Compensation Cost Benchmark Study Stakeholder Session

Monday May 30, 2011
9:30 – 12:00 p.m.
Mandarin Ballroom B
Metropolitan Hotel
108 Chestnut Street, Toronto

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The presentation materials used in this session and background materials can be found at this link: **http://www.hydroone.com/RegulatoryAffairs/Pages/TxRates.aspx**

Participant References

STAKEHOLDERS

Mike Belmore—The Society of Energy Professionals
Marion Fraser—Canadian Energy Efficiency Alliance
Julie Girvan—Consumers Council of Canada
Shelly Grice—Association of Major Power Consumers in Ontario
Bill Harper—Vulnerable Energy Consumers Coalition
Jan Hodgson—Ontario Power Generation
Bayu Kidane—Power Workers' Union
David MacIntosh—Energy Probe
Harold Thiessen—Ontario Energy Board staff
Frank White—The Society of Energy Professionals
Marcie Zajdeman—Brookfield Asset Management

Hydro One

Enza Cancilla—Hydro One
Allan Cowan—Hydro One
Bohdan Dumka—Hydro One
Susan Frank—Hydro One
Keith McDonnell—Hydro One
Vicki Power—Hydro One

Mercer

Iain Morris—Mercer
Kristi Robins—Mercer
Mike Thompson—Mercer

OPTIMUS|SBR

Bob Betts—OPTIMUS|SBR
Angela Boychuk—OPTIMUS|SBR
Miles Smit—OPTIMUS|SBR

START 9:35am

1.0 Welcome by Allan Cowan

Allan Cowan welcomed all participants to the second stakeholder consultation on the pending compensation cost benchmarking study. Following the initial (February 10, 2011) meeting, the Request for Proposal (RFP) was issued and Mercer was selected as the consultant. Mercer will use the current session to communicate its planned approach to stakeholders and to gather stakeholder insights and information before finalizing the survey.

Allan then introduced Bob Betts, of OPTIMUS|SBR, the session's facilitator.

2.0 Bob Betts' Presentation

9:40am

Bob Betts welcomed all participants and reviewed items agreed for follow-up from the Feb 10 session.

Bob covered housekeeping items including emergency exits and instructions. Note-taking will be provided by OPTIMUS|SBR. Bob indicated that the meeting would be recorded but that the recording would be disposed of once the notes of the meeting were accepted. He also indicated that the comments of participants would be attributed to them, unless they expressly requested that they be "off-the-record".

Bob then reviewed the agenda for the meeting and advised of some meeting process rules, summarizing the background of this current study and the Board's directives, and reviewed the key points of agreement that resulted from the Feb 10 consultation. He introduced Iain Morris from Mercer to present the planned approach.

3.0 Compensation Cost Benchmark Study preview and Q&A, with Iain Morris, Mercer

10:00am

Iain introduced the Project Team, outlined Mercer and Oliver Wyman's capabilities and expertise. He indicated that while their mandate has been largely fashioned through the RFP, they are here to gather additional detailed input from interested stakeholders in order to finalize their work plan. He went on to say that the Mercer/Oliver Wyman team have developed many best practices and proven approaches to these kind of studies and will explain those to stakeholders if they should conflict with suggestions from the group. Ultimately, they must stand behind the report as it is presented to the Ontario Energy Board and they reserve the right to exercise the judgement in producing the best result possible. He invited all participants to ask questions and challenge concepts as they arise.

Mercer's mandate for this study is to provide:

- A reliable and repeatable study, improving on the initial 2008 study;

- Productivity metrics used by regulated transmission and distribution utilities – omitting specific results and statistics, to encourage participation and protect confidentiality;
- Recommended internal productivity measures;
- Defensible findings and recommendations as required – employing Mercer's proprietary standards and methodologies.

Iain Morris added that the report on metrics recommended for internal performance assessment is intended to allow trending information on a go-forward basis. In the last Mercer study, they found utilities were very reluctant to provide productivity metrics that they could be challenged to justify in their respective jurisdictions. In this case, the intention is to survey participants to establish what would be considered appropriate metrics for productivity measurement. It is hoped through this approach the request will result in greater survey participation.

Bayu Kidane asked how the Board direction that compensation increases should match productivity gains would be met, adding that he understands that this will not be another attempt at a productivity comparison among utilities.

Iain Morris confirmed that this would not be another productivity comparison study among utilities but said that Mercer will establish a set of metrics as a baseline to look at Hydro One productivity performance and align compensation changes with productivity gains on a go-forward basis. Allan Cowan added that the Board emphasized developing internal productivity comparisons. It is difficult to make external comparisons, as organizations are reluctant to share data. As a result, data suitable for like-to-like assessments are not available.

Bayu Kidane also asked if the internal measures will be used for the next application. Allan Cowan indicated the next application will identify metrics from this study and establish a reference anchor, but that it would be unlikely that there would be trending analysis available at that point in time.

In his presentation, Iain reviewed the approach for customized benchmarking surveys:

1. Determine survey sample and jobs to be benchmarked – framing the marketplace, and canvassing the comparators' organizations' total compensation;
2. Design survey – Interest in shared results will determine if they will participate. The challenge is creating a survey that is comprehensive but easy to complete quickly;
3. Identify method of contact;
4. Test survey and modify as needed;
5. Collect data and analyze – clarify data, ensure job matching, answer questions from participants, and resolve discrepancies.

Iain Morris emphasized that it is key to protect confidentiality of participant's information in order to receive participation in the study.

Iain Morris summarized some challenges to benchmarking for total compensation cost in the Canadian market:

- Small sample size within the utility sector. The industry sector offers a much larger sample base, and may include appropriate comparators for Hydro One. The challenge is ensuring comparable jobs, especially for managerial or one-off roles;
- Regional differences in the compensation market can be significant. Cost of living and cost of labour are not always clearly correlated. Mercer will look at regional pay differences. Cost of living is highly variable, but employers are slow to adjust pay to account for cost of living.

Susan Frank asked how regional cost of living differences impact compensation costs. Iain Morris replied that over a long period of time, there is some correlation; however, there are many examples of delinking also, citing the Vancouver market as an example. Furthermore, he noted that many large corporations do not have regional pay structures, which serves to disassociate compensation from regional cost of living. For the survey, the focus is on cost of labour. Mercer seeks a representative sample, balanced by region, with rigorous means for comparison and minimally-adjusted numbers.

Susan Frank also questioned if rural areas have different impact on cost of living and therefore the cost of labour than urban areas. Iain Morris advised that typically many employers don't differentiate wage structures by location. Some differences are evident when looking at small employers in local markets, but generally not the larger corporations.

Mike Belmore asked why Quebec is seen as a unique market. Iain Morris responded that Quebec has more senior / executive level jobs that have pay levels lower than elsewhere particularly in the broader public sector; the reason is assumed to be that employees in Quebec are significantly less mobile than their counterparts in English speaking Canada. The sample in this case is not heavily weighted towards Quebec.

Iain Morris offered a few points on the sampling strategy:

- Cross-border compensation comparisons are treacherous. US-Canadian concerns struggle when trying to set up parallel pay structures due to, e.g., the high cost of benefits in the US and steeper pay lines in the US. Currency is another challenge, as there was a 30% swing in exchange since 2008, making it difficult to prepare a repeatable study;
- The sample selection process requires an understanding of the chosen organizations' underlying compensation philosophies.

Julie Girvan asked how Mercer would fulfill the Board's direction to review the overall North American market.

Iain Morris advised that US organizations will be canvassed for productivity metrics. On pay comparison, currency issues, different labour market and different philosophies are reasons why US information will not provide an effective comparison for Hydro One.

Bill Harper asked if the 2008 study included a significant sampling of US utilities.

Iain Morris confirmed that it did not include US companies.

Mike Belmore asked for a fuller explanation on the last bullet point and why the selection process requires an understanding of the chosen organizations' underlying compensation philosophies.

Iain Morris advised that it means they would focus on information from organizations with similar complexity, types of roles, similar tech content and regulatory environments.

10:35am Morning Break

10:50am
Iain Morris continued.
Mercer's recommended approach is an integrated survey to benchmark costs and identify productivity measures:

- From Canada, compensation benchmarking at comparable organizations and identifying internal productivity measures for tracking over time;
- From US reporting internal productivity metrics and any productivity reporting requirements for electricity utilities.

The 2011 Compensation Cost Benchmark Study will utilize a similar methodology to the 2008 Mercer study. The study needs to be repeatable. While they look for areas of improvement, the core of the study will be the same in order to do comparisons. The data collected will be the same as before and the data collection process will be streamlined. The analytical methodology will remain the same, by using the standard assumption for pension and valuing benefits, while the core participant list and core benchmark jobs will be expanded slightly.

Benchmarked jobs will be reviewed carefully to ensure relevance and population size.

To ensure an appropriate sample selection Mercer will use Canadian companies with total assets between 33% and 300% of Hydro One and reviewed to consider including some additional LDCs, such as PowerStream or Hydro Ottawa. In the previous study only Toronto Hydro was a suitable comparator.

In the previous study, Mercer invited companies from other regulatory environments to participate. A majority declined to participate due to lack of interest or comparable jobs, concerns about confidentiality, etc. Mercer recommends re-using the willing participants from 2008.

Frank White asked for comments on a planned approach constrained to the product market rather than the alternative of looking at a broader labour market.

Iain Morris answered that a consistent market is needed, with a representation of skills and roles similar to Hydro One.

Frank White also asked whether the information from the benchmark jobs could be supplemented with Mercer's 1100-job database covering base pay and total cash.

Iain Morris advised that there would be significant difficulties in comparisons, as total compensation is not covered by the database.

The same Peer Groups from the 2008 study will be invited to participate again for this year's study. They will look for new participants but they need to be aware that dropping or adding participants will affect the sample differently. They need to minimize the amount of change.

Other companies with similar regulatory environments were invited to participate in 2008. Only Bell, Enbridge, TransAlta participated fully, with limited information from TransCanada.

Susan Frank commented that some relevant utilities are excluded, and having more participants would enrich results. She asked what is being done to get other participants, to ensure that the results are as definitive as possible.

Iain Morris answered that the last study had a robust sample with the number of organizations and that the results were credible. However, the study is meant to be repeatable as compensation will change over the years and as such the group should be one that will dependably participate whenever the study is repeated.

Susan Frank continued by asking Mercer if they were saying that even by getting the same group to participate as did in the 2008 study, that study results would be good.

Iain Morris replied by saying that the results from the 2008 study were considered very credible, and that group of participants should be the target group again. Additions will be made judiciously, with a focus on maintaining credibility and ensuring repeatability.

Bayu Kidane asked how the Board direction that the study be updated and expanded will be met.

Iain Morris indicated that a few (likely 2 or 3) organizations could be added, as could a number of benchmarked jobs. The study needs to be similar to enable comparisons but there will be changes and Mercer needs to be thoughtful in the change, ensure robust size and add jobs that may be needed to represent different functions and organizational levels.

Mercer will look at individual jobs, jobs in aggregate, balanced number of jobs (they usually recommend 30 – 40 in a survey like this one, as with the last study) and ensure like-to-like comparisons. Mercer uses a job-matching standard of 80% on skills, responsibility and content.

Susan Frank asked what percent of the employee population is sufficient to get a complete picture.

Iain indicated that the last study represented 47% of the population and the target is 50%+ for this study, predominantly full-time employees.

Julie Girvan asked how the 30–40 job target related to the 50% target.

Iain responded by saying that in the last study 30 jobs represented 47% of the population.

Iain previewed the elements of total compensation that they look at. They will focus on items that can be monetized – base salary, short-term incentives, long-term incentives, insured benefits, retirement and savings plans and pay for time not worked.

Susan Frank asked what the time frame would be for the compensation survey data.

Iain Morris advised that the study will be a snap shot in time with an effective date of April 1, 2011.

Susan also asked how the study will address experienced employees (e.g. a given accountant job with 5 years versus 10 years' experience.)

Iain Morris advised that they will look at actual rates of pay rather than pay design, typically assuming similar experience distributions in a mature work force, with junior and senior roles balanced. The study will focus on comparable jobs, and identify key job content. The sample must be representative of the organization and represent marketplace trends.

Regarding Productivity Metrics in this study, there will be no comparison of Hydro One productivity to the market. The aim is to gather data on which productivity measures are being used by utilities and US regulators and supplement that with Oliver Wyman's expertise on total rewards, etc.

Mercer will work with Hydro One to understand internal metrics currently used or under development in the organization, to further understand unique business, market and territory characteristics, to understand key cost drivers, to share knowledge of practices and to recommend performance metrics to track and improve over time.

Susan Frank asked all of the parties in the room whether they thought that the Board's focus is actually on labour productivity, or does it include other measures of productivity such as capital productivity. After some discussion around the room, the consensus appeared to be that the Board is looking for productivity metrics that relate to compensation cost.

Julie Girvan asked if there are other studies that cover North America overall.

Iain Morris said he was not aware of any.

Iain restated the design principles to be used to ensure a survey and results that are:

1. Objective;
2. Simple;
3. Independent, testable, repeatable;
4. Not attributable to participants;
5. Group surveys – will use the same selection criteria, conduct assessment to expand and increase sample, add more benchmark jobs, increase percentage of population;
6. Compatible in scope to Mercer study of 2008;
7. Comparable for trending analysis.

Iain reviewed each of the Key Points of Agreement from the Feb 10, 2011 Consultative meeting and confirmed that each will be addressed in this study. Specifically with respect to the question of the mean or the median and a question from Frank White, Iain indicated that studies such as these almost universally use the median because it is more representative of the middle of the market and a better comparison for the study. It also tends to be a more stable number and less influenced by extremes within the survey participant group.
Frank White stated for the record that he believes Mercer should look at both median and mean values, since the main effort is in data collection, not analysis.

Mercer seeks to avoid using multiple measures. Mean averages are distorted more by outlier values than are medians; therefore the industry standard for compensation studies is to use median values. Iain Morris expressed his concern on behalf of Mercer that the mean could confuse the comparisons and reduce the credibility of the study.

Mike Belmore commented that if there were two different number sets [i.e. mean and median], the Board and stakeholder groups will be able to debate on the meaning and the Board will make a decision.

Mike Thompson advised that with small survey samples, it is very difficult to preserve confidentiality of data when mean values are disclosed. With very large samples, breaking out means and distributions is more plausible.

Bob Betts restated the agreement of all parties in the February 10, 2011 consultative that the use of means / medians will be left to the discretion of the consultant.

In addition to designing the survey and the targeted sample, action Items sitting with Mercer include:

1. Defining the approach for assessing pension and benefits data;
2. Soliciting productivity metrics used elsewhere;
3. Process for designing recommended productivity metrics.

This concluded Iain's presentation and he asked for further questions.

Julie Girvan expressed her opinion that expanding the survey group would be useful.

Bayu Kidane requested that the study include a list of limitations and deficiencies.

Iain responded by summarizing the approach to the study--to sample organizations and jobs that will be representative and will meaningfully compare Hydro One compensation costs to the relevant market. Standard assumptions are made to estimate pensions and benefits using Mercer's expertise and actuarial norms. The only limitations and deficiencies are those that exist in all surveys and studies of this kind, primarily comparability of survey participants, and the degree and quality of the participation in the survey

Bill Harper raised the distinction between productivity metrics requested by regulators, metrics which are calculated by regulators, and measures derived or applied by the organizations themselves. He commented that it might be useful to ask for each of these in the survey.

4.0 Close

12:00pm

Allan Cowan concluded the meeting, thanked participants, Iain Morris and Bob Betts, and outlined next steps.

Mercer will finalize its survey design, using inputs from the session, with the aim of sending out the survey before summer vacation. Once they have all the results, it will be analyzed and shared with this consultative in the fall, hopefully in the September timeframe.

Hydro One plans to submit a 2-year Distribution application in Nov 2011 and a 2-year Transmission application in April 2012. For the Distribution application, business planning has begun and HONI is looking at potential stakeholder sessions around June 22-29 to report on Accounting issues and the advancement from 2016 of the Customer Information System (CIS) replacement.

ADJOURN 12:05pm

APPENDICES

A. Summary

The topic was approached by way of a brief review of the prior Stakeholder discussion in February 10, 2011 and a thorough introduction by Mercer consultants to their intended approach.

An open Q and A was held throughout the proceedings, allowing Stakeholders to query Mercer about the methods, samples and benchmarked jobs to be used.

Detailed conversation focused on the most significant and relevant factors affecting compensation. The possibility of determining national, regional, local and sector-specific compensation cost drivers was reviewed at length. Further, concepts such as cost of living and cost of compensation were clarified and distinguished.

Mercer outlined, and fielded questions regarding the two key tracks to be pursued:

1) assessing comparator compensation costs, and;

2) identifying productivity measures used at comparable entities.

Mercer further led a discussion of the separate respondent pools and methodologies needed for each track of the study.

Clearly-stated opinions were candidly offered from a variety of perspectives. A broad, inclusive focus led to productive discussion about the meaning of the Board's direction and the optimal capture and use of market trends to help guide Hydro One's compensation practices in coming years.

B. Key Points of Agreement

1) The revised Compensation Cost Benchmarking Study will, as much as possible:

   a) Assess regulated Transmission and Distribution utilities' compensation cost benchmarks appropriately across Canada, and productivity measures across North America;

   b) Be short and simple to entice the maximum number of survey participants;

   c) Conform to best industry standards for independence, testability and repeatable market-based assessment;

   d) Assure participants categorically by the study's design, methodology and process that respondent information cannot be attributed or inferred;

   e) Mirror the scoping included in the 2008 study for peer selection, job classes, etc, and expanded selectively to increase the % of employees benchmarked and otherwise enhanced, as recommended by the consultant;

f) Enable reasonable comparison to the 2008 study and provide trending analysis for Hydro One's next application, with an eye to illuminating possible paths to improved productivity;

g) Use the most appropriate and practicable metrics and averages;

h) Rely on the expertise of the selected consultant to recommend appropriate changes in methodology and assumptions.

2) To balance the repeatability and durability of results obtained, the consultant will selectively attempt to enhance the scope of the 2008 study by targeting additional benchmarked jobs and, potentially, additional comparators.

3) The consultant must determine the proper standards and measures for its report, but will consider the merits of approaches (including mean and median measures, as well as jurisdictions, regions, sectors and specific comparator organizations and jobs for inclusion) suggested by various stakeholders.

C. Meeting Agenda

Stakeholder Consultation

Compensation Cost Benchmarking Study in Support of
Hydro One Rate Applications

AGENDA
May 30, 2011
Metropolitan Hotel
108 Chestnut Street, Toronto
Mandarin Ballroom B, Lower Level
9:00 a.m. – 12:00 p.m.

9:30 a.m.	Welcome	Allan Cowan, Director, Major Applications, Hydro One Networks
9:40 a.m.	• Introductions • Background on Compensation Cost Benchmarking Study • Key Points of Agreement from February 10th Stakeholder Session	Bob Betts, Facilitator, OPTIMUS|SBR
10:00 a.m.	Approach to Compensation Cost Benchmarking Study & Facilitated Discussion	Ian Morris, Mercer and Bob Betts
10:45 a.m.	**BREAK**	
11:00 a.m.	Approach to Compensation Cost Benchmarking Study & Facilitated Discussion (Continued)	Ian Morris, Mercer and Bob Betts
11:45 a.m.	Next Steps and Closing Remarks	Bob Betts/Allan Cowan
12:00 p.m.	**Adjourn**	