



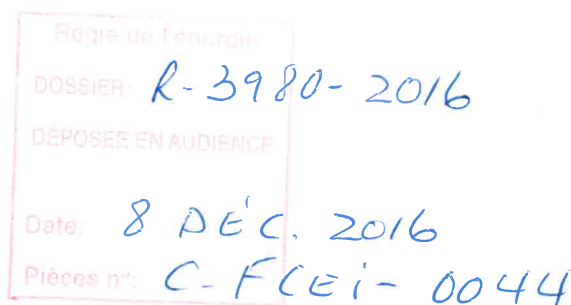
# COMPENSATION COST BENCHMARKING STUDY

## HYDRO ONE NETWORKS INC.

09 DECEMBER 2013

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# 1

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## Executive Summary

Hydro One Networks Inc. ("Hydro One") has retained Mercer to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One's total compensation levels including salary, short-term incentives, long-term incentives, pension and employer paid health and group benefits relative to a select peer group. This study was conducted in 2008 and 2011, and repeated, following a similar methodology, in 2013. Year-over-year trend analysis is provided.

The preliminary results of our analysis were presented at the October 16, 2013 stakeholder session in Toronto. This document represents the results of our analysis. Specifically:

### Compensation Benchmarking

Consistent with the Stakeholder feedback, the compensation benchmarking component of the study compared Hydro One with the 2011 Transmission, Distribution and Generation market peer group, supplemented with participants from the Similar Regulatory Environment group.

The study reflected approximately 3,050 Hydro One employees in 32 benchmark positions representing 57% of Hydro One's employee population (excluding non-full time employees). In total, our analysis reflected approximately 14,000 incumbents employed in the Canadian energy and/or adjacent sectors.

On an overall weighted average basis, for the positions we reviewed in 2013, Hydro One is positioned approximately 10% above the market 50th percentile ("P50"). In comparison to the 2011 study, Hydro One's overall weighted average positioning has decreased from 13% above the market total compensation P50.

The shift in Hydro One's competitive position towards the median is notable given that the peer group, like Hydro One, has worked to reduce labour costs as a response to both the substantial economic downturn beginning in 2008 and expectations of key stakeholders over the entire period between the 2008 and 2013 during the compensation cost benchmarking studies.

The overall Hydro One positioning is driven by a combination of competitive base salaries, especially for the most highly skilled Power Workers' Union ("PWU") positions and Professionals ("Society") members, and the high relative value of legacy, pension and benefits programs (the legacy Management pension and benefit and Professional pension plans are now closed to new members).

The table below summarizes the results of the 2013 Compensation Cost Benchmarking Study compared to the results of the 2011 and 2008 study.

Table 1

### Legend

- 2013 Hydro One Position Relative to Market
- X 2011 Hydro One Position Relative to Market
- 2008 Hydro One Position Relative to Market

		Total Remuneration (Column)							
		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

Weighted Average	Non-Represented	206	0.99	0.83	0.99			X	■			
	Professionals	746	1.09	1.05	1.05				■	■		
	Power Workers	2,100	1.12	1.18	1.21				■	X	○	
	Overall	3,052	1.10	1.13	1.17				■	X	○	

Below P50 Compensation

Above P50 Compensation

**Legend**

- 2013 Hydro One Position Relative to Market
- X 2011 Hydro One Position Relative to Market
- 2008 Hydro One Position Relative to Market

# 2

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## Introduction

Hydro One Networks Inc. ("Hydro One") has retained Mercer to prepare an independent, testable and repeatable market-based assessment of the reasonableness of Hydro One's total compensation levels including salary, short-term incentives, long-term incentives, pension and employer paid health and group benefits relative to a select peer group. This study was conducted in 2008 and 2011, and repeated, following a similar methodology, in 2013. Year-over-year trend analysis is provided.

This report is intended to help Hydro One in preparing a two year Cost of Service application for Transmission rates (2015-2016) and a five year Custom Cost of Service Application for Distribution (2015-2019). The results of the Compensation Cost Benchmarking study will be filed as evidence for both rate setting applications.

To provide independent and reliable information on Hydro One's relative compensation costs, Mercer has undertaken a customized survey of total compensation costs in the market ("Compensation Benchmarking").

The total compensation (i.e., base salary, short-term incentives, long-term incentives, pension and benefits) benchmarking analyses focused on assessing Hydro One's overall competitiveness in the marketplace.

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## Guiding Principles

Based on our typical benchmarking approach and the benchmarking principles that guided the compensation benchmarking, as well as how Mercer applied them, these include:

1. Principle objective – to revisit the 2011 and 2008 Mercer Study to reasonably compare Hydro One compensation costs to those of regulated utilities in Canada.
  - The 2011 and 2008 Mercer Studies were revisited following the same general overall methodology to provide appropriate study-over-study comparisons.
2. Keep it simple to entice survey participants.
  - The data collection process was reviewed and streamlined, where possible, to encourage survey participants to share data. Additional follow-up was provided by Mercer to support comparator participation in the study.
3. Be independent, testable, repeatable and market-based.
  - The study was conducted in a manner that meets each of the criteria listed.
4. Provide participants with the assurance that their information could not be attributable to them.
  - All participants were assured that data would be held confidentially by Mercer and only be shared in aggregate form.
5. Be based on the groups surveyed in the 2011 Mercer Study and expanded as deemed appropriate by the consultant.
  - The 2013 study targeted the same benchmark jobs and organizations as the 2011 study. Three (3) organizations were also added to the 2011 invitation list, in addition to the organizations that were invited to participate in 2011. This resulted in a total of four (4) new participants in the 2013 study – the three (3) new organizations noted above plus one (1) organization that was invited to participate in 2011 and declined at that time.
6. Mirror the scoping in the 2011 and 2008 Mercer Studies for peer selection, job classes, etc. and changes as deemed appropriate by the consultant.
  - The same methodology used in 2011 and 2008 was followed in the 2013 Mercer Study for both peer company selection and job classes for inclusion. As noted in 5. above, four (4) additional comparator companies were added to the peer group. The selected benchmark job classes represented 57% of Hydro One's employee population (excluding non-full time employees), an increase over the 2011 study.
7. Enable reasonable comparison to the last Mercer study and provide trending analysis for Hydro One.
  - By including approximately 85% of peers and 94% of jobs from the 2011 Mercer Study, reasonable comparisons have been made and trending has been assessed.



8. Compare to market median rather than market average
  - The 2013 Mercer Study is based on a comparison of Hydro One median compensation against market median compensation. Comparison of medians is standard compensation practice; medians are representative of the middle data point in a sample and are less sensitive to outliers than the mean.
  - The 2008 and 2011 studies also compared Hydro One to the median.
  - Appendix A provides a comparison of Hydro One's total compensation median against market average. On an overall weighted average basis, there is no difference in Hydro One's median positioning relative to market median and market arithmetic mean.
9. No adjustments to reflect regional costs of living amongst the study participants.
10. Request data about pension as a percentage of total benefits, and benefits as a percentage of compensation.
  - It is standard benchmarking practice to assess benefits and pension costs as part of the total compensation value provided to employees; therefore, we have not provided the details of this analysis showing benefit and pension separately.
11. Rely on the expertise of the selected consultant to recommend appropriate changes in methodology and assumptions.
  - Hydro One relied on Mercer's expertise in conducting the study.

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## Compensation Benchmarking

### Peer Groups

Mercer selects peer organizations, for compensation benchmarking purposes, based on a stable metric that reflects the size and operating complexity of the organization (typically, this is revenue and/or total assets). Where there is a relatively small sample of relevant comparator organizations, Mercer establishes limits of 33% to 300% of the scope criteria for the organization we are analyzing. Some organizations were included in the analysis despite falling below the 33% of revenue threshold value. These organizations were primarily Ontario based local distribution companies that are seen as important benchmarks by stakeholders.

As a result, to develop a single peer group for Hydro One, we considered all organizations, with 2011 or 2012 annual revenues or total assets between 33% and 300% of Hydro One's 2012 annual revenue or total assets, from the following areas:

1. Electric utilities, multi-utilities, generators, and gas utilities industries in Canada as classified by their Global Industry Classification Standard ("GICS")
2. 73 Local Distribution Companies ("LDCs") in Ontario
3. Other comparable regulated businesses (i.e., integrated telecommunication services, railroads, etc.)

Overall, 24 organizations were invited to participate in the study:

- All 13 organizations included in the 2011 study were invited
  - Of these organizations, 2 declined (Altalink, Canadian Utilities)
- Three new organizations were invited
  - Of these organizations, 2 agreed to participate (Enersource Corporation, Horizon Utilities Corporation)

Organizations that did not participate in the compensation benchmarking indicated that they were unable to participate due to either resource constraints or an insufficient number of relevant benchmark positions.

Following standard industry practice, comparisons were made between Hydro One's incumbents, at the 50th percentile, to the market peer group 50th percentile on base salary, total cash compensation and total compensation.

To ensure that no one organization biased the results, we have weighted our analysis by organization for each job class and not by incumbents to determine Hydro One's position relative to the market (i.e., the analysis is "Org Weighted"). To preserve the confidentiality of compensation data at both Hydro One and participating organizations, we have aggregated our results.



## Market Sample

Summarized below are the participating organizations in the compensation benchmarking.

Table 2

Company Name	Revenue <sup>1</sup>	# of Employees <sup>2</sup>
Hydro-Québec	\$12,228.0	21,000
BC Hydro Power & Authority	\$4,898.0	5,862
Ontario Power Generation Inc.	\$4,732.0	10,691
EPCOR Utilities Inc.*	\$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 Inc.	\$2,400.0	2,200
TransAlta Corporation	\$2,262.0	3,140
Bruce Power L.P.*	\$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 Corporation*	\$822.0	374
Horizon Utilities Corporation*	\$570.6	404
75th %ile	\$3,598.1	5,031
50th %ile	\$2,262.0	3,000
25th %ile	\$1,779.5	1,683
Average	\$3,103.6	4,521
Hydro One	\$1,745.0	3,537

<sup>1</sup> Data as reported by survey participants in CAD (\$MM)

<sup>2</sup> Representative of full-time employees and equivalents only

\* New participants in 2013

## Benchmark Positions

The compensation survey was designed to benchmark compensation levels from a cross-section of Hydro One's population. To determine the roles to be included in our benchmark analysis, we reviewed positions that represented all of Hydro One's major business units and at least 50% of Hydro One's employee population.

To assist with study over study comparisons, it was determined that Hydro One should collect incumbent data using 33 of the same benchmark roles surveyed in the 2011 study. Due to limited data in the market from previous years, the following role was not surveyed in 2013:

- Tree Trimmer - Journeyman (Power Workers)

In total, 33 benchmark positions were included in the compensation benchmarking study and we were able to report data on 32 of these job. Due to limited data in the market, the following role was excluded from the final analysis:

- Regional Maintainer - Forestry

***As a result, the 2013 Compensation Cost Benchmarking Study directly reflected approximately 3,050 Hydro One employees in 32 benchmark positions representing 57% of Hydro One's employee population (excluding non-full time employees).***

***In the market, we collected approximately 14,000 individual incumbent observations across the benchmark positions (excluding the 3,050 Hydro One incumbents) employed in the Canadian energy and/or adjacent sectors.***

Summarized below are the benchmark positions organized by major employee group. The results in this report are summarized by the following employee groups. Specifically (sorted in descending total compensation by Group):

Table 3

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	Regional Maintainer - Forestry*
	25	Service Dispatcher
	26	Drafter II
	27	Stock Keeper
	28	Data Entry Clerk
	29	Production Field Administrator II
	30	Electrical Apprentice
	31	Lines Apprentice
	32	Meter Reader
	33	General Labourer/Roustabout

\*Insufficient data to report

"Professionals" refers to Hydro One positions represented by the Society of Energy Professionals (i.e., "Society") and "Power Workers" refers to Hydro One positions represented by the Power Workers' Union (i.e., "PWU").

See Appendix B for a summary of position descriptions.

## Methodology

As outlined in Appendix B, summarized below is the methodology used to determine compensation levels. Specifically:

**Base Salary/Wage** – Annual base salary at July 1, 2013. If an hourly rate was reported, we annualized the value by multiplying the standard number of work hours per week by 52 weeks per year. If a weekly rate was reported, we annualized the value by multiplying by 52 weeks per year.

- Data effective July 1, 2013 captures Hydro One's most recent collective agreement terms.

**Total Cash Compensation** - Base salary *plus* most recent short-term incentive or bonus paid where applicable.

- Hydro One does not provide short-term incentive or bonus programs to Professional or Power Worker positions.

**Benefits and Pensions** – To value benefit and pension programs, we applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans.

**Total Compensation** – Total cash compensation *plus* estimated annual value of the most recent long-term incentive grant (i.e., expected value of stock options or share awards) and pensions and benefits.

- Hydro One does not provide long-term incentive programs to any positions.

## Findings

Summarized below are the results of our compensation benchmarking analysis.

Overall, on a weighted average basis, Hydro One's total compensation cost is 10% above market median. Hydro One's position relative to the market 50th percentile varies by employee group from a low of 1% below market P50 for the non-represented group and a high of 12% above the market P50 for the PWU.

In the 2011 study, Hydro One's overall weighted average was 13% above the market total compensation P50 – a 3% shift towards the market median has occurred since 2011.

Table 4

Table 4

Legend

■ 2013 Hydro One Position Relative to Market  
 X 2011 Hydro One Position Relative to Market  
 O 2008 Hydro One Position Relative to Market

			Total Remuneration (Current)							
			Multiple of P50			Hydro One P50 Relative to Market P50				
			2013	2011	2009	0.50	0.75	P50 = 1	1.25	1.50
Hydro One Group	# of Hydro One Incumbents									
Weighted Average	Non-Represented	206	0.99	0.83	0.99		X	■		
	Professionals	746	1.09	1.05	1.05			■		
	Power Workers	2,100	1.12	1.18	1.21			■ XO		
			1.10					■ XO		
						Below P50 Compensation			Above P50 Compensation	

The results are driven by a combination of competitive base wages, especially for the most highly skilled Power Workers' Union ("PWU") positions, and the relatively high value of legacy collective agreement wages, pension and benefits programs (the legacy non-represented pension and benefit and Society pension plans are now closed to new members).

We understand that these legacy plans relate to collective agreements negotiated prior to the formation of Hydro One. All PWU employees continue to be covered by the legacy plans. Even if all Non-Represented and Professional employees were covered by the new plans, the difference in overall cost on a weighted average basis appears to be minimal as the high population Power Worker positions continue to be covered by the legacy plans; however, the use of the "hiring hall" for several of the PWU benchmarks does appear to reduce compensation costs relative to both other PWU positions and our market data.



For new employees hired into Non-Represented and Professional job classifications, the value of pensions and/or benefits, where applicable, have decreased due to recent amendments to these plans (see “Future” column on the following pages).

We note that, when measured on revenue, Hydro One is the second largest organization in the sample. Although size has a limited impact on middle management and unionized roles, size may have an impact on compensation for executive roles, as these roles tend to be larger and more complex in larger organizations.

As requested by stakeholders in 2011, in addition to comparing Hydro One P50 to market P50, a comparison was also made of Hydro One median to market average (mean). On a weighted average basis, Hydro One’s total compensation cost is 10% above market average. Hydro One’s position relative to market varies by employee group from a low of 3% below market average for the non-represented group and a high of 13% above the market average for the PWU. In conclusion, there is relatively little difference between the market median and market average. See Appendix A for detailed results.



## Non-Represented

Summarized below are our results for the Non-Represented roles that we benchmarked at Hydro One relative to the market peer group.

In comparison to 2011, the 2013 Total Compensation (Current) results have increased from 17% below market median to 1% below market median.

**Table 5**

			Hydro One P50 Relative to Market P50 <sup>1</sup>			
			Base Salary	Total Cash <sup>2</sup>	Total Compensation <sup>3</sup>	
Hydro One Group					Current <sup>4</sup>	Future <sup>5</sup>
Non-Represented	Financial Director	3	3%	20%	21%	21%
	Top Rates and Regulatory Affairs Executive	4	-5%	-5%	-1%	-3%
	Senior Legal Counsel	8	-7%	0%	12%	6%
	Engineer F	83	-10%	-17%	-15%	-19%
	Area Superintendent	16	-6%	-3%	0%	-2%
	Human Resource Manager / Consultant	8	-30%	-29%	-26%	-29%
	Field Service Coordinator*	76	11%	10%	14%	6%
	Administrative Assistant	8	-3%	-4%	-3%	-4%
2015 Non-Represented Roles		200	-5%	-9%	-7%	-10%
2015 Non-Represented Roles Excl. Field Service Coordinator		124	-7%	-11%	-9%	-13%
2015 Non-Represented Roles Excl. Administrative Assistant		192	-6%	-10%	-8%	-11%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position.)

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

<sup>5</sup> Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs. The results do not reflect a 0.75% employee pension contribution increase effective October 1<sup>st</sup>, 2013.

## Professionals ("Society")

Summarized below are our results for the Professional roles that we benchmarked at Hydro One relative to the market peer group.

In comparison to 2011, the 2013 Total Compensation (Current) results have increased from 5% above market median to 9% above market median.

Table 6

		Hydro One P50 Relative to Market P50 <sup>1</sup>				
Hydro One Group	# of Hydro One Incumbents	Base Salary	Total Cash <sup>2</sup>	Total Compensation <sup>3</sup>		
				Current <sup>4</sup>	Future <sup>5</sup>	
Professionals	Engineer E	132	-2%	-6%	-3%	-6%
	Business Analyst C	15	26%	21%	38%	32%
	Engineer D	258	4%	-1%	7%	5%
	Engineer C	18	14%	3%	19%	14%
	Engineer B	271	10%	9%	12%	12%
	Business Analyst A	11	25%	23%	30%	30%
	Engineer A	41	18%	11%	12%	12%
2013 Weighted Average Professionals		1,401	7%	3%	9%	7%
2011 Weighted Average Professionals		1,779	6%	-3%	5%	4%
2008 Weighted Average Professionals		678	8%	-2%	5%	3%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position.)

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

<sup>5</sup> Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs.

## Power Workers

Summarized below are our results for the Power Worker roles that we benchmarked at Hydro One relative to the market peer group.

In comparison to 2011, the 2013 Total Compensation results have improved from 18% above market median to 12% above market median.

**Table 7**

Hydro One Group	No. of Hydro One Employees	Hydro One P-90 Relative to Market P-50		
		Base Salary	Total Cash <sup>2</sup>	Total Compensation <sup>3</sup>
System Operator (Controller)	92	54%	16%	28%
Regional Maintainer - Lines (Supervisory)	92	18%	14%	24%
Protection and Control Technician	62	20%	18%	30%
Area Distribution Engineering Technician	189	12%	12%	23%
Regional Maintainer - Lines	747	7%	9%	22%
Regional Maintainer - Electrical	239	2%	7%	17%
Fleet Mechanics	11	8%	7%	21%
Linehaman - Journeyman	30	14%	14%	4%
Regional Maintainer - Forestry	70	-	-	-
Service Dispatcher	26	33%	29%	41%
Operator	23	18%	18%	34%
Line Worker	40	21%	21%	37%
Data Entry Clerk	67	11%	9%	21%
Production Field Administrator II	3	-34%	-38%	-21%
Electrical Apprentice	63	-17%	-21%	-24%
Lines Apprentice	285	-4%	-9%	-13%
Meter Reader	10	-2%	7%	7%
General Labourer/Routeabout	10	-13%	-17%	-23%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position.)

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

# APPENDIX A

## Hydro One vs. Market Average

As requested by stakeholders, summarized below are the results of our compensation benchmarking analysis comparing Hydro One median to market average.

Overall, on a weighted average basis, Hydro One's total compensation cost is 10% above the market average (mean). Hydro One's position relative to market varies by employee group from a low of 3% below the market average for the non-represented group to a high of 13% above the market average for the PWU.

Table 8

		Total Remuneration (Current)								
		Multiple of Average			Hydro One P50 Relative to Market Average					
Hydro One Group		# of Hydro One Incumbents	2013	2011	2008	0.50	0.75	Average = 1	1.25	1.50
Weighted Average	Non-Represented	206	0.97	0.84	0.99			X		
	Professionals	746	1.09	1.06	1.05					
	Power Workers	2,100	1.13	1.15	1.21					
	Weighted Average	3,052	1.10	1.02	1.07					



## Non-Represented

Summarized below are our results for the Non-Represented roles that we benchmarked at Hydro One relative to the market peer group.

Table 9

			Hydro One P50 Relative to Market Average <sup>1</sup>				
			Base Salary	Total Cash <sup>2</sup>	Total Compensation <sup>3</sup>		
					Current <sup>4</sup>	Future <sup>5</sup>	
Hydro One Group			# of Hydro One Incumbents				
Non-Represented	Financial Director	3	-1%	6%	7%	7%	
	Top Rates and Regulatory Affairs Executive	4	-14%	-15%	-17%	-18%	
	Senior Legal Counsel	8	-6%	-4%	3%	-2%	
	Engineer F	83	-13%	-16%	-15%	-20%	
	Area Superintendent	16	-7%	-8%	-8%	-9%	
	Human Resource Manager / Consultant	8	-32%	-34%	-32%	-35%	
	Field Service Coordinator*	76	11%	10%	14%	6%	
	Administrative Assistant	8	-7%	-8%	-8%	-8%	
	Non-Represented Average		220	-16%	-16%	-15%	-19%
	All Hydro One Average		177	-14%	-14%	-15%	-18%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position.)

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

<sup>5</sup> Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs. The results do not reflect a 0.75% employee pension contribution increase effective October 1<sup>st</sup>, 2013.

## Professionals ("Society")

Summarized below are our results for the Professional roles that we benchmarked at Hydro One relative to the market peer group.

Table 10

		Hydro One P50 Relative to Market Average <sup>1</sup>				
		Base Salary	Total Cash <sup>2</sup>	Total Compensation <sup>3</sup>		
				Current <sup>4</sup>	Future <sup>5</sup>	
	Hydro One Group	# of Hydro One Incumbents				
Professionals	Engineer E	132	0%	-8%	-1%	-5%
	Business Analyst C	15	23%	18%	31%	26%
	Engineer D	258	6%	-2%	4%	3%
	Engineer C	18	13%	7%	19%	14%
	Engineer B	271	12%	5%	14%	14%
	Business Analyst A	11	16%	13%	19%	19%
	Engineer A	41	12%	6%	15%	15%
	2013 Weighted Average Professionals	746	8%	1%	9%	7%
	2011 Weighted Average Professionals	178	6%	-1%	5%	-4%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position.)

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

<sup>5</sup> Based on Hydro One's employee population, assuming all incumbents in the new pension and benefits programs.



## Power Workers

Summarized below are our results for the Power Worker roles that we benchmarked at Hydro One relative to the market peer group.

Table 11

		Hydro One P&B Relative to Market Average <sup>1</sup>			
Hydro One Group	# of Hydro One Incidents <sup>2</sup>	Base Salary	Total Cash <sup>3</sup>	Total Compensation <sup>4</sup>	
				Current <sup>4</sup>	
Power Workers	System Operator (Controller)	92	17%	13%	25%
	Regional Maintainer - Lines (Supervisory)	92	14%	13%	25%
	Protection and Control Technician	82	20%	16%	28%
	Area Distribution Engineering Technician	180	11%	9%	21%
	Regional Maintainer - Lines	742	8%	6%	14%
	Regional Maintainer - Electrical	238	7%	7%	21%
	Fleet Mechanic	68	12%	10%	19%
	Lineman - Journeyman	60	13%	10%	5%
	Service Dispatcher	20	22%	26%	41%
	Drafter II	10	9%	6%	15%
	Stock Keeper	49	21%	19%	31%
	Data Entry Clerk	63	6%	5%	16%
	Production Field Administrator III	3	-37%	-37%	-32%
	Electrical Apprentice	63	-19%	-22%	-28%
	Lines Apprentice	285	3%	1%	-7%
	Meter Reader	10	0%	-3%	-6%
	General Labourer/Roustabout	10	-13%	-14%	-27%
2011 Compensation Average			12%	10%	22%
2011 Compensation Average Power Workers			12%	10%	22%

<sup>1</sup> Market results weighted by organization (i.e., for each participating organization, Mercer determined one average value per position).

<sup>2</sup> Base salary plus short-term incentives granted (i.e., bonus), where applicable.

<sup>3</sup> Total cash compensation plus estimated long-term incentives, benefits and pension values.

<sup>4</sup> Based on Hydro One's employee population, assuming current pension and benefits program eligibility.

# APPENDIX B

## Position Descriptions

Benchmark Position	Survey Code	Generic Description
Administrative Assistant	220.108.430	Requires a general knowledge of departmental procedures, practices and office routine. Possesses good office and computer skills including word processing, spreadsheets, graphics software, dictaphone transcription, and filing. May provide assistance to a more senior Administrative Assistant in a large department.
Area Distribution Engineering Technician	999.999.001	Perform Technical support work for the Distribution Section of the area: such as monitoring the performance of the distribution system by performing various technical studies, identifying and recommending solutions to the supervisor, providing field data and preliminary analysis for engineering studies. Negotiate property settlements on distribution lines and perform joint use activities. Provide administrative support related to preparation of estimates and work orders (WO) work schedules, line layouts, joint use, provision of underground cable and fault location service. Perform staking activities and prepare design packages for new connections, service upgrades, extensions, betterments and relocations.
Area Superintendent	700.792.211	Responsible for providing construction management and supervision within the construction group. Administers construction contracts. Is accountable for construction costs, schedules, safety, product quality and environment performance. Provides input into Project Execution Plans and the associated schedules and estimates. Usual qualifications include 10 to 12 years of experience including supervisory experience. Requires experience in construction management and supervision of various trades.
Business Analyst A	320.392.360	Assists with analyzing internal metrics. Performs responsible and varied business analytical or administrative functions. Assists with preparation documents, forecast summaries, status reports, budget reports, etc. Duties may include interpreting and processing company contracts, AFEs, and government agreements. Assignments are given in terms of objectives and relative priorities. Problems may be solved by adapting standard methods or by practical applications of knowledge. Usual qualifications include a university degree.
Business Analyst C	320.392.340	Analyzes internal metrics. Performs responsible and varied business analytical or administrative functions. Prepares documents, forecast summaries, status reports, budget reports, etc. Duties may include interpreting and processing company contracts, AFEs, and government agreements. Assignments are given in terms of objectives and relative priorities. Problems may be solved by adapting standard methods or by practical applications of knowledge. Usual qualifications include a university degree with a minimum of 4 years' related experience; technical diploma with a minimum of 6 years' related experience.
Data Entry Clerk	999.999.002	Perform data processing services including inputting, updating, to various computerized databases and applications of external service providers. Perform clerical/administrative duties in support of system processes. Work with various internal and external contacts and customers in the setup, maintenance, reporting and follow up of non-electricity accounts, customer service orders, materials, corporate charge cards, time reporting, management reporting, damage claims, accounts receivable, etc. Perform administrative services for provincial client group and special projects.
Drafter II	510.656.420	Incumbent works on standard drafting assignments. Methods are detailed and standard but judgment is required in planning tasks and choice of methods. Accountable for accuracy and adequacy of work performed. May provide technical guidance to less experienced Drafters. Usual qualifications include a technical school diploma or equivalent, with a minimum of 5 years' related experience.
Electrical Apprentice	999.999.112	A five year apprenticeship leading to a Construction and Maintenance Electrician

Benchmark Position	Survey Code	Generic Description
Engineer A	510.780.360	Incumbent receives "on-the-job" training in various phases of office, plant or field engineering through assignments or, in some cases, classroom instruction. Tasks assigned are simple and routine in nature. Assists more senior engineers in the preparation of plans, calculations, reports, etc. Few technical decisions are made and these are routine, with clearly defined procedures and guidelines. Works under close supervision and work is reviewed for accuracy, adequacy and conformance with prescribed procedures. Usual qualifications include a university degree in engineering with minimal experience.
Engineer B	510.780.350	Uses a variety of standard problem solving techniques. May assist more senior engineers in carrying out technical tasks requiring computation methods. Duties are assigned with detailed oral and occasionally written instructions. Work is reviewed in detail with guidance given. May give limited technical guidance to junior professionals or technicians working on a common project. Usual qualifications include a university degree in engineering with a minimum of 2 years' related experience.
Engineer C	510.780.340	Incumbent is responsible for varied engineering assignments requiring a broad knowledge of an engineering specialty and the effect the work has upon other fields. Solves problems using a combination of standard or modified procedures. Participates in planning objectives. Performs independent studies, and analyzes, interprets and draws own conclusions; more complex work projects are referred to more senior authorities. Not supervised in detail except on more difficult assignments. May give periodic technical guidance to less experienced professionals or technicians assigned to work on a common project. Usual qualifications include a university degree in engineering with a minimum of 4 years' related experience.
Engineer D	510.780.330	This is the first level of full engineering specialization and is considered the senior level position. Alternatively may be the level at which an individual acts as group leader or work task force leader of a small group of technical personnel. Requires application of well-developed technical knowledge in planning, conducting and coordinating difficult assignments. The position requires the modification of established guidelines and initiation of new approaches. Makes independent decisions in planning, organizing and completing technical assignments. Work is reviewed for soundness of judgment but accepted technically as accurate and feasible. Work is assigned in terms of objectives and priorities but informed guidance is available. Advises on technical problems and supervision, and may plan, schedule and review work of professional engineers and technicians. May make recommendations concerning selection, training, discipline and remuneration of staff.
Engineer E	510.780.320	May have responsibility for coordinating engineering work assignments and making recommendations on technical applications developed by other professional personnel or consultants. May involve the direct supervision of a group of professionals. Provides guidance and training to less experienced staff. Checks work for accuracy and completeness. As a specialist, conducts special, complex and advanced level studies. Work is generally reviewed for results only. Makes independent decisions within broad guidelines and policies. May make recommendations concerning selection, training, discipline and remuneration of staff. May also be responsible for construction.
Engineer F	510.780.310	Incumbent is considered an authority in an engineering field of specialization and acts as a technical consultant to the organization. This level is a dual-stream first level managerial position. Incumbents may be responsible for directing a staff of professional and support employees or act as a technical specialist. Responsible for planning and directing large engineering programs/projects; sets priorities and allocates resources; makes necessary decisions on all day-to-day operating matters within constraints of company policy. Receives work in terms of broad objectives.
Field Service Coordinator	700.793.240	Manage and supervise trade, technical and clerical staff. Develop work programs, organize schedules, provide instructions, guidance and checks, monitor work to ensure work quality and accuracy and in conformity to governing regulations. Ensure the administration of procedures, applicable legislation and collective agreements are met. Administer and control contract work. Review work methods, ensure appropriate training. Develops, maintains and enhance customer relationships through direct contact both internally and externally. This position is non-represented.
Financial Director	210.100.130	Responsible for providing overall direction for tax, insurance, budget, credit and treasury functions for the organization. Provide short to medium term direction for all corporate financial functions so that financial transactions, policies, and procedures meet the organization's short and medium-term business objectives and are conducted in accordance with regulations, and standards. Activities may include: credit control; cash flow; investment management; tax; insurance; treasury; internal audit; budgeting and forecasting; and foreign exchange. Lead, direct, evaluate, and develop a team of senior managers to ensure that the organization's financial strategy is implemented effectively, consistently and according to established guidelines.



Benchmark Position	Survey Code	Generic Description
Fleet Mechanic	999.999.011	Be responsible for the inspection, repair and maintenance, as well emergency repair of vehicles (e.g. bucket truck, all-terrain vehicles, go track, digger truck, ladder truck forklift, backhoe, manlift, vans/pickup trucks and the hydraulic equipment of the vehicles e.g. booms, buckets. Maintain inspection schedules and coordinate scheduling repairs to be contracted out. Work is performed in a garage or on site.
General Labourer/Roustabout	700.792.431	This is the level at which individuals with no previous experience enter into the company. Acts as a general labourer. Works under close supervision within well-defined procedures. Duties involve general field/plant maintenance or clean-up work. Minimum qualifications include a high school diploma with minimal related experience.
Human Resource Manager / Consultant	120.100.220	This position plans, designs, develops, implements and administers policies and programs through functional supervision in all or some of the following areas: employee relations, executive compensation, wage and salary administration, job evaluation, performance management, recruitment and selection and employment equity/ human rights.
Lineman - Journeyman	920.788.410	Responsible for the installation, maintenance, removal, and inspection of transmission/distribution power lines. Typically requires 4 years of experience and certification as a Power Line Technician (or equivalent).
Lines Apprentice	999.999.113	A four year apprenticeship leading to a Power Line Technician position.
Meter Reader	920.680.430	Responsible for reading electric, gas, or water meters and keeping track of their average use by recording information. Other duties would include inspecting meters for damages and defects. Entry level position which typically requires a high school education.
Production Field Administrator III	220.778.413	Works independently. Works closely with field operations. Assists in all areas of production and general accounting duties, clerical and office administration functions. Provides analysis and input of operational accounting information and codes and inputs all payables and production volumes. May assist in preparing special production reports. Requires broad knowledge of department procedures. Orders all stationery/supplies and runs office. Monitors, troubleshoots and co-ordinates with head office maintenance of existing computer systems. May check work of junior staff and provide guidance. Working with a Supervisor, assists in preparing field accruals and analyzes actual performance versus budget. Possesses a solid understanding of basic accounting principles. Requires advanced PC and database management knowledge. An accounting background or diploma with 8 years' office experience is typically required.
Protection and Control Technician	999.999.004	Perform initial inspections, conduct trouble-shooting and preventative maintenance, carry out modifications and repairs as required, on all types of protection, telecommunications, metering and control equipment which comes under Protection and Control (P&C) jurisdiction. Discuss and review results with supervisor, if the equipment is highly critical from the standpoint of system operation, before putting the equipment into service.
Regional Maintainer - Electrical	999.999.007	Responsible for the general maintenance and repair work on electrical systems and equipment at various geographical locations. Requires overhauling, maintaining and inspecting equipment such as conductors & insulators i.e. batteries, station bus, cable, compressed air systems, fire protection equipment switchgear i.e. circuit breakers, load interrupters metalclad switchgear, oil circuit breakers, SF6 breakers, air blast breakers, transformers, rotating machines, distribution stations & equipment. Has the necessary knowledge of the trade theory, operating principles, charts, tables, testing equipment and other reference works, to test, dismantle, repair, clean and assemble station electrical equipment within the required specifications. Requires certification as a construction and maintenance electrician. Also performs mechanical and protection and control work.

Benchmark Position	Survey Code	Generic Description
Regional Maintainer - Forestry	999.999.005	<p>Perform line clearing adjacent to power lines and associated apparatus. Carries out all phases of vegetation management including the application of pesticides. Understands and operates tools associated with the trade, various types of vehicles and aerial equipment, hand or power-operated pesticide application equipment. Must provide at own expense, any tools listed for this classification if required in his/her work, in accordance with the attached tool list.</p> <p>In addition to the above, may have the following skills:</p> <ul style="list-style-type: none"> <li>• Lead Hand Skills (including documentation, job planning and knowledge of work management systems as required)</li> <li>• Work Protection Code Skills (including establishing, and holding)</li> <li>• Contract Monitoring Skills</li> <li>• Environment Skills (such as PCB management, WHMIS, waste management, etc.)</li> </ul>
Regional Maintainer - Lines	999.999.006	<p>Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers. Understands and is able to operate the tools of his/her trade, and is familiar with the various instruments, i.e. voltmeters, ammeters and ohmmeters. Must be familiar with hydraulically-operated articulated or telescopic aerial devices. Must provide at own expense any tools listed for the classification if required in his/her work in accordance with the attached tool list. This classification also includes the requirement to hold a Power Line Technician certification (or equivalent).</p>
Regional Maintainer - Lines (Supervisory)	999.999.008	<p>This position is responsible for the safety, quality and quantity of the work performed by his/her crew. They plan work including staffing requirements, assigning work, co-ordinate work with other work groups, ensure proper work practices are followed, report on work performed and engage in good public relations. He/she performs the following physical work activities. Construct and maintain transmission and distribution lines and associated apparatus. Maintain power service to electrical customers. Also responsible for contract monitoring and lead hand responsibilities.</p>
Senior Legal Counsel	115.100.340	<p>Responsible for providing management and employees with advice on a broad range of moderately complex conflicting legal principles. The applicable laws and regulations are numerous and varied, and present difficult problems of interpretation. Applies independent judgment in recommending a course of action for a client department, providing input as to the ramifications of a course of action, a legal decision, or a new piece of legislation. Usual qualifications include a law degree, membership in a law society/bar association and/or other relevant jurisdiction with a minimum of 8 years related experience.</p>
Service Dispatcher	430.612.340	<p>Responsible for handling incoming consumer calls to schedule and dispatch service technicians to problem areas (including high voltage switching). Maintains documentation of crew activities for continuous knowledge of line and substation work. Key coordinator during power failures provides notification to internal and external customers regarding restoration of power services.</p>
Stock Keeper	999.999.009	<p>Receives, receipts, stores, issues and ships materiel used in operations. Manages materiel, in accordance with established practices and regulations. Is responsible for materiel under his/her control. Performs maintenance, not requiring formal trades qualifications, and assists in tasks where unskilled or semi-skilled ability is required.</p>
System Operator (Controller)	999.999.010	<p>Monitor and operate the transmission/distribution system assets on a 24-hour basis. Determine condition and recommend on availability of equipment. Carry out Manual Block and Rotational Load Shedding Schedules procedures. Monitor, approve and report LV - load transfers. Direct / monitor personnel on a 24 hour basis (i.e. - switching agents, field crews) in the operation of the Transmission / Distribution network system assets. Troubleshoot &amp; sectionalize for low voltage feeder faults.</p>
Top Rates and Regulatory Affairs Executive	110.200.130	<p>Executive with primary responsibility for preparing, managing, and leading company's testimony in utilities rate cases before local, regional or federal agencies. Responsibilities include development of all research associated with regulatory activities including activity across other regulatory entities and maintaining relationship with all regulators. Develops cost factors in association with utilities rate cases, may or may not, be involved in delivery of testimony. Typically reports to a Top Legal Executive, Chief Operations Officer or a Top Utilities Executive.</p>

## APPENDIX C

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### Detailed Compensation Benchmarking Methodology

Summarized in this appendix is supporting descriptions of how we determined values for each of the major components of compensation. Specifically:

**Base Salary** – Annual base salary at July 1, 2013. If an hourly rate was reported, we annualized the value by multiplying the standard number of hours per week by 52 weeks per year. If a weekly rate was reported, we annualized the value by multiplying by 52 weeks per year.

**Total Cash Compensation** - Base salary *plus* most recent short-term incentive or bonus paid.

**Benefits and Pensions** – To value benefit and pension programs, we applied a relative value process to a set of standard employer paid cost factors, plus actuarial and demographic assumptions to measure all financially significant features of benefit and pension programs based on open and closed plans. See detailed methodology below.

**Total Compensation** - Total cash compensation *plus* estimated annual value of the most recent long-term incentive grant (i.e., expected value of stock options or share awards) and pensions and benefits.

Detailed Benefits and Pension Methodology – Total remuneration includes the following values for benefits and pensions:

- Mercer's relative value process applies a broad set of standard cost factors, plus actuarial and demographic assumptions to measure all of the financially significant features of benefit programs on a benefit line basis.
- Effectively, this process isolates the plan design and removes variable factors such as historical experience, demographics, and utilization trends specific to each participant in the study. For example, if two survey participants have an identical benefit offering, the values will be equal regardless of the actual plan costs to each of the employers.

### Aligning Values with Hydro One's Actual Costs

- For the purpose of this Total Compensation Cost Study, we adjusted the manual rates within our relative value tools so that the results by line of benefit more closely reflect Hydro One's actual benefit costs and liability figures.



## Participation & Anti-Selection:

### *Active Flex Benefits:*

- Participation: We use a standardized set of participation assumptions for all participants that vary only by the number of options that are offered under the plan. Therefore, two identical flex programs will produce similar relative Total Values.
- Anti-Selection: A unique feature of flex plans is that employees who choose richer options are likely to be higher claimers than those choosing poorer options. This is reflected within our methodology by increasing the value of the richer options and reducing the value of the poorer options. The final relative values of the flex plan are a weighted average of the values of each of the options.
- Optional plans that are fully employee-paid (such as optional life) are excluded from the review.
- Low value core plans / catastrophic core plans and spousal top-up plans are excluded from the valuation.

## Projection Methodology for Pension Plans

### *Defined Benefit Plans*

- For defined benefit plans, annual service costs were estimated for each company's plan design at various earnings levels using a common sample employee demographic (age and years of service). The annual service costs were converted into company provided values by deducting any required employee contributions under each plan. The resulting company provided values were expressed as a percentage of earnings to be applied to the earnings associated with each benchmark position.

### *Defined Contribution Plans*

- For defined contribution benefit plans, the company provided value was set equal to the company contributions.
- Where employees are entitled to choose the level of their contributions, employees were assumed to contribute at the level that would maximize company contributions.

## Projection Methodology for Post Retirement Non-Pension (PRNP)

Employee-specific factors including earnings and service are projected to each of the assumed retirement ages at which point the benefit payable is determined, actuarially valued and discounted with interest to the current age of the employee. The resulting values are split pro-rata on service into the benefit in respect of past service and the benefit in respect of future service, and the future service benefit value is converted to a level percentage of future pensionable earnings.

- The results are weighted by the assumed retirement rates and combined to produce a single value of future benefit accruals, as a percentage of future earnings, per member.
- Benefits are projected both before and after retirement based on benefit-specific (e.g. medical, dental) inflation assumptions.
- Benefits are coordinated with provincial medical and drug plans.
- Lifetime maximums are reflected where applicable.

### ***Flex Premium Cost Sharing & Credit Allocation:***

- Cost sharing is determined using each participant's actual price tag and credit formula.
- Assumptions are made as to where credits would commonly be used, unless they are allocated to specific benefits. These assumptions coordinate with the standardized participation assumptions outlined earlier.

### ***Standard Demographic Assumptions:***

- A common population reflecting the general demographics of a Canadian workforce group and adjusted to more closely mirror Hydro One's workforce is used in the analysis.
  - This population reflects a group of employees with an average age of 45, average service of 15 years, and average annual earnings of \$110,000 (average earnings used for benefit purposes).
- For Pension and Post Retirement Non-Pension benefits, the above population is assumed to retiree approximately as follows:
  - 25% of the group retire at age 55
  - 60% of the group retire at age 60
  - 15% of the group retire at age 65
  - 70% of the active members are assumed to be married over their career while 90% of members are assumed to be married at the time of their retirement

***Other Actuarial Assumptions:***

- The following assumptions were used in the review:
  - Discount rate: 4.25% per annum
  - Inflation: 2.00% per annum
  - Salary Increase: 4.00% per annum
  - Post Retirement mortality UP 1994 generational mortality (80% male)
  - Termination rates of 2% each year prior to age 55 (for pension values)
  - Medical and Dental inflation/utilization increases



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