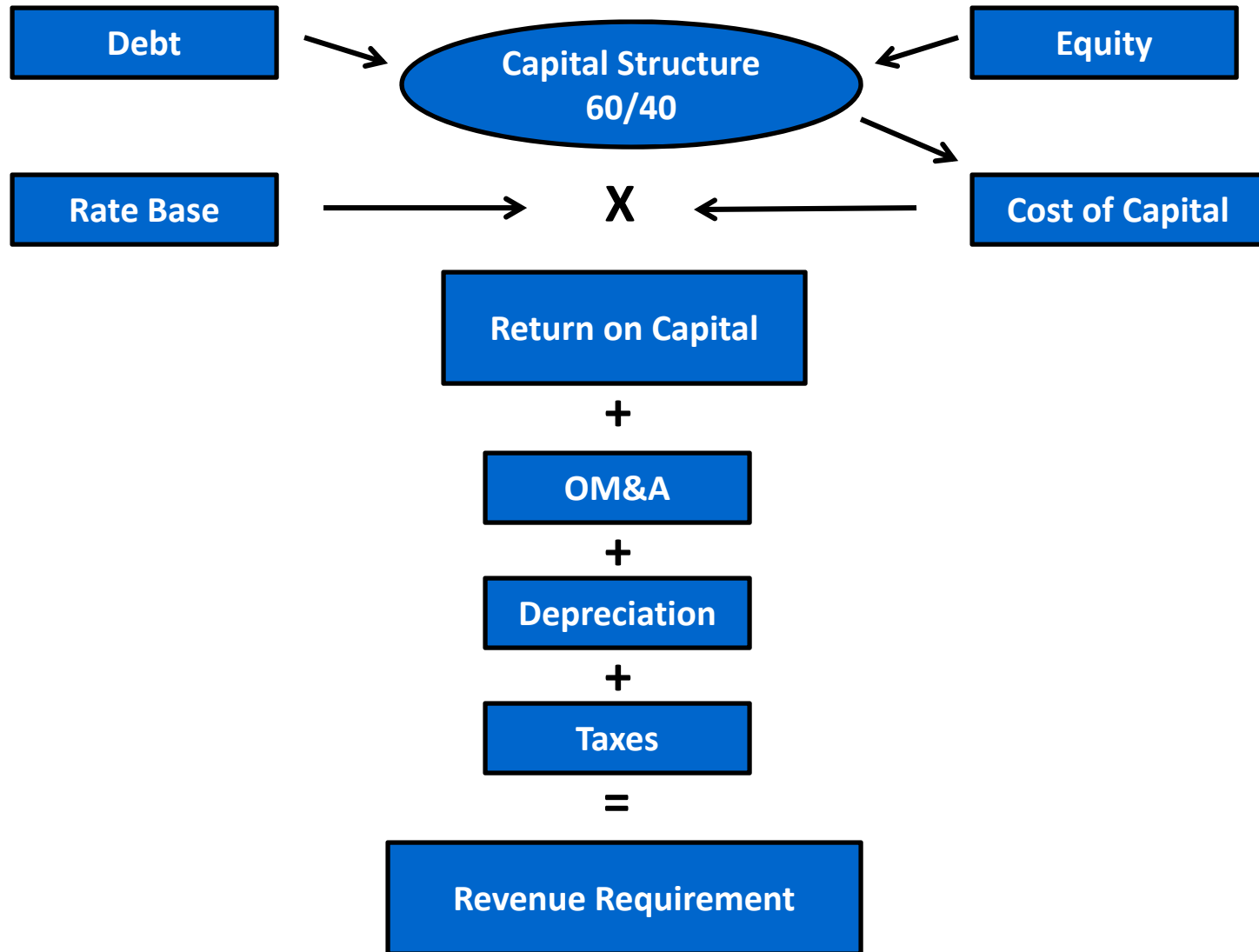
Business Planning Process



Planning Inputs



Business Model



Planning Assumptions



- Economic forecast
- Asset condition
- Customer and supply growth projections
- Government initiatives
- Regulatory requirements

What is Different?



- Historically each year Hydro One's Board would approve a 1 year budget and 2 year outlook based on a 5 year business plan
- For this year's process Hydro One's Board will approve a 1 year budget and a 5 year business plan to support the 5 year custom filing
- New Tools and Capabilities
 - More centralized better quality data
 - Asset Analytics
 - Asset Investment Prioritization

How has Hydro One reflected the OEB's enhanced requirements?

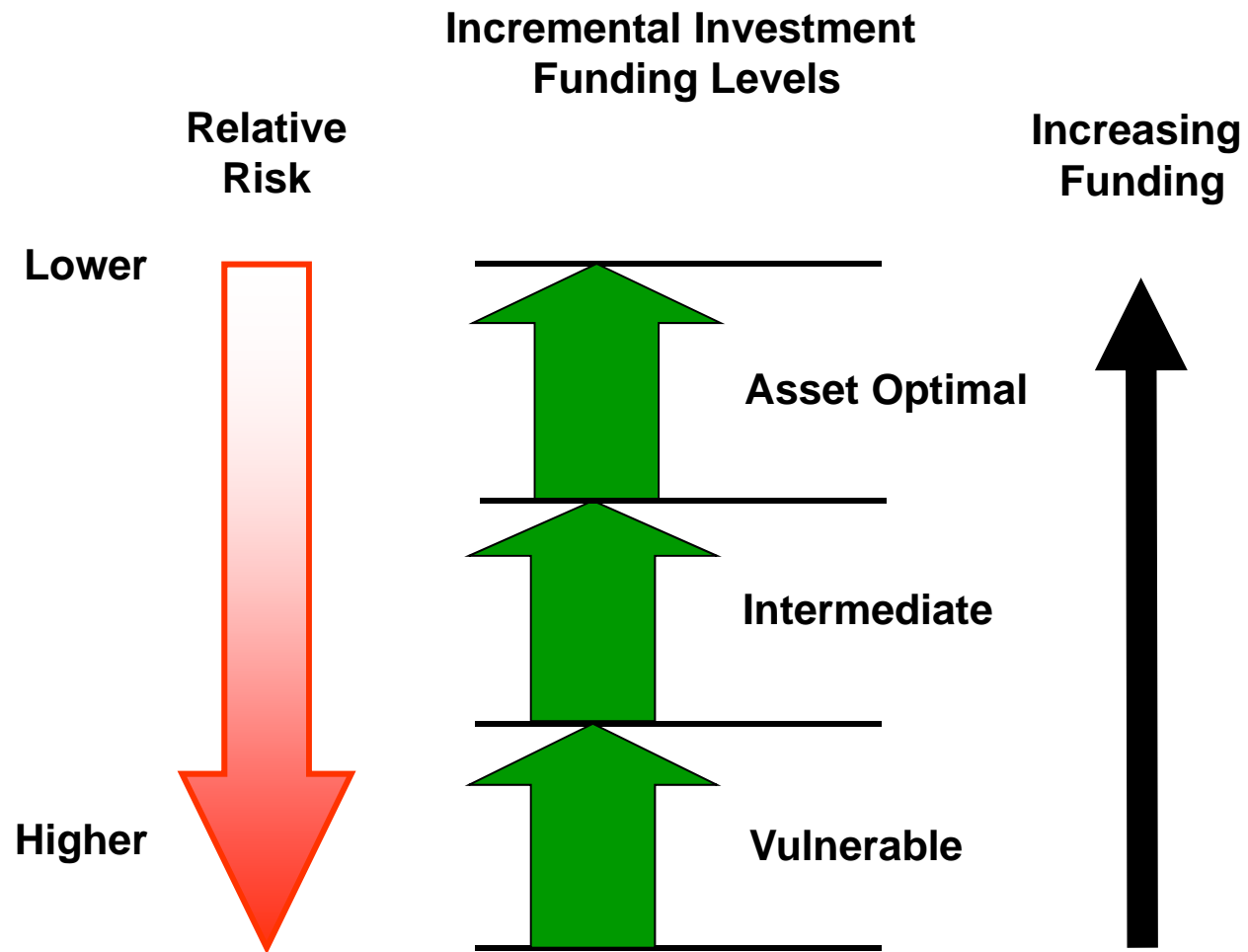
- Customer Voice
 - Customers want Hydro One to:
 - Maintain or reduce their total bill
 - Meet commitments and timelines for planned outages; ensure accurate and timely ETR for unplanned outages
 - Maintain reliability for residential customers; address power quality for large customers
- Productivity Improvements
 - Customer Information System
 - Outsourcing Renewal
- Outcome Monitoring
 - Annual Reporting

Investment Planning Process



- Identifies the best timing and level of investment to minimize risk, maximize savings, and meet our corporate values and targets
- Applies pre-determined constraints and uses data analytics to prioritize investments
- Strikes a strategic balance between Capital (replacement / refurbishment) and OM&A (maintenance) for sustainment investments
- Provides assurance that our plans meet an 'acceptable' risk level, and are achievable from a resourcing perspective

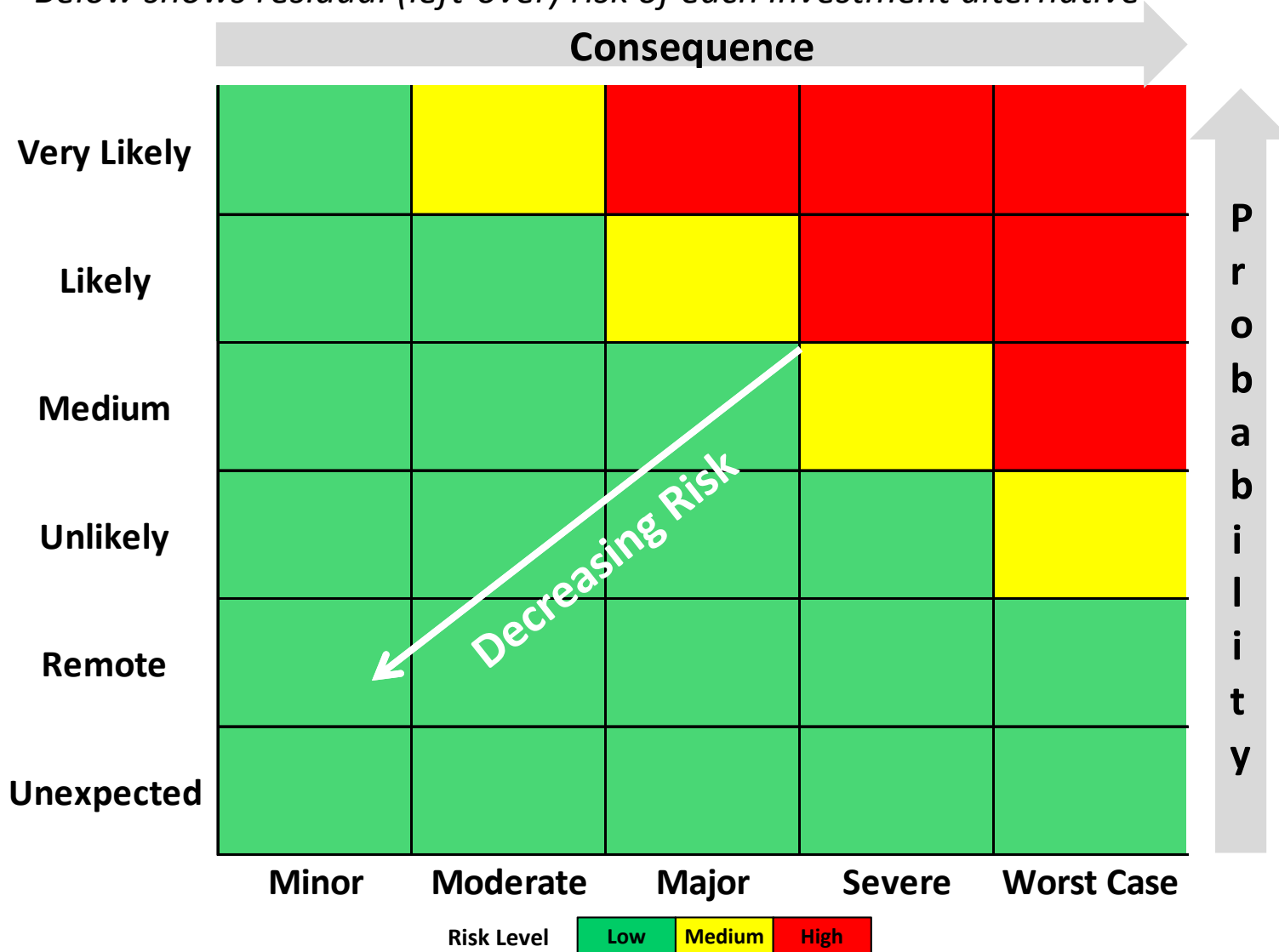
Investment Levels



Measuring Risk



Below shows residual (left-over) risk of each investment alternative



Business Plan Finalization and Approval



- Senior management reviews results, including the impact on customer rates and approves the final investment plan and corporate support costs
- Consolidated Business Plan reviewed and approved by the Hydro One Board of Directors



Asset Investment Planning & Asset Analytics Demo

October 16, 2013

Lyla Garzouzi

Manager, Distribution
Development



Electricity Utility of the Future



Distribution Modernization

- Initial roll-out of smart grid technology in Bruce and Grey Counties to remotely diagnose problems and operate equipment to increase reliability and safety and reduce costs



Mobile Worker

- Next generation wireless field communication devices to increase efficiency



Enterprise Systems

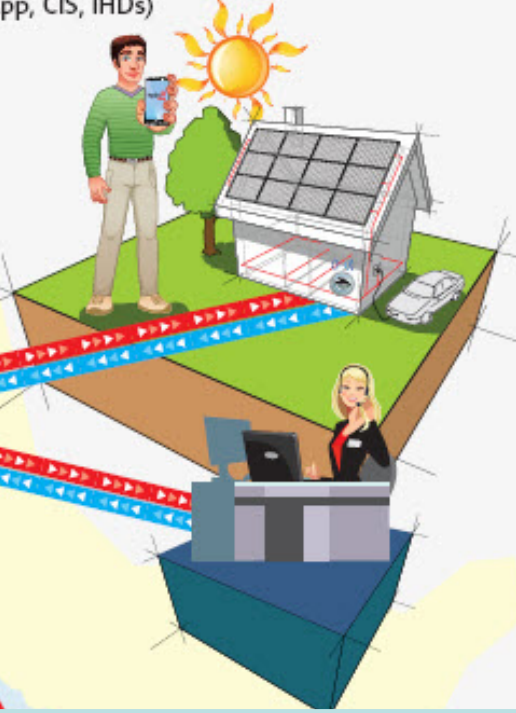
- SAP- for Asset Management, Supply Chain, Finance, HR and Customer Service

Operational Systems

- NMS, DMS, OMS, ODS, GIS

Consumers

- Enhanced customer service through new information and applications (Smart meters, TOU Portal, Outage App, CIS, IHDs)



Asset Management and Analytics

- Asset Analytics to optimize investment plans lowering maintenance and capital costs



Asset Analytics



A suite of tools to...

Make corporate data accessible

Analyze based on consistent risk factors

Visualize analysis and assets

Why?



Benefits

- Ability to make more effective investment decisions and invest in the highest impact highest criticality areas
- Rationalization of work programs
- Universally accessible visualizations of asset priority and status

How?

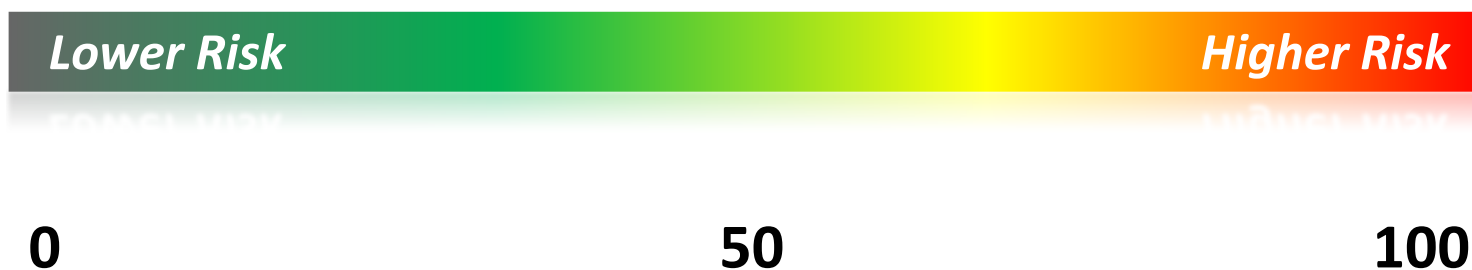


Overall Rating or Asset Risk is determined by assessing the following risk factors:

- Demographics
- Conditions
- Performance
- Criticality
- Utilization
- Economics



Asset Analytics *Demonstration*





Compensation Cost Benchmarking Study

October 16, 2013

Allan Cowan

Director, Major Applications

Iain Morris

Consultant, Mercer



Overview



- In the 1st Stakeholder Session for the 2015-19 Custom Distribution Rate Application held on April 29th, 2013; stakeholders inquired if the compensation study would be updated over the period?
- Hydro One listened and undertook a new Compensation Study in preparation for the 5 year Custom application.
- Mercer was selected through an RFP process as the vendor for the study.

COMPENSATION COST BENCHMARKING STUDY

Hydro One Network Inc.

16 October 2013



Preliminary Findings

Agenda

- Features
- 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 Average - Overall)

2013 Compensation Cost Benchmark Study Features

- **Below are some of the major features of this year's study:**
 - Assesses regulated Transmission and Distribution utilities' compensation costs benchmarks across Canada
 - Conforms to best industry standards for independence, testability and repeatable market-based 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 2011 and 2008 studies for peer selection, job classes, etc
 - Mirrors the questionnaire used in the 2011 and 2008 studies for ease of participation by returning participants

2013 Compensation Cost Benchmark Study Features (cont'd)

- Enables reasonable comparison to the 2011 and 2008 studies and provides trending analysis for Hydro One's next application
- To balance the repeatability and durability of results obtained, the scope of the 2013 study was enhanced by targeting the same benchmark jobs and adding 4 additional organizations to participate, in addition to the organizations that were invited to participate in 2011
- Meaningful and accurate comparison of the 2013 results to the 2011 and 2008 findings as a result of the similar approach and methodology to previous years' studies

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 2011 study

Benchmark Positions

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
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	<i>Regional Maintainer - Forestry*</i>
	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/Roustabout

Determining the Peer Group

- **Similar approach to the 2011 study:** Considered annual revenues or total assets between 33% and 300% of Hydro One's 2012 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}
Hydro-Québec	\$12,228.0	21,000
BC Hydro Power & Authority	\$4,898.0	5,862
Ontario Power Generation	\$4,732.0	10,691
EPCOR Utilities*	\$4,036.0	4,036
ENMAX Corporation	\$3,160.1	1,840
Toronto Hydro Electric System Ltd.	\$2,852.0	1,526
Enbridge Gas Distribution	\$2,400.0	2,200
TransAlta Corporation	\$2,262.0	3,140
Bruce Power*	\$2,103.7	4,200
Manitoba Hydro	\$1,902.0	6,637
SaskPower	\$1,862.0	3,000
New Brunswick Power	\$1,697.0	2,361
PowerStream Inc.	\$1,029.0	541
Enersource Corp*	\$822.0	374
Horizon Utilities Corporation*	\$114.7	404
75th %ile	\$3,598.1	5,031
50th %ile	\$2,262.0	3,000
25th %ile	\$1,779.5	1,683
Average	\$3,073.2	4,521
Hydro One	\$5,728.0	5,337

¹ Data as reported by survey participants

² Representative of full-time employees and equivalents only

* New participants in 2013

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)
 - Company paid portion

Total Compensation Methodology

- **Definitions and methodology:**
 - **Base Salary / Wage**
 - Effective date: July 1st, 2013
 - **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):**

- **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

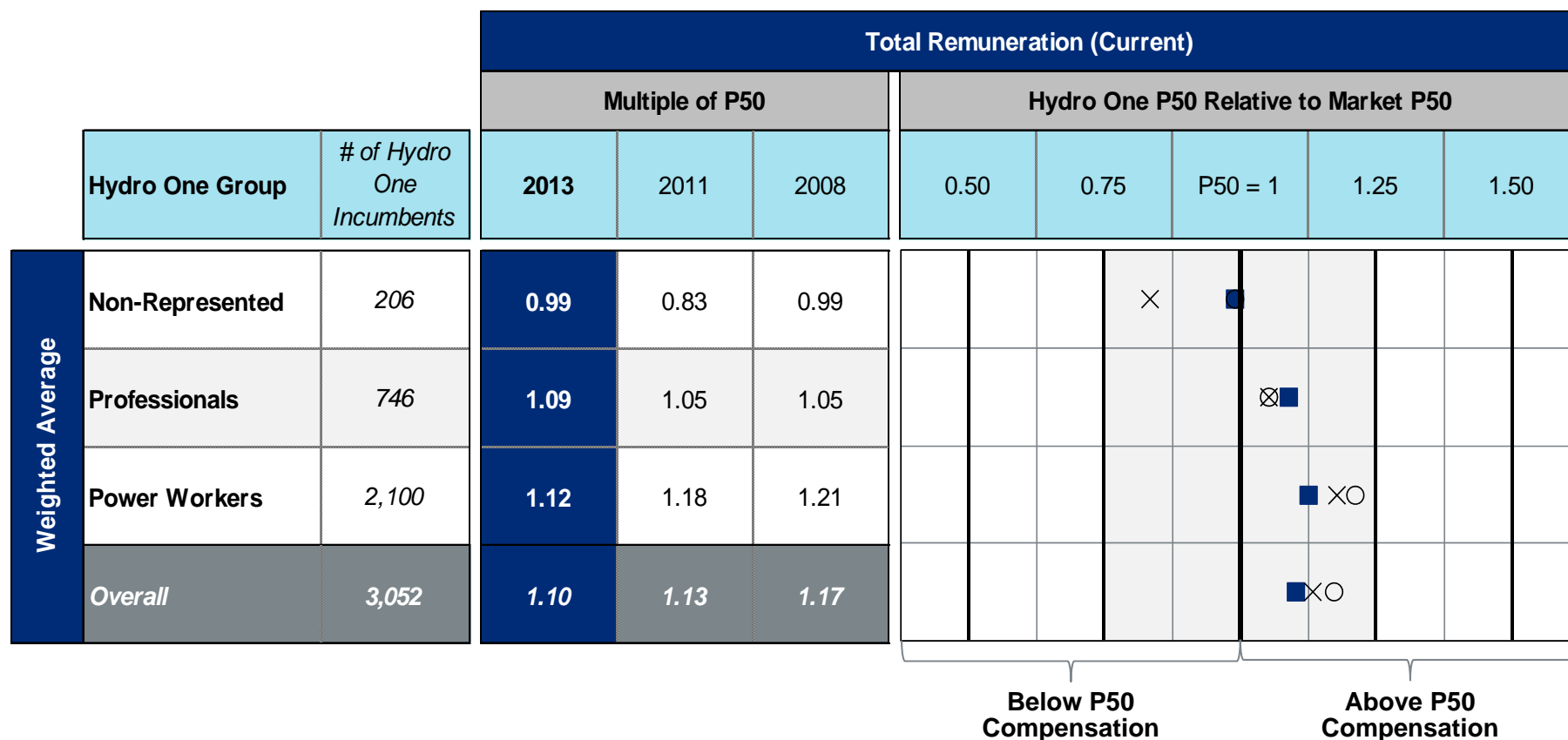
Preliminary Results

Overall – Total Compensation (P50)

Legend

- 2013 Hydro One Position Relative to Market
- × 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



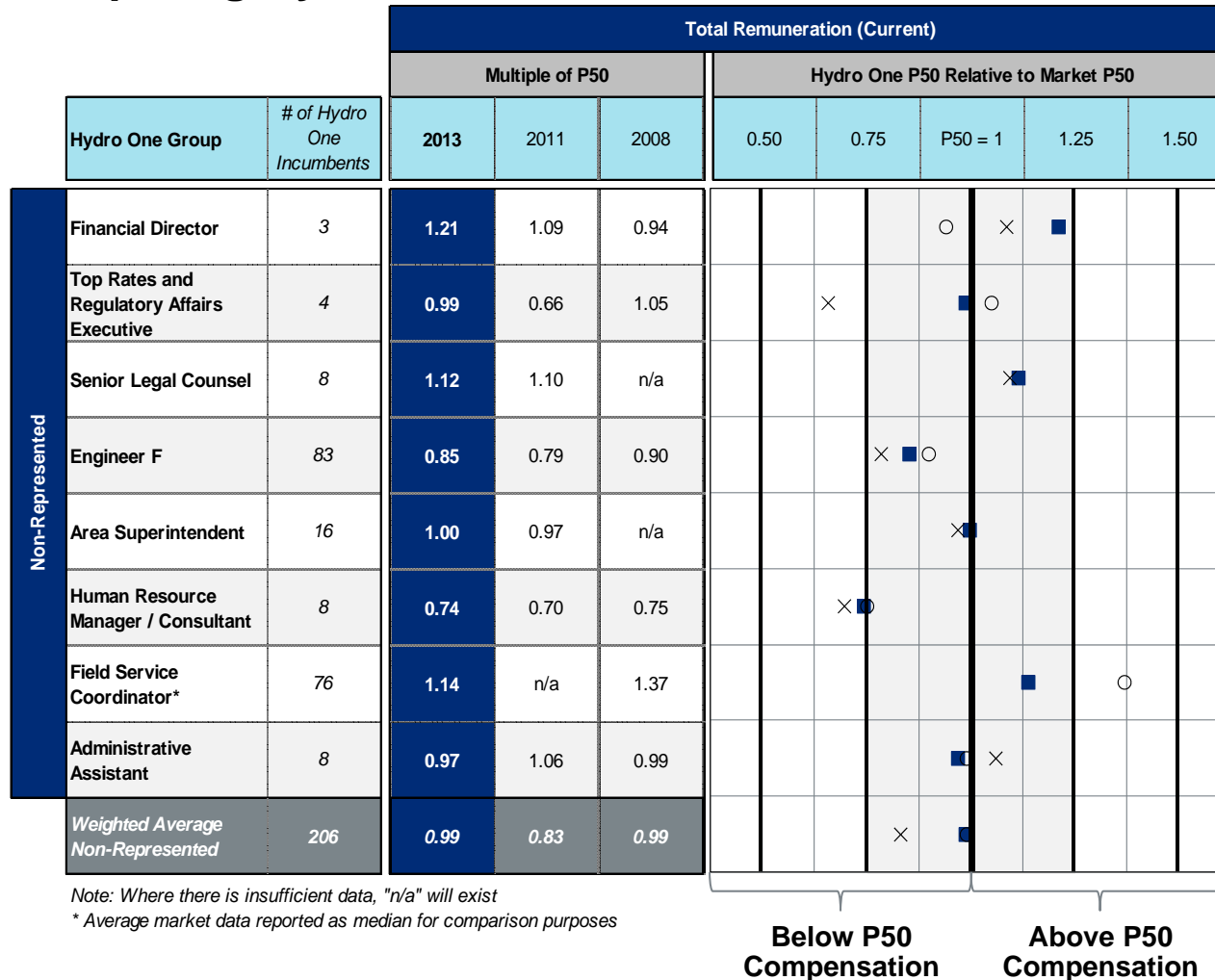
Preliminary Results

Non Represented - Total Compensation (P50)

Legend

- 2013 Hydro One Position Relative to Market
- × 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



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

Preliminary Results

Professionals - Total Compensation (P50)

Legend

- 2013 Hydro One Position Relative to Market
- × 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 Remuneration (Current)									
		Multiple of P50			Hydro One P50 Relative to Market P50						
Hydro One Group	# of Hydro One Incumbents	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50		
Professionals	Engineer E	132	0.97	0.97	1.01			■	○		
	Business Analyst C	15	1.38	1.28	1.18				○	×	■
	Engineer D	258	1.07	0.97	1.01			×	○	■	
	Engineer C	18	1.19	1.23	1.29				■	×	○
	Engineer B	271	1.12	1.12	1.14				■	○	
	Business Analyst A	11	1.30	1.14	n/a				×	■	
	Engineer A	41	1.12	1.14	1.01			○	■	×	
	<i>Weighted Average Professionals</i>	746	1.09	1.05	1.05			⊗	■		

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

Below P50 Compensation Above P50 Compensation

Preliminary Results

Power Workers - Total Compensation (P50)

Legend

- 2013 Hydro One Position Relative to Market
- × 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 Remuneration (Current)								
		Multiple of P50			Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	System Operator (Controller)	92	1.28	1.30	1.26				■ ×	
	Regional Maintainer - Lines (Supervisory)	92	1.24	1.31	1.43				■ × ○	
	Protection and Control Technician	82	1.30	1.38	1.26				○ ■ ×	
	Area Distribution Engineering Technician	180	1.23	1.27	1.22				○ ■ ×	
	Regional Maintainer - Lines	742	1.22	1.19	1.27				× ○ ■	
	Regional Maintainer - Electrical	238	1.17	1.27	1.29				■ × ○	

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

Preliminary Results

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

Legend

- 2013 Hydro One Position Relative to Market
- × 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 Remuneration (Current)								
		Multiple of P50			Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	Fleet Mechanic	68	1.21	1.27	1.20				● ×	
	Lineman - Journeyman	80	1.04	1.18	1.15			■ ○ ×		
	Service Dispatcher	20	1.41	1.45	1.42					■ ×
	Drafter II	33	1.30	1.44	1.28				● ×	
	Stock Keeper	49	1.37	1.43	1.42					■ ×
	Data Entry Clerk	63	1.21	1.27	1.13			○ ■ ×		

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

Preliminary Results

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

Legend

- 2013 Hydro One Position Relative to Market
- × 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 Remuneration (Current)								
		Multiple of P50			Hydro One P50 Relative to Market P50					
Hydro One Group	# of Hydro One Incumbents	2013	2011	2008	0.50	0.75	P50 = 1	1.25	1.50	
Power Workers	Production Field Administrator III	3	0.69	1.04	0.95		■		○	×
	Electrical Apprentice	53	0.76	0.98	n/a		■			×
	Lines Apprentice	285	0.87	0.95	n/a			■		×
	Meter Reader	10	0.93	0.87	1.13			×	■	○
	General Labourer/Roustabout	10	0.73	0.87	0.83		■		○	×
	<i>Weighted Average Power Workers</i>	<i>2,100</i>	<i>1.12</i>	<i>1.18</i>	<i>1.21</i>				■	○

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

Below P50 Compensation

Above P50 Compensation

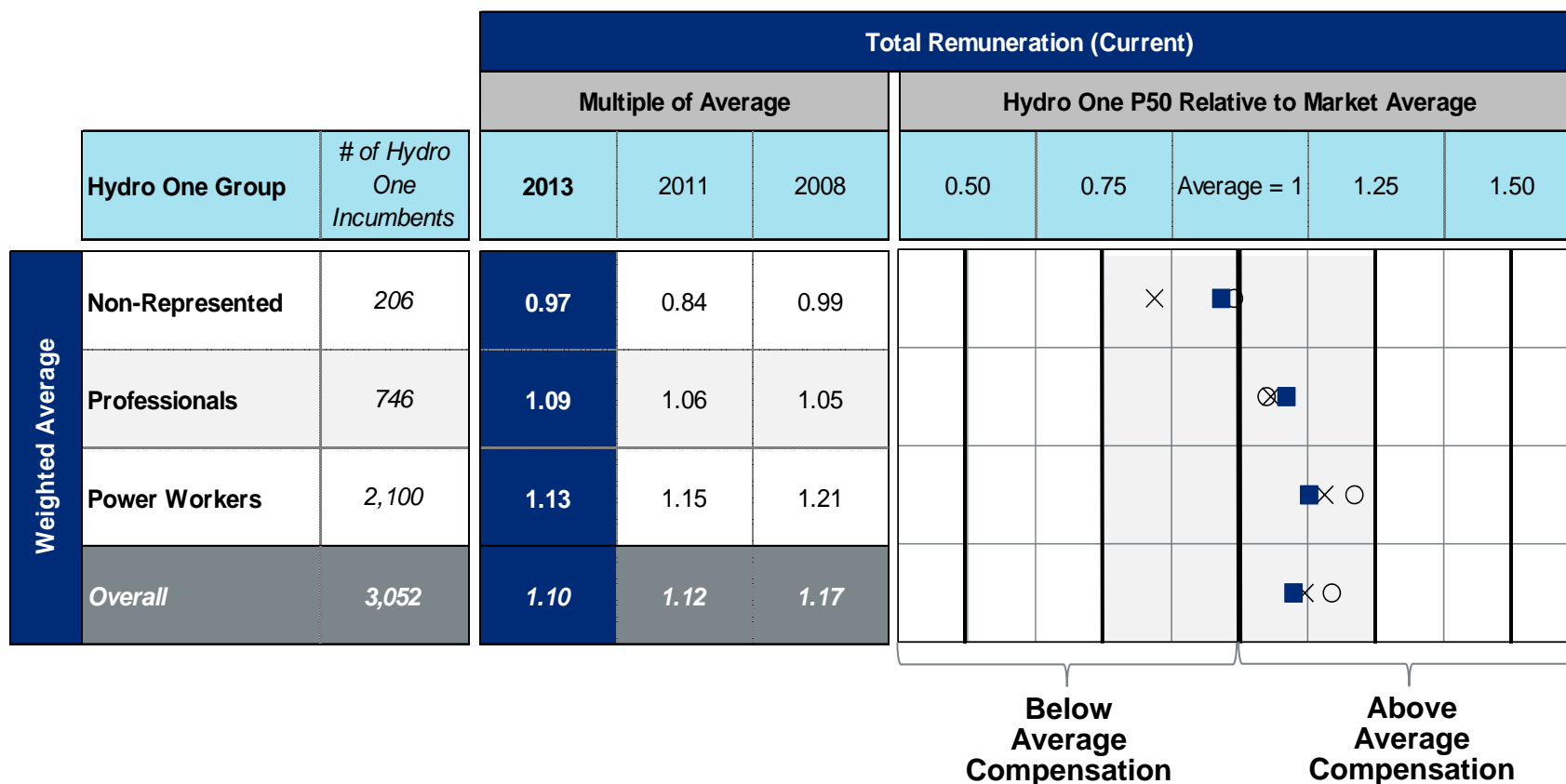
Preliminary Results

Overall – Total Compensation (Average)

Legend

- 2013 Hydro One Position Relative to Market
- × 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 average, by employee group







Thank you for attending!

Check our website for further information:

www.HydroOne.com/RegulatoryAffairs

Any questions or comments can be directed to:

Regulatory@HydroOne.com