

THE IESO's COMPENSATION PROGRAMS

1.0 Human Resources Mandate, Strategy and Priorities

The mandate of the Human Resources function is to address the IESO requirements for effective employee and labour relations, resourcing, staff development, compensation and motivation of employees. The key focus of this mandate is to support the IESO business strategy. Accordingly the role of the Human Resources function has been defined as:

“Providing leadership, consulting and support services within the IESO relating to the effective utilization of employees' contributions in the pursuit of the Corporate Mission, Vision and Values.”

Given the evolution of the electricity industry and the effectiveness with which the IESO has been able to meet its mandate in the past, the Human Resource strategy for the future remains as:

“The pursuit of continuous improvement strategies designed to continue growing employee capability, enhancing organizational results, facilitating employee and union relations and leading the IESO's capacity for change.”

For each of the components in this strategy, the directions and priorities for the future can be described as:

- Growing staff capability requires that IESO's future resourcing, recruitment, skill/competency development and succession planning needs are met. The IESO has an employee body of about 400 regular staff with a number of sophisticated disciplines performing complex engineering, IT and other work. Knowledge and ability to use leading edge technology is important. Over the next few years a considerable portion of the employee population will be eligible for retirement. Thus the priority will be two-fold:
 - To resource people with new capabilities and competencies which will assist in culture change and enhance the IESO's overall capabilities
 - To ensure that employees have capabilities and competencies that allow them to be and to become leaders in the future

- **Enhancing organizational results requires the Human Resources function to ensure that its policies and compensation/rewards/recognition programs align with the results the IESO needs to achieve to continue to lead in the industry.**
- **Facilitating employee and union relations requires that the IESO foster effective relations locally between employees and their supervisor and that the IESO work effectively with its unions to continue forging a durable professional business-like relationship. The IESO's workforce is over 80% unionized, represented by the Society of Energy Professionals (The Society) and the Power Workers' Union (PWU). Negotiations for a new contract will occur in 2006 with both unions. In addition, as specific challenges and opportunities arise, they will need to be addressed through a variety of forums and vehicles including joint discussions, established teams and projects, and in some cases, where necessary, grievances and arbitrations, etc.**
- **Leading the organization's capacity for change requires building the capability within the management/supervisory team and within the employee body to align their work efforts with the organization's mission, vision and values. Following the industry's recent restructuring the IESO has reviewed and realigned its organization.**

Compensation Objectives

The structure of the IESO's compensation program aligns and supports the IESO's directions and priorities.

The overall objective of the IESO's compensation program are aimed at:

- **Focusing employees' efforts on meeting the IESO's business priorities**
- **Attracting and retaining quality employees**
- **Motivating staff to achieve goals important to IESO and adapting/enhancing their capabilities to a changing workplace**
- **Signalling direction changes important to the IESO**

In early 2003 the Human Resources Committee of the IESO Board of Directors undertook an extensive review of the IESO's compensation programs with an emphasis on senior management compensation. To aid in this review the Committee used external expertise from Towers Perrin.

In 2005, the IESO again reviewed its compensation programs. Following the conclusion of the 2005 OEB Fee Submission process, the IESO engaged the Hay Group to help carry out a review of the IESO's comparative position in the marketplace. All elements of compensation for all staff groups were included within the review. In the fall of 2005, the results of this analysis as it pertains to the Management Group were reviewed with the IESO's new Board of Directors.

The results of these assessments reaffirmed the above objectives for the compensation program as appropriate to meeting the IESO's business needs. Some adjustments were made for the 2006 Management Compensation Program levels to better align the IESO program to external relativities (specific changes are outlined under the Management Group Program). These adjustments were approved by the Board consistent with the need for the IESO programs to be financially responsible and to be adaptable to compensation conditions in the marketplace.

In this way the compensation program at the IESO is continuously reviewed and changes are made as needed. However, the ability to affect changes or the speed at which changes can be made is tempered by the fact that these must be collectively bargained for over 80% of the IESO's employees.

2.0 Compensation Programs

The IESO compensation programs can be categorized into three groups:

- Power Workers' Union ("PWU")
- Society of Energy Professionals ("the Society")
- Management Group

PWU Compensation Program

This program covers seventy-four employees (as of mid October, 2005) of whom fifty-four are regular employees and twenty are temporary. The positions in this group include PWU represented administrative support, technical and trade staff as well as co-op students.

Currently PWU represented employees are in the third year of a three year collective agreement which expires March 31, 2006. Under this agreement base salaries increased by 3% in each of 2003 and 2004, and by 2.5% in 2005 with no provisions for COLA adjustments over the duration of the agreement. These salary adjustments are consistent with industry trends.

In addition, the current collective agreement provides for a variable pay plan for PWU staff linking payments with the achievement of corporate performance measures established through the IESO's business planning process and group or individual performance measures established between the group/individual and their Manager. The target payouts for variable pay are set at 2.5% of an individual's base salary for the performance results in each of 2003, 2004 and 2005.

The Society Compensation Program

The current Society collective agreement expires on December 31, 2006. It is a three year agreement covering three hundred and two employees (as of mid October, 2005) of whom two hundred eighty-nine are regular employees and thirteen are temporary. The positions in this group include professional and supervisory staff in engineering, information technology, finance and other disciplines.

The Honourable George Adams, as a result of an arbitration process, imposed the current contract on the IESO and the Society. The arbitration award provided for increases of 3.0% to base salary schedules in 2004, 2005 and 2006 respectively. The IESO, through this award, was successful in receiving some cost containment enhancements relating to benefit provisions and enhanced flexibility associated with hiring temporary staff while the Society received limited increases relating to benefits, pensions and shift considerations. Cost containment relating to benefit provisions is important as health care costs in Canada have been increasing at double-digit rates. The salary adjustments, outlined above, are consistent with industry trends.

In addition to negotiated or arbitrated increases to salary schedules, Society represented staff may also have their base salary adjusted as a result of a Performance Pay Plan. Under this Plan, employee performance is assessed annually resulting in recommended adjustments of individual performance pay standings (between 80% to 115% of the journey person rate). The aggregate of individual compensation recommendations under this plan is a minimum of 1% of payroll for Society represented staff in each year.

The Management Group Compensation Program

The IESO has an integrated compensation program, which applies to all management (non-represented) staff of which there are seventy (as of mid October, 2005) with sixty-six regular and four temporary employees. The type of positions in this group include thirty-five senior management (President, Vice

Presidents, Directors and Managers), and thirty-five non-represented supervisory, professional and administration support staff.

The Management Group Program includes a base compensation plan providing a framework for compensating staff based on internal relativity, external competitiveness and the competency level that each staff member demonstrates in their daily work. The Management Group program also includes a variable pay plan predicated on the achievement of both corporate and individual performance results and with target award levels differentiated by job level commensurate with industry targets.

Recently the results of the 2005 Compensation Survey, conducted by the Hay Group, as it applies to the Management Group was reviewed by the IESO Board as part of its deliberations relating to the 2006 Management Compensation Program. While the results, because of the different methodologies used (outlined in section 3 below, "Industry Comparisons"), were different between the Towers Perrin and Hay surveys, the Hay survey showed that the IESO is still considered to be within the competitive range.

The IESO made a recommendation to the Board to continue the current program design for 2006 with no adjustment to salary band ranges. For 2006, a below market average fixed compensation adjustment of 2.5% to staff was recommended. In addition, the IESO recommended a reduction in some health and dental coverage and a reduction in the level of some future post-retirement benefit coverage. This is a prudent and conservative approach that is balanced with maintaining the IESO's ability to remain competitive with the marketplace. These recommendations were reviewed and approved by the Board.

3.0 Industry Comparisons

The IESO regularly commissions an external compensation consultant to conduct a competitive compensation review. In the past such reviews were conducted by Towers Perrin. In early 2005, as part of the conclusion of the 2005 IESO Fee Submission, various stakeholders in the OEB review requested that a full review of the IESO's compensation program be undertaken utilizing another compensation consultant. In addition, the request sought to have input from the OEB participants into the terms of reference provided to the compensation consultant. The IESO agreed and undertook this initiative.

The IESO selected the Hay Group to carry out this analysis after contacting and interviewing several organizations with the capability to potentially conduct this project. A terms of reference was developed and reviewed with the various OEB

stakeholders utilizing the Regulatory Affairs Standing Committee meeting of June 29, 2005 as the vehicle for this review. Material was distributed to all OEB participants prior to the meeting and a presentation was made at the meeting. Feedback was received from the participants and the results were conveyed through the Minutes of the Meeting which were distributed to all participants and posted on the IESO's public website.

The main concerns from stakeholders arising from the meeting were highlighted in section 7 of the "Status of Obligations and Undertakings". In addition, as outlined in the previously referred document, most of the suggestions from stakeholders were able to be accommodated within the analysis conducted by Hay and these are outlined within that document.

Within this analysis, three sets of comparator groups were used. While there is a considerable overlap of organizations within each of these sets, there is some differentiation also. Each of these comparator groups was selected to better align with the characteristics of various staff groupings, ie; better align with the types of organizations with which the IESO would compete for attraction/retention of talent. Thus one comparator group of fifteen organizations was selected as representative of IESO's senior management positions. A second comparator group of twenty-five organizations was selected as representative of IESO's professional and supervisory positions, ie; IESO's Society-represented and Management Group professional/supervisory staff. A third comparator group of twenty-eight organizations was selected as representative of IESO's technical, administrative and trade positions, ie; PWU-represented and Management Group administrative positions. These organizations range in size, have the type of talent which is comparable to the IESO's needs and are regarded as having well-established and comprehensive compensation programs. A listing of the organizations is provided in Attachment A.

The IESO's compensation data for various levels was matched with comparable data from each of the comparator groups. Representative positions for each IESO level (salary band/grade) were selected and job evaluation points based upon the Hay Method of Job Evaluation were developed. This job evaluation process was also applied to positions in the comparator groupings. In this way, jobs of similar size and scope utilizing the Hay Method of Job Evaluation and Hay evaluators were matched.

The compensation data for the IESO and the comparator community reflected values in place as of mid 2005. Data was gathered and compared for fixed compensation levels, total cash (fixed compensation plus annual variable compensation at target levels) and total compensation (or sometimes referred to as

total direct which includes total cash as above, plus employer paid pension benefits, all other benefits and perquisites, plus the annualized present value of mid and long term incentive/savings plans). The above were compared using actual data for fixed compensation as well as structure/policy (ie; midpoint or full journey person) data. The latter allows for a comparison of IESO to the market based on a salary structure perspective without the impact of actual experience.

Market Relativity Results

Based upon the analysis outlined above, as conducted by the Hay Group, the following table summarizes the results when comparing IESO's salary structure position (or policy line – mid points or full journey person rates for each grade/band) to the market for various employee groupings. The data for IESO's senior management is identified separately.

Market Relativity Results for IESO Policy Line to Market⁵

IESO Average Relativity for:	Fixed Compensation		Total Cash ¹		Total Compensation ²	
	50 th Percentile	75 th Percentile	50 th Percentile	75 th Percentile	50 th Percentile	75 th Percentile
Management Group ³	+7%	-6%	+13%	-3%	+13%	-4%
Society ³	+19%	+7%	+12%	0%	+14%	+2%
PWU ³	+23%	+2%	+21%	+1%	+24%	+1%
Senior Mgmt. Positions (CEO,VP's,Directors) ^{3, 4}	+7%	-5%	+10%	-3%	+7%	-8%

¹ Total cash includes fixed compensation plus the portion of compensation associated with short term or annual variable compensation at target.

² Total compensation includes cash compensation plus employer paid pension and other benefits plus employer paid perquisites and any compensation associated with mid and long term incentives or savings plans.

³ This row identifies the average percentage for each component of compensation above or below the 50th and 75th percentile of the market.

⁴ The average relativity for senior management is a subset of the data contained within the data for the Management Group above.

⁵ Numbers depicted are the result of weighting by fixed compensation for each grade for all categories.

The table below provides a similar breakdown of the data when the actual compensation levels (for fixed compensation) are utilized rather than salary structure (or policy line) comparisons.

Market Relativity for IESO Actuals to Market⁶

IESO Average Relativity for:	Fixed Compensation ¹		Total Cash ²		Total Compensation ³	
	50 th Percentile	75 th Percentile	50 th Percentile	75 th Percentile	50 th Percentile	75 th Percentile
Management Group ⁴	+11%	-3%	+17%	0%	+16%	-1%
Society ⁴	+23%	+10%	+15%	+3%	+17%	+5%
PWU ⁴	+23%	+2%	+21%	+1%	+24%	+1%
Senior Mgmt. Positions (CEO,VP's,Directors) ^{4,5}	+11%	-2%	+13%	0%	+11%	-6%

¹ Actual values for fixed compensation.

² Total cash includes actual fixed compensation plus the portion of compensation associated with short term or annual variable compensation at target.

³ Total compensation includes cash compensation plus employer paid pension and other benefits plus employer paid perquisites and any compensation associated with mid and long term incentives or savings plans.

⁴ This row identifies the average percentage for each component of compensation above or below the 50th and 75th percentile of the market.

⁵ The average relativity of senior management is a subset of the data contained within the data for the Management Group above.

⁶ Numbers depicted are the result of weighting by fixed compensation for each grade for all categories.

The results indicate that the various Society compensation relativities lie at or above the 75th percentile for this comparator group. Similarly for the PWU the results indicate that their compensation relativities are generally at or slightly above the 75th percentile. Management positions are generally between the 50th and 75th percentile of this market including those for senior management. However, the IESO's external relativity standing for executive compensation utilizing the Hay approach, while generally in the third quartile, is higher than those indicated by past analysis. Towers Perrin, having reviewed Hay's results for the senior management positions, believe the Hay approach may understate the experience required for senior management roles when the IESO needs to replace staff in these positions.

Attachment A

Comparator Groups

Senior Management Comparators	Professional/Supervisory Comparators (society & Mgmt. Group)	Technicians, Trades, Administrative Comparators – PWU Mgmt. Group
Alberta Electric System Operator B.C. Hydro and Power Authority Bruce Power Electrical Safety Authority Enbridge Inc. Hydro One Inc. Hydro-Quebec Ontario Energy Board Ontario Power Generation Inc. Ontario Securities Commission Syncrude Canada Ltd. Terasen Gas Toronto Hydro Corporation TransAlta TransCanada Corporation	Alberta Electric System Operator B.C. Hydro and Power Authority Bruce Power Electrical Safety Authority Enbridge Gas Distribution Inc. Enbridge Inc. Enbridge International Inc. Enbridge Pipelines Inc. EPCOR Hydro One Inc. Hydro-Quebec New Brunswick Power Corporation Newfoundland and Labrador Hydro Nova Scotia Power Inc. Ontario Energy Board Ontario Power Generation Inc. Ontario Securities Commission SaskEnergy Incorporated SaskPower Siemens Westinghouse Inc. Syncrude Canada Ltd. Terasen Gas Toronto Hydro Corporation TransAlta TransCanada Corporation	Alberta Electric System Operator B.C. Hydro and Power Authority Bruce Power Electrical Safety Authority Enbridge Gas Distribution Inc. Enbridge Inc. Enbridge International Inc. Enbridge Pipelines Inc. Enersource Hydro Mississauga EPCOR GO Transit Government of Ontario Hydro One Inc. Hydro-Quebec New Brunswick Power Corporation Newfoundland and Labrador Hydro Nova Scotia Power Inc. Ontario Energy Board Ontario Power Generation Inc. Ontario Securities Commission Praxair Canada Inc. – Industrial Gas Division Praxair Canada Inc. – Packaged Gas Division SaskEnergy Incorporated SaskPower Terasen Gas Toronto Hydro Corporation Toronto Transit Commission Workplace Safety and Insurance Board