

Hydro One

Executive Compensation Benchmarking

Draft for Discussion

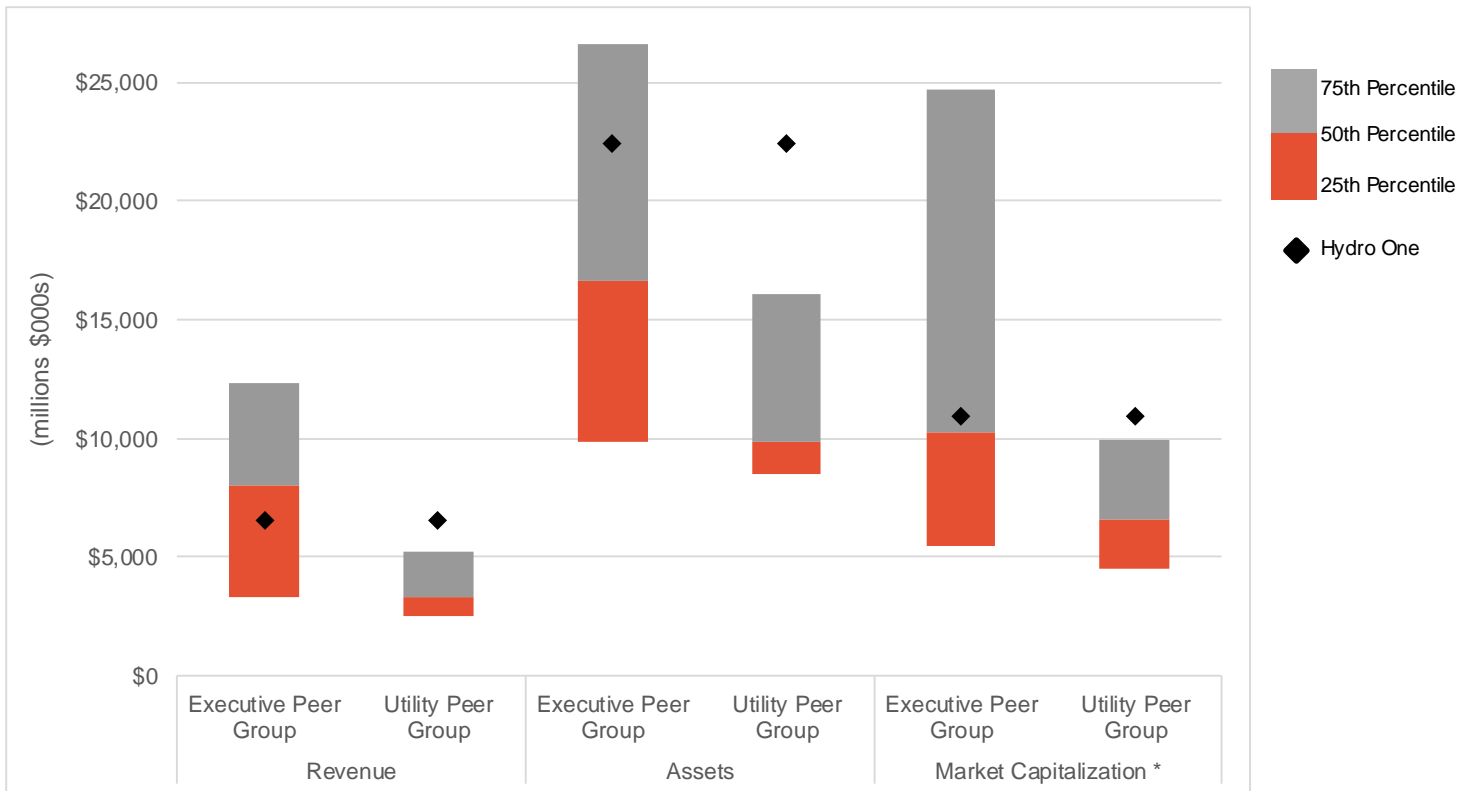
OCTOBER 16, 2015

1) Introduction

- Hydro One engaged Towers Watson to complete a competitive market assessment of its total rewards package for management compensation plan (MCP) employees. This benchmark review focuses on executive roles (Bands 1-4)
 - Our analysis is based on Hydro One's current organizational structure and role responsibilities, and will need to be refreshed as it transitions to an autonomous publicly-traded company. As such, use of this data and any program changes it informs should be paced with the evolution of the organization
- In the prospectus, Hydro One outlined the use of a primary reference group of eight utility/energy companies ("**Utility Peer Group**") along with a secondary reference group of the 30 smallest members of the S&P/TSX 60 index
- While the primary reference group likely provides sufficient market data for the CEO and CFO, a larger sample will be needed for the rest of the executive team (approximately 25 incumbents in total). This is to account for different executive roles that may exist within each company and to capture the broader labour market for Hydro One's executives
- An expanded peer group of 21 companies was developed and approved by the HR Committee at the August 24, 2015 meeting ("**Executive Peer Group**"). The criteria used to establish this "asset intensive" group of companies includes:
 - Inclusion of 8 companies in the primary reference group (Utility Peers)
 - Canadian publicly-traded (excluding mining and oil & gas)
 - Revenue between 1/3x to 3x Hydro One
 - Assets between \$10 billion and 3x Hydro One
- The chart on the following page provides further details on Hydro One's positioning relative to the two peer groups. Further scope details (including market capitalization, net income, geographic complexity, # of employees) are outlined in **Appendix I**

2) Comparing Peer Group Organization Profiles

- The companies in the Utility Peer Group tends to be smaller than the full Executive Peer Group with Hydro One positioned as one of the largest companies in the sample
- Hydro One is positioned around the 50th percentile relative to the full Executive Peer Group for all measures excluding assets, which are positioned between the 50th and 75th percentiles



* Hydro One market capitalization is based on an estimate of \$11 billion

2) Comparing against Fortis' Peer Group

- As requested and since Fortis is similar in size and profile to Hydro One, the following compares the full Executive Peer Group with Fortis' disclosed peer group. Eight Hydro One peers are in Fortis' peer group, which also includes US utilities (given their US presence) and other Canadian mining/oil & gas companies (given their BC/Alberta presence)
- In terms of assets, the size of companies in both peer groups are fairly comparable

Fortis - Comparator Group (n=36)				
AGL Resources	CMS Energy	MDU Resources Group	PPL	TransAlta
Alliant Energy	Emera	Methanex	Public Services Enterprise Group	TransCanada
Ameren	Enbridge	New Jersey Resources	SCANA	UGI
ATCO	Encana	NiSources	Sempra Energy	Wisconsin Energy
Atmos Energy	Fining International	Northeast Utilities	SNC-Lavalin	
Canadian National Railway	First Quantum Minerals	Pembina Pipeline	Talisman Energy *	
Canadian Pacific Railway	Gibson Energy	Pinnacle West Capital	Teck Resources	
CenterPoint Energy	Goldcorp	Potash Corp of Saskatchewan	TECO Energy	

		Revenue	Assets	Market Cap	Net Income
	25 th Percentile	\$3,942	\$9,886	\$5,405	\$343
	50 th Percentile	\$6,471	\$17,271	\$6,707	\$506
	75 th Percentile	\$8,499	\$27,116	\$15,340	\$1,290
Fortis Inc.	Electric Utilities	\$5,401 41P	\$26,628 75P	\$10,203 65P	\$379 29P

Hydro One Peers - Executive Peer Group (n=21)				
Agrium	Canadian Pacific Railway	Enbridge	Pembina Pipeline	TransCanada
AltaGas	Canadian Tire	Fortis	Rogers Communications	
ATCO	Capital Power	Intact Financial	SNC Lavalin	
Bombardier	CGI Group	Inter Pipeline	TELUS	
Canadian National Railway	Emera	Keyera	TransAlta	

		Revenue	Assets	Market Cap	Net Income
	25 th Percentile	\$3,298	\$9,839	\$5,419	\$282
	50 th Percentile	\$7,980	\$16,640	\$10,203	\$604
	75 th Percentile	\$12,298	\$26,575	\$24,706	\$1,373
Hydro One	Gas and Energy Utilities	\$6,548 45P	\$22,500 67P	\$11,000 52P	\$749 57P

Hydro One's peer group tends to include more eastern Canadian companies

Data has been sourced from S&P's Capital IQ. Revenue, Assets and Net Income are reflective of the most recent fiscal year-end. Market capitalization reflects a 3 month average beginning July 1, 2015. All data is in millions.

* The acquisition of Talisman by Repsol was finalized on May 8, 2015

Companies in blue are U.S. Utility organizations. Bolded Companies are used by both Hydro One and Fortis

3) Comparing Peer Group Compensation Levels

- The market compensation data for the Utility Peer Group tends to be positioned lower than the Executive Peer Group (i.e., the 75th percentile of the Utility Peer Group is aligned with the 50th percentile of the Current Peer Group), except for the 3rd-5th highest paid executives where the 50th percentile for the Utility Peer Group is higher
 - The difference for the CEO/CFO appears to be correlated with the smaller size of the Utility Peer Group relative to the Executive Peer Group



The below market positioning (<25th percentile) of the roles below CEO/CFO is primarily due to the absence of long-term incentives

3) Market Compensation Data – Bands 3 and 4

- On average, Hydro One is positioned around the 25th percentile in terms of salary and target total cash (TTC = salary + short-term incentives). The absence of long-term incentives reduces Hydro One's positioning to below the 25th percentile on a TDC basis (TDC = TTC + long-term incentives)

(\$000's)

Band	# Hydro One Incs	Base Salary				Target Total Compensation				Total Direct Compensation (TDC)			
		Avg. Hydro One	Avg. P25	Avg. P50	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	% +/- P50	Avg. Hydro One	Avg. P25	Avg. P50	% +/- P50
Band 3 (SVP)	6	\$252	\$272	\$311	-19%	\$365	\$392	\$464	-21%	\$365	\$561	\$735	-50%
Band 4 (VP)	14	\$219	\$209	\$246	-11%	\$285	\$269	\$334	-15%	\$285	\$358	\$463	-38%
Weighted Average	20	\$229	\$227	\$266	-12%	\$309	\$313	\$374	-15%	\$309	\$429	\$545	-39%

- On average, Hydro One's incentives are positioned at the 25th percentile of the market
 - Target bonuses are positioned between the 25th and 50th percentiles for Band 3 but below the 25th percentile for Band 4, and Hydro One does not currently have a long-term incentive plan

(as a % of salary)

Band	# Hydro One Incs	Target Bonus			Long-term Incentives		
		Avg. Hydro One *	Avg. P25	Avg. P50	Avg. Hydro One	Avg. P25	Avg. P50
Band 3 (SVP)	6	45%	43%	49%	-	57%	86%
Band 4 (VP)	14	30%	33%	36%	-	46%	62%
Weighted Average	20	38%	38%	42%	-	51%	74%

* Represents 75% of maximum

4) Interpretation / Next Steps

- In reviewing the market data, we offer the following comments:
 - **Disclosure** - the current prospectus outlines the use of a primary and secondary reference. While the primary reference has not changed (i.e., the Utility Peer Group), depending on the named executive officers (NEOs) in next year's proxy circular, the use of the revised secondary reference may need to be disclosed (i.e., a custom group of 21 companies – the Executive Peer Group - rather than the 30 smallest companies of the S&P/TSX 60)
 - **Pay positioning** – Hydro One's compensation tends to be positioned at the high end of the Utility Peer Group and – for the CEO/CFO - at the 50th percentile of the Executive Peer Group, commensurate with Hydro One's size relative to the peers
 - This can also be addressed / highlighted within next year's proxy circular
 - **Transition / implementation** – the Executive Peer Group can be considered somewhat aspirational, representing the future growth of the organization and its requisite talent needs. Compensation levels for current incumbents do not immediately need to be aligned with the market 50th percentile and can be transitioned over time (e.g., 1 to 3 years) depending on the incumbent and the pace of organizational change. Experienced new hires may need to be positioned closer to the market 50th percentile upon hire
 - **Peer group review process** – the selection criteria, underlying peer companies, and the use of the Utility Peer Group (for select NEOs as the primary reference group) will need to be reviewed regularly for appropriateness on a go-forward basis
 - Potential future additions: some balance of US companies, PotashCorp, Bunge, Mosiac
 - Potential future deletions (due to size and/or financial challenges): CN Rail, Capital Power, AltaGas, Keyera, TransAlta, Bombardier

Appendices

Peer Group Summary

Utility and Executive Peer Groups

Company	Scope Information (millions \$000s)							
	Industry	Revenue	Assets	Market Cap	Net Income	Total # of Employees	Geographic Scope	# of Business Units
Utility Peer Group								
AltaGas	Energy Services & Utilities	\$2,401	\$8,413	\$4,765	\$130	1,700	North America	3
ATCO Group	Energy Services & Utilities	\$4,554	\$17,689	\$4,449	\$420	9,170	International	4
Emera Inc.	Energy Services & Utilities	\$2,972	\$9,844	\$6,234	\$433	3,530	Canada, U.S. Carribean	6
Fortis Inc.	Energy Services & Utilities	\$5,401	\$26,628	\$10,203	\$379	10,000	Canada, U.S. Carribean	8
Inter Pipeline Ltd.	Energy Services & Utilities	\$1,556	\$8,647	\$9,041	\$335	875	Canada, Europe	4
Keyera Corp.	Energy Services & Utilities	\$3,624	\$3,851	\$6,868	\$230	900	Canada & U.S.	2
Pembina Pipeline Corporation	Energy Services & Utilities	\$6,069	\$11,262	\$12,505	\$383	1,111	Canada	4
TransAlta Corporation	Energy Services & Utilities	\$2,623	\$9,833	\$2,080	\$182	2,786	Canada, U.S., Australia	2
Other Asset Intensive Companies								
Agrium Inc.	Fertilizers and Agricultural Chemicals	\$16,042	\$17,108	\$18,919	\$714	15,500	International	2
Bombardier Inc.	Aerospace and Defense	\$20,111	\$27,614	\$3,630	-\$1,260	65,050	International	4
Canadian National Railway	Railroads	\$12,134	\$31,792	\$60,843	\$3,167	25,530	North America	1
Canadian Pacific Railway Ltd.	Railroads	\$6,620	\$16,640	\$31,861	\$1,476	14,698	Canada & U.S.	4
Canadian Tire Corporation	General Merchandise Stores	\$12,463	\$14,553	\$9,978	\$604	19,754	Canada	3
Capital Power Corporation	Energy Services & Utilities	\$1,228	\$5,420	\$2,080	\$46	730	Canada & U.S.	1
CGI Group Inc.	IT Consulting and Other Services	\$10,500	\$11,234	\$15,238	\$859	68,000	International	12
Enbridge Inc.	Energy Services & Utilities	\$37,641	\$72,857	\$46,884	\$1,405	11,000	Canada & U.S.	3
Intact Financial Corporation	Property and Casualty Insurance	\$7,980	\$20,580	\$12,064	\$782	11,326	Canada	1
Rogers Communications Inc.	Wireless Telecommunication Services	\$12,850	\$26,522	\$23,213	\$1,341	27,000	Canada	3
SNC Lavalin Group Inc.	Construction and Engineering	\$8,239	\$10,011	\$6,072	\$1,333	42,003	International	4
TELUS Corporation	Integrated Telecommunication Services	\$11,927	\$23,217	\$26,199	\$1,425	42,700	Canada	2
TransCanada Corporation	Energy Services & Utilities	\$10,185	\$58,947	\$33,253	\$1,840	6,059	North America	3

Utility Peer Group Percentile Statistics (n=8)

25th Percentile	\$2,457	\$8,472	\$4,528	\$194	953	-	2
50th Percentile	\$3,298	\$9,839	\$6,551	\$357	2,243		4
75th Percentile	\$5,189	\$16,082	\$9,913	\$411	7,760		6

Hydro One	Gas and Energy Utilities	\$6,548 Highest	\$22,500 84P	\$11,000 82P	\$749 Highest	7,856 75P	Canada	3 33P
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Executive Peer Group Percentile Statistics (n=21)

25th Percentile	\$3,298	\$9,839	\$5,419	\$282	2,243	-	2
50th Percentile	\$7,980	\$16,640	\$10,203	\$604	11,000		3
75th Percentile	\$12,298	\$26,575	\$24,706	\$1,373	26,265		4

Hydro One	Gas and Energy Utilities	\$6,548 45P	\$22,500 67P	\$11,000 52P	\$749 57P	7,856 39P	Canada	3 50P
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