

30 May 2011

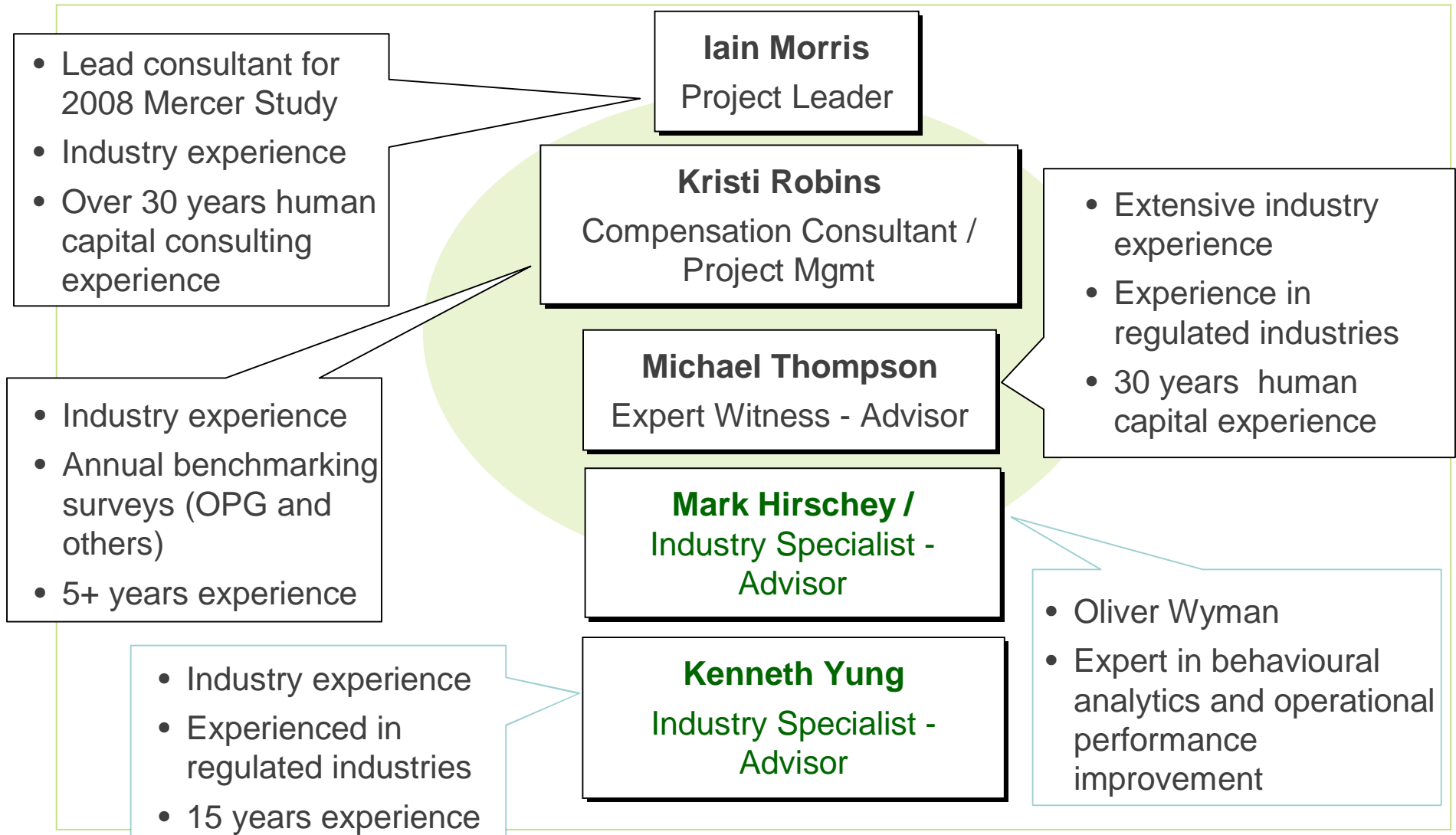
Hydro One Networks Inc. Compensation Cost Benchmark Study



Today

- Introduction & Overview
 - Mercer & Oliver Wyman
 - Our Mandate
- Our Approach
 - Total Compensation Cost Benchmarking
 - Productivity Measures & Consulting Advice
- Further Discussion and Next Steps

Introduction – Mercer Project Team



Introduction - Our Energy and Utilities business

Over 75 of the largest energy/utility companies & unregulated service providers, across North America.



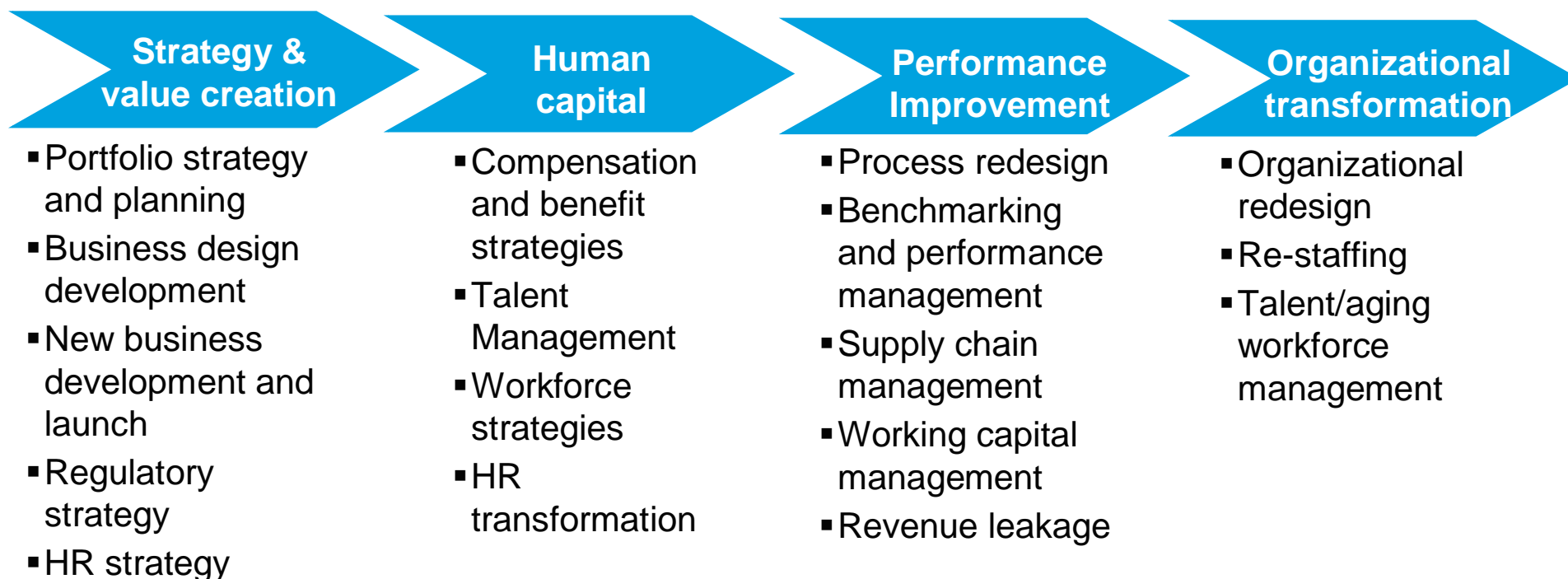
- About Mercer
 - Consulting, investment, outsourcing
 - 17,000 employees in 180 cities in 41 countries
 - Over 1,500 in Canada
 - Dedicated Human Capital business (over 60 in Canada)
- About Oliver Wyman (formerly Mercer Management consulting)
 - General management consulting
 - 2,500 employees in 40 cities in 16 countries
 - Dedicated global Utility business

Mercer and Oliver Wyman have a successful track record in delivering value, as evidenced by our many long-term client relationships.

Introduction – Our Capabilities

Our energy & utility practices help clients create value by providing strategic and operational consulting advice to address the issues facing energy & utility companies.

Enterprise-Wide





Introduction – Mercer Survey Expertise

- Annually, Mercer conducts more than 1,000 rewards surveys in over 100 countries
- Mercer's benchmark TRS (Total Remuneration Survey) is conducted in more than 100 locations worldwide
- Industry focused surveys include:
 - Chemical Industry
 - Consumer Goods Industry
 - Energy
 - Global Marketing Survey
 - High-tech Industry
 - Pharmaceutical Industry
 - Other Industries: retail industry, hospitality and more
- Other surveys include: quality of living, cost of living, employment policies & practices
- Global standards, methodology, and analysis



Introduction – Our Mandate

- Reliable and “repeatable” total compensation cost benchmarking study
 - improving on the “Mercer Study”
- Identify internal productivity measures used by other regulated transmission and distribution utilities in North America
- Recommend internal productivity measure for Hydro One based on:
 - Key performance/productivity metrics
 - Labour cost drivers
 - Network characteristics
- Defend our findings and recommendations as required

Our Approach – Benchmarking

Our general approach to custom surveys

Determine
survey sample
and benchmark
jobs

- Select comparator companies based on scoping criteria
- Select benchmark jobs to include in survey
- Identify contacts within target organizations

Design survey

- Identify clear objectives
- Select specific data requirements including rewards elements, demographics, etc.
- Create detailed survey data collection tool and results templates

Identify method
of contact

- Identify method of contact (e.g., one-on-one discussions, phone calls, emails)
- Coordinate logistics to ensure consistent approach, e.g., using pre-structured teams

Test survey and
modify as
needed

- Test completed survey based on length of time to complete and level of responsiveness
- Modify survey as needed

Collect data and
analyze results

- Distribute surveys
- Collect raw data
- Review submitted data and clarify as needed and conduct analysis

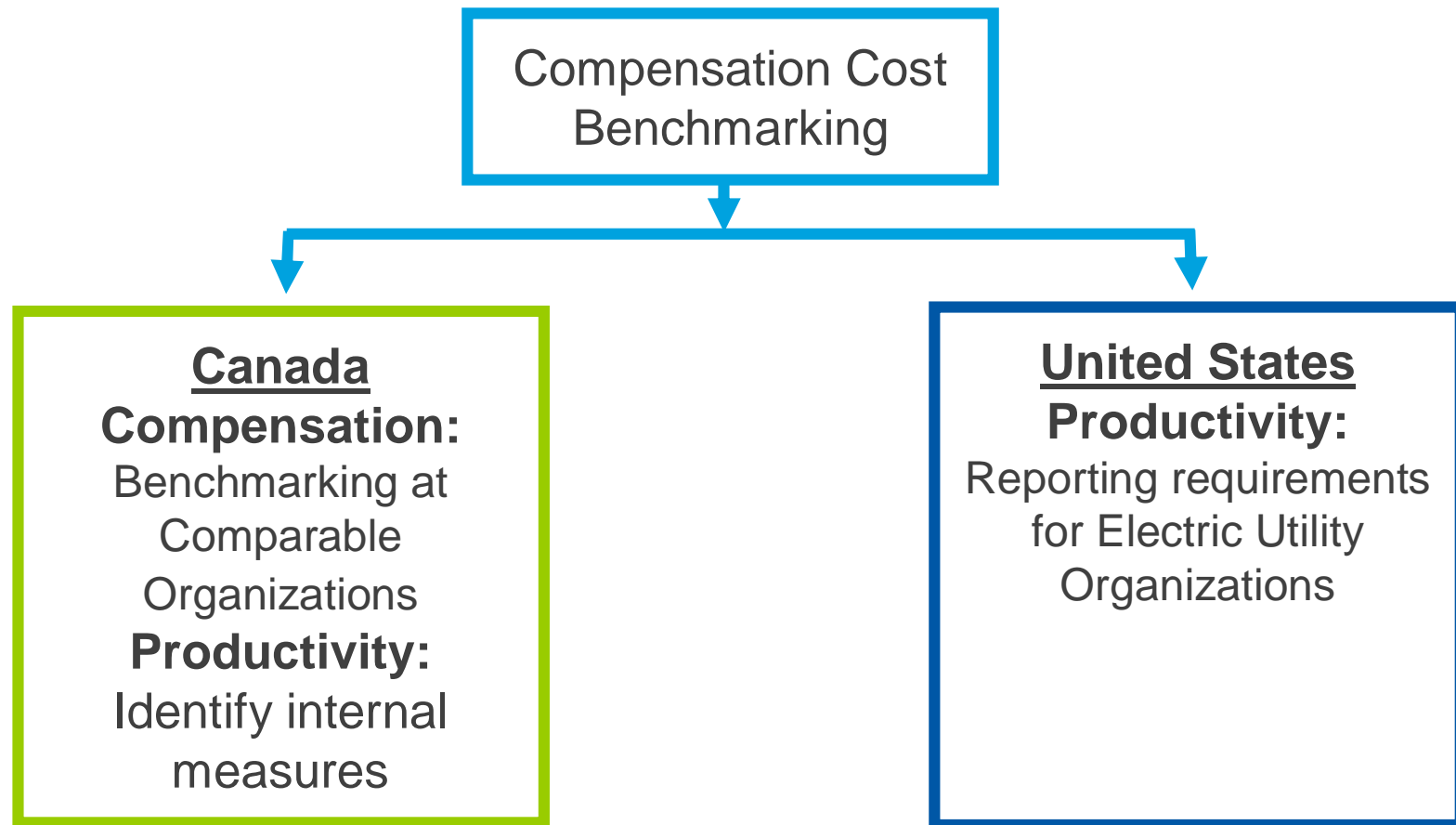
Total compensation cost benchmarking

Challenges in the Canadian market

- Specific industry samples are usually limited by the market size
- Regional differences in the compensation market can be significant
 - Today greatest private sector differences are found east of Ontario and in Alberta
 - Quebec is a unique market
 - Cost of living not always correlated with cost of labour
- Cross-border compensation comparisons can be difficult to understand and are rarely helpful at a job level
 - Differences in taxation and benefits costs, for example
 - Currency fluctuations
 - Cultural and statutory differences appear in pay lines
- Sample selection requires understanding of factors that impact a company's approach (or philosophy) to compensation

Our Recommended Approach

An integrated survey to benchmark costs and identify productivity measures



Reliable and repeatable study that is the foundation for assessing current and future compensation costs and performance improvement



Our Approach - 2011 Compensation Cost Benchmark Study

Capitalize on our Experience

- Similar methodology to Mercer Study 2008
 - Similar data collection methodology
 - Same analytical methodology for compensation benchmarking
 - Keep “core” participant list, expand slightly
 - Keep “core” benchmark jobs, consider expanding sample
- Improve data management process
 - Data Collection
 - Streamline data collection process
 - Ensure comparator group has clear interest in results and in participating
 - More intensive follow-up

Our Approach - Sample Selection

Selecting an appropriate market sample is the first step to total compensation cost

- In the 2008 study, a sample of Canadian electrical utilities, multi-utilities, gas utilities and local distribution companies with total assets between 33% and 300% of Hydro One were used for comparison
 - The 2008 peer group may be expanded, where appropriate, based on the above criteria likely adding LDC's
- Canadian companies operating in a similar regulatory environment were invited to participate in the 2008 study (i.e., telecom, railroads and pipelines).
 - The majority of these companies did not participate in the study, and we recommend limiting the sample in the current study to those organizations that participated in 2008.

Peer Groups

Transmission, Distribution & Generation

- Electrical transmission, distribution and generation companies in Canada that were invited to participate in the 2008 study:

All values in \$CDmillions

Company Name	Participated?	Revenue (1)	Assets (2)
Hydro Quebec	Yes	\$12,330	\$64,852
OPG	Yes	\$5,564	\$22,750
BC Hydro and BC Transmission	Yes	\$4,387	\$12,991
EPCOR Utilities Inc.	Yes	\$3,663	\$6,562
Toronto Hydro	Yes	\$2,389	\$2,673
ENMAX	Yes	\$2,110	\$2,456
Bruce Power	Yes	\$1,986	\$5,154
Manitoba Hydro	Yes	\$1,761	\$10,964
NB Power	Yes	\$1,512	\$4,151
75th %ile		\$4,387	\$12,991
50th %ile		\$2,389	\$6,562
25th %ile		\$1,986	\$4,151
Average		\$3,967	\$14,728
Hydro One		\$4,655	\$12,790

(1) Annual revenue as reported in 2008 study.

(2) Total assets as reported in 2008 study.

Peer Groups (cont'd)

Similar Regulatory Environment

- Other Canadian companies operating in a similar regulatory environment (i.e., telecom, gas utilities, railroads and gas pipelines) that were invited to participate:

All values in \$CDmillions

Company Name	Participated?	Revenue (1)	Assets (2)
Bell Canada / BCE	Yes	\$17,866	\$37,797
Rogers Communications	Declined	n/a	n/a
TELUS Corp.	Declined	n/a	n/a
TransCanada Corp.	Limited	\$8,828	\$30,330
CN Rail	Declined	n/a	n/a
Canadian Pacific Railway Ltd	Declined	n/a	n/a
Bell Aliant Regional Comm Fd	Declined	n/a	n/a
Shaw Communications	Declined	n/a	n/a
Enbridge Gas Distribution	Yes	\$2,873	\$5,921
TransAlta Corp	Yes	\$2,775	\$7,179
Union Gas	Declined	n/a	n/a
Gaz Metropolitan	Declined	n/a	n/a
MTS Allstream	Declined	n/a	n/a
Terasen Inc.	Declined	n/a	n/a
75th %ile		\$11,088	\$32,197
50th %ile		\$5,850	\$18,754
25th %ile		\$2,848	\$6,864
Average		\$8,085	\$20,307
Hydro One		\$4,655	\$12,790

(1) Annual revenue as reported in 2008 study.

(2) Total assets as reported in 2008 study.



Determining the Benchmark Positions

Need to represent different functions and organization levels

- Individual jobs
 - Stable job content that is well understood
 - Large population
 - Found in other organizations
- Benchmark jobs in aggregate
 - Represent all major functions
 - Represent all levels in the organization from front-line to senior management
 - Representative of different compensation regimes



Determining the Benchmark Positions

Need to represent different functions and organization levels (continued)

- Balance numbers
 - Enough to understand complete picture
 - Not so many as to cloud conclusions
- Recognize reality of surveying
- We recommend 30 to 40 jobs for this study
- Ensure like to like comparisons
 - Apply Mercer's matching standard
 - Gather “quality of match” assessments
 - Add supplemental questions about skills & flexibility for selected benchmarks



Elements of Total Compensation

Focus on items that can be monetized

- Base wages or salaries
- Short-term incentives
 - Annual incentive plans
 - Productivity incentives
 - Etc.
- Long-term incentives
 - Various forms mostly at senior management level
- Insured Benefits
 - Company paid portion
- Retirement and Savings plans
 - Registered plans
 - Non-registered plans
- Pay for time not worked



Providing Data That is Understandable

Minimizing assumptions and adjustments

- Focus on jobs that are directly comparable
 - However, need to understand differences in some key jobs
 - Identify key job content – compare and contrast market
- Confirm that sample is representative of the entire organization
 - Review high level methods and processes are effective
- Understand market trends in compensation management



Productivity Metrics

Summarize measures used in the marketplace

- Study very different than what was attempted in 2008
 - Canadian market practices
 - Gather internal metrics from Canadian benchmark survey participants
 - United States market reporting requirements
 - Identify productivity measures required by a sample of U.S. regulators, if any
 - Supplement findings with Oliver Wyman expertise
 - Understand market trends in productivity / performance management



Productivity Metrics

Consultant recommendations

- Work with Hydro One
 - Understand internal metrics currently in use or under development
 - Develop further understanding of unique business, market and territory characteristics
 - Understand key labour cost drivers
 - Share knowledge of relevant practices
- Recommend performance metric(s)
 - Metric to track internal performance and improvement over time

10 February 2011 Consultative Meeting

Key Points of Agreement

- a) Principle objective - to revisit the Mercer Study to appropriately compare HONI compensation costs to those of regulated Transmission and Distribution utilities in North America.
- b) **Keep it simple to entice survey participants**
- c) Be independent, testable, repeatable and market based
- d) Provide participants with the assurance that their information could not be attributable to them
- e) Be based on the groups surveyed in the Mercer Study and expanded as deemed appropriate by the consultant

Source: Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR

10 February 2011 Consultative Meeting

Key Points of Agreement

- e) Mirror the scoping in the Mercer study for peer selection, job classes, etc, changed as deemed appropriate by the consultant
- f) Enable reasonable comparison to the last Mercer study and provide trending analysis for Hydro
- g) Consider median, or the mean, or both
- i) Consider adjustments to reflect regional costs of living amongst the study participants
- j) No attribution of data to particular participant

Source: Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR



10 February 2011 Consultative Meeting

Key Points of Agreement

- i) Request data about pension as a percentage of total benefits, and benefits as a percentage of compensation
- j) Rely on the expertise of the selected consultant to recommend appropriate changes in methodology and assumptions
 - Gather information on metrics required by regulators across North America, if any
 - Consultant to recommend productivity metric or metrics that can be used for internal comparisons using readily available internal data

Source: Meeting Notes from February 10, 2011 meeting prepared by Optimus SBR



Further Discussion and Next Steps

- Questions?
- Concerns?

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