

Attachment 3

2012 Annual Information Form of Toronto Hydro Corporation

DECISION HISTORY

City Council (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>

At the Annual General Meeting of the Shareholder of Toronto Hydro 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. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX4.8>

At the Annual General Meeting of the Shareholder of Toronto Hydro Corporation EX21.2 on July 11-13, 2012, Council requested the Toronto Hydro Corporation Board of Directors to report to the November 5, 2012 meeting of the Executive Committee on options for capping executive salaries, bonuses, retirement allowances and other perquisites of office and request the Chair of the Toronto Hydro Corporation Board of Directors to present the current policy for executive compensation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.2>

Also at its meeting of July 11-13, 2012, City Council adopted recommendations that among other things requested that individual variable pay remuneration (one-time lump sums) not exceed 25% of an executive employee's base salary.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

At its meeting of November 27-29, 2012, City Council received for information the report from Toronto Hydro regarding Toronto Hydro executive compensation policies and practices:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX25.4>

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 2012 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/Financial%20Report/2012%20Annual%20Information%20Form.pdf>

COMMENTS

The following are highlights of the 2012 Annual Information Form.

2012-2014 Rate Application

In May 2012, THESL filed their 2012 rate application. At year end a decision was still pending. In its application THESL sought to increase the current revenue requirement by 0.68% to \$525.5 million for 2012, and subsequent formula-based 1% increases to \$529.1 million for 2013 and \$532.7 million for 2014. The 2013 and 2014 formulaic adjustments are subject to change depending on future inflation and market data.

The capital expenditures included in THESL's original application were \$448.7 million for 2012, \$534.5 million for 2013 and \$439.5 million for 2014. As the year progressed without rate approval, THESL modified its capital expenditure request for 2012 and 2013 to \$283.0 million and \$579.1 million, respectively, and requesting that consideration for 2014 be deferred to a second phase of the proceeding, once THESL has received a decision from the OEB in respect of phase one.

The OEB recently approved THESL's 2012 and 2013 applications. The 2014 application will be considered in the coming months.

Executive Compensation

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 2012 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.

The AIF lists the performance-based incentives and respective scores and weighting for each officer. In 2012, all corporate and divisional performance objectives were achieved or exceeded.

The following tables summarize reported results for the NEOs for the years 2010, 2011 and 2012 as contained in the 2012 AIF:

| Summary Compensation Table | | Salary \$ | Incentive Plan Compensation \$ ⁽¹⁾ | All Other Compensation \$ ⁽²⁾ | Total Compensation \$ | Incentive Pay as a % of Base Pay |
|--|------|-----------|---|--|-----------------------|----------------------------------|
| President and Chief Executive Officer, Toronto Hydro Corp. | 2012 | 471,702 | 445,899 | 17,900 | 935,501 | 95 |
| | 2011 | 421,702 | 371,378 | 58,903 | 851,983 | 88 |
| | 2010 | 372,807 | 340,018 | 44,905 | 757,730 | 91 |
| Chief Financial Officer, Toronto Hydro Corp. | 2012 | 267,357 | 155,253 | 7,972 | 430,582 | 58 |
| | 2011 | 257,934 | 141,152 | 30,337 | 429,423 | 55 |
| | 2010 | 238,462 | 129,860 | 24,220 | 392,542 | 54 |
| Vice-President, Distribution Services, THESL | 2012 | 252,757 | 149,572 | 7,980 | 410,309 | 59 |
| | 2011 | 244,104 | 134,121 | 20,140 | 398,365 | 55 |
| | 2010 | 219,583 | 126,763 | 19,272 | 365,618 | 58 |
| Vice-President, Distribution Grid Management, THESL | 2012 | 239,981 | 140,921 | 5,100 | 386,002 | 59 |
| | 2011 | 231,712 | 118,421 | 31,440 | 381,573 | 51 |
| | 2010 | 216,813 | 116,472 | 19,066 | 352,351 | 54 |
| Vice-President, Asset Management, THESL | 2012 | 230,890 | 133,947 | 6,384 | 371,221 | 58 |
| | 2011 | 222,813 | 118,482 | 31,356 | 372,651 | 53 |
| | 2010 | 212,780 | 112,574 | 31,975 | 357,329 | 53 |

Notes:

- (1) Performance-based incentive compensation is set at up to 65% 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 effective incentives of up to 97.5% and 60% of base salary respectively. Reported 2012 results were close to these maximums.
- (2) Includes perquisites and personal benefits such as vehicle lease costs. The vehicles provided to NEO's as part of their compensation was eliminated effective Feb 28, 2012.

The CEO is the only NEO entitled to a retiring allowance for retirement or termination (without cause), which is based on his completed years of active service. In addition, the Corporation has awarded the CEO a second retirement allowance as a result of significant changes by OMERS to its defined benefits pension plan. Combined, the maximum amount payable to the CEO is \$2.65 million if he remains in active service until December 31, 2021. Prior to 2021, the retirement allowance is as follows:

- \$330,000 for retirement in 2013
- An additional \$190,000 per year from 2014 to 2015
- An additional \$350,000 per year from 2016 to 2021

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 \$1.72 million as at December 31, 2012), 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 \$615,000 as at December 31, 2012).

Conservation Demand Management

In 2011, THC entered into an agreement with the Ontario Power Authority to deliver CDM programs for three years in a total amount of \$50.0 million. As at the end of 2012, THC has received \$35.4 million for the delivery of CDM programs. The time period has subsequently been extended by one year to December 31, 2015.

Risk Factors

The AIF provides a description of various potential risks to the performance of the business, including regulatory risk, asset reliability, IT systems dependency, labour relations, electricity consumption variability, market/credit risk, and exposure to natural or other unexpected occurrences.

CONTACT

Rob Hatton
Director, Strategic Initiatives & Intergovernmental Finance, Corporate Finance
Tel: (416) 392-9149
Fax: (416) 397-4555
E-mail: rhatten@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager and Chief Financial Officer