

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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Hydro One Inc.  
483 Bay Street  
8th Floor South Tower  
Toronto, Ontario M5G 2P5  
www.HydroOne.com



David F. Denison  
Chair of the Board

July 11, 2018

Her Majesty The Queen in Right of Ontario  
as represented by the Ministry of Energy, Northern Development and Mines  
900 Bay Street  
4th Floor, Hearst Block  
Toronto, ON M7A 2E1

Attention: The Honourable Greg Rickford, Minister

Dear Sirs/Mesdames:

**Re: Hydro One Limited Governance Arrangements and Related Matters**

This letter agreement (the "**Agreement**") sets out the agreement between Hydro One Limited ("**Hydro One**") and the Province (as defined below) with respect to the process to facilitate the orderly replacement of the entire Board of Directors of Hydro One, the retirement of Hydro One's Chief Executive Officer, and related governance and compensation matters. This Agreement is effective as of the date hereof and shall be a legal and binding agreement enforceable against each of the parties hereto in accordance with the terms hereof.

**Removal and Replacement of the Board of Directors**

1. The Hydro One Board of Directors (the "**Board**"), led by the Chair of the Board and with the cooperation of the Province, will facilitate the orderly resignation of all of the fourteen (14) existing directors on the Board (the "**Directors**") and their replacement on a future effective date to be mutually agreed upon by the Province and Hydro One as soon as reasonably practicable and, in any event, by no later than August 15, 2018, through an expedited process as follows:
  - a. Promptly following your acceptance of this Agreement, and in any event within five (5) Business Days hereof, the Chair of the Board shall coordinate the establishment of an Ad Hoc Nominating Committee consistent with the process set out in the Governance Agreement comprised of one representative of each of the five largest beneficial owners of Voting Securities of Hydro One, excluding the Province, or if one of such five beneficial owners of Voting Securities is not willing to provide a representative to serve on the committee, then the four representatives from the four of the five largest beneficial owners of Voting Securities shall form the committee, or if two of such five beneficial owners of Voting Securities are not willing to provide a representative to serve on the committee, then the three representatives from the three of the five largest beneficial owners of Voting Securities shall form the committee, or if three or more of such five beneficial owners of Voting Securities are

not willing to provide representatives to serve on the committee, then one representative of each of the three largest beneficial owners of Voting Securities who is willing to provide a representative to serve on the committee.

- b. Following the establishment of the Ad Hoc Nominating Committee, the Province and the Ad Hoc Nominating Committee, acting reasonably, shall identify, nominate and confirm a slate of ten (10) replacement Director nominees to be appointed to the Board (the “**Replacement Directors**”). Following their appointment to the Board, the Replacement Directors shall increase the size of the Board to eleven (11) members upon the appointment of a Replacement CEO, which Replacement CEO shall be appointed to the new Board pursuant to section 13 of this Agreement and consistent with the Governance Agreement. In accordance with the Governance Agreement, the Province shall be entitled to nominate the number of nominees that is equal to 40% of the Replacement Directors to be elected (being four nominees) and the Ad Hoc Nominating Committee shall be entitled to nominate the remaining 60% of the Replacement Directors to be elected (being six nominees). The Province and the Ad Hoc Nominating Committee will work expeditiously to identify, nominate, confirm and appoint all of the Replacement Directors as soon as reasonably practicable and, in any event, by August 15, 2018. The Replacement Directors (and each of them, as applicable) must meet the requirements set out in section 4.2 of the Governance Agreement, as applicable.
  - c. Following the identification and nomination of all of the Replacement Directors and, in any event, by August 15, 2018, the existing Chair of the Board shall call a meeting of the Board at which the existing Board shall accept the resignations of each of the existing Directors and fill the vacancies created by such resignations with the Replacement Directors in a sequential manner as contemplated by section 4.6.2(a) of the Governance Agreement. For greater certainty, the requirements to provide a Removal Notice or call and hold a Removal Meeting under the Governance Agreement are waived in connection with the replacement of the existing Directors with the Replacement Directors in the manner contemplated under this section 1.
  - d. Prior to the appointment of the Replacement Directors, the Province may designate one or more of its nominees for Replacement Directors to act as a liaison with Hydro One, the current Chair and the Ad Hoc Nominating Committee with respect to the identification, nomination, confirmation and appointment process for the Replacement Directors outlined in this Agreement.
  - e. Once all of the Replacement Directors have been appointed to fill all of the vacancies created on the Board in accordance with section 1.c of this Agreement, the newly appointed Board shall then appoint a new Chair of the Board in accordance with section 3.2 of the Governance Agreement and in consultation with the Province.
2. Each of the Replacement Directors nominated and appointed to the Board pursuant to section 1 of this Agreement shall serve on the Board until the earlier of the 2019 annual meeting of shareholders of Hydro One or until his or resignation or his or her successor is elected or appointed in accordance with the Governance Agreement and the OBCA.
  3. Each of the existing Directors shall be entitled to receive all remuneration, benefits, awards and other entitlements previously granted, awarded or earned on or prior to June 30, 2018, including all payments relating to director deferred share units acquired in lieu of cash board

fees on or prior to June 30, 2018 (plus dividend equivalents), without modification, amendment or derogation, and shall not be required to forfeit, return or have clawed back any previously granted, earned or awarded remuneration, benefits, awards or other entitlements. For greater certainty, the existing Directors' rights to indemnity under applicable law, the by-laws or other constating documents of any Hydro One Entity or any agreement between an existing Director and any Hydro One Entity and to coverage under and to contribution and indemnification pursuant to any directors' and officers' insurance policies of any Hydro One Entity shall continue following their resignation and retirement in accordance with their respective terms. Hydro One and the Province acknowledge and agree that, with immediate effect as of the date of this Agreement, the Board has voluntarily agreed to reduce the compensation of the existing Directors to the levels that existed as of December 31, 2017 pursuant to the then-existing director compensation policies, and the Board shall pass a resolution fixing such rate of compensation for the Directors with effect from and after the date hereof. It is further acknowledged and agreed that each of the existing Directors has voluntarily agreed to forego any further remuneration, benefits, awards or other compensation for his or her service as a Director following June 30, 2018 through to the effective date of resignation and retirement from the Board. For greater certainty, nothing under this section 3 shall prevent the replacement Board of Hydro One appointed under sections 1 and 2 of this Agreement from, following their appointment to the Board, determining the remuneration of the directors of Hydro One going forward in accordance with section 2.3(c) of the Governance Agreement.

4. The director deferred share units (plus dividend equivalents) referred to in section 3 above may be cash-settled based on the June 29, 2018 closing price of the Hydro One common shares on the Toronto Stock Exchange (the "**TSX**"), provided that the closing price of such common shares on another date as soon as practicable after June 29, 2018 may be used to the extent required or deemed advisable by Hydro One in its discretion. Director deferred share units will continue to accrue dividends until their date of settlement pursuant to the terms of the applicable plan.
5. The existing Directors shall not be required to meet or maintain any share ownership requirements of Hydro One from and after their resignation and retirement from the Board.
6. Each of the existing Directors, the Province, and Hydro One (on behalf of itself and its affiliates) shall execute mutual releases, including non-disparagement provisions, in form satisfactory to each of them, with effect upon each Director's resignation from the Board and subject to the payment of amounts owed to them in accordance with this Agreement in their capacity as Directors. For greater certainty, (i) the Province's non-disparagement commitments shall apply to all official government publications, communications or statements (written or oral and in any medium whatsoever) and (ii) such release shall not release any rights of the Directors to the compensation, indemnification and insurance contemplated under section 3 hereof.

#### **Retirement of Hydro One Chief Executive Officer**

7. Mayo Schmidt ("**Mr. Schmidt**"), the current President and Chief Executive Officer of Hydro One, shall retire pursuant to his employment agreement with Hydro One dated August 20, 2015, as amended (the "**Employment Agreement**") and Hydro One's existing Long Term Incentive Plan first adopted on August 31, 2015, as amended to-date (the "**Plan**") as an employee and officer of Hydro One and each other applicable Hydro One Entity and resign as a director of Hydro One and each other applicable Hydro One Entity, effective as of 5:00

p.m. (Toronto time) on July 11, 2018 (the “**Retirement Date**”). Mr. Schmidt’s Retirement as President and Chief Executive Officer of Hydro One shall be approved by the Board in accordance with section 11 of the Employment Agreement and subsection 12.2(c) of the Plan.

8. In connection with such Retirement, Mr. Schmidt shall be entitled to receive all remuneration, benefits, awards and other entitlements previously granted, awarded or earned through to the Retirement Date as more particularly set out below in accordance with the terms of his Employment Agreement, the Plan and all other applicable compensation plans and policies of Hydro One in effect as of the date hereof. The Province acknowledges and agrees that a statement of all such remuneration, benefits, awards and other entitlements payable to Mr. Schmidt in connection with his Retirement on or after the Retirement Date based on achievement of target performance and a specified price per unit for the Awards, together with the presentation thereof that would be expected to appear in Hydro One’s 2019 management information circular, has been separately provided to you (the “**Retirement Compensation**”). Hydro One represents and warrants that the information contained in the Retirement Compensation is accurate and complete in all material respects and reflects all compensation payable to Mr. Schmidt in connection with his Retirement. The parties further acknowledge and agree with respect to the Retirement Compensation that:
  - a. Mr. Schmidt shall receive the following amounts from Hydro One, as set out in the Retirement Compensation:
    - i. base salary prorated to the Retirement Date;
    - ii. the target short-term incentive plan (“**STIP**”) bonus for the 2018 fiscal year prorated to the Retirement Date;
    - iii. the release of his benefit allowance prorated to the Retirement Date;
    - iv. the release of his accrued pension benefits, deferred share units (“**DSUs**”) (plus dividend equivalents), and employee share ownership plan (“**ESOP**”) common shares of Hydro One as of the Retirement Date, in accordance with the existing terms of the applicable STIP, DSU and ESOP policies and plans of Hydro One; and
    - v. a one-time lump sum cash payment of \$400,000 in lieu of all post-retirement benefits and allowances as provided in his contract or otherwise.
  - b. The Awards (as such term is defined in the Plan) previously granted to Mr. Schmidt pursuant to the Plan, consisting of Restricted Share Units and Performance Share Units (as such terms are defined under the Plan), as well as the DSUs, may be cash-settled at target levels at a specified price per unit. The DSUs will continue to accrue dividend equivalents until their date of settlement pursuant to the terms of the Plan; the RSUs and PSUs shall cease to accrue dividend equivalents after the Retirement Date. All Options will be cancelled on the Retirement Date for no consideration.

- c. Payments made to Mr. Schmidt shall be subject to applicable withholding tax, shall be paid without interest and, in the event of Mr. Schmidt's death, shall be made to his successors and assigns including the estate, heirs, executors, trustees, administrators and/or personal legal representatives of Mr. Schmidt, as applicable.
  - d. In no case shall the amounts paid pursuant to this section 8 exceed the aggregate amount of the remuneration, benefits, awards and other entitlements set out in the Retirement Compensation. For greater certainty, other than the payment referred to in section 8.a.v above, all such remuneration, benefits, awards and other entitlements represent recognized obligations of Hydro One as at the Retirement Date.
  - e. For greater certainty, Mr. Schmidt's existing rights to indemnity under applicable law, the by-laws or other constating documents of any Hydro One Entity or any agreement between Mr. Schmidt and any Hydro One Entity and to coverage under and to contribution and indemnification pursuant to any directors' and officers' insurance policies of any Hydro One Entity shall continue following his Retirement and resignation, as applicable, as an employee, officer and director of Hydro One and each other applicable Hydro One Entity, in accordance with their respective terms.
9. Mr. Schmidt shall not be required to meet or maintain any share ownership requirements of Hydro One from and after the Retirement Date.
  10. The Province shall take no action or fail to take any action whatsoever, the result of which would or could reasonably be expected to, directly or indirectly, result in any modification, amendment, derogation from or supplement to any of Mr. Schmidt's existing arrangements relating to his Retirement Compensation as specified under this Agreement.
  11. Mr. Schmidt shall not be entitled to receive the Separation Package (as such term is defined in the Employment Agreement) or any other severance payment, retiring allowance, change of control payment or any other compensation in connection with his Retirement on the Retirement Date except as set out in the Retirement Compensation, and any amounts paid in excess of the aggregate Retirement Compensation shall be repayable by Mr. Schmidt (or his successors and assigns, as applicable) to Hydro One.
  12. Mr. Schmidt, the Province, and Hydro One (on behalf of itself and its affiliates) shall execute a mutual release, including non-disparagement provisions, in form satisfactory to each of them with effect upon Mr. Schmidt's Retirement and resignation as an employee, officer and director of Hydro One and each other applicable Hydro One Entity. The Province's non-disparagement commitments shall apply to all official government publications, communications or statements (written or oral and in any medium whatsoever).
  13. The Replacement Directors appointed to the Board in accordance with sections 1 and 2 of this Agreement shall, following their appointment, identify, select and appoint a replacement President and Chief Executive Officer of Hydro One (the "**Replacement CEO**") in accordance with section 3.3 of the Governance Agreement, which CEO shall also serve as one of the Replacement Directors. The existing Board shall appoint an acting President and Chief Executive Officer, in consultation with the Province, for the interim period from Mr. Schmidt's Retirement Date until the appointment and election of the Replacement CEO by the Replacement Directors.

## Hydro One Executive Management Team

14. The Province acknowledges and agrees that, for greater certainty, the terms and conditions of employment of Hydro One's executive leadership team other than Mr. Schmidt (the "**Executives**") under their respective employment agreements, the Plan, all related Award Agreements under the Plan, and the other compensation plans and policies of Hydro One remain in full force and effect from and after the date hereof. The Province further agrees that the Executives shall remain entitled to receive, and the Province shall take no action that would require or result in the forfeiture, return or claw back (other than in accordance with Hydro One's policies) of, any remuneration, benefits, awards or other entitlements (whether vested or unvested) granted, earned or awarded prior to the date of cessation of employment of such Executives with Hydro One. For greater certainty, the foregoing does not address any severance entitlements of such Executives, under contract or otherwise.
15. The parties acknowledge and agree that the replacement Board of Hydro One appointed under sections 1 and 2 of this Agreement shall be responsible for determining the compensation of executives of Hydro One in accordance with the Governance Agreement and the other compensation plans and policies of Hydro One in effect from time to time, and nothing in this Agreement shall limit the actions that the Replacement Directors may take in carrying out their duties and responsibilities in this regard, provided that it is the intention of the parties that the Province, as the single largest shareholder of Hydro One, shall be consulted in a manner to be discussed and agreed upon between the Province and the replacement Board appointed under sections 1 and 2 of this Agreement on future matters relating to Hydro One's executive compensation arrangements.

## General Provisions

16. Reaffirmation: By entering into this Agreement, the Province ratifies and reaffirms its obligations under the Governance Agreement and agrees that, except as specifically set out in this Agreement with respect to the subject matter hereof, (i) the execution, delivery and effectiveness of this Agreement or any other documents delivered in connection herewith shall not amend, modify or operate as a waiver or forbearance of any right, power, obligation, remedy or provision under the Governance Agreement, and (ii) such agreement shall continue in full force and effect. Until each existing Director resigns as contemplated in this Agreement, such existing Director shall remain a director of Hydro One (unless such Director otherwise resigns, dies or is replaced) and shall be entitled to take such actions as a director as it determines to be appropriate, consistent with his or her fiduciary duties and the principles set out in section 4.7.4 of the Governance Agreement, provided such actions are not inconsistent with the terms of this Agreement.
17. Defined Terms: Unless otherwise defined, capitalized terms used in this Agreement shall have the respective meanings ascribed to such terms in the Governance Agreement dated as of November 5, 2015 between Hydro One and Her Majesty The Queen in Right of Ontario (the "**Province**", "**you**" or "**your**"), as represented by the Minister of Energy (the "**Governance Agreement**").
18. Non-Disparagement: The Province shall not, directly or indirectly, on its own behalf or on behalf of any other person, take, engage in or authorize any action or make any statement (written or oral and in any medium whatsoever) in any official government publication, communication or statement that (i) defames, criticizes, ridicules, disparages or is derogatory or otherwise would reasonably be expected to be deleterious or damaging to any

of the directors, officers, employees, agents and/or representatives of Hydro One or any other Hydro One Entity or encourages the making of such statements or the taking of such actions by someone else, or (ii) is inconsistent with the provisions of this Agreement. Hydro One agrees not to, directly or indirectly, on its or any other Hydro One Entity's own behalf or on behalf of any other person, take, engage in or authorize any action or make any statement (written or oral and in any medium whatsoever) that defames, criticizes, ridicules, disparages or is derogatory or otherwise would reasonably be expected to be deleterious or damaging to the Province in connection with the actions or matters contemplated by this Agreement, or encourages the making of such statements or the taking of such actions by someone else. Nothing in this section 18 shall prevent or restrict (i) any statement made in the Legislative Assembly of Ontario or communications in any form by elected officials who are not members of the government, or (ii) any party from making statements that are truthful if and to the extent required by applicable law or legal process.

19. **Public Announcement:** Each of Hydro One and the Province shall publicly announce the entering into of this Agreement promptly following the execution hereof, provided that the parties shall consult with each other with respect to the timing and content of any press releases, announcements or public statements relating to this Agreement or the subject matter hereof, having regard to the Province's governmental responsibilities and policy objectives as contemplated in sections 2.2.1(d) and 2.2.2 of the Governance Agreement, on the one hand, and the obligations of Hydro One as a reporting issuer subject to applicable securities laws and the rules of the TSX, on the other hand. For clarity, nothing in this Agreement shall restrict Hydro One from repeating in its public disclosure documents filed with securities regulatory authorities any statements or disclosure (in substance) previously made in accordance with this section 19 and this section 19 is subject to each party's overriding obligation to make disclosure or filings required from time to time under applicable laws or stock exchange rules, as applicable.
20. **Governing Law:** This Agreement shall be interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein.
21. **Enurement; Assignment:** This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns. This Agreement may not be assigned by either party except with the prior written consent of the other party.
22. **Entire Agreement; Amendments:** This Agreement, together with the Governance Agreement, constitute the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral. There are no conditions, covenants, agreements, representations, warranties or other provisions, express or implied, collateral, statutory or otherwise, relating to the subject matter hereof except as provided herein. This Agreement may be amended only by an instrument in writing executed by each of the parties hereto.
23. **Counterparts:** This Agreement may be executed and delivered in any number of counterparts, with the same effect as if all parties had signed and delivered the same document, and all counterparts shall be construed together to be an original and will constitute one and the same agreement.



Yours very truly,

**HYDRO ONE LIMITED**

By: "David Denison"

Name: David F. Denison

Title: Chair of the Board of Directors

The foregoing is acknowledged, accepted and agreed to this 11th day of July, 2018.

**HER MAJESTY THE QUEEN IN RIGHT  
OF ONTARIO AS REPRESENTED BY  
THE MINISTER OF ENERGY,  
NORTHERN DEVELOPMENT AND  
MINES, AND MINISTER OF  
INDIGENOUS AFFAIRS**

By: "Greg Rickford"

The Honourable Greg Rickford