

1 **Ontario Energy Board (Board Staff) INTERROGATORY #45 List 1**

2
3 **Interrogatory**

4
5 **Issue 3.3**

6 **Are the compensation levels proposed for 2009 and 2010 appropriate?**

7
8 Reference: a) ExhC1/Tab3/Sched2/p13

9 Preamble: Terms of Reference were prepared for the Mercer Canada Limited
10 compensation benchmarking and the Oliver Wyman productivity benchmarking.

11 Question

12 ∴ Please provide a copy of the terms of reference.

13
14
15 **Response**

16
17 Please see the following pages.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27



Hydro One Network Inc.
Request for Proposal

- Part 1: Instructions to Proponents**
Part 2: Commercial Terms and Conditions
Part 3: Terms of Reference
Part 4: Format for Submission
Part 5: Attachments

1
2
3
4
5

Hydro One Networks – RFP 21399 Compensation Cost Benchmarking Study Terms of Reference

6
7

1.0 BACKGROUND

8
9

1.1 Hydro One Networks Inc.

10 Hydro One Networks is an integrated Transmission and Distribution Utility which owns, operates
11 and maintains high voltage and low voltage electricity delivery assets in the Province of Ontario
12 and is responsible for delivering services to its customers, including supply reliability, power
13 quality, responses to customer inquiries and billing services. Hydro One Networks is wholly
14 owned by the Province of Ontario and is the leading electricity transmitter and distributor in
15 Ontario. The Transmission and Distribution Businesses are operated in an integrated manner,
16 utilizing the same workforce and many of the same business processes, systems and facilities.
17 The Hydro One Networks mission is to be an efficient and dynamic transmission and distribution
18 utility maintaining a constant attention to the development and retention of our employees, and
19 creating shareholder value.

20 Nearly all of Ontario's electricity transmission system is owned and operated by Hydro One
21 Networks. In 2006, the Transmission Business earned total transmission revenues of \$1,245
22 million primarily by transmitting approximately 151 TWhs of electricity, directly or indirectly, to
23 more than four million customers. The Hydro One Networks transmission system is one of the
24 largest in North America, and is linked to five adjoining jurisdictions through 26
25 interconnections. Through these interconnections, the Transmission Business can accommodate
26 imports of about 4,000 MWs and exports of approximately 5,800 MWs of electricity.
27

28
29

1.2 Electricity Regulation Framework

30 The Transmission and Distribution Businesses are separately regulated by the Ontario Energy
31 Board (OEB); and cost allocation approaches are used within the company to appropriately assign
32 costs to the Businesses. The OEB sets rates in proceedings through oral or written public hearings
33 based on the level of revenue required to operate our regulated Businesses and to earn our
34 approved rate of return on investment capital. Existing rates were set based on cost of service rate
35 regulation.
36

37
38

2.0 Hydro One Compensation Costs Study

2.1 Compensation Costs Study Framework

In its August 16, 2007 decision approving Transmission Revenue Requirements for 2007 and 2008, the Ontario Energy Board provided direction and other expectations for further information on compensation and efficiency comparisons.

The Board asked for a study that would provide "useful and reliable information concerning Hydro One's compensation costs, and how they compared to those of other regulated transmission and/or distribution utilities in North America."

Toward that end, the Board directed "Hydro One to consult with stakeholders about the type of information to be gathered and the types of utilities and other companies that should be used for comparison purposes."

The Board went on to describe its expectation that "Hydro One would gather and compare data reflecting total compensation costs" and would also provide an "analysis of size and trends of labour costs per unit of output of various sustainment, development and corporate activities".

The Board expects Hydro One to "provide empirical evidence which reveals the relative productivity of its workforce in comparison to other utilities".

Hydro One has interpreted comments from the Board to be asking a larger question, and that is whether or not every aspect of Hydro One's compensation program is reasonable, when compared to other regulated utilities.

Anecdotal evidence and stakeholder opinions continue to mount promoting a perception of an unreasonably high compensation package, particularly when that compensation program is evaluated including all employee benefits paid to and on behalf of employees.

2.2 Deliverables

Hydro One is undertaking this Compensation Cost Benchmarking project with the expectations that the project will:

- Select, with justifications, an appropriate group of businesses to use as comparators to Hydro One for compensation cost benchmarking;
- Determine the most appropriate compensation metrics that each of the chosen comparators can readily measure.
- Quantify Hydro One's Total Compensation Costs in comparison to other Ontario utilities, other like North American utilities, and other non-utility businesses competing in the same labour market;

- 1 • Evaluate the compensation costs of the benchmark group relative to the cost drivers, to
2 assess how reasonable Hydro One's compensation costs are compared to the benchmark
3 group;
- 4 • Identify and select utility labour cost drivers, including, but not limited to operational
5 productivity, reliability, dependability, safety, competition for new employees, franchise
6 characteristics, etc., to be incorporate into the benchmarking survey;
- 7 • Identify policies and/or practices used by utilities with respect to the determination of the
8 particular services that are provided by the utilities' own direct employees and those services
9 provide by contractors engaged directly or indirectly by the utilities, together with the costs of
10 such contractor provided services.
- 11 • Determine productivity metric(s) that relate work output to compensation and measure these
12 against the other comparators; and
- 13 • Be readily repeatable to permit periodic examination of Hydro One compensation cost
14 trends.

15
16 *For the purposes of this benchmarking analysis "Total Compensation Costs"*
17 *shall include the costs of all employee benefits, monetary compensation and*
18 *other performance rewards that are paid to, or on behalf of the employee.*
19
20

21 **3.0 SCOPE OF WORK**

22 3.1 Project Requirements*

23 **Part A**

- 24 1. Design a benchmarking study to deliver the Hydro One expectations outlined in section 2.2,
25 giving due regard to intent of the Ontario Energy Board decisions referenced in section 2.1.
26
- 27 2. Present the proposed study design and proposed criteria for cohort selection to a stakeholder
28 consultative for their understanding and input.
- 29 3. Meet with Hydro One to review suggested changes resulting from the consultative process,
30 and then commence the study based upon the Hydro One approved study plan.
31
- 32 4. Provide an interim progress report to a Hydro One steering committee, with a potential
33 requirement for a similar update to the stakeholder consultative, if requested by Hydro One.
34
- 35 5. Prepare a draft of the study report for presentation to the Hydro One steering committee.
36
- 37 6. Present the draft report to the stakeholder consultative, subject to any requirements for
38 confidentiality, to gain the feedback and comment from intervenors.
39
- 40 7. Present a Final Report to Hydro One for filing to the Ontario Energy Board.
41
- 42 8. The successful consultant will be expected to defend the study plan, findings and conclusions
43 within a regulatory proceeding. This would include all normal phases of a full hearing
44
45
46

1 including a written interrogatory phase, and other discovery processes defined by the
2 regulator, and a full, formal regulatory hearing, either oral or in writing, before the OEB.
3 This would also include the preparation of other related evidence, as necessary to support the
4 methodology and measures applied related assumptions on economic parameters, comparable
5 companies, etc.

6
7 9. Include in the study:

- 8
- 9 • The selection criteria for establishing a set of businesses used as comparators to Hydro One,
10 and the justification for their choice as suitable cohorts in the benchmarking study. Where
11 specific jobs are considered to be comparable to enterprises outside of the energy utility
12 sector, the benchmarking study should be expanded to include the wider group for that
13 specific job comparison.
 - 14
 - 15 • The criteria for selecting the compensation cost drivers, supported by the underlying
16 justifications.
 - 17
 - 18 • Findings and conclusions regarding the reasonableness of Hydro One's Total Compensation
19 costs relative to other transmission and/or distribution utilities, taking into consideration the
20 effects of the selected cost drivers.

21
22 10. Design the benchmarking study to be readily repeatable to permit a comparison trend analysis
23 for future reviews.

24
25 11. Prepare for and participate in a stakeholder consultative process relating to the benchmarking
26 study. This consultative process could involve as many as three (3) meetings, commencing
27 with input to the study design and the cohorts selection, study status reporting, if required,
28 and comments of the study draft. Hydro One wishes to fully inform the consultative about
29 the study, to the extent that "confidentiality" issues permit, with the objective of gaining their
30 endorsement of the process and the results. Hydro One will retain the right to unilaterally
31 decide any question related to the study.

32
33 12. Prepare a draft report for review by Hydro One on or before April 30th, 2008 and a final
34 report on or before May 30, 2008.

35
36 **Part B**

37 13. Participate fully, in cooperation with Hydro One, in the filing, discovery, hearing and
38 argument phases of the Ontario Energy Board review of the compensation cost benchmarking
39 study. Provide written responses to interrogatories on the study.

40
41 14. Defend the benchmarking study report and associated issues as an expert witness for Hydro
42 One as and when required (likely up to two days on the witness stand), before the Ontario
43 Energy Board at future Regulatory Hearings. This includes preparing expert witness
44 testimony.

45
46 *** Note: Preparation of the study and report outlined in Part A above should be**
47 **costed and a single lump sum price is to be provided. For Part B above, individual**

1 **per diem rates, as appropriate, with an estimated total hour allocation for this work**
2 **should be provided; expected reimbursable expenses must also be detailed.**

3
4 3.2 Consultant Requirements

5 The consultant required for this assignment must:

- 6 • Be able to provide all of the services outlined in Section 3.0
- 7 • Have expertise and proven experience in preparing and providing a utility benchmarking
- 8 study and recommendations in a regulatory environment
- 9 • Have in-depth knowledge and experience in applying general regulatory principles as
- 10 they apply to the project scope
- 11 • Have knowledge of specific practices and precedents within the regulated utility industry;
- 12 • Have significant experience in acting as an expert witness at rate hearings in the subject
- 13 areas covered by this work scope
- 14 • Be able to demonstrate that they have successfully completed similar work for other large
- 15 clients, on time and on budget
- 16 • Comply with Hydro One's Code of Business Conduct
- 17 • Comply to Hydro One Commercial Terms & Conditions; Insurance and WSIB

18
19
20 3.3 Schedule

21 The schedule for carrying out the activities in Section 4.0 is driven by Regulatory requirements
22 for a new rate order application to be submitted in early July 2008. The consultant shall base
23 their response to this RFP on meeting the following schedule of major milestones:

- 24
25 1. Participate in up to three, one-day stakeholder sessions: January – June 2008
- 26
27 2. Deliver the Draft Report: ASAP, no later than April 30, 2008
- 28
29 3. Deliver the Final Report: ASAP, no later than, May 30, 2008
- 30
31 4. Fully participate in the defense of the Benchmarking Report in an OEB hearing forecast to
- 32 occur in 2008 - 2009.