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Introduction

Waterloo North Hydro Inc. ('Waterloo North') pursues a total compensation strategy for its Executives to ensure market competitive rates for the positions. The organization engages the services of an independent external compensation consultant who works with the President & CEO to analyze the competitive markets and to establish total compensation that will attract, retain and motivate employees.

The HR Committee of the Board of directors, reviews compensation levels of members of Waterloo North's executive team, evaluates the CEO's individual performance, and considers executive management succession and related matters. All decisions relating to the compensation of the executive team are reported to and shared with the full Board of directors. On recommendations by the Committee, the Board of Directors approves the CEO's compensation and incentive payouts.


The CEO is accountable to manage, review and approve compensation matters as they relate to Waterloo North's executive and management team.

Pay Philosophy Statement

Waterloo North recognizes the alignment of the contributions of its employees, and specifically of the Executive team, to the success of its business. The organization strives to pay competitively and equitably for employee performance and is cognizant of the budgetary and business constraints of operating in a regulated environment.

Waterloo North bases its Executive Total Compensation philosophy on its desire to attract, retain and motivate outstanding talent. Waterloo North provides an Executive Total Compensation program that establishes and maintains a competitive salary level within relevant markets and available resources - consistent with job content, responsibilities and expectations. The program emphasizes and encourages excellence by rewarding the contributions of the individual Executive members, including performance that supports Waterloo North's core values of ***Respect, Excellence, Service, Teamwork & Collaboration, Safety/Environmental Stewardship, Responsible and Accountable.***

In addition to total cash compensation opportunities, Waterloo North provides a comprehensive benefit plan to its Executive members, designed to address health and wellness, and encourages continuous professional development and career advancement through its performance management system and supporting programs.

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Guiding Principles

In developing and administering its Executive Total Compensation program, the organization considers that the outputs should:


- Support the goals and core values of the organization
- Be driven by quantifiably improved business performance and increased success, fostered by greater risk taking and results-driven outcomes
- Maintain fair and equitable compensation practices
- Maintain market-driven competitiveness
- Support an overall performance and results driven culture
- Be simple to administer and understand
- Be openly communicated to those affected
- Be flexible to meet the unique needs that may exist within the organization

Market Position

The organization regularly monitors, analyzes and determines the market competitiveness of its Executive's total compensation program. Once every three years the corporation obtains a comprehensive external market-comparator analysis. In the off years, the organization undertakes an external review against a set of benchmark positions, both executive and management to determine relativity and identify any substantive changes driven by market and/or environmental conditions.

Market Comparators

Waterloo North attracts and recruits for its Executive positions from both the LDC and the private sector markets, with particular emphasis on the LDC market. The organization reviews and analyzes its competitiveness against three market comparators to provide a robust and comprehensive review. Over and above the private and LDC markets, the organization recognizes the importance and community sensitivity of monitoring its positions against the public sector, and specifically local organizations.

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Data Sources

Waterloo North reviews, analyzes and determines its Executive market positions against the following market compensation databases:

Broader Public Sector (BPS) Ontario – excluding GTA

- Includes public sector and non-profit organizations

Industrial Sector (Industrial) Ontario – excluding GTA

- Includes private organizations in a variety of industries

Local Distribution Corporation (LDC) Sector

- Includes LDC's of similar size and scope, and those that Waterloo North considers its market competition for talent

Competitive Positioning

Waterloo North considers the LDC market its primary competition in recruiting Executive positions, yet recognizes the requirement to maintain a balanced review and approach against both the private and public sector markets.


The organization strives to maintain a 50th percentile position against the public and private sectors, with a primary focus on maintaining a 50th percentile position against its LDC market competition. As well conducting an internal review ensures pay equity is maintained and internal compression issues are resolved.

Total Compensation Elements

Waterloo North maintains and executes on a performance management system that aligns its Executive's performance to total compensation. The organization has developed and maintains a **Balanced Scorecard** ('BSC') and supporting documentation to help guide, direct and authenticate its position on awarding Executive merit and incentive pay.

Base Salary – Merit Pay

Merit pay is the portion of total compensation added to an individual's base salary during progression to the job rate. Merit pay rewards individuals for the growth, commitment, drive and achievement in the performance of their role in the organization. Job rate (100%) is the rate at which a fully experienced and competent individual achieves or is expected to operate at. Waterloo North currently maintains a 'stepped' approach within its salary schedule, whereby the top step is at job rate (100%).

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Executive Incentive Opportunity

Waterloo North's Executive members' incentive pay is a lump sum payment not compounded or added to an individual's base salary. Incentive pay rewards individuals for achievements beyond his/her expected role. The Executive member has the 'opportunity' to earn an incentive for achieving stretch target goals that align to the Corporate Strategy and that focus on moving the organization forward. Waterloo North utilizes a Balanced Scorecard (BSC) for objectives approach to goal setting and annually assigns a weighted goal to each of the following four categories:

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|----------------------|-------------------------------------|-------------------------------|----------------------------------|
| <i>Profitability</i> | <i>Customer/Stakeholder Focused</i> | <i>Operational Excellence</i> | <i>People/Technology Focused</i> |
|----------------------|-------------------------------------|-------------------------------|----------------------------------|


Incentive pay is awarded for material contribution to the success of the organization through the individual's direct ability to impact the business, his/her ingenuity, drive and leadership. The incentive pay corresponds to the actual achievement of weighted objectives, set out and clearly defined at the beginning of the performance year. The Board of directors determines and directs the Executive team's payout opportunity criteria of achievement, as follows:

| | Achievement * |
|--------------------|----------------------|
| Outstanding | 150% of Target Bonus |
| Target | 100% of Target Bonus |
| Threshold | 50% of Target Bonus |

* Payout is linear and includes incremental achievement between Threshold and Target percentages. Waterloo North requires appropriate financial stability and viability to pay out an annual incentive. In the event the organization does not achieve a positive Net Income from Operations less the annual incentive pay, in any given year – a bonus shall not be paid out.

Accountability

1. The Board of directors is accountable to approve and deliver Waterloo North's Executive Total Compensation program, and may amend and/or cancel the program at any time.
2. The CEO is responsible to administer the program, undertake regular market driven reviews and support recommendations to the Board of directors where required.

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3. The CEO is responsible to review, recommend and develop a total compensation program and performance management system that aligns with the organizations core competencies and values, reflects best practice and maintains the organizations compensation principles relative to its market position and competitive total compensation for all employees.
4. The HR Committee of the Board of directors is responsible to recommend modifications or program changes consistent with the strategic needs of the business, the evolving regulated environment and the challenges the organization may encounter relative to its talent management strategy.
5. The Chief Financial Officer is responsible to ensure the accuracy of the financial calculations and that the incentive payment and merit increases are made as soon as possible after the approvals are given.
6. The CEO has the responsibility under the program, to follow the procedures and expectations as outlined in the Executive Incentive Program Guidelines and brings to the attention of the HR Committee Chair, any concerns or suggestions to change and/or enhance the program.

Document Approval

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| Approved by: (signature on original copy only and not on posted version) | | |
| | Glen Wright, Chair Waterloo North Hydro Inc. | Date |