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Empowering You.

August 17, 2012

The Corporation of the City of London  
Strategic Priorities & Policy Committee  
Attn: Ms. Linda Rowe, Deputy City Clerk  
300 Dufferin Ave., Room 308  
London, Ontario N6A 4L9

**Re: London Hydro Inc. Board of Directors Compensation**

Dear Chair and Members of the Strategic Priorities & Policy Committee:

The London Hydro Board of Directors recommended that its CEO be authorized to work with City Administration to seek the required Shareholder approval for an increase in the compensation of its Board of Directors effective June 1, 2012 as follows:

Member	Annual Stipend	
	Current	Proposed
Board Chair	\$10,000	\$25,000
Class 1, 2, 3	\$6,000	\$12,000
Class 4 (Councilors)	\$0	Meeting Fee Only <sup>1</sup>
Meeting Fee (per meeting)	\$600	\$800

and that the Shareholder direct London Hydro management to review its Board of Director compensation against its Ontario peer utilities every two years. Furthermore, any changes to the Class 4 Director's compensation will require an amendment to the Shareholder Declaration. The obligations under the Shareholder Declaration for the Shareholder to consult with the CEO and the Board of London Hydro shall be deemed to be fulfilled and no further action in this regard shall be required.

Background

Subject to clause 3.10 of London Hydro's By-Law No. 2 and the amended Shareholder Declaration dated August 18, 2008, article 4.6, the compensation for London Hydro's Board of Directors is to be established by the Municipal Council of the Corporation of the City of London. London Hydro was incorporated in 2000, and in the original City Council Resolution dated May 15, 2000 the initial

<sup>1</sup> Revisions to the Class 4 Director's compensation will be effective as of the date of the amendment to the Shareholder Declaration.

compensation for the Board members was established. It should be noted that no revisions (increments) have been made since 2000.

The Shareholder Declaration, dated December 6, 2007 and amended on August 18, 2008, stipulates that compensation for London Hydro's Board *'be maintained at a comparative level to those of Ontario peer utilities'*.

Over the years London Hydro has occasionally conducted surveys of Board compensation against comparable Ontario utility peers. Results have been consistent, insomuch as the compensation for London Hydro's Board members is below the norm and has continued to fall behind year-over-year.

The Board of Directors has in the past, declined to bring forward a recommendation for an increase in remuneration. However, in consideration of the current ranking with its Ontario utility peers, the Board has agreed with management to put forth a recommendation on compensation that begins to align with the provisions of the Shareholder Declaration.

We have recently completed the 2012 survey of compensation levels of various municipally owned LDC Boards, results of which are included in the attached report (Appendix I) for your information. As you will notice, currently our Board compensation levels are at the lowest level and even some smaller corporations have higher compensation for their Board members than that of London Hydro, such is the case for both the Board Chair and Directors.

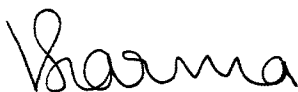
We have provided for your information, another peer Board in the City of London, the Greater London International Airport Authority whose Board remuneration levels (Appendix I) is also higher than that of London Hydro.

#### Third Party Consultant

This year, London Hydro has engaged the services of an independent third-party consultant to assist us in our review and to provide its independent recommendations. It is our intent to request a change in compensation that is reasonable, and that meets the provision of the Shareholder Declaration as stated above, "that London Hydro's Board (compensation) be maintained at a comparative level to those of Ontario peer utilities". The consultant has undertaken a comprehensive review of our Ontario peer group utilities, surveyed additional peer companies and provided analysis and recommendations on appropriate levels of compensation. A fulsome report has been provided by Marjorie Richards & Associates, to support the recommendations before you.

In light of the above background and information and having reviewed the additional material provided, we respectfully seek approval of our Shareholder to increase the compensation levels for the members of London Hydro's Board of Directors effective June 1, 2012.

Sincerely,



Vinay Sharma, Chief Executive Officer, London Hydro Inc.

Attachments: London Hydro Board of Director's Compensation Review 2012

London Hydro Board of Directors'  
Compensation Review 2012  
Marjorie Richards

**Marjorie Richards & Associates**  
*'The Right Solutions'*

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## **1.0 Introduction**

Marjorie Richards & Associates has been engaged by London Hydro to undertake a review of its current Board of Director compensation. Such a review was undertaken working within the parameters of the Shareholder Declaration, utilizing comprehensive information provided by a group of Local Distribution Companies (LDCs) and additional information provided by the Greater London International Airport Authority.

Marjorie Richards & Associates is a third party consultant who brings to the project many years of executive level experience in the areas of compensation and LDC Board governance (profile section 7.0).

To support our recommendations we have provided detailed analysis of 8 LDCs (inclusive of London Hydro) in a format that does not identify the LDC specifically (with the exception of London Hydro). We have attained this information under the auspice of confidentiality and the agreement that the information would be provided in aggregate and/or non-identifiable format.

In this report we have endeavoured to provide our experience, and practical approach in analyzing the information and determining a reasonable and affordable solution to support our recommendations.

In our view London Hydro has a solid reputation in the industry and continues to be a utility leader in the areas of financial stability, providing increased dividends to its Shareholder, and winning international and industry awards for safety and technological advances. London Hydro is recognized as a peer amongst its LDC comparators and a strategic partner within its local community.

## **2.0 Review Process**

As an independent, third party consultant Marjorie Richards & Associates has been engaged by London Hydro to review, on behalf of its Shareholder, compensation for its Board of Directors. In order to provide a robust and thorough review, we first examined any provisions relative to London Hydro's By-Law No. 2 and the amended Shareholder Declaration dated August 18, 2008. The Shareholder Declaration provides the responsibilities, authorities and operating perimeters of London Hydro, by its Shareholder the City of London.

### **Survey Participants**

In discussion with senior staff at London Hydro, a comparator group of peer Ontario Local Distribution Companies (LDCs) was identified, in addition to the Greater London Airport Authority to undertake a comprehensive Board of Director compensation survey review.

The LDC comparator group provides substantive past and current information, sufficient to have allowed us to analyze compensation trends and provide proposed recommendations on current and future compensation for the Board of Directors of London Hydro. The LDCs range in size from approximately 64,000 to 300,000 customers, whereas London Hydro has approximately 148,000 customers, in addition to 101,000 water customers. Regardless of size, LDCs province-wide each have the same accountability relative to enterprise risk, employee/public safety, meeting the needs of the customer/community and responding to ever increasing demands by LDC regulatory bodies.

The Greater London International Airport Authority (GLIAA) has also provided current (updated from their publicly posted 2011 Annual Report) compensation information. The GLIAA operates London International Airport, a not-for-profit that has full operational and financial control under the Federal Government's National Airports Policy. As such the Board of Directors are nominated by various entities representing the community at large, including the City of London. Although the GLIAA is a not-for-profit, dissimilar to London Hydro who is incorporated under the Ontario Business Corporations Act (OBCA), its operational and financial responsibilities were considered relevant as a comparator to London Hydro's Board of Directors.

### **Survey Composition**

It was recognized that each LDC may have differing annual Board and Committee meeting schedules, and that Board composition may or may not include municipal representation. As such the LDC comparator group was requested to provide the relative information in detail, the results of which have added substantive credibility to the analysis and our recommendations.

For the purposes of providing a reasonable comparison between LDCs, an assumed average of Board and Committee meetings has been utilized using the actual information provided by each LDC. This average meets the vast majority of annual meetings conducted by LDCs used in the comparator grouping.

The analysis (Appendix I) provides an easy comparison by LDC assuming six Board meetings and six Committee meetings per annum. The analysis includes compensation for the past five years, in order to provide compensation trending comparisons relative to London Hydro.

## **3.0 Compensation Review Findings**

The LDC's were extremely forthcoming in providing detailed information for the past five years. As such, the quality and level of information provided supports the credibility and integrity of the analysis and resulting recommendations.

### **3.1 City of London & London Hydro Shareholder Declaration**

Subject to clause 3.10 of London Hydro's By-Law No. 2 and the amended Shareholder

Declaration dated August 18, 2008, article 4.6, the compensation for London Hydro's Board of Directors is to be established by the Shareholder (the City of London).

Further, the Shareholder Declaration article 4.6 stipulates that, 'compensation for London Hydro's Board be maintained at a comparative level to those of Ontario peer utilities.'

However, the provision which states that 'compensation for London Hydro's Board be maintained at a comparative level to those of Ontario peer utilities' has not been actively pursued by either London Hydro or the Shareholder since 2000.

As provided in the analysis (Appendix I), it is evident that members of the LDC comparator group have made progressive movement over the past five years (and since incorporation in 2000) in Board compensation, to remain relative and attractive in today's competitive environment.

### **3.2 LDC Comparator – Compensation Analysis**

We have provided for Council's review a detailed analysis of current and trending Board of Director compensation (Appendix I) from the information provided by the LDC comparators group and the Greater London International Airport Authority.

As a result of our review, it is our assertion that the current London Hydro Board compensation is not competitive with its Ontario peers. In fact, the current remuneration falls well below all other comparators by varied percentage points. To demonstrate this, we have provided a breakdown by Board Chair, Director, and Committee Chair positions in the following tables.

### Board Chair Comparative Analysis

LDC Comparators Group	London Hydro	Value against lowest comparator		Value against median of all LDCs		Value against highest comparator	
		\$ difference	% difference	\$ difference	% difference	\$ difference	% difference
	\$10,000	(\$3,500)	-19.4%	(\$16,000)	-61.5%	(\$33,936)	-78.2%

### Director Comparative Analysis

LDC Comparators Group	London Hydro	Value against lowest comparator		Value against median of all LDCs		Value against highest comparator	
		\$ difference	% difference	\$ difference	% difference	\$ difference	% difference
	\$6,000	(\$1,000)	-5.6%	(\$6,875)	-26.4%	(\$10,476)	-24.1%

### Non-LDC Comparative Analysis

	London Hydro	Greater London International Airport Authority
Board Chair	\$10,000	\$20,000
Director	\$6,000	\$10,000
Committee Chair	\$0	\$0



### 3.3 Remuneration for Class 4 Board Director

In accordance with the Shareholder Declaration, Article 4, Section 4.2, the Shareholder appoints one standing municipal councillor to sit on the London Hydro Board of Directors for a term of four years.

Out of the 7 LDC participants (excluding London Hydro) the number of municipal representatives on LDC Boards ranges from 0% to 60%. London Hydro and one other LDC are at the lower end of the range, with 14% (1 of 7); one is at 16% and the remaining 3 averages are between 22% and 41%. One LDC has no municipal representation on its Board of Directors.

In our review we also determined that there were multiple practices relative to compensation paid to municipal councillors, sitting as board members. Practices range from zero remuneration, to partial remuneration or a combination of either meeting fees and/or annual stipends not paid out (Appendix I). Remuneration amounts range from \$0 to \$22,800.

We also reached out to two other LDCs (not part of the comparator group) of a like size to London Hydro – Burlington Hydro and Cambridge North-Dumfries Hydro Inc. Both indicate that they have municipal representation on their Boards and both pay them the same remuneration they pay other Board members, inclusive of meeting fees.

## 4.0 Recommendations

It is our opinion that the LDC comparator information provides a viable and diverse grouping of 'Ontario peer utilities'. This same grouping is used as relative and comparable for both union and management compensation considerations by London Hydro. Also, the level of detail provided by the utilities has enabled us to support our recommendations utilizing past trends, current information and to put forth a 'proposed' compensation schedule for the London Hydro Board of Directors.

### Recommendation #1

It is our recommendation ***that, the Shareholder of London Hydro increase the remuneration paid to London Hydro Board of Director members to align with and meet its provisions within its Shareholder Declaration – such that, it be maintained at a comparable level with Ontario peer utilities.***

It is appreciated that the Shareholder has an obligation to sustain a competitive compensation structure that is realistic and yet responds to the practicality of a challenging economic environment. As such, it is our recommendation that annual remuneration be raised to the

median of the comparator group. We have provided in the table below the current remuneration and our recommended 'proposed' remuneration.

London Hydro Board Position	Remuneration (Current)	Remuneration (Proposed)
Board Chair	\$10,000	\$25,000
Directors (Class 1, 2, 3)	\$6,000	\$12,000
Directors (Class 4)	\$0	Meeting Fees Only <sup>1</sup>
Meeting Fee (per meeting)	\$600	\$800

## Recommendation #2

It is our recommendation ***that, the Shareholder of London Hydro directs its Board of Directors to review its compensation against its Ontario peer utilities every two years.***

London Hydro should report every two years to the Shareholder at its Annual General Meeting on Board of Directors' compensation and make a recommendation at such time. The principle being that it remains comparable to its Ontario peer utilities.

## Recommendation #3

It is our recommendation ***that, the Shareholder of London Hydro approves and directs London Hydro to compensate Class 4 Board member meeting fee when attending and acting in the capacity of a Board member for the utility at Board and Board Committee meetings.***

It is noted that this change in the Class 4 Director's compensation will require an amendment to the Shareholder Declaration, and as such, the effective date of this change will be the date that the Shareholder Declaration is amended.

As the analysis provides, London Hydro is not alone in not remunerating municipal representatives an annual stipend and/or meeting fees. That said, we put forth that it is reasonable and prudent to compensate municipal representatives for attending Board meetings for the following reasons:

### 1. Fiduciary Duty under the Ontario Business Corporations Act (OBCA)

London Hydro is governed by its Shareholder Declaration, By-Laws and under common laws of the Ontario Business Corporations Act (OBCA). As such, any sitting member on

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<sup>1</sup> Revisions to the Class 4 Director's compensation will be effective as of the date of the amendment to the Shareholder Declaration.

the Board of Directors has a fiduciary duty while exercising his or her powers and discharging his or her duties, to act honestly and in good faith with a view to the best interests of the corporation. A director is also obliged not to put themselves in positions of conflict with their duty to the corporation. The courts have rigidly applied this concept by insisting that directors and officers avoid not only actual conflict but also the potential for conflict.

The reality is such that directors of LDCs are charged with overseeing a dynamic, diverse and often times challenging business. LDCs operate in areas of high enterprise risk such as protecting employee and public safety, infrastructure renewal and technological advances. In addition they are highly regulated and operate within an environment exposed to changing political and legislative regulations.

## **2. Preparation for Board & Committee Meetings**

The material that Board members are required to read, digest, and be prepared to discuss at Board meetings is substantive and complex. They have a responsibility to the corporation and as stated above under law, to be fully prepared and knowledgeable on the operations of the business, inclusive of financial, human capital and regulatory issues.

As such, our recommendation recognizes the amount of time, effort and involvement directors must commit to when sitting on an LDC Board. The preparatory work is extensive, there may be a need for individual research to become familiar with a topic or issue and they are required to be well versed, enough to responsibly consider recommendations put forth by management.

## **5.0 Conclusion**

The London Hydro Board of Directors has structured itself in the same fashion and operates under the same accountabilities and expectations, both for the corporation and under law, as does its Ontario peers. As such, it is reasonable that its Board of Directors, through Shareholder approval, be remunerated at comparable compensation recognizing the substantive responsibility when acting in the capacity as a director and officer of the corporation.

# 6.0 Appendix I

Board of Director Compensation May 2012										
CONFIDENTIAL REPORT										
Company **	Chair Retainer	Vice Chair Retainer	Director Retainer	Additional Committee Chair Retainer	Meeting Fees	2012 Annual Compensation *	2011 Annual Compensation *	2010 Annual Compensation *	2009 Annual Compensation *	2008 Annual Compensation *
#1	\$18,000	N/A	\$15,000	\$1,500	\$650 per Board and Committee meeting, none for Mayor or Councilors from Barrie only	\$25,800 Chair \$22,800 Directors \$24,300 Committee Chair \$15,000 to \$22,800 Councilors	\$25,800 Chair \$22,800 Directors \$24,300 Committee Chair	\$25,800 Chair \$22,800 Directors \$24,300 Committee Chair	\$25,800 Chair \$22,800 Director \$24,300 Committee Chair	\$25,800 Chair \$22,800 Director \$24,300 Committee Chair
#2	\$26,000	N/A	\$13,000	\$4,500	\$600 per Board and Committee meeting	\$30,700 Chair \$20,200 Director \$24,700 Committee Chair 0 Councilors on Board	\$27,200 Chair \$19,200 Director \$23,700 Committee Chair	\$27,200 Chair \$19,200 Director \$23,700 Committee Chair	\$27,200 Chair \$19,200 Director \$23,700 Committee Chair	\$27,200 Chair \$19,200 Director \$23,700 Committee Chair
#3	\$40,000	N/A	\$7,000 no fees for Councilors	None	\$600 per Board and Committee meeting - Committee Chairs receive additional \$200 for committee meetings that they chair	\$47,200 Chair \$14,200 Director \$14,200 Committee Chair \$0 Councilors	\$47,200 Chair \$14,200 Director \$14,200 Committee Chair	\$47,200 Chair \$14,200 Director \$14,200 Committee Chair	\$47,200 Chair \$14,200 Director \$14,200 Committee Chair	\$47,200 Chair \$14,200 Director \$14,200 Committee Chair
#4	\$30,900	\$1,030 when required to fill in for Chair	\$12,875	\$1,288	\$515 for Board meetings only	\$33,990 Chair \$15,965 Director \$17,253 Committee Chair \$15,965 Councilors	\$33,990 Chair \$15,965 Director \$17,253 Committee Chair	\$33,000 Chair \$15,500 Director \$16,750 Committee Chair	\$33,000 Chair \$15,500 Director \$16,750 Committee Chair	\$33,000 Chair \$15,500 Director \$16,750 Committee Chair
#5	\$13,500	N/A	\$10,800	None	\$450 per Board and Committee meeting	\$18,900 Chair \$16,200 Director \$16,200 Committee Chair \$16,200 Councilors	\$18,900 Chair \$16,200 Director \$16,200 Committee Chair \$16,200 Councilors	\$18,900 Chair \$16,200 Director \$16,200 Committee Chair \$16,200 Councilors	\$18,900 Chair \$16,200 Director \$16,200 Committee Chair \$16,200 Councilors	\$18,900 Chair \$16,200 Director \$16,200 Committee Chair \$16,200 Councilors
#6	\$28,400 \$14,200 for each Board - No pay for Mayor & CAO	N/A	\$13,000 \$6,500 for each Board	\$2,400 \$1,700 for each Board	\$300 per Board and Committee meeting, Directors(Mayor & CAO) on both Boards get only one meeting fee	\$32,000 Chair \$16,600 Director \$19,000 Committee Chair \$3,600 Councilors	\$32,000 Chair \$16,600 Director \$19,000 Committee Chair	\$32,000 Chair \$16,600 Director \$19,000 Committee Chair	\$32,000 Chair \$16,600 Director \$19,000 Committee Chair	\$32,000 Chair \$16,600 Director \$19,000 Committee Chair
#7	\$43,936	N/A	\$16,476 no fees for Councilors	None	\$500 per Board and Committee meetings - for Councilors only	\$43,936 Chair \$16,476 Independent Directors \$6,000 Councilors	\$42,230 Chair \$15,836 Independent Directors \$6,000 Councilors	\$40,000 Chair \$15,000 Independent Directors \$6,000 Councilors	\$40,000 Chair \$15,000 Independent Directors \$6,000 Councilors	\$40,000 Chair \$15,000 Independent Directors \$6,000 Councilors
London Hydro (current)	\$10,000	N/A	\$6,000 no fees for Councilors	None	\$600 per Board and Committee meeting - no fees for Councilors	\$13,600 Chair \$9,600 Independent Directors \$0 Councilors	\$13,600 Chair \$9,600 Independent Directors \$0 Councilors	\$13,600 Chair \$9,600 Independent Directors \$0 Councilors	\$13,600 Chair \$9,600 Independent Directors \$0 Councilors	\$13,600 Chair \$9,600 Independent Directors \$0 Councilors
London Hydro (proposed)	\$25,000	N/A	\$12,000 no fees for Councilors	None	\$800 per Board and Committee meeting - including Councilors	\$34,600 Chair \$21,600 Independent Directors \$9,600 Councilors				

\* To provide a rationale comparison the analysis assumes each comparator conducts 6 Board meetings and 6 Committee meetings annually (identified as the annual average for the majority of comparators)

\*\* Participating LDCs (in no particular order) - PowerStream, Hydro Ottawa, Enwin Utilities, Enersource Mississauga, Oakville Hydro, Horizon Utilities and Veridian Corporation

Greater London Airport Authority Board (2012)			
# of Meetings	Meeting Fees	Chair Annual Retainer	Director Annual Retainer
6 Board meetings, 6 Committee meetings. Chair sits on all Committees and Directors on 1 or 2 Committees	\$800 for Board meeting ** \$500 for Committee meeting	\$20,000	\$10,000
Annualized Compensation Assuming 6 Board meetings and 2 Committees for each Director (3 Committees in all)		\$33,800	\$20,800

\*\* \$300 if under 2 hours but very unusual to be under 2 hours

## 7.0 Consultant Experience & Qualifications

# Marjorie Richards & Associates

*'The Right Solutions'*



Marjorie Richards has more than 25 years experience in human capital management, leadership development and operationalizing change solutions. Marjorie brings a practical, hands-on and results-driven approach, working collaboratively with clients to derive the solution best suited to their needs. With over 11 years as Vice President Corporate Services with Horizon Utilities Corporation, Marjorie brings a depth of expertise derived from her extensive and unique background in strategic human resources, communications and corporate governance practices.

Marjorie brings experience to the table assisting organizations in identifying and solutioning areas of risk relative to Human Capital. Primarily focused in the areas of workforce planning, talent and succession management, and, successful management of knowledge transfer, she focuses organizations and individuals on taking ownership and realizing outcomes.

Marjorie's areas of expertise also include coaching senior leaders to improve their effectiveness and approach while faced with both challenges and opportunities. Marjorie's coaching philosophy is based on today's leaders requiring the ability and confidence to inspire people, to truly listen, demonstrate courage and lead the business and teams to succeed.

With over 10 years of corporate governance experience Marjorie assists both private and public sector organizations in identifying gaps relative to current practices against best governance practices. Critical areas of focus include risk management; human resources governance and working with boards to develop policies and practices to empower them to fulfill their obligation of accountability to the organizations they govern.