# Corporate Governance Documents of Hydro One: Briefing Note

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# Background

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- Corporate governance generally is the framework of rules and practices by which a board of directors discharges its responsibility for overseeing the business and affairs of a company, complies with applicable regulatory obligations, and ensures accountability, fairness, and transparency in a company's relationship with all of its stakeholders (financiers, customers, management, employees, government, and the community)

- The Governance Agreement between Hydro One and the Province establishes key elements of Hydro One's corporate governance, including regarding the composition of the board. It also requires Hydro One to maintain, and act in accordance with, corporate governance policies, procedures and practices that are consistent with the best practices of leading Canadian publicly listed companies, having regard to Hydro One's ownership structure and this Agreement

- The draft corporate governance guidelines of Hydro One similarly state that the board of directors and management of Hydro One are committed to standards of corporate governance that are aligned with best practices, defined in that same way

# Corporate Governance Documents of Hydro One

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- We have reviewed and provided comments on the following draft corporate governance documents of Hydro One:
  - **Mandates**
    - Nominating, Corporate Governance, Public Policy & Regulatory Committee Mandate
    - Human Resources Committee Mandate
    - Board of Directors Mandate
    - Audit Committee Mandate
    - Health, Safety, Environment and First Nations & Métis Committee Mandate
  - **Policies**
    - Corporate Governance Guidelines
    - Stakeholder Engagement Policy
    - Majority Voting Policy
    - Diversity Policy

# Corporate Governance Documents of Hydro One - cont'd

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- **Position Descriptions**
  - Board Chair Position Description
  - Committee Chair Position Description
  - CEO Position Description
  - Director Position Description
- **Other**
  - Code of Business Conduct
  - Whistleblower Policy
  - Skills Matrix
- Each of the above documents will be listed in the Governance Agreement and therefore cannot be amended except with the approval of 2/3 of the directors present

# Corporate Governance Documents of Hydro One - cont'd

- We have **not** reviewed the following corporate governance documents of Hydro One:
  - Health and Safety Policy and Safety Rules, Workplace Human Rights and Anti-Harassment Policy and Procedure, Power System Cyber Security Policy, Records Management Program, Records Management Policy, Records Management Procedures, E-Mail Management Policy, Legal and Tax Holds Policy, Business Expense Policy, and Social Media Policy.
- These are more operational in nature and less likely to impact the Province as an investor
- These would not be listed in the Governance Agreement and amendment of these documents would not require approval by 2/3 of the directors present

# Considerations for the Province

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- Consistency and alignment with the Governance Agreement
- Due prominence given to Hydro One's obligations under the Governance Agreement
- Alignment with best practices of leading Canadian publicly listed companies, having regard to Hydro One's ownership structure and this Agreement

# Considerations for the Province – cont'd

- Corporate Governance Guidelines
  - Commitment to "best practices" as defined in the Governance Agreement
  - Mandatory director term limit of 12 years (except in special circumstances, including to facilitate orderly board renewal)
  - Mandatory director retirement age at 75 years
  - Limit to no more than one "board interlock" (where there are two or more directors serving on the same public company board, other than Hydro One)
- Nominating, Corporate Governance, Public Policy & Regulatory Committee Mandate
  - The Committee has a decision-making (not just recommending) role in determining and reviewing nominees
  - The role of the Province in nominating a portion of the board is recognized

# Considerations for the Province – cont’d

- Stakeholder Engagement Policy
  - The need for engagement with the Province as the largest shareholder is recognized
  - The Chair has a key role in that engagement process (which must comply with the Governance Agreement and the Province’s role as investor not manager)
  - There is also recognition for the need to engage with Province and regulators on matters of public policy

# Considerations for the Province – cont’d

- Majority Voting Policy
  - Reflects the factual context that the policy is likely to apply only if Province withholds its vote for all proposed nominees (so all but the CEO and possibly the Chair must offer to resign)
  - Therefore the entire Board may participate in the decision and the Board has broad discretion as contemplated in Governance Agreement
    - Under the TSX policy, the board (not including the resigning director(s)) will determine whether or not to accept the resignation within 90 days and will accept the resignation absent exceptional circumstances
    - Hydro One is exempt from the TSX policy while the Province owns 50% or more of the common shares

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