Hydro One Network Inc.
Request for Proposal

DRAFT ONLY

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Hydro One Networks – XXX
Compensation Cost Benchmarking Study
Terms of Reference

1.0 BACKGROUND

1.1 Hydro One Networks Inc.

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

Nearly all of Ontario’s electricity transmission system is owned and operated by Hydro One Networks. In 2010, the Transmission Business earned total transmission revenues of $XXX million primarily by transmitting approximately XXX TWhs of electricity, directly or indirectly, to more than four million customers. The Hydro One Networks transmission system is one of the largest in North America, and is linked to five adjoining jurisdictions through interconnections. Through these interconnections, the Transmission Business can accommodate imports of about 4,000 MWs and exports of approximately 5,800 MWs of electricity.

1.2 Electricity Regulation Framework

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

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 directed Hydro One to prepare a total compensation cost benchmarking study which would gather and compare data from other regulated transmission and/or distribution utilities in North America. As part of this study, Hydro One was also directed to (i) 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; and (ii) provide empirical evidence which reveals the relative productivity of its workforce in comparison to other utilities. Following this direction, Hydro One engaged Mercer to prepare a “Compensation Cost Benchmarking Study” (“the Mercer study”) which was submitted by Hydro One in September 2008 to the OEB as part of its application for 2009 and 2010 Transmission Revenue Requirement. The Mercer study can be downloaded here http://www.hydroone.com/RegulatoryAffairs/Documents/EB-2010-0002/EB-2008-0272%20Mercer%20Compensation%20Benchmarking%20Study.pdf

In its December 23, 2010 Decision approving Transmission Revenue Requirements for 2011 and 2012, the Ontario Energy Board provided direction and other expectations for further information on compensation and efficiency comparisons.

The Board directed “Hydro One to revisit its compensation cost benchmarking study [the Mercer study] in an effort to more appropriately compare compensation costs 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 how the Mercer study should be updated and expanded to produce such analyses”.

The Board went on to describe its expectation that Hydro One “be in a position to provide more robust evidence on initiatives to achieve a level of cost per employee closer to market value at its next transmission rate case. The Board will expect compensation increase to be matched with demonstrated productivity gains”.

### 2.2 Deliverables

Hydro One is undertaking this Compensation Cost Benchmarking project with the expectations that the project will:
- Review, expand upon and improve the previous Mercer (benchmarking) study completed for Hydro One;
- Select, with justifications, after reviewing previously used comparators, an appropriate group of businesses to use as comparators to Hydro One for compensation cost benchmarking;
- After reviewing previously used compensation metrics, determine the most appropriate compensation metrics that each of the chosen comparators can readily measure;
- Quantify Hydro One’s Total Compensation Costs\(^1\) in comparison to other Ontario utilities, other like North American utilities, and other non-utility businesses competing in the same labour market;
- Evaluate the compensation costs of the benchmark group relative to the cost drivers, to assess how reasonable Hydro One’s compensation costs are compared to the benchmark group;
- Identify internal productivity benchmarks used within peer groups and how or whether such measures could be used by Hydro One to benchmark their readily available internal data;
- Identify academic ‘best practices’ of internal utility productivity benchmarking and how or whether such measures could be used by Hydro One to benchmark their readily available internal data;
- Be readily repeatable to permit periodic examination of Hydro One compensation cost trends; and
- Provide a comparison, if appropriate, to the results of the previous compensation cost benchmarking study [the Mercer study] completed for Hydro One.

### 3.0 SCOPE OF WORK

#### 3.1 Project Requirements*

**Part A**

1. Design a benchmarking study to deliver the Hydro One expectations outlined in section 2.2, giving due regard to intent of the Ontario Energy Board decisions referenced in section 2.1.

2. Present the proposed study design and proposed criteria for cohort selection to a stakeholder consultative for their understanding and input.

3. Meet with Hydro One to review suggested changes resulting from the consultative process, and then commence the study based upon the Hydro One approved study plan.

4. Provide an interim progress report to a Hydro One steering committee if requested by Hydro One.

5. Prepare a draft of the study report for presentation to the Hydro One steering committee.

6. Present the draft report to the stakeholder consultative, subject to any requirements for confidentiality, to gain the feedback and comment from intervenors.

7. Present a Final Report to Hydro One for filing to the Ontario Energy Board.

8. The successful consultant will be expected to defend the study plan, findings and conclusions within at least one and potentially two regulatory proceedings. This would include all normal phases of a full hearing including a written interrogatory phase, and other discovery processes defined by the regulator, and a full, formal regulatory hearing, either oral or in writing, before the OEB. This would also include the preparation of other related evidence, as necessary to support the methodology and measures applied related assumptions on economic parameters, comparable companies, etc.

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\(^1\) For the purposes of this benchmarking analysis “Total Compensation Costs” shall include the costs of all employee benefits, monetary compensation and other performance rewards that are paid to, or on behalf of the employee.
9. Using the Mercer study as the starting point, include in the study:
   • The selection criteria for establishing a set of businesses used as comparators to Hydro One, and the justification for their choice as suitable cohorts in the benchmarking study. Where specific jobs are considered to be comparable to enterprises outside of the energy utility sector, the benchmarking study should be expanded to include the wider group for that specific job comparison.
   • Utilize the same compensation metric as applied in the Mercer study i.e. base pay, total cash and total remuneration.
   • Findings and conclusions regarding the reasonableness of Hydro One’s Total Compensation costs relative to other transmission and/or distribution utilities, taking into consideration the effects of the compensation metric.
   • A summary of specific modifications from the Mercer study and an assessment of the impact of such in using the Mercer study results for comparative purposes. If appropriate, use the Mercer study results for comparative purposes.
   • A summary report on internal productivity measures used within the peer group and how or whether such measures could be utilized by Hydro One with readily available internal data.

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

11. Prepare for and participate in a stakeholder consultative process relating to the benchmarking study. This consultative process could involve as many as two (2) meetings, commencing with input to the study design and the cohorts selection, and presentation of the study draft. Hydro One wishes to fully inform the consultative about the study, to the extent that “confidentiality” issues permit, with the objective of gaining their endorsement of the process and the results. Hydro One will retain the right to unilaterally decide any question related to the study.

12. Prepare a draft report for review by Hydro One on or before XXX and a final report on or before XXX.

Part B

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

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

* Note: Preparation of the study and report outlined in Part A above should be costed and a single lump sum price is to be provided. For Part B above, individual per diem rates, as appropriate, with an estimated total hour allocation for this work should be provided; expected reimbursable expenses must also be detailed.

3.2 Consultant Requirements

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

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

1. Participate in up to three, one-day stakeholder sessions: XXX
2. Deliver the Draft Report: XXX
3. Deliver the Final Report: XXX
4. Fully participate in the defense of the Benchmarking Report in an OEB hearing forecast to occur in XXX