



**toronto hydro
corporation**

POLICY DOCUMENT

Compensation Policy	Process Owner - Department: Organizational Effectiveness
	Process Owner – Group/Responsibility Centre: Organizational Effectiveness
	Effective Date:
The most recent version of this policy can be obtained from Organizational Effectiveness	
The distribution of this policy is restricted to those persons the policy is applicable	

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TABLE OF CONTENTS

1	POLICY DOCUMENT INTRODUCTION	2
2	SCOPE.....	2
3	OBJECTIVES – PHILOSOPHY & PRINCIPLES	3
4	POLICY.....	3
5	OWNERSHIP AND RESPONSIBILITIES	5

1 POLICY DOCUMENT INTRODUCTION

Defines a policy (relative to other types of documentation), policy contents and approach.

1.1 Policy Definition

A “*Policy*” reflects Toronto Hydro’s position on issues and is something that must be adhered to by its employees. It provides interpretation for and influences decisions and actions. A policy differs from guidelines and procedures.

“*Guidelines*” recommend the way in which a procedure is executed or the way in which a condition is managed. Guidelines allow flexibility for employees to make decisions – a policy does not allow this flexibility.

“*Procedures*” are more detailed methods and activities established for the implementation of established policies. A policy is ‘what’ the company does or should do and procedures are ‘how’ it carries out the expressions of its policy. Detailed procedures are not described in a policy document.

1.2 Policy Contents

Among other things, a policy describes the objectives, scope, responsibilities and requirements that apply to the organization or departments that have been identified in a policy. A Toronto Hydro policy facilitates compliance with internal or external standards or requirements, to meet its operating objectives and reduce risks.

To be effective and to maximize user acceptance, a policy should be comprehensive yet easy to understand and it should be well communicated and easily accessible to the user community.

2 SCOPE

Describes which groups and/or activities this policy applies to and does not apply to.

2.1 This policy applies to:

- All Executive Level Positions in Toronto Hydro Corporation (THC) and Toronto Hydro Affiliates
- All Managerial Level Positions in Toronto Hydro Corporation (THC) and Toronto Hydro Affiliates
- All Supervisory and Professional Level Positions in Toronto Hydro Corporation (THC) and Toronto Hydro Affiliates

- **As at January 1, 2007-all Administrative Level Positions in Toronto Hydro Corporation (THC) and Toronto Hydro Affiliates are administered under a Step Progression based base compensation system.**

3 OBJECTIVES – PHILOSOPHY & PRINCIPLES

Describes the purpose of this policy (“why it was created”) and the objectives (“what” is) to be achieved by this policy.

- 3.1 Toronto Hydro provides a compensation program that is performance-based and competitive in the markets where Toronto Hydro competes for talent.
- 3.2 Toronto Hydro is committed to attracting and retaining individuals who are capable of exceptional performance and dedication. The company compensation philosophy is an important tool for communicating performance expectations, improving productivity and rewarding employees for their contributions to the company.
- 3.3 We recognize that to ensure market competitiveness and a cohesive, well-performing workforce, our compensation system must recognize both superior business achievements *and* behaviours. Our performance-based philosophy ensures that our rewards are appropriately aligned with our strategic direction, vision, goals, and behaviours. It also ensures a system by which both employees and the organization can thrive. With a collaborative, results-focused approach, we can achieve market success.
- 3.4 The management compensation system used will be non-discriminatory in theory, application and practice.

4 POLICY

4.1 Total Compensation

Total compensation is comprised of two elements: base salary and variable performance pay. Base salary provides a foundation for the overall compensation arrangement as it is the basis for determining the value of the other compensation elements; Variable Performance Pay, Benefits and Pension. Variable Performance Pay is intended to reward employees for the performance of the business and their contribution to its success. When determining Pay competitiveness, Toronto Hydro examines both base salary and Variable Performance pay individually and together.

4.2 Pay Competitiveness

Toronto Hydro will conduct a compensation benchmarking study at least every 3 years to determine the external competitiveness of compensation programs. This study will examine all elements of compensation to ensure that level, form and mix of compensation is competitive for jobs of comparable scope/responsibility in the markets that Toronto Hydro competes for talent. As needed, Toronto Hydro may review the competitiveness of selected positions.

Individual jobs are assigned salary ranges/grades which reflect the range of competitive pay for positions of comparable scope/responsibility. Each salary range has a minimum, job rate, and maximum that is market competitive. The job rate is a fully competitive level of compensation and should be achievable over time for solid performance.

Jobs are assigned to these grades based on an evaluation of the skill, effort, responsibility and working conditions as determined by the Hay Guide Chart Profile Method of Job evaluation.

Significant changes to a job's scope/responsibility may warrant a change in job grade and salary range; each of these cases is handled individually or as part of changes to an entire department/unit. All job evaluations are made without reference to the employee and their performance. Approval of the Business Unit Executive and the Vice President of Organizational Effectiveness is required for job evaluation to be conducted.

Minor changes in daily tasks or activities or a change in the volume of those activities typically will not affect the value of the work relative to the other jobs at Toronto Hydro; roles in these instances will not be considered for re-evaluation.

4.3 Performance Ratings

A single rating of performance is used for the two cash components of our Compensation Program. Each management employee (executive, managerial, supervisory, professional, excluding Engineers) will be assessed against a 5-point scale to determine his/her relative performance. (Refer to Compensation Program Guide for Toronto Hydro Corporation (THC) and Toronto Hydro-Electric System Limited (THESL).

This rating will be based on the employees total performance contribution for the year relative to others considering; performance against agreed performance goals and targets (Performance Contracts), demonstration of Toronto Hydro's core behavioural competences and any other extraordinary contribution in the performance year.

4.4 Base Salary

Each position within Toronto Hydro is assigned a salary grade and a corresponding salary range. Individuals should expect to progress through the salary range at a rate that reflects their relative performance and pay. Employees who are new to their role and/or are not yet fully meeting the expectations of the job may expect to be paid below the job rate. Over time however, employees who meet the job expectations should be paid at or around the job rate. Employees who exceed expectations may over time, expect to be paid above job rate. At no time will an employee be paid outside of the approved salary range for the position. Each year, the employee's performance will be reassessed and a new rating assigned.

All management salaries (including Administrative) will be reviewed on an annual basis with salary increases approved and applied in March of the current year retroactive to January 1 of the current year.

Employees hired or new to management on or after October 1 of the current year will not be eligible for a management salary review for the current year process (e.g. hired on Oct 15, 2006; salary not eligible for review until January 1, 2008).

Salary range adjustments, when required, are made annually effective **January 1**. Adjustments are based on market data in addition to consideration of various internal factors (e.g., potential positioning in ranges).

In some years it may not be necessary to make any changes to policy or only make partial adjustments (e.g. increase at below market values) depending on circumstances and compensation philosophy.

4.5 Variable Performance Pay

All Management employees are eligible for an annual Variable Performance Pay award. Performance pay targets are assigned to each job and/or salary grade and are expressed as a % of the current year's base salary. Employees who are solid performers should expect to earn target awards in years when corporate and or affiliate performance meets target. However, this plan is intended to be variable and as such; employees should expect significant variability in award payouts from year to year reflecting differences in Business and/or Individual performance.

Annual Variable Performance Pay awards are based on the individual's performance rating in addition to performance against agreed Business (Corporate or Affiliate) Scorecard results. The weighting of individual, affiliate and/or corporate business performance will vary by role and/or salary grade. Individual performance impacts are based on the employees overall performance rating and not exclusively on the performance contract results. The impact of individual performance on Variable Performance Pay awards will vary within a range at the discretion of management to recognize the relative performance of the employee. (Refer to Performance Pay Guidelines for Toronto Hydro Corporation (THC) and Toronto Hydro-Electric System Limited (THESL).

4.6 Compensation Budget Considerations (Annual Salary Policy)

Annual Management salary budgets are usually prepared in June/July by Organizational Effectiveness in conjunction with Finance.

The budget determines the funds to be allocated annually for each cost centre for total compensation, which would include base salaries (annual increases, promotional increases, etc.) and Performance Pay.

Information from the marketplace may also be considered in budget preparation. The compensation budget also factors in potential changes resulting from any planned adjustments to base salary policy for the upcoming year.

Individual Performance factors will have some influence on potential budget numbers. At the time budget is prepared, these factors can only be forecasted therefore, initial budget estimates are based on expected or "target" performance considerations.

A separate budget is prepared for employee benefits.

4.7 Treatment of Base Salary in Promotion Situations

Increases may be granted when an employee is promoted to a job associated with a higher job rate (or at a salary range higher) than the current one.

A promotional increase up to 5% of an employee's current salary may be granted providing that the proposed salary does not exceed the new grade's salary job rate.

When the effective date of the promotion is less than three months prior to the planned base salary increase period, a combined base salary and promotional increase may be granted.

5 OWNERSHIP AND RESPONSIBILITIES

5.1 Newly hired Management employees cannot be offered a base salary at or above the job rate. If there is an exceptional requirement to hire person with a salary at or above the posted job rate, this would require approval from the Vice-President, Organizational Effectiveness.

5.2 Accountabilities for Review and Approval

5.2.1 VP, Organizational Effectiveness

- Ensures that the total compensation program is managed for consistency and equity
- Approves (in conjunction with President & CEO, THC, and/or President, THESL) all changes in organizational design prior to any process being initiated to implement the changes
- Approve any additions to the organization's workforce complement (in conjunction with the top executive from an organization/affiliate/business unit)
- Approves base salary increases associated with organizational change, promotions or other job movement
- Oversees the full compensation package being provided to the board's compensation committee

5.2.2 Manager, HR Planning, Benefits & Compensation

- Develops and maintains the salary ranges in accordance with competitive pay practices
- Reviews salaries annually to ensure that Toronto Hydro remains competitive with the market
- Evaluates all jobs (job evaluation committee comprising representatives from HR and senior line & corporate management is scheduled to convene in 2007)
- Reviews exceptions not included in the annual workforce plan or covered off by the terms of this policy (in conjunction with the Vice President, Organizational Effectiveness)
- Prepares and provides data/information/analysis to CEO, Executives, Sr. Management, etc. for standard and/or special compensation-related requirements (i.e. Board Presentations)

5.2.3 Manager, Organizational Development & Performance

- Oversees the Performance Management Evaluation & Reward systems
- Directs the annual performance contracting and evaluation process
- Develops and directs the engagement and communication process for compensation-related initiatives

5.2.4 Board of Directors

- Reviews recommendations made by the executive management team and will give final approval for the compensation system that will be used by the organization for Management employees
- Compensation Committee reviews and approves Executive Compensation tables, Performance Evaluation and Corporate KPI/Scorecard
- Audit Committee confirms all scorecard results and Performance Pay payout amounts

5.2.5 President & CEO, THC

- Presents Corporate results & Executive Compensation tables to Board Compensation Committee
- Ensures Toronto Hydro is staffed with highly qualified, fully competent employees and that all programs are administered within appropriate guidelines and within the approved budget

5.2.6 Other Executive or Sr. Management (i.e., THESL or Affiliates, CFO, Business Unit Management, etc.):

- Ensures adherence to the philosophy, principles and requirements as stipulated in this policy.

1 **COMPENSATION**

2
3 In an industry characterized by an ageing workforce and a competitive labour market for
4 specialized jobs specific to the industry, THESL is faced with a projected turnover of 45
5 percent of its current workforce over the next ten years. At the same time, THESL is
6 executing a substantial modernization and renewal of its ageing distribution system. To
7 manage this level of change in both its workforce and work program, THESL must be
8 equipped to attract, motivate and retain the talent that is critical to maintaining and
9 renewing its distribution system.

10
11 Many of the skills that THESL requires are specialized in the electricity industry. The
12 ability to hire fully competent trades and technical workers is limited.

13
14 Retention is also a particular concern, given that THESL is one of the few utilities with
15 its own Trades School, which makes its apprentices and graduates attractive to other
16 employers. Seasoned, experienced utility workers and leaders are also potential targets
17 for recruitment by contractors and other utilities that are faced with similar attrition
18 challenges and on-going or increasing work demands. Faced with these employment
19 conditions, THESL's total compensation package and its offer of an exciting, rewarding
20 work experience are critical elements to acquiring and retaining employees with the
21 requisite skill sets.

22
23 The goal of THESL's overall compensation strategy is to secure a workforce that is
24 skilled and capable of exceptional performance and commitment. Its workforce is
25 comprised of unionized and non-unionized employees. CUPE Local No. 1 ("CUPE") is
26 the sole bargaining agent for over 68 percent of THESL's employees. The Society of
27 Energy Professionals ("Society") represents Engineers. Compensation for CUPE and
28 Society employees is negotiated through the collective bargaining process. When

1 negotiating wage levels, consideration has to be given to the complexity of THESL's
2 Overhead and Underground distribution system and the diverse skill sets required to work
3 within this system in a dense urban environment, as well as the competitive wage levels
4 of the GTA market and broader, large utility sector. Base salary is central to the
5 compensation for unionized employees.

6
7 As part of THESL's five-year Collective Agreement with CUPE effective February 1,
8 2009, a group incentive program was introduced for unionized employees in the critical
9 front-line roles of Crew Leader and System Response Representative. The Gain Sharing
10 Program links pay to successful delivery of specific results. The purpose of the program
11 is to incent the right behaviours and advance the performance expectations for these
12 employees to promote individual accountability and drive operational improvements.
13 The Gain Sharing Program has its own Scorecard linked to THESL's Corporate
14 Scorecard and consists of specific key performance indicators ("KPIs"):

- 15 1) People;
 - 16 a) Safety
 - 17 b) Attendance
- 18 2) Operations – Distribution Plant Capital per Unit; and
- 19 3) Customer Service – SAIDI.

20
21 These KPIs are aimed at reducing injuries, increasing regular attendance, accomplishing
22 THESL's work program and improving customer service reliability. The overall
23 incentive has a potential payout of 2.5 percent of base wages with each of the KPIs given
24 equal weight. To receive the payout, the target must be met on the given KPI. Targets
25 will be reset annually, as approved by the Board of Directors. This incentive program
26 directly ties eligible employees' compensation to achievement of performance results.

1 THESL provides its non-unionized employees (Executive, Managers and Management)
2 with a total cash compensation package comprised of two elements: base salary and
3 variable performance pay. To ensure market competitiveness and a cohesive, well-
4 performing workforce, THESL's compensation must recognize both superior business
5 results and behaviours. THESL's performance-based philosophy ensures that rewards
6 are appropriately aligned with its strategic direction, vision, goals, and behaviours. It
7 also ensures a system by which both employees and the organization can thrive and
8 achieve success.

9
10 THESL reviews the external competitiveness of its compensation programs. These
11 reviews examine all elements of compensation. The reviews help ensure that the level,
12 form and mix of compensation offered by THESL are competitive with those provided
13 for comparable jobs in the markets where THESL competes for talent.

14
15 The annual Base Salary budget includes base salaries (inclusive of annual increases,
16 promotional increases, etc.). On an annual basis, projected base salary increases for the
17 coming year are obtained from external market sources. These data encompass both the
18 national and GTA markets, and are obtained for each major employee group. The data
19 also factor in potential changes resulting from any planned adjustments to base salary
20 policy for the coming year.

21
22 All Management employees are eligible for an annual variable pay award. Performance
23 Pay targets are assigned to each job and/or salary grade and are expressed as a percent of
24 the current year's base salary. This plan is intended to be variable and as such, provides
25 for variability in award payouts to employees from year to year, reflecting differences in
26 business and/or individual performance. THESL's Variable Performance Pay plan is
27 attached as Exhibit C2, Tab 1, Schedule 4.

1 The Variable Performance Pay Program is reviewed annually to ensure continued
2 alignment with corporate direction. Performance at THESL is measured against a
3 scorecard of KPIs in each of four categories:

- 4 1) People – Safety, Safety Leadership and Attendance;
- 5 2) Finance – Operating Expense and Net Income;
- 6 3) Operations – Distribution Plant Capital Per Unit, SAIDI, SAIFI and Feeder
7 Performance; and
- 8 4) Customer – Call Centre Service Index.

9
10 Weightings for the scorecard and individual performance contracts differ by position and
11 may change from year to year. Weightings refer to the percentage of the total direct pay
12 award that will be paid based on achievement against the goals. Variable pay awards are
13 based on a combination of THESL results, divisional results and the employee's
14 individual performance contract results. Target levels vary by level within the
15 organization. Pay at risk increases as accountability for organizational results increases.
16 This approach is consistent with competitive market best practices.

17
18 The Variable Performance Pay Program is a critical component of total cash
19 compensation that enables THESL to recognize performance results without increasing
20 fixed costs through escalating base salary levels. It aligns employee performance with
21 business priorities such as the capital plan and rewards employees for results that serve
22 THESL's customers and sustain a safe and reliable distribution system. Appendix A to
23 this Exhibit provides the comparison, by employee category, of compensation totals and
24 averages for the Historical, Bridge and Test Years.

1 **BASIS OF PROJECTIONS**

2

3 **Employee Compensation, Pensions and Benefits**

4 Total compensation costs are projected to increase by approximately 13 percent in 2012,
 5 7 percent in 2013 and 6 percent in 2014. The increases are mainly attributable to the
 6 yearly market adjustment/general increases for all full-time employees and the expected
 7 increase in headcount.

8

9 The projected benefit cost is based on 2012 renewal or budget estimates from THESL's
 10 benefit carriers utilizing THESL's benefits experience. Accrual cost for post-
 11 employment benefits is based on the same actuarial analysis used to determine the
 12 liability reported in THESL's audited financial statements; the data is effective January 1,
 13 2007.

14

15 Pension contribution increases were attributable to higher base pay and an increase in
 16 OMERS contribution rates between 2011 and 2014 as shown below. OMERS
 17 contributions are based on all pensionable earnings.

18

19 **OMERS Contribution Rates:**

Contributions Year	Before YMPE*	After YMPE
2011	7.4 percent	10.7 percent
2012	8.3 percent	12.8 percent
2013 (Estimate)	9.2 percent	13.7 percent
2014 (Estimate)	10.1 percent	14.6 percent

* Year's maximum pensionable earnings ("YMPE")

TABLE 1: EMPLOYEE COMPENSATION

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
	2008 Historical Actual	2009 Historical Actual	2010 Historical Actual	2011 Bridge	2012 Test	2013 Test	2014 Test	
Number of Employees (FTEs including Part-Time)								
Executive	10	9	12	10	9	9	9	
Managerial	41	43	50	54	53	54	54	
Management/Non-Union	275	302	368	456	517	526	531	
Union *	1,220	1,220	1,226	1,323	1,408	1,454	1,493	
Total *	1,546	1,574	1,657	1,843	1,988	2,043	2,087	
<i>**Excludes President & Vice President of CUPE Local One</i>								
Number of Part-Time Employees								
Executive								
Management (Managerial)								
Non-Union (Management/Non-Union)								
Union								
Total								
Total Salary and Wages								
Executive	1,812,508	1,782,965	2,034,931	2,021,671	1,952,917	2,013,458	2,075,876	
Managerial	4,960,743	5,670,025	6,890,323	7,286,795	7,448,856	7,766,304	8,007,060	
Management/Non-Union	24,637,246	27,600,854	33,846,153	43,119,593	49,137,916	51,491,613	53,555,273	
Union	88,723,958	91,712,517	95,057,034	105,589,059	116,553,016	124,883,259	132,580,135	
Total	120,134,455	126,766,361	137,828,442	158,017,119	175,092,705	186,154,635	196,218,344	
Total Benefits								
Executive	818,469	787,524	924,153	1,030,425	1,054,808	1,152,318	1,242,420	
Managerial	1,690,280	1,918,365	2,448,109	2,837,897	2,997,628	3,242,182	3,466,229	
Management/Non-Union	8,509,707	9,523,018	12,317,142	16,615,743	19,529,996	21,201,585	22,827,438	
Union	30,960,867	31,919,115	28,949,620	40,427,579	45,912,261	50,924,495	55,895,464	
Total	41,979,324	44,148,021	44,639,026	60,911,643	69,494,693	76,520,581	83,431,551	
Total Compensation (Salary, Wages, & Benefits)								
Executive	2,630,977	2,570,489	2,959,085	3,052,096	3,007,725	3,165,777	3,318,295	
Managerial	6,651,023	7,588,390	9,338,433	10,124,692	10,446,484	11,008,486	11,473,289	
Management/Non-Union	33,146,953	37,123,872	46,163,296	59,735,336	68,667,912	72,693,198	76,382,710	
Union	119,684,825	123,631,632	124,006,655	146,016,638	162,465,276	175,807,755	188,475,599	
Total	162,113,778	170,914,383	182,467,468	218,928,762	244,587,398	262,675,215	279,649,894	
Compensation - Average Yearly Base Wages								
Executive	181,251	200,179	197,120	202,167	216,991	223,718	230,653	
Managerial	121,783	131,760	133,152	135,358	139,666	143,820	148,279	
Management/Non-Union	89,665	91,326	91,918	94,561	94,983	97,831	100,794	
Union	72,700	75,169	77,508	79,825	82,779	85,909	88,821	
Compensation - Average Yearly Overtime								
Executive	0		0	0	0	0	0	
Managerial	0		0	0	0	0	0	
Management/Non-Union	4,297	9,639	7,134	2,605	2,846	2,949	2,991	
Union	9,498	13,121	16,111	11,733	14,416	14,851	14,770	
Compensation - Average Yearly Incentive Pay								
Executive	70,902	85,714	73,398	68,100	74,899	77,221	79,615	
Managerial	22,732	23,820	24,373	24,507	25,279	26,031	26,838	
Management/Non-Union	6,769	6,729	7,010	8,246	8,280	8,520	8,771	
Union**	5,063	5,806	2,828	3,662	4,381	4,525	4,746	
<i>**Only includes The Society of Energy Professional, Crew Leaders, System Response Rep</i>				(193.6 FTEs for union)	(205.7 FTEs for union)	(209.0 FTEs for union)	(211.3 FTEs for union)	
Compensation - Average Yearly Benefits								
Executive	81,847	88,418	89,521	103,042	117,201	128,035	138,047	
Managerial	41,495	44,579	47,308	52,716	56,206	60,040	64,189	
Management/Non-Union	30,970	31,510	33,451	36,438	37,751	40,282	42,963	
Union	25,369	26,161	23,605	30,563	32,608	35,032	37,447	
Total Compensation	178,510,702	193,838,537	209,915,570	242,106,155	273,563,834	293,347,045	311,114,278	
Total Compensation Charged to OM&A	96,609,992	105,060,487	112,136,898	141,142,523	157,341,036	168,253,143	179,389,506	
Total Compensation Capitalized	81,900,710	88,778,050	97,778,673	100,963,632	116,222,798	125,093,902	131,724,772	

1 **COMPENSATION – PENSIONS AND POST-RETIREMENT**

2 **BENEFITS**

3
 4 **PENSIONS**

5 THESL provides a pension plan for its fulltime employees through the Ontario Municipal
 6 Employees Retirement System (“OMERS”). OMERS is a multi-employer, contributory
 7 and defined benefit pension plan. Both participating employers and employees are
 8 required to make plan contributions based on participating employees’ contributory
 9 earnings. THESL recognizes the expense related to this plan as contributions are made.
 10 Table 1 below presents THESL’s OMERS current service pension costs, capitalized
 11 amounts and expensed amounts for the Historical, Bridge, and Test Years.

12
 13 **OMERS PENSION COSTS**

14
 15 **Table 1: Pension Costs (\$ millions)**

Pension	2010 Actual	2011 Bridge	2012 Test	2013 Test	2014 Test
Pension premiums	11.5	16.4	18.2	21.1	24.1
Less: Amount capitalized	5.6	6.8	7.7	9.0	10.2
Amount expensed in each year	5.9	9.6	10.5	12.1	13.9

16 The increase in costs related to the OMERS defined benefit pension plan from 2011 to
 17 2014 is due to the increase in number of FTEs, contributory earnings increases, and an
 18 increase in contribution rates between 2011 and 2014.

1 **POST-REIREMENT BENEFIT COSTS**

2 In addition to a pension benefit, employees also receive certain post-retirement benefits.
 3 Table 2 below presents the benefit costs, capitalized amounts and expensed amounts for
 4 the Historical, Bridge and Test Years.

5
 6 **Table 2: Post-Retirement Benefits Costs (\$ millions)**

Post Retirement Benefits	2010 Actual	2011 Bridge	2012 Test	2013 Test	2014 Test
Post Retirement Benefits Cost	15.4	17.7	20.2	21.3	22.3
Less: Amount capitalized	7.4	7.4	8.6	9.1	9.4
Amount expensed in each year	8.0	10.3	11.6	12.2	12.9

7 **Post-Retirement Benefits Accounting Information**

8 Post retirement benefits costs are based on actuarial assumptions developed by a third-
 9 party consulting firm. The increase in costs related to Post-Retirement benefits from
 10 2011 to 2014 is due to an increase in the FTE number.

11
 12 ***Accounting Treatment of Post-Retirement Benefit Costs***

13 Employee future benefits other than pension provided by THESL include medical, dental
 14 and life insurance benefits, and accumulated sick leave credits. These plans provide
 15 benefits to employees when they are no longer providing active service. Employee future
 16 benefit expense is recognized on an accrual basis in the period in which employees render
 17 services. The accrued benefit obligations and the current service costs are calculated
 18 using the projected benefit method prorated on service and based on assumptions that
 19 reflect management's best estimate. The current service cost for a period is equal to the
 20 actuarial present value of benefits attributed to employees' service rendered in the period.

1 ***Treatment of Changes in Accounting Policy Regarding Post-Retirement Benefits, and***
2 ***any Related One-Time Expenses, Including Amortization Policy***

3 There were no changes in accounting policy or any related one-time expenses since the
4 last EDR Application (EB-2010-0142) filed in August 2010.

5

6 ***Treatment of Changes in Plan Provisions and Changes in Actuarial Value of Post-***
7 ***Retirement Benefit Obligation***

8 Past service costs arising from plan amendments are amortized on a straight-line basis
9 over the average remaining service period of employees active at the date of amendment.
10 The excess of the net actuarial gains or losses over ten percent of the accrued benefit
11 obligation is amortized into expense over the average remaining service period of active
12 employees to full eligibility. The effects of a curtailment gain or loss are recognized in
13 income in the year of the event giving rise to the curtailment. The effects of a settlement
14 gain or loss are recognized in the period in which a settlement occurs.

15

16 ***Disclosure of any Plans that do not follow the Current CICA Accounting Rules for***
17 ***Regulatory Purposes and Explanation for the Alternative Treatment***

18 The post-retirement benefits disclosure is in accordance with CICA Handbook Section
19 3461 “Employee Future Benefits”.



Compensation Program Guide

Management Employees

January 2011

Your Guide to Compensation at Toronto Hydro

At Toronto Hydro Corporation, we are committed to the health & safety of our employees, solid financial strength, modernizing our utility, providing reliable services to our customers, and working in a productive collaborative way towards the achievement of our goals.

We understand that an essential part of our ability to meet these commitments is the dedication and talent of our employees. We also recognize that we need to remain competitive in our ability to attract, motivate, and retain the people critical to our organization's success. One way to do this is to continue to focus our rewards strategy into a strong, customer focused, performance-based program.

This guide provides information on our Compensation Program, including:

- Our compensation philosophy and principles
- Base and variable performance pay details
- Sample base pay and variable performance pay opportunities

What's Inside

Your Guide to Compensation at Toronto Hydro	2
Compensation Philosophy & Principles	3
Compensation Program Components: Base Pay & Variable Performance Pay	3
Performance Ratings	5
Base Pay Increases	5
Performance Pay Weightings: Corporate, Divisional & Individual Performance	6
Compensation & Performance Calendar	9
Appendix (2011 Corporate Scorecard)	10
Compensation Program Rules	12

Our Compensation Philosophy and Principles

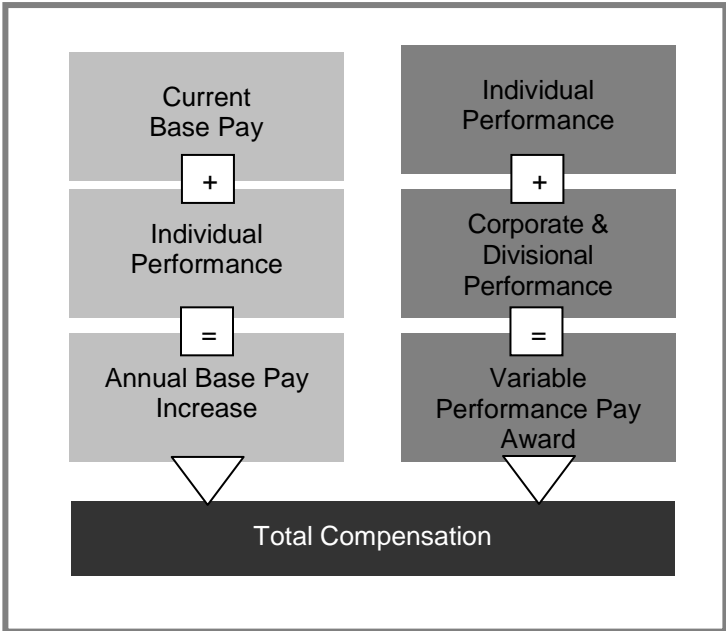
We recognize that to ensure market competitiveness and a cohesive, well-performing workforce, our compensation system must recognize both superior business achievements *and* behaviours. Our performance-based compensation philosophy ensures that our rewards are appropriately aligned with our strategic direction, vision, goals, and behaviours. It also ensures a system by which both you and the organization can thrive. With a collaborative, results-focused approach, we can achieve market success.

The following principles shape our Compensation Program:

- Motivating employees by rewarding both the results and the behaviours required to achieve business goals
- Recognizing productive employees assist with cost containment and improving service to customers
- Providing *competitive* total compensation
- Ensuring that compensation opportunities are fair and equitable
- Aligning compensation with both individual and business success

Compensation Program Components

There are two components to our Compensation Program – base pay and variable performance pay. This represents your total direct pay opportunity at Toronto Hydro.



Base Pay

Base pay is the foundation of the total direct compensation opportunity under the Compensation Program. In accordance with our Compensation Philosophy and Principles, we provide market competitive base salaries to help us attract, motivate, and retain employees who are critical to our success.

Each salary range has a minimum, job rate, and maximum that is market competitive. The job rate is a fully competitive level of compensation and should be achievable over time with solid performance. Your pay within the salary range and your performance are linked. Employees who are consistently and fully meeting the expectations of their job over time should expect to be paid at or around the job rate. Employees who are still learning or are not yet fully meeting the job expectations should expect to be paid below the job rate, and employees who consistently exceed expectations may earn compensation above the job rate.

Your progression within the range will depend on your performance and your current level of pay. Over time, your pay will progress to a level within the range that reflects your performance. Each year, the job rate will be reviewed to ensure that it continues to be competitive and will be adjusted as required.

Variable Performance Pay

Management employees are eligible for variable performance pay. The objectives of variable performance pay are to:

- ensure that total direct compensation opportunities are fully competitive
- provide employees with total direct compensation that recognizes results achieved and behaviours demonstrated during the previous fiscal year
- ensure that all variable performance pay payouts are fair and equitable relative to the contributions of others
- ensure that the overall variable performance pay opportunity recognizes the results of the Corporate & Divisional performance

Performance Ratings

Each year, you will receive a performance rating from your leader on the following five-point performance decision framework. This single rating of performance impacts both components of direct compensation – base pay increases and variable performance pay. Your performance is assessed relative to others in similar jobs with similar responsibility, expertise, and knowledge.

Rating	Overall Performance
5	Exceeds all result expectations and is a role model for core behaviours – these individuals are in the top 5% of performers
4	Exceeds some and meets all result expectations and demonstrates core behaviours at or above solid level
3	Generally achieves expected results and demonstrated core behaviours – fully meets expectations. Most employees should perform at this level
2	Falls short on some results and/or demonstration of core behaviours but is making steady progress towards achievement – this level of performance is fully acceptable for employees new to role
1	Not acceptable results achievement and/or behaviour

Internal Consistency and Equity

The annual performance evaluation process is designed to ensure performance ratings are fair and equitable relative to the results achieved, your demonstrated behaviours, and other contributions. Performance and overall contributions will be reviewed by the Executive team within and across business units to ensure fairness and consistency.

Base Pay Increases

Your base pay may grow through different types of increases:

- **Annual Performance Increase** – this type of increase is based on your individual performance relative to your current pay within the salary range. An increase, if any, is normally paid in March (or 1st week of April with retro pay to January). Both your performance rating and your current pay relative to the job rate are important factors in determining your annual increase.
- **Job Change Increase** – this type of increase recognizes movement to a new job in a higher salary band. A job change represents a significant increase in job responsibilities, required skills, experience, and knowledge. It will likely result in a pay increase, but not always. An increase, if any, is generally given at the time of expanded accountability.

Performance Pay Weightings by Position

Your variable performance pay payout (if any) is based on a combination of your individual performance and business results (Corporate & Divisional Scorecards). The weighting of individual and business results will vary by role to reflect the performance focus of your role, and may change from year to year.

Position	Individual Performance (%)	Divisional Performance (%)	Corporate Performance (%)
CEO	20	N/A	80
Executives	20	20	60
Managers	20	50	30
Supervisors and Professionals	30	50	20
Service and Administration	40	50	10

Corporate & Divisional Performance – Scorecard & KPIs

Corporate performance is measured against a scorecard of key performance indicators (KPIs) in each of four categories – Health & Safety, Financial Strength, Asset Modernization, and Customer Service. The KPIs provide important organizational measures and targets that will focus performance discussions between leaders and employees. This year’s Corporate Scorecard is in the appendix of this guide.

Divisional performance is also measured against a scorecard of key performance indicators (KPIs) that align to the Corporate KPIs. Weighting of KPIs for divisional performance may vary by division, and may change from year to year without notice. If an employee changes divisions during the year, this portion of the variable performance pay payout will be pro-rated based on the number of months in each division. Details about your Divisional Scorecard are available from your leader.

There is an opportunity to earn above the target payout if the Corporate and/or Divisional results exceed the established target. As a result it is possible to earn above the target payout for the Corporate and/or Divisional portions of your variable performance pay. Payout on the Divisional portion may be adjusted at the sole discretion of the President & CEO.

Threshold¹	=	25% of weighted target payout
Target²	=	100% of weighted target payout
Maximum³	=	150% of weighted target payout

¹ Threshold refers to the minimally acceptable level of performance necessary to earn a payout.

² Target refers to the expected level of performance.

³ Maximum refers to the demonstration of superior performance that exceeds expectations.

Individual Performance & Your Opportunity

Individual performance is based on both your results achieved and behaviours demonstrated during the previous fiscal year. Performance objectives are set at the beginning of each year. Leaders are also accountable for setting performance objectives with all new hires.

The mid-year review, together with ongoing dialogue with your leader throughout the year, provides an opportunity to assess your performance progress and make any adjustments based on changing business priorities. However, the performance objectives are not the only measure of individual performance. Individual performance is also based on other extraordinary contributions and behaviours demonstrated in the following seven core areas:

- Customer Focus
- Health & Safety
- Accountability
- Drive for Results
- Trust & Respect
- Collaboration & Learning
- Innovation & Adaptability

Your final individual variable performance pay payout (if any) will be determined by your Executive / Manager based on your performance relative to others in similar jobs with similar responsibility, expertise, and knowledge. This is intended to ensure that the level of stretch in targets, the degree of achievement, and other contributions impacting performance are considered in the determination of the final payout. Your overall performance rating may be used as a threshold in determining your payout on the Corporate and Divisional weighted portions of the variable performance pay payout.

The chart below shows a reasonable range of correlation between your overall performance rating and your individual variable performance pay payout (if any), although exceptions may apply. It is important to note that variable performance pay payouts are at the discretion of the Company and there is no guarantee of a variable performance pay payout in any particular year. Under no circumstances is variable performance pay to be considered part of an employee's base salary or other regular employment income.

Outstanding	5	=	135% to 150% of individual eligibility
Exceeds	4	=	110% to 130% of individual eligibility
Solid	3	=	90% to 105% of individual eligibility
Developing	2	=	50% to 80% of individual eligibility Payout on corporate & divisional weighted portions of the variable performance pay payout may be reduced at the Company's discretion. Consideration will be given to employees new to the role.
Not Acceptable	1	=	0% of individual eligibility No payout on corporate & divisional weighted portions of the variable performance pay payout

A Closer Look at Calculating Variable Performance Pay

The size of your variable performance pay payout (if any) will depend on your base salary and target performance pay percentage. The final payout will depend on the weighted achievement of the Corporate Scorecard, Divisional Scorecard and your individual performance evaluation. Final payouts may be above or below the target performance pay percentage. You may earn up to 150% of your target performance pay.

Example

We have provided an example below to illustrate how this works:

Employee Salary	=	\$50,000
Target Bonus Percentage	=	5% or \$2,500
% Weighting	=	30% Individual 50% Divisional 20% Corporate

If Corporate and Division met 100% of the scorecard and the employee was a solid performer (i.e. 3 rating) who reached 100% of their performance expectations the payout would be calculated as follows:

Individual Performance	$\$2,500 \times 30\% \text{ (weight)} \times 100\%$	=	\$750
Divisional Performance	$\$2,500 \times 50\% \text{ (weight)} \times 100\%$	=	\$1,250
Corporate Performance	$\$2,500 \times 20\% \text{ (weight)} \times 100\%$	=	\$500
Final Payout			= \$2,500
Percentage of Target			= 100%

Annual Compensation & Performance Calendar

Month	Event
November	<ul style="list-style-type: none"> Set Corporate Scorecard for next fiscal year, including threshold, target and maximum goals
December / January	<ul style="list-style-type: none"> Complete current year key performance indicators (KPIs) audit and review Set Divisional Scorecards for next fiscal year, including threshold, target and maximum goals
January	<ul style="list-style-type: none"> Set individual performance objectives for current year. Leaders send recommendations for previous year's performance results to Organizational Effectiveness and Environment, Health & Safety (OEEHS) for preparation of base pay increases and variable performance pay payouts.
February	<ul style="list-style-type: none"> Executives review performance evaluations to ensure cross business unit consistency, and confirm individual performance ratings. Organizational Effectiveness and Environment, Health & Safety (OEEHS) calculates recommended base pay increases and variable performance pay payouts.
March	<ul style="list-style-type: none"> President & CEO advises Compensation Committee and the Board of Directors of overall results. Leaders share performance ratings with employees. Payroll is advised of finalized and approved base pay increases and variable performance pay payouts (if any).
July	<ul style="list-style-type: none"> Leaders complete mid-year discussions with employees to review individual performance, including opportunities for development and career goals.

Appendix

2011 Corporate Scorecard

Corporate performance is measured against a scorecard of key performance indicators (KPIs) in each of four categories – Health & Safety, Financial Strength, Asset Modernization, and Customer Service. The KPI's provide important organizational measures and targets. The scorecard framework is used to report overall corporate performance.

2011 Corporate Scorecard

KPIs	Weight	Threshold	Target	Maximum
Health & Safety				
Safety - My Goal is Zero	5%	4.75	4.50	4.20
Safety Leadership	5%	90%	95%	100%
Attendance (# days)	5%	8.00	7.75	7.50
Financial Strength				
Consolidated Operating Expense (\$M)	15%	\$242.9	\$237.9	\$232.9
Consolidated Net Income (\$M)	15%	\$64.6	\$69.6	\$74.6
Asset Modernization				
Distribution Plant Capital Per Unit (\$K)	30%	\$1.240	\$1.180	\$1.120
System Average Interruption Duration Index (SAIDI)	5%	87.0	82.0	77.0
System Average Interruption Frequency Index (SAIFI)	5%	1.86	1.66	1.46
Worst Performing Feeders	5%	42.0	37.0	32.0
Customer Service				
Call Centre Service Index	10%	78%	83%	88%

2011 Corporate Scorecard – KPI Definitions

Safety – My Goal is Zero:

$$\frac{\text{\# of Recordable Injuries x 200,000 hours}}{\text{Exposure Hours}}$$

Note: Recordable Injuries is as defined by CEA. 200,000 hours is CEA standard to represent 100 employees

Safety Leadership:

Critical leadership behaviours by supervisors, managers and VPs responsible for inside and outside workers exposed to safety hazards. Measure is an index of the quality and quantity of inspections.

Attendance:

Total days of absence divided by number of employees

Note: Days of absence include sick days, unpaid sick days, dependent care days, and medical appointments. Approved LTD cases are excluded from this calculation.

Consolidated Operating Expense:

Opex per THC Income Statement excluding CDM Opex.

Consolidated Net Income:

Net Income per THC Income Statement.

Distribution Plant Capital Per Unit:

Total Electricity Distribution Capital Spend in Period (including Planned & Unplanned Refurbishment, Upgrade, and Customer Growth)

Related Units Completed in Period

System Average Interruption Duration Index (SAIDI):

Total customer hours of interruptions

Total # of customers served

Note: Measure based on industry standard definition using existing data collection.

System Average Interruption Frequency Index (SAIFI):

Average annual number of customer interruptions per year.

Worst Performing Feeders:

Total number of feeders experiencing more than 7 sustained outages in a year.

Note: Outages defined as interruptions greater than one minute.

Call Centre Service Index:

Average of Call Centre response within 30 seconds and call quality.

Compensation Program Rules

Situation	Variable Performance Pay	Base Pay Increase
New hire	Eligible if start date by November 30 th . Payout pro-rated based on full calendar months worked. Performance objectives should be in place for all employees who start by November 30 th .	Eligible if start date by September 30 th . Increase pro-rated based on full calendar months worked.
Promotion or Transfer	Payout pro-rated based on full calendar months worked in each position, reflecting target and weightings for each position. Full payout based on salary as of December 31 st .	Eligible if start date in new position by September 30 th or if no salary increase occurred with the promotion or transfer. Performance rating and any increase based on new position.
Approved Leave of Absence (e.g. maternity, family medical, sick)	If approved absence is one continuous month or greater, payout pro-rated based on full calendar months worked.	If approved absence is one continuous month or greater, increase pro-rated based on full calendar months worked. No increase will be applied while an employee is on long-term disability as remuneration is by a third-party insurance company.
Resignation or Termination	No payout for employees who resign or whose employment is voluntarily or involuntarily terminated, with or without cause, prior to the later of March 31, 2012 or the pay date when variable performance pay is paid. (See ** below for further rules.)	No increase for employees who resign or whose employment is voluntarily or involuntarily terminated, with or without cause, prior to the pay date when increases are processed.
Retirement	Eligible for a pro-rated payout based on full calendar months worked. Payouts are made with all other management employees.	No increase for employees who leave the company prior to the pay date when increases are processed.

Notes:

1 – “ Full calendar month” is from the first to last working day of the calendar month. No pro-rating for partial months.

2 – If an employee passes away during the year while eligible for the program, his or her estate will be eligible to receive a pro-rated payout of variable performance pay based on full calendar months worked.

3 - Variable performance pay payouts are at the discretion of the Company and there is no guarantee of a variable performance pay payout in any particular year. Under no circumstances is variable performance pay to be considered part of the employee's base salary or other regular employment income.

** Eligibility for variable performance pay is conditional upon the employee remaining in the active employment of the Company until the date when the variable performance pay is paid. Should, prior to the date when the variable performance pay is paid, the employee receive notice of termination, or the employee's active employment with the Company ceases for any reason whatsoever (excluding instances of “Approved Leave of Absence” and “Retirement” as provided for above), the employee will not be eligible for variable performance pay consideration for 2011 or any

subsequent year or with respect to any notice period arising under contract, statute, common law or otherwise. For greater certainty, active employment for the purposes of variable performance pay eligibility shall not be extended by any notice period, arising under contract, statute, common law or otherwise.

The Compensation Program and Compensation Program Rules are subject to change, without notice, at the sole discretion of the company. Employees are only eligible under the Compensation Program and Compensation Program Rules that are in effect at the time of payouts.

1 **COMPENSATION**

2
3 **WORKFORCE STAFFING PLAN**

4 In the coming years, THESL will be faced with three major impacts on staffing – an
5 ageing workforce resulting in an escalating rate of retirements with the associated loss of
6 skilled, experienced workers and entry of new employees; modernization of the
7 distribution grid and a continuing growth in THESL’s infrastructure renewal plan; and
8 transformation of the traditional customer experience to an increasingly more
9 sophisticated and value-based model.

10
11 **The Electricity Industry’s Workforce Challenges**

12 An ageing workforce is one of the most significant human resource issues facing the
13 electricity industry in planning for future skill and competency requirements. Although
14 the industry has always had to plan for employees leaving the workforce through
15 retirement, the magnitude and impact of projected retirements by the baby-boom
16 generation far exceed the industry’s historical turnover experience.¹

17
18 *The Sustainable Electricity Annual Report 2010*, released in June 2011 by the Canadian
19 Electricity Association (“CEA”), confirmed Human Resources as one of the key industry
20 challenges. The report states:

21 “Attracting qualified skilled workers to the electricity industry remains a
22 challenge, exacerbated by the age of the industry workforce and the
23 impending retirements of experienced utility personnel... CEA members
24 are also facing the prospect of a skilled-worker shortage at a time of
25 industry renewal and expansion.

26
27 In 2010, total employee compensation (salary plus benefits) at CEA

¹ The baby boom generation encompasses people born between 1945 and the early 1960s.

1 member companies was \$5.6 billion. Recognizing that many employees
2 purchase goods and services locally, this increase, accounting for an
3 additional \$500 million to the Canadian economy (relative to 2009),
4 provides a substantial transfer of wealth back to the communities in which
5 member companies operate. As such, the increase can be attributed to
6 temporary contract staff, employee overtime and the hiring of additional
7 staff due to a declining workforce...”

8
9 The report goes on to reference the 2008 Labour Market Information Study
10 undertaken by the Electricity Sector Council which reported:

11 “Based on employer estimates, 28.8% of the current electricity workforce
12 is expected to retire between 2007 and 2012, a higher annual rate of
13 retirement than was estimated in the 2004 CEA Sector Study.”

14
15 **THESL’s Ageing Workforce**

16 Workforce statistics reported in the 2008 Labour Market Information Study are reflected
17 in THESL’s own situation and projections and in some instances THESL’s situation is
18 even more challenging. Between 2011 and 2020, over 750 THESL employees are
19 projected to retire, representing 45 percent of its current workforce. THESL’s employee
20 age distribution is such that 69 percent of employees are 45 and over, and 23 percent are
21 age 55 or over. Age 55 is significant because it is the minimum age of retirement for an
22 unreduced pension under OMERS pension eligibility rules.

23
24 With the amalgamation of the six municipal utilities in 1998 into THESL, workforce
25 adjustments were required to achieve economies of scale. Voluntary separation and
26 retirement packages, offered in 1998 and 2001, were made available to all employees,
27 regardless of job or skill set. The result was the departure of employees with short or
28 long tenure, leaving a middle group of employees who are now approaching retirement in

1 large numbers.

2

3 The current demographic profile of THESL’s total workforce indicates an average age of
 4 47. Historically, the average retirement age for THESL employees has been age 59.

5 Retirements to date continue to reflect 59 as the average age when employees leave
 6 THESL’s employment. The decision to retire is clearly a personal choice, influenced by
 7 many factors including financial, family, life style and health considerations, as well as
 8 personal readiness to make a critical life change. Nevertheless, it is incumbent on
 9 THESL to plan for future workforce changes in light of anticipated retirements.

10

11 To project retirements, THESL used the following criteria: OMERS Normal Retirement
 12 Age 65 (“NRA 65”) and THESL’s average retirement age (i.e., 59), combined with
 13 eligibility for an unreduced pension under OMERS. OMERS eligibility criteria for an
 14 unreduced pension stipulate that a member must be a minimum of 55 years of age with
 15 30 years of service, or a combination of minimum age 55 with age and years of service
 16 totalling 90 (“90 Factor”), or NRA 65. Using the OMERS criteria and THESL’s average
 17 retirement age, THESL estimates that over 750 employees will retire from 2011 to 2020.
 18 As of June 30, 2011, 37 actual retirements have occurred out of a projected 73 retirement
 19 in 2011. An additional 21 retirements are expected in 2011 based on formal notifications
 20 and retirement planning initiated by employees. Table 1 below presents the forecast of
 21 retirements to 2020.

22

23 **Table 1: Forecast Retirements**

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Number of retirements	73 ²	43	48	59	64	92	101	87	107	96	770

² Includes projected retirements from 2010 which did not occur and have been rolled forward.

1 Over 50 percent of the potential retirements will occur in supervisory, engineering, trades
2 and technical positions, which could deplete these job categories, on average, by half of
3 their current staffing complement. These positions are core to implementing the
4 distribution system renewal plan, maintaining existing infrastructure and sustaining safe
5 and reliable operations into the future.

6 7 **Distribution System Renewal**

8 Pursuant to the Electrical Distribution Capital Plan filed at Exhibit D1, Tab 7, Schedule 6
9 of this Application, in 2012 through 2014, THESL will continue to upgrade its
10 distribution system infrastructure. To undertake this work in the face of the retirements
11 projected for the coming years, there is a pressing need to address the impending labour
12 shortfall. At the same time that it needs skills to design and build, THESL also will
13 require excellent leadership to reinforce strategic direction, sustain momentum and
14 ensure the efficient and safe operation of the system. This leadership will be crucial to
15 ensuring stability as the composition of the workforce changes and workers with varying
16 knowledge and experience levels work side by side, critical system knowledge is
17 transferred and the growing capital plan increases work demands.

18
19 A multi-faceted approach is required to bridge the gap between current resources and
20 those required for the capital plan. Even if sufficient resources could be hired from the
21 labour market, THESL could not absorb this magnitude of new employees without
22 potentially compromising safety, adequate skills attainment and efficient, productive
23 operations. Therefore, a variety of approaches have been adopted to meet THESL's
24 resource needs. These include hiring new workers, ramping up the apprenticeship
25 programs and using contractors.

26
27 From an internal staffing perspective, skills requirements will focus on trades and
28 technical jobs. Overhead and underground trades as well as designers and engineers will

1 comprise the core of this workforce. Critical strategic competencies of expert planning,
2 risk management and leadership will be key to sustaining operational excellence during
3 this period of rapid change.

4 **Value to the Customer**

6 Initiatives such as Smart Metering and Time-of-Use (“TOU”) billing give customers
7 critical data to understand their energy usage and to use this understanding to impact their
8 electricity bills. With a growing emphasis on managing energy consumption and
9 associated costs, customers will expect service that extends beyond traditional
10 transactions, such as new account set up and bill analysis.

12 Heightened service expectations, increasingly a market norm, will require innovative
13 technologies that deploy real-time information or alerts and 24/7 customer service
14 options, with access to knowledgeable staff who can translate complex billing data into
15 sound analysis and advice. Heightened customer expectations also extend to providing
16 detailed service information during storm outages including projected restoration times.
17 Ongoing training and knowledge transfer from existing and retiring employees will be
18 needed to advance employees’ skills and knowledge in order to meet these expectations.

20 **Staffing Strategy**

21 A skilled and knowledgeable workforce is essential for THESL to undertake its capital
22 plan; implement highly technical initiatives including those associated with grid
23 modernization; support value-added customer services and technologies such as Smart
24 Metering and web-based services and position itself for future challenges. Training and
25 development of the workforce to meet new skills and knowledge requirements, as well as
26 training for harmonized jobs of broader scope, are essential. This undertaking must occur
27 while continuing to meet customers’ expectations for reliable and responsive service.

1 With the expected retirement of over 750 employees from THESL's workforce from
2 2011-2020 coinciding with the ongoing increase in capital work, THESL must continue
3 to develop its full-time staff complement and expand contingent resourcing levels.

4 THESL's workforce strategy consists of six key components:

- 5 1) Hiring new employees at a pace that ensures continued maintenance of safety and
6 effective integration;
- 7 2) Building curriculum for electrical power distribution systems with colleges and
8 universities to develop a future "talent pipeline";
- 9 3) Utilizing the considerable experience of its older workforce for training purposes;
- 10 4) Sustaining continuous improvement efforts;
- 11 5) Managing performance and development throughout an employee's career; and
- 12 6) Engaging external resources to bridge resource gaps on a contingent basis.

13
14 With respect to its staffing, THESL is managing the attrition issue by leveraging
15 seasoned workers approaching retirement to use their skills and experience to train and
16 coach new employees; replacing retiring employees; and increasing the full-time
17 complement in trades and technical jobs. Strengthening leadership capability is also a
18 priority.

19
20 THESL continues to hire into leadership, trades and technical positions, along with
21 engaging contractors to maintain the infrastructure of the distribution system. In the
22 coming years, THESL will need to continue hiring and contracting at a rate that can be
23 sustained while ensuring safe operation. Having the necessary resources in place as they
24 are needed is essential to THESL's ability to build and maintain a safe and reliable
25 distribution system for its customers.

26
27 Selective replenishment or augmenting of other jobs will be done to meet business needs
28 as required and in particular to support the hiring process and the growth in training and

1 development that will occur as a result of acquiring new staff. Safety education and
2 training will be key focus areas to ensure that new employees are fully prepared to carry
3 out their duties in a safe and efficient manner.

4 **Trades and Technical Jobs**

6 Forty-five percent of THESL's current workforce consists of trades and technical jobs.
7 Although the ageing workforce cuts across the business, the primary focus of the
8 workforce staffing plan is to deal with these specific roles given the critical nature they
9 play in the safe and reliable design, construction and maintenance of THESL's
10 distribution system.

12 The average age of trades and technical workers at THESL is 47. Based on Statistics
13 Canada data from the 2006 Census, 52.9 percent of the labour force was then 45 years or
14 older. This demographic profile, coupled with forecast labour and skills shortages in the
15 electricity industry generally, suggests that there will be ongoing competition for trades
16 and technical workers, especially for specialized jobs. In the face of this competition,
17 attracting fully competent trades and technical resources will be a challenge. Retention is
18 also likely to be a challenge as the need for these resources is not unique to THESL.

20 **Replenishing Trades and Technical Jobs**

21 Based on the competition for employees discussed previously, external recruitment of
22 fully competent workers cannot be relied on as the sole means of replenishing THESL's
23 workforce. Nor would this approach be advisable considering the impact a high volume
24 of new recruits would have on safety, training and productivity. Instead, THESL's plan
25 is to hire experienced workers when available and new entrants as apprentices to trades
26 and technical positions, but at a safe and sustainable pace.

1 Leveraging its status as the only recognized Ontario municipality with Training Delivery
2 Agent status for its Power-line Technician program, THESL will build on its trades
3 training expertise and continue to invest in its internal apprenticeship programs to train
4 new trades and technical employees. This approach is not without its own challenges,
5 because these employees will be highly sought after by other firms both while in training
6 and even more so, once they have achieved proficiency in their trade or technical
7 position.

8

9 In 2003, THESL initiated an internal Trades School because the basic training that new
10 hires received externally was insufficient to maintain safe and efficient operations and
11 satisfactory customer service in such a complex distribution territory. Between 2003 and
12 2010, over 100 Trades apprentices entered the THESL program. Twenty-three percent of
13 these apprentices have graduated to date and remain with THESL. Over 89 percent of
14 apprentices have continued in the program. THESL expects to have over 180 apprentices
15 participating in the apprenticeship programs in 2014.

16

17 In addition to THESL's internal training efforts, investing time and resources in fostering
18 relationships with colleges and universities, is allowing THESL to achieve three key
19 outcomes:

20

1) THESL can influence changes to curriculum so potential applicants have
21 advanced knowledge of processes and systems leading to a more educated
22 applicant pool upon graduation;

23

2) Dedicated co-op opportunities for students allow THESL to test resources for a
24 potential fit for full time placement;

25

3) Through targeted recruitment efforts during educational programs and after
26 graduation, the overall candidate pool available to THESL increases.

1 Table 2 shows the number of trades apprentices for the Historical, Bridge and Test Years.
 2 For Powerline apprentices to graduate, they need to complete 8,000 hours of
 3 Underground and Overhead line work, which takes about 4.5 years. The Distribution
 4 System Technologist apprenticeship takes six years to complete. From 2011 to 2014, 159
 5 trades apprentices are forecast to be hired.

6
 7

8 **Hiring Plan for Trades and Technical Jobs**

9

10 **Table 2: Trades Apprentices Staffing Plan (Non-cumulative)**

Description	2009 Historical	2010 Historical	2011 Bridge	2012 Test	2013 Test	2014 Test
Hires	13	23	48	42	37	32

11 Table 3 shows the number of technical apprentices for the Historical, Bridge and Test
 12 Years. From 2011 to 2014, over 100 technical apprentices, in design and engineering, are
 13 expected to be hired and deployed to the distribution asset renewal plan or grid
 14 modernization.

15

16 **Table 3: Technical Apprentice Staffing Plan (Non-cumulative)**

Description	2009 Historical	2010 Historical	2011 Bridge	2012 Test	2013 Test	2014 Test
Hires	17	33	37	60	3	2

19

20

18 The hiring of apprentices reflects the lead-time required for them to become fully
 19 competent in advance of anticipated retirements and the additional resources required to
 20 achieve the capital plan. THESL requires some overlap and transitioning between

1 experienced and newly hired employees to ensure sufficient skills development of the
2 entrants and knowledge transfer between these two groups.

3

4 **Conclusion**

5 THESL must confront three staffing challenges: the unprecedented projected loss of
6 skills and experience as its ageing workforce retires along with the influx of new
7 employees; an accelerated plan to modernize the grid and renew its distribution system;
8 and an enhanced customer experience model. At the same time, THESL must continue
9 to fulfill its responsibility to customers by providing safe, reliable and responsive service.
10 An overall ageing labour force and uncertain labour market conditions for industry-
11 specific jobs create recruitment and retention issues, adding further to the challenges
12 THESL must face.

13

14 Fully competent workers who are well trained and skilled are needed to fill the jobs that
15 are essential to THESL's ability to meet its responsibility to customers. To ensure that
16 these individuals are in place and ready to deliver on the capital plan and other business
17 requirements, THESL has embarked on a staffing plan to hire, train and develop the
18 workers required to build, maintain and support a reliable distribution system and meet
19 customer service needs.

Gain Sharing Program Guide

For Crew Leaders and Systems Response Representatives of
Toronto Hydro Electric System Limited (THESL)

July 2011

What's Inside

Driver for Gain Sharing at Toronto Hydro

Gain Sharing Principles

Gain Sharing is a group incentive plan focused on driving organizational performance improvements by incenting the right behaviours and performance. This Gain Sharing Program Guide applies to the 2011 Gainsharing process. Please note that the Gain Sharing Program Guide, including but not limited to the targets set out in the Program Guide, the application of these targets and calculation of results, is subject to change from year-to-year at the Company's sole discretion. Targets are subject to Board approval as detailed below.

The following principles shape the Gain Sharing Program:

- Reduce injuries
- Improve regular attendance
- Improve productivity
- Ensure customer service reliability

At Toronto Hydro, success is achieved through our focus on:

1. Safety: Reducing injuries;
2. Healthy Workforce: Improving regular attendance;
3. Productivity: Delivering the capital plan;
4. Customer Service Reliability: Responding quickly and effectively to customer outages.

This guide provides information on the Gain Sharing Program for Crew Leaders and System Response Representatives..

Eligibility

All full-time Crew Leaders and System Response Representatives are eligible for the program.

Those excluded from the program include:

- Employees in short-term or long-term relief as a Crew Leader or System Response Representative
- Employees who are permanently accommodated and not fulfilling the full role of a Crew Leader or System Response Representative

Employees on a Work Assignment

- Crew Leaders or System Response Representatives on a Work Assignment in another position will be eligible for a pro-rated payout based on the number of full calendar months worked in their permanent job.

Annual Process

January	<ul style="list-style-type: none"> • Communication of Board approved targets for the current year
February	<ul style="list-style-type: none"> • Calculate Gain Sharing results from the previous fiscal year; determine the Gain Sharing payout per eligible employee
March	<ul style="list-style-type: none"> • Board approves results from previous year • Payroll is advised of Gain Sharing payouts • Leaders share Gain Sharing results and payouts with eligible employees.

2011 Scorecards

The Gain Sharing payout is measured against the Gain Sharing Scorecard. The scorecard identifies important organizational measures and targets for focused effort in 2011. The scorecard is the framework used to report overall performance under the categories of Safety, Healthy Workforce, Productivity, and Customer Service Reliability.

2011 Gain Sharing Scorecard

K.P.I.	Weight	Target
Safety		
Safety – My Goal is Zero	25%	4.50
Healthy Workforce		
Attendance (# days)	25%	7.50 days
Productivity		
Distribution Plant Capital Per Unit (\$K)	25%	\$1.120K
Customer Service Reliability		
System Average Interruption Duration Index (SAIDI)	25%	82.0 min
TOTAL	100%	

Payment of Gain Sharing

- The size of your Gain Sharing payout will depend on your Regular Wage Rate (see Glossary of Terms) and the results of the Gains Sharing Scorecard.
- Each Key Performance Indicator (KPI) in the Gain Sharing Scorecard is weighted equally at 25%.
- Attainment of the KPI target results in 100% payout eligibility for the associated weighting. Final payouts may be at or below the total target percentage, which is 2.5%.

Actual payouts will vary based on the scorecard results. An example, for illustrative purposes, is found below:

Example: Gain Sharing Target

Regular Wage Rate for Employee	=	\$83,824
Target Gain Sharing Percentage	=	2.5% or \$2,095.60
Total Potential Compensation	=	\$85,919.60

Example: Gain Sharing Result

Sample 2011 Gain Sharing Scorecard Results

K.P.I.	Weight	Target	Result	Payout
Safety				
Safety – My Goal is Zero	25%	4.50	4.50	25%
Healthy Workforce				
Attendance (# days)	25%	7.50 days	8.0 days	0%
Productivity				
Distribution Plant Capital Per Unit (\$K)	25%	\$1.120K	\$1.120K	25%
Customer Service Reliability				
System Average Interruption Duration Index (SAIDI)	25%	82.0 min	78.0 min	25%
TOTAL PAYOUT				75%

Example: Gain Sharing Payout

Regular Wage Rate for Employee	=	\$83,824
Target Gain Sharing Percentage	=	2.5% or \$2,095.60
Scorecard Result	=	75% of \$2,095.60 = \$1,571.70
Total Actual Compensation	=	\$85,395.70

Glossary of Terms

Regular Wage Rate - For the calculation of the Gain Sharing payout, your Regular Wage Rate is the hourly rate for your position (set out in Schedule O of the Collective Agreement) , annualized based on a 40-hour work week (subject to the Gain Sharing Program Rules below). All other earnings, including overtime, shift differentials and relief rates (i.e. additional pay over and above the hourly rate for your position for time worked while relieving in other positions), do not count as part of your Regular Wage Rate and are not included in the determination of the Gain Sharing payout.

Target Performance - The expected level of performance as outlined in the KPI on the Gain Sharing Scorecard. Target must be achieved to receive payment for the corresponding KPI.

Gain Sharing – Gain Sharing is an incentive plan focused on driving organizational performance improvements by incenting the right behaviours and performance. Gain Sharing is only eligible to specific named positions in the bargaining unit. Gain Sharing is not an incentive plan based on individual employee performance.

Safety – My Goal is Zero – This KPI is defined as:

$$\frac{\# \text{ of Recordable Injuries} \times 200,000 \text{ hours}}{\text{Exposure Hours}}$$

Note: Recordable Injuries is as defined by CEA. 200,000 hours is CEA standard to represent 100 employees

Attendance – This KPI is defined as:

$$\frac{\text{Total days of absence}}{\text{Total number of employees}}$$

Note: Days of absence include sick days, unpaid sick days, dependent care days, and medical appointments. Approved LTD cases are excluded from this calculation.

Distribution Plant Capital Per Unit – This KPI is defined as:

$$\frac{\text{Total Electricity Distribution Capital Spend in Period (including Planned \& Unplanned Refurbishment, Upgrade, and Customer Growth)}}{\text{Related Units Completed in Period}}$$

System Average Interruption Duration Index (SAIDI) – This KPI is defined as:

$$\frac{\text{Total customer hours of interruptions}}{\text{Total \# of customers served}}$$

Note: Measure based on industry standard definition using existing data collection.

Gain Sharing Program Rules:

- An employee's eligibility to participate in the program and eligibility for a payout is conditional upon the employee remaining in the active employment of the Company until the date in which the payout is paid. Should, prior to the date the payout is paid, the employee receive notice of termination, or the employee's active employment with the Company ceases for any reason whatsoever (excluding the examples specifically provided for below), the employee will not be eligible to participate in the program or receive a payout for 2011 or any subsequent year or with respect to any notice period that may arise under contract, statute, common law or otherwise.
- Payouts are based on the employee's Regular Wage Rate (as set out above) as of December 31, 2011 and are made in March of the following year.
- For employees who are promoted or transferred into or out of a Crew Leader or System Response position during the year, the payout is pro-rated based on full calendar months worked in the eligible position.
- For employees who retire, become disabled, or die during the year, a pro-rated payout is calculated based on the number of full calendar months worked in the eligible position.
- For employees who are on sick leave, maternity leave, parental leave, adoption leave, or family medical for the entire year, no payout occurs in respect of that year. For employees who are on any such leaves for only part of the year, a pro-rated payout is calculated based on full calendar months worked.
- For Crew Leaders and System Response Representatives who are temporarily accommodated in another position for the entire year, no payout occurs in respect of that year. For Crew Leaders and System Response Representatives who are temporarily accommodated for only part of the year, a pro-rated payout is calculated based on full calendar months worked while not accommodated.