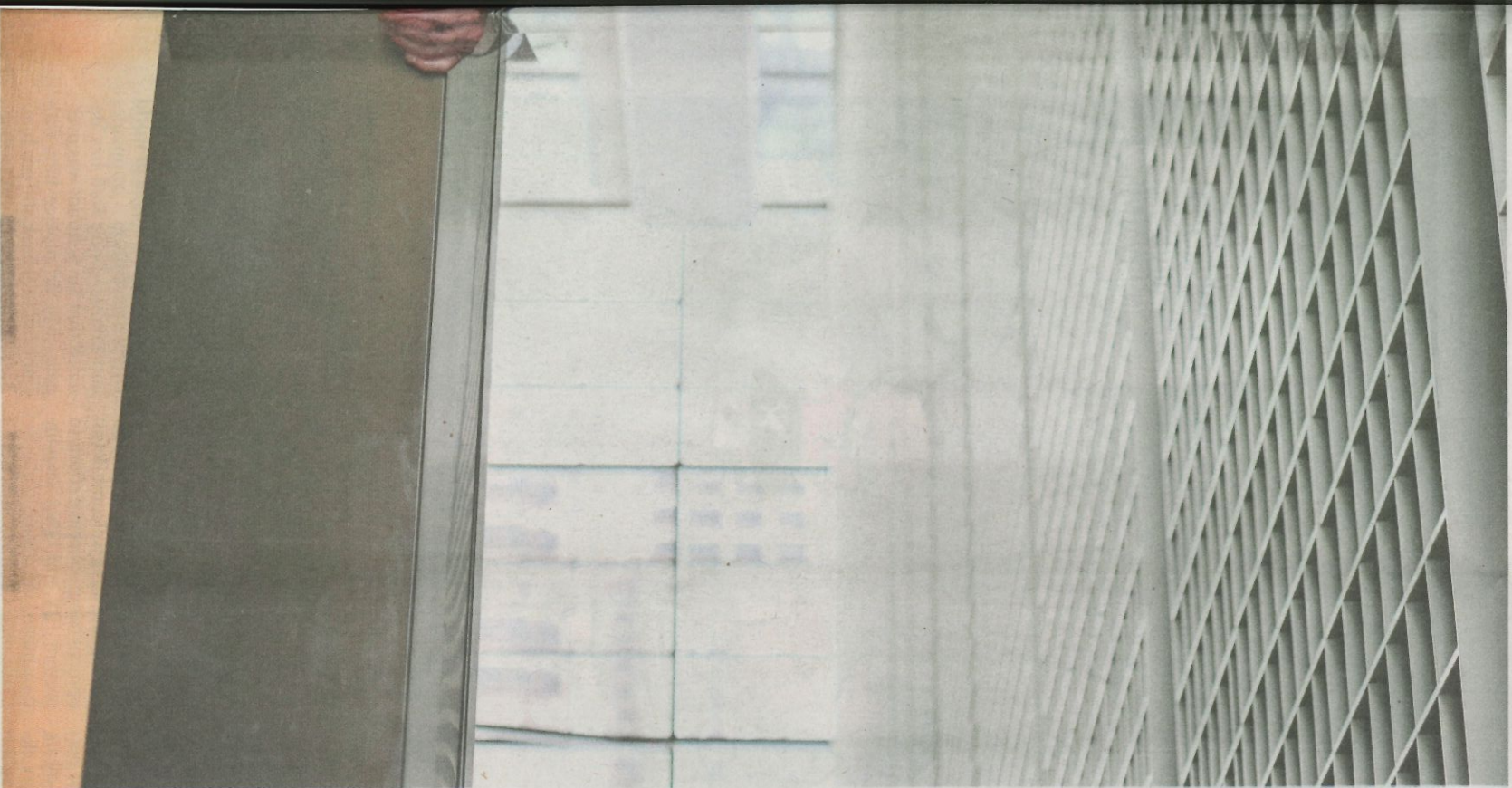




PHOTO: JEFFREY M. HARRIS

STYLING: JESSICA HARRIS



Mayo Schmidt, seen in Toronto last year, opted to retire from his position as CEO of Hydro One on Wednesday while the 14-member board resigned.
CHRISTOPHER KATSAPOV/
THE GLOBE AND MAIL

Retiring Hydro One CEO can get \$9-million compensation package, Globe analysis reveals

DAVID MILSTEAD

ANALYSIS

Ontario Premier Doug Ford's assertion that Hydro One's retiring CEO will get "no severance" overlooks cash payments of about \$9-million the utility will pay him for his stock, bonuses and other compensation.

In addition, Hydro One will pay its 14 directors about \$4.9-million for their stock holdings, which they were required to keep as long as they were directors - tenures that are ending, en masse, in the coming weeks.

The numbers come from a Globe analysis of stock ownership records, the company's proxy circular to shareholders and an agreement between the provincial government and Hydro One that set the terms of departure for the board and CEO Mayo Schmidt.

The compensation for Mr. Schmidt is in addition to the \$400,000 payment in lieu of postretirement benefits and allowances that Hydro One announced on Wednesday. While Mr. Schmidt will not receive any of the termination payments in his employment agreement, retiring allows him to keep lucrative stock awards he has received during his tenure as CEO. (Stock awards are shares given to an executive as part of his total compensation.) Had he resigned, he would have forfeited them.

That distinction between retirement and resignation illustrates the importance of the terms of departure in the contract of a modern CEO - and undercuts the narrative that Mr. Schmidt is leaving with \$400,000 and will not be entitled to severance.

Under the departure agreement, Mr. Schmidt can get a cash payment to compensate him for stock awards he would have lost had he resigned. At Wednesday's closing price of \$20.17, the settlement would be in the neighbourhood of \$8.2-million.

Hydro One has agreed to pay retiring CEO Mayo Schmidt for stock awards that he would have to give up if he resigned



Hydro One: Leading candidate for top job is Toronto Hydro

■ FROM A1

During the recent provincial election, Mr. Ford harshly criticized Mr. Schmidt's pay package, linking compensation at the utility to rising power costs and promising to fire the "\$6-million man." Under his contract, Mr. Schmidt was entitled to more than \$50-million in severance.

Hydro One executives declined to comment on the circumstances surrounding his departure and the board's resignation. When

asked about the compensation paid to Mr. Schmidt, government spokesman Simon Jefferies said: "Premier Doug Ford and the government for the people will always put the ratepayers and taxpayers first. When the Minister of Energy accepted the CEO of Hydro One's resignation, it was ensured that ratepayers would be protected."

The leading candidate for the top job at Hydro One is current Toronto Hydro CEO Anthony Haines, according to government

sources. Regulatory filings show Mr. Haines earned \$11-million last year. Meanwhile, Paul Dobson, Hydro One's chief financial officer, is the acting CEO.

Hydro One and Toronto Hydro had no comment on their respective leaders.

The Energy Ministry said Wednesday that it would table legislation to increase "transparency and accountability" at Hydro One in the coming legislative session. The government is expected to propose sweeping

Hydro towers are seen in Toronto. Hydro One executives have declined to comment on the circumstances surrounding CEO Mayo Schmidt's departure and the board's resignation.

FRED LUW/
THE GLOBE AND MAIL

changes to the way the utility pays its top executives. The package will include the disclosure of compensation for as many as 20 top executives; currently, Hydro One and other public companies only disclose the pay packages for their top five employees. The government is also expected to cap CEO pay at levels typically seen at provincially owned agencies — even though the province partly privatized Hydro One in 2015 and currently owns just a 47-per-cent stake.



CEO, government sources say

For its part, Hydro One announced Wednesday that it plans to name a new board with 10 members, plus the new CEO, and has set a deadline of Aug. 15 for announcing candidates. The government will name four of those directors, while a group comprised of the utility's largest institutional shareholders, including Mackenzie Financial Corp, Bank of Nova Scotia and CI Investment Inc., will nominate the other six.

But the prospect of joining the board or hiring a new CEO while the rules are being rewritten will make recruitment difficult.

"We see this move as creating a great amount of uncertainty for the stock," said a report from analyst Robert Kwan at RBC Dominion Securities Inc., who downgraded his target price on Hydro One to \$21 from \$25. "Questions include: Who will be the next CEO? And with the government's eye on compensation, will the board be able to attract a suitable candidate?"

Hydro One's stock price closed Thursday down more than 3 per cent at \$19.46 on the Toronto Stock Exchange, after declining steadily from approximately \$22 during the election campaign. Investment banking analysts said turmoil among its leadership could scupper Hydro One's planned \$6.7-billion takeover of U.S. utility Avista Corp, which

was announced a year ago.

"We believe the resignation of the CEO [and] board is a negative development, particularly given that Hydro One is likely in the late innings of the regulatory approval process for the Avista deal," said Ben Pham at BMO Nesbitt Burns Inc.

The Energy Ministry said Wednesday that it would table legislation to increase

"transparency and accountability" at Hydro One in the coming legislative session. The government is expected to propose sweeping changes to the way the utility pays its top executives.

CIBC World Markets Inc. analyst Robert Catellier also cut his target price on Hydro One shares, to \$20.50, and said in a note to clients that the decision to replace the CEO and board "indicates the government is willing to meddle. Just as worrisome is the possibility that the government meddles with the company's rates in some form, potentially impacting earnings."

243,621

163,105

\$4,913,836
Total stock awards: \$3,289,828
\$8,203,664

*Closing price Wednesday, July 11 on the TSX
THE GLOBE AND MAIL, SOURCE: SEDI, THE SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS, COMPANY DISCLOSURES

The agreement also says Hydro One will pay Mr. Schmidt half of his 2018 target bonus, an amount paid out if the company achieves certain goals. While that bonus number is not disclosed, his 2017 target bonus was \$1.32-million, suggesting Mr. Schmidt's 2018 payout is \$660,000 or more.

Hydro One will also pay Mr. Schmidt his accrued pension benefits, which were \$162,729 at the end of 2017. Mr. Schmidt added almost \$90,000 to his pension in 2017, meaning that number now could top \$200,000.

In a statement, Simon Jefferies, a spokesman for Premier Doug Ford, reiterated "there will be no severance" and said the stock awards "will be paid out over time. If he had continued to serve as the CEO of Hydro One his stock [awards] would have only expanded - and under this Government's watch, that won't happen." Hydro One has not commented for this story.

As with many of today's executives, Mr. Schmidt's salary - \$1.2-million in the most recent disclosures - is a small portion of overall pay. The company estimated his 2017 compensation at \$6.2-million, most of which was long-term stock awards.

Hydro One had granted Mr. Schmidt nearly 450,000 share awards and 500,000 stock options since his 2015 arrival at the helm of the company. These numbers include a large award in March of this year, when Hydro One gave Mr. Schmidt the 500,000 options and more than 150,000 share awards, worth about \$4-million in total. The company did not disclose those awards in its proxy sent to shareholders late that month, presumably because they were granted after the close of the past fiscal year.

Mr. Schmidt, like other company executives, has participated in a range of long-term stock plans at Hydro One. As is typical, the company awards the shares, but the executives cannot sell them in the open market. Instead, they "vest," or become fully owned and saleable as the executives continue their employment or hit certain performance requirements. Only 50,000 of Mr. Schmidt's stock awards had vested; the unvested shares depended on continued employment or Hydro One meeting certain performance goals by the end of 2018 or later. However, retiring means Mr. Schmidt could retain the stock awards and watch them vest on their original schedules and terms, according to Hydro One's circular.

The departure agreement between Ontario and Hydro One says Mr. Schmidt's unvested stock awards "may be cash-settled" at a specified (and undisclosed) price. Stock records show Mr. Schmidt had 243,621 performance share awards and 163,105 restricted shares, which would be worth \$8.2-million at Wednesday's close of \$20.17. (This total doesn't include another 50,042 shares that had already vested, of which Mr. Schmidt had not yet taken ownership.)

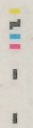
Hydro One cancelled Mr. Schmidt's stock options as part of the departure agreement. They were estimated to be worth about \$866,000 in March when they were granted, but Hydro One's declining share price on Thursday cut nearly 30 per cent of their value. The Globe estimates.

Hydro One pays some or all of its director fees in the form of stock awards, which must be held until a director leaves the board (hence the term "deferred share unit"). The agreement between Ontario and Hydro One calling for their departures has triggered their ability to sell the shares.

Hydro One will settle the deferred share unit holdings of the 14 directors - 243,664, in total - for about \$4.9-million, according to the terms of the agreement.

In 2017, Hydro One paid its directors \$2.47-million in fees and travel expenses; they accepted a total of \$1.92-million of those payments in Hydro One deferred share units.

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2018
THE GLOBE AND MAIL, SOURCE: BLOOMBERG



Throne speech signals dramatic changes Tories tout end to cap and trade, promise tax relief, lower gas prices and hydro bills

ROBERT BENZIE AND ROB FERGUSON
QUEEN'S PARK BUREAU

Warning “change will not be easy,” Premier Doug Ford’s new Progressive Conservative government is signalling it will move quickly with dramatic reforms.

In Thursday’s speech from the throne — read in the legislature by Lieutenant Governor Elizabeth Dowdeswell and titled “A Government for the People” — the new administration will convene a commission of inquiry into govern-

ment spending practices.

The Tories will also free police from “onerous restrictions that treat those in uniform as subjects of suspicion and scorn,” end “unaffordable green energy contracts,” and expand beer and wines sales to convenience and big-box stores.

While the speech did not specifically mention the \$6 billion in spending cuts that Ford promised during the spring election campaign, it heralded a new era of restraint.



In a nine-page throne speech, Premier Doug Ford’s Tories said the government “cannot afford to dither or delay.”

“We cannot afford to dither or delay. To overcome these challenges, we must challenge the status quo, reject the old compromises and embrace change,” the nine-page throne speech said.

“The road ahead will not be easy, but the path is clear.”
On education, the Ford government will replace the 2015 “sex education curriculum with an age-appropriate one that is based on real consultation with parents.”

THRONE SPEECH continued on A11

Cohn: Throne speech a reminder that Ford’s priority is campaigning, not governing. **A11**



THE \$9 MILLION MAN

DANIEL ACKER/BLOOMBERG FILE PHOTO

Mayo Schmidt, whose salary made him a frequent target of Doug Ford on the campaign trail, is quitting as Hydro One CEO. By choosing to retire instead of resigning, Hydro One CEO will get close to the \$10.7M he’d have received in severance

ROB FERGUSON
QUEEN’S PARK BUREAU

Thanks to his stock options, the ousted head of Hydro One will walk away with close to the \$10.7 million he would have received in severance — far more than a \$400,000 retirement payout Premier Doug Ford touted as a victory for rate-payers.

“This deal is not a good deal for everyday people,” NDP Leader Andrea Horwath said Thursday as fallout from a dramatic shakeup at the company

prompted shares in Hydro One — still owned 47 per cent by Ontario taxpayers — to fall 3.2 per cent.

Details are in the fine print of the agreement to remove chief executive officer Mayo Schmidt, whom the new premier dubbed the “six million dollar man” for his total compensation last year, and replace Hydro One’s board by Aug. 15.

By opting for retirement after Ford vowed to fire him during the spring election campaign, Schmidt, a veteran businessman, gets to keep the incen-

tives, a common form of executive compensation, he earned as CEO since 2015. If Schmidt resigned or was fired his stock awards would not be as generous.

Given his six months in the job this year and an expected bonus for meeting performance targets, they are now estimated at about \$9 million, up from their \$7.7 million valuation at the end of 2017. Any options not exercised before he retired Wednesday have been cancelled.

HYDRO continued on A8

The naked truth about the sex ed curriculum

We look at the key differences between repealed new program and 1998 one that replaces it

SANDRO CONTENTA
STAFF REPORTER

School systems have long been described, often critically, as guardians of society’s status quo. But rarely have they been asked to prepare students for a bygone era, experts argue.

On Wednesday, Education Minister Lisa Thompson announced that schools in September would go back to teaching the 1998 sex ed curriculum, fulfilling a pledge made by Doug Ford during his election campaign. Thompson said her ministry would launch consultations for a new curriculum.

The announcement appeased part of Ford’s electoral base, including social conservatives who considered the 2015 curriculum inappropriate for children. But educators are concerned that the old curriculum is out of touch with today’s reality.

The 1998 health and physical education curriculum describes a society that few elementary school students would recognize. It does not mention the words cyberbullying, social media, race, lesbian, gay, bisexual or transgender. It only once mentions the word internet, and only to say that kids can use computers to surf the “World Wide Web” for information.

CEO's deal was 'cooked up behind closed doors,' Horwath says

HYDRO from A1

There is also the matter of Schmidt's annual pension, which is expected to be at least \$162,729.

Hydro One would not confirm a figure. Exact details on Schmidt's incentive payouts won't be known until a securities filing next April.

"Mr. Schmidt shall be entitled to receive all remuneration, benefits, awards and other entitlements previously granted, awarded or earned through to the retirement date," says the agreement between Hydro One chairman David Denison and Greg Rickford, Ford's energy minister.

Horwath said that means Ford "was not being honest with Ontarians" when he boasted "the severance was zero ... absolutely zero" and mentioned only the lump-sum payout to Schmidt of \$400,000 in lieu of post-retirement benefits.

"He cannot pretend that he

did not know the details," added Horwath, whose party is now the official opposition in the legislature. "Apparently, what Mr. Ford has succeeded in doing is turning the six million dollar man into a nine million dollar man.

"They obviously cooked up a deal behind closed doors. They've been complicit in the deal that has been struck with Mr. Schmidt and yet they're trying to sell it to Ontarians as if there's nothing to see here," the NDP leader said.

The premier did not comment Thursday, but his office issued a statement saying "Ford made a promise that the former CEO of Hydro One would be gone; and yesterday he kept his promise."

"There will be no severance that will be paid ... When the minister of energy accepted the CEO of Hydro One's resignation it was ensured that ratepayers would be protected," Ford spokesperson Simon Jeffries said in a statement.

"The deferred stock options that he earned in 2016, 2017 and 2018, which he was awarded during the tenure of the previous government, will be paid out over time.

"If he had continued to serve as the CEO of Hydro One his stock options would have only expanded — and under this government's watch, that won't happen."

Hydro One analyst Andy Smith of investment dealer Edward Jones said the share price drop of 65 cents to \$19.52 shows investors were rattled by the Ford government's actions and what they portend for the future.

"Right now it's uncertain and investors don't like uncertainty," he told the Star, noting Schmidt's total compensation of \$6.2 million last year — which became a political lightning rod in Ontario — is not out of line with pay for CEOs of similar-sized utilities.

"They might have trouble at

tracking someone who's going to work for a 10th of that or whatever they want them to work for."

While he wasn't recommending clients buy the stock, arguing it was priced on the high side for its level of earnings, Smith said Hydro One has been performing nicely under Schmidt since Kathleen Wynne's Liberal government partially privatized it three years ago.

"Hydro One has done a lot of what they said they were going to do since they became a public company. They've begun to cut expenses ... they've done a lot of good work, I think."

Both he and Horwath raised concerns about the signal the Hydro One shake-up will send, as well as plans to bar a wind farm company from suing over the Ford government's scrapping its White Pines wind turbine installation in Prince Edward County.

"What does that do to confidence in the government?" Smith said.

"If I was somebody wanting to invest in Ontario I'd be thinking twice today," Horwath told reporters after the government's throne speech, outlining its priorities for a rare summer sitting of the legislature and beyond.

Although Ford targeted Schmidt's compensation as chief executive at Hydro One, pay levels to his top executives will remain untouched "for greater certainty" in the coming weeks as part of the agreement but will be subject to review by the incoming 10-member board.

The new board will be in charge of selecting a replacement for Schmidt.

The deal also includes a "non-disparagement" clause, in which the government agrees not to make any statement that "defames, criticizes, ridicules, disparages or is derogatory" in regard to the directors, officers and employees of Hydro One.