

Attachment 3

2011 Annual Information Form of Toronto Hydro Corporation

DECISION HISTORY

At the Annual General Meeting of the Shareholder of Toronto Hydro Corporation ("the Corporation") EX4.8 on April 12 and 13, 2011, Council requested the Corporation to circulate its Annual Information Form (AIF), detailing senior executive compensation, to Council each year with its annual financial statements.

In addition, Council directed that the Corporation's Shareholder Direction be amended to require that one member of the Compensation Committee be a City Councillor. A report to amend the Shareholder Direction is expected in September 2012.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX4.8>.

City Council has previously (March 8 and 9, 2011) adopted Motion MM5.14, expressing its displeasure to Toronto Hydro Corporation's Board of Directors on the magnitude of the current compensation packages for its executives, in particular, the provision of large bonuses in addition to its well paid executive salaries.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.MM5.14>

ISSUE BACKGROUND

The Annual Information Form (AIF) is a public document published annually by the Corporation as a public debt issuer in accordance with Ontario Securities Commission requirements. The 2011 AIF is filed with the City Clerk's office, and posted on Toronto Hydro Corporation's website (www.torontohydro.com), and the SEDAR website for Canadian public securities documents (www.sedar.com) as required by the securities regulatory agencies in Canada.

[http://www.torontohydro.com/sites/corporate/InvestorRelations/FinancialReports/Documents/AIF2011\(v15,%20March%202029,2012\)%20FINAL%20CLEAN.pdf](http://www.torontohydro.com/sites/corporate/InvestorRelations/FinancialReports/Documents/AIF2011(v15,%20March%202029,2012)%20FINAL%20CLEAN.pdf)

COMMENTS

The Corporation's 2011 AIF includes mainly the following sections: corporate structure, general development of business, relationship with the city, taxation, risk factors, capital structure, directors and officers, Audit Committee, executive compensation, and legal proceedings.

The ensuing paragraphs summarize the key current issues that are of interest to the City as the sole shareholder, namely the 2012-2014 Rate Application and executive compensation.

General Development of the Business – 2012-2014 Rate Application

On August 26, 2011, Toronto Hydro-Electrical System Ltd. (THESL, the wholly-owned subsidiary of the Corporation) filed a 2012-2014 Rate Application, using the Cost of Service

(COS) Framework, with the Ontario Energy Board (OEB) for three years commencing on May 1, 2012. On January 5, 2012 the OEB rendered its decision and dismissed THESL's rate application using COS. THESL has since filed a notice of appeal with the Ontario Divisional Court regarding OEB's decision, but is preparing a revised rate application under the Incentive Regulation Mechanism (IRM) (*filed May 16, 2012).

The IRM application format provides for inflationary revenue increases, reduced for deemed productivity improvements in each year of a four-year cycle (THESL is in year 2). THESL has requested special increases for increased capital expenditures through Incremental Capital Module (ICM) applications. Under the IRM framework, THESL has to significantly reduce its costs structure, and obtain special approval for or otherwise defer capital spending, in order to meet its deemed financial return on equity.

Accordingly in the first quarter of 2012, THESL began implementing a restructuring program to reduce its operating costs including a workforce reduction plan. The number of employees has been reduced by 200 to approximately 1,600 as of March 29, 2012. Restructuring costs could have a material impact on the Corporation's financial results.

Executive Compensation

At December 31, 2011, Toronto Hydro Corporation had approximately 1,800 employees, including 1,253 union employees (1,194 CUPE members and 59 engineers represented by the Society of Energy Professionals). The balance of approximately 450 employees is non-union including senior executives.

The Corporation's executive compensation program is supervised by the four-member Compensation Committee of the Board of Directors and applies to Named Executive Officers (NEOs). They include the Corporation's President and CEO and CFO, THESL's Vice President (VP) of Distribution Services, VP of Distribution Grid Management, and VP of Asset Management. The CEO's compensation is recommended by the Board's Compensation Committee. The Committee also reviews the CEO's proposals for NEO (Named Executive Officers) compensation.

Industry comparables (50th percentile) are considered for the purpose of benchmarking the CEO's compensation. In 2011 the selected comparables included AltaGas Ltd, ATCO Ltd, BC Hydro, Capital Power Corp., Emera Inc., Enbridge Inc., ENMAX Corp., Epcor Utilities, Hydro One, IESO, OEB, Ontario Power Authority, Ontario Power Generation, SaskPower, TransAlta Corp. and Union Gas.

Executive compensation includes base salary, performance-based incentive compensation, personal benefits and perquisites, pension plan, retirement benefits, retirement allowances and termination payments. Included in the perquisites are leased vehicles provided to the NEOs. Effective February 28, 2012 these vehicles included in the NEO compensation have been eliminated.

The AIF lists the performance-based incentives and respective scores and weighting for each officer. In 2011, all corporate and divisional performance objectives were achieved or exceeded except for those related to service interruption frequency (SAIFI) and attendance.

The following tables summarize reported results for the NEOs for the years 2009, 2010 and 2011 as contained in the 2011 AIF.

Summary Compensation Table		Salary \$	Non-Equity Incentive Plan Compensation \$ ⁽¹⁾	All Other Compensation \$ ⁽²⁾	Total Compensation \$
President and Chief Executive Officer, Toronto Hydro Corp.	2011	421,702	371,378	58,903	851,983
	2010	372,807	340,018	44,905	757,730
	2009	325,744	224,166	129,161	679,071
Chief Financial Officer, Toronto Hydro Corp.	2011	257,934	141,152	30,337	429,423
	2010	238,462	129,860	24,220	392,542
	2009	231,542	111,796	57,913	401,251
Vice-President, Distribution Services, THESL	2011	244,104	134,121	20,140	398,365
	2010	219,583	126,763	19,272	365,618
	2009	184,275	82,776	25,362	292,413
Vice-President, Distribution Grid Management, THESL	2011	231,712	118,421	31,440	381,573
	2010	216,813	116,472	19,066	352,351
	2009	181,374	81,732	24,916	288,022
Vice-President, Asset Management, THESL	2011	222,813	118,482	31,356	372,651
	2010	212,780	112,574	31,975	357,329
	2009	179,337	74,391	48,413	302,141

Notes:

- (1) Performance-based incentive compensation is limited to 65% target of the base salary for the CEO, and 40% of the base salaries for the other NEOs, but may be increased by up to 50% if the objectives are exceeded, for an effective incentive of up to 97.5% and 60% of base salary respectively.
- (2) Includes perquisites and personal benefits such as vehicle lease costs. The vehicles provided to NEO's as part of their compensation has been eliminated effective Feb 28, 2012.

Retirement Allowance: The CEO is the only NEO entitled to retiring allowance, which is based on his completed years of active service. The maximum amount payable to the CEO is \$1 million if he remains in active service until December 31, 2020.

Termination Payments: Both the CEO and CFO are entitled to termination payments if their respective employments are terminated without cause. In such a case, the CEO is entitled to a payment of 24 months of base salary and performance pay (approximately \$1.47 million as at December 31, 2011), plus continued group health and dental benefits for 24 months. Similarly,

the CFO is entitled to a similar package based on 18 months of pay (approximately \$0.6 million as at December 31, 2011).

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SIGNATURE

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