TORONTO

STAFF REPORT
ACTION REQUIRED

Toronto Hydro Corporation - 2006 Annual General Meeting and Annual Audited Financial Statements

Date:	June 1, 2007
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

This report recommends the actions necessary to comply with the requirements of the *Business Corporations Act* (Ontario) for holding an annual general meeting of the shareholder of Toronto Hydro Corporation including receipt of the audited financial statements and appointment of the auditor.

RECOMMENDATIONS

The City Manager recommends that City Council:

1. consider the Council meeting to be the Annual General Meeting of the Shareholder for Toronto Hydro Corporation by:

    a. adopting the recommendations embodied in the Toronto Hydro Corporation report, dated May 4, 2007, forming Attachment 1 to this report, that appoints Ernst and Young as the auditor for Toronto Hydro Corporation and receives the report from the Chair of the Board of Directors; and

    b. receiving the information report of the Deputy City Manager and Chief Financial Officer, dated May 14, 2007, "Toronto Hydro Corporation – Financial Statements", forming Attachment 2 to this report and receiving the financial statements forming Appendix A to that report; and

2. refer Attachment 2 to the Audit Committee for review.

FINANCIAL IMPACT

There are no financial implications that would result from the adoption of this report

EQUITY STATEMENT

This report is limited to recommendations regarding approval of financial statements and the appointment of auditors, therefore an equity impact analysis is not applicable.

DECISION HISTORY

Strategic Policies and Priorities Committee Report No. 10, Clause 1 as amended by City Council, adopted on June 9, 10 and 11, 1999, authorized the incorporation of Toronto Hydro Corporation.

ISSUE BACKGROUND

In order to comply with the requirements of the OBCA, an annual meeting of the shareholders must be held within fifteen (15) months from the last preceding annual meeting. The last annual shareholder meeting for Toronto Hydro Corporation was held by City Council at its meeting of June 27, 28 and 29, 2006.

COMMENTS

The report from Toronto Hydro Corporation requests that City Council consider the audited financial statements for the 2006 completed financial year and the auditor's report for that period. City Council is also requested to consider the unaudited financial statements for the first quarter of 2007.

Toronto Hydro Corporation also requests that City Council reappoint the incumbent auditors for the 2007 financial year and authorize the Directors of Toronto Hydro Corporation to fix the auditor's remuneration.

The shareholder review of Toronto Hydro Corporation's 2006 Annual Audited Financial Statements is set out in the information report of the Deputy City Manager and Chief Financial Officer, which is attached to this report as Attachment 2 and which should be considered as part of the Annual General Meeting agenda.

CONTACT

Michael Smith, Solicitor, Legal Services
Tel: (416) 392-7245 Fax: (416) 392-1017 Email: msmith10@toronto.ca

Joe Borowiec, Strategic and Corporate Policy Division, Tel: 416-397-9110,
Fax: 416-696-3645; E-mail: jborowie@toronto.ca

SIGNATURE

____

Shirley Hoy, City Manager

ATTACHMENTS

Attachment 1 Toronto Hydro Corporation Report May 4, 2007

Appendix A	Resolution of the City of Toronto ("the Shareholder") To Appoint the Auditor of Toronto Hydro Corporation (the "Corporation")
Appendix B	Report from Clare Copeland – Chairman of the Toronto Hydro Board of Directors dated April 30, 2007

Attachment 2 Report of Deputy City Manager and Chief Financial Officer dated May 14, 2007 entitled "Toronto Hydro Corporation – Financial Statements"

Appendix A	Financial Statements of Toronto Hydro Corporation

Attachment 1

Toronto Hydro Corporation Report May 4, 2007

addressed to the Executive Committee
from Mr. Lawrence D. Wilde, General Counsel and Corporate Secretary,
Toronto Hydro Corporation

2006 Annual General Meeting – Toronto Hydro Corporation

Purpose

To comply with the requirements of subsection 94(1) of the *Business Corporations Act* (Ontario), R.S.O., c.B.16 (the "OBCA"), the directors of Toronto Hydro Corporation ("THC") are required to call an annual meeting of its shareholders (i.e. the City of Toronto) by no later than fifteen (15) months after holding the last preceding annual meeting. The last annual shareholder meeting for THC was held on June 27, 28 and 29, 2006.

The directors of Toronto Hydro Corporation therefore hereby submit and recommend that this report and attached shareholder resolutions be reviewed by the Executive Committee and approved by City Council at its next meeting.

Recommendations

It is recommended that:

1) City Council, as the sole shareholder of THC, hold an annual shareholder meeting;
2) approve and adopt the shareholder resolutions attached in Appendix A to this report;
3) authorize and direct appropriate City officials to take the necessary action to give effect thereto; and
4) receive any additional reports attached hereto, for informational purposes.

Background

City Council, by the amendment and adoption of Clause 1 of Report No. 10 of the Strategic Policies and Priorities Committee, at its meeting of June 9, 10 and 11, 1999, authorized the incorporation of THC. The City of Toronto is the sole shareholder of THC.

THC is the parent of the following subsidiaries:

1) Toronto Hydro-Electric System Limited, which distributes electricity;

2) Toronto Hydro Energy Services Inc., which provides street lighting and related ancillary services and is engaged in the development and sale of energy efficiency products and services;

3) Toronto Hydro Telecom Inc., which leases fibre optic cable capacity and provides managed data services;

4) 1455948 Ontario Inc., which was incorporated for the purpose of holding an equity interest in the EBT Express partnership, an organization providing electronic data management and transaction services through an electronic business transaction hub; and

Toronto Hydro Street Lighting Inc. was merged with Toronto Hydro Energy Services Inc. in September 2006.

2006 Annual General Meeting

City Council, as sole shareholder of THC, is to consider the following items at this annual general meeting:

1) audited financial statements for the 2006 completed financial year and the auditor's report for that period, and the unaudited financial statements for the first quarter ended March 31, 2007;

2) re-appointment of the incumbent auditors for the 2007 financial year and re-authorization of the THC board of directors to fix their remuneration for this period; and

3) receive the additional report attached hereto as Appendix B, for information purposes.

Comments

1) Audited Financial Statements and Auditor's Report:

   Audited financial statements for 2006 completed financial year, and related auditor's reports, as well as the unaudited financial statements for the first quarter ended March 31, 2007 have been delivered by THC and reviewed by the Deputy City Manager and Chief Financial Officer and his comments are presented in a separate report before this Committee. The financial statements of THC are on file with the City Clerk's office.

2) Re-Appointment of Auditor and Authorization of THC Directors to Fix Remuneration:

   At the last preceding annual general meeting, the shareholder resolved to appoint the incumbent auditors, Ernst & Young LLP, Chartered Accountants ("E&Y") until the close of the next annual meeting of the shareholder, or until a successor is appointed, and further resolved and authorized the directors of THC to fix the auditor's remuneration.

The Board of Directors of THC now recommends that the shareholder re-appoint E&Y as auditor for THC for the fiscal year 2007 or until the close of the next annual meeting of the shareholder, whichever is later. The directors of THC further recommend that City Council resolve and authorize the directors of THC to fix the auditor's remuneration for this period.

3) Other Items:

It is recommended that the shareholder receive the report attached as Appendix B hereto, for information purposes. The original is on file with the City Clerk.

Contact:

Lawrence D. Wilde
VP, General Counsel & Corporate Secretary
Toronto Hydro Corporation
Tel: (416) 542-2896; Fax: (416) 542-2540
E-Mail: lwilde@torontohydro.com

List of Attachments:

Appendix A Resolution of the City of Toronto ("Sole Shareholder")
Appendix B Report from Clare Copeland – Chairman of the Toronto Hydro Board of Directors dated April 30, 2007

Appendix A

Resolution of the City of Toronto ("the Shareholder") To Appoint the Auditor of Toronto Hydro Corporation (the "Corporation")

RESOLVED THAT:

Ernst and Young LLP, Chartered Accountants, is hereby appointed the auditor of the Corporation to hold office until the close of the next annual meeting of the shareholders of the Corporation, or until a successor is appointed, at such remuneration as may be fixed by the directors and the directors are hereby authorized to fix such remuneration. The Corporation's directors are authorized to pass the requisite resolutions giving effect to the foregoing, and any and all such resolutions passed by the directors of the Corporation regarding same are hereby confirmed and ratified.

* * * * * * * * * * *

The foregoing resolutions are hereby consented to by sole shareholder of the Corporation pursuant to the *Business Corporation Act* (Ontario).

Dated as of this ________ day of ___________, 2007

City of Toronto

____
per: Joseph Pennachetti
Deputy City Manager and Chief Financial Officer

____
per: Ulli Watkiss
City Clerk

Approved as to Form per: ____
Anna Kinastowski, City Solicitor

Authorized by Executive Committee Item No. ____ adopted by Council at its meeting of _____, 2007.

____
per: Ulli Watkiss
City Clerk

Appendix B

toronto hydro corporation

Clare R Copeland
Chairman of the Board

April 30, 2007

To: Executive Committee

From: Clare R. Copeland
Chairman of the Board

Subject: Toronto Hydro Corporation ("THC")
2006 Report to the Shareholder

Recommendation:

It is recommended that this report be received for information purposes.

Background:

THC was incorporated on July 1, 1999. THC was incorporated under the Ontario Business and Corporation Act ("OBCA") and has a Board of Directors consisting of eight independent directors plus three City Councillors with accountability for the operational and financial management of THC.

Pursuant to its initial public offering of $225 million in debentures on May 7, 2003, THC became a reporting issuer with the Ontario Securities Commission, and accordingly is subject to all reporting issuer rules and regulations.

THC operates three wholly-owned affiliates in the electricity distribution ("THESL"), energy management services ("TH Energy") and telecommunications services ("THTI"). THESL, the electricity distribution business, holds 95% of the fixed assets and accounts for 97% of the gross revenue of the company. THESL serves 599,000 residential customers and 79,000 commercial and industrial customers, for a total of 678,000 customers in the City of Toronto. THESL owns and operates the electricity distribution grid within the City of Toronto. Power is delivered to the grid from generating stations located throughout the province through Hydro One's transmission system to 35 terminal stations located throughout the City. THESL distributes the electricity through 16,700 kilometers of underground and overhead lines.

The corporate relationship between THC and the City is set out in the Shareholder Direction approved by Council on July 1, 1999, and amended October 3, 2002, May 25, 2006 and June 29, 2006. The Shareholder Direction sets out the City's objectives and principles for THC. The Board of Directors is responsible for determining and implementing the appropriate balance among the objectives and principles, and for causing the Corporation to conduct its affairs accordingly.

The Shareholder's objectives in connection with its relationship with THC are as follows:

(a) the value of THC should be maintained or increased;

(b) the Shareholder's income stream from THC be comparable to the Shareholder's estimated financial benefit if Toronto Hydro had been sold as a going concern;

(c) THC's consumers should not be unduly impacted by the succession by THC of Toronto Hydro Electric Commission; and

(d) Environmental impacts related to THC should be improved.

The following key principles are excerpted from the Shareholder Direction that currently governs the operations of THC:

(a) The Business is integral to the well-being and the infrastructure of the City of Toronto.

(b) THC will provide a reliable, effective and efficient distribution system;

(c) THC will provide its services with an emphasis on customer orientation and satisfaction;

(d) THC will operate in a safe and environmentally-responsible manner;

(e) THC will promote energy conservation and environmental responsibility; and

(f) THC will operate in a manner that will protect and enhance the City's urban forest.

THC recognizes that it is in the best interests of THC and the community of stakeholders whom the business affects that THC conducts its affairs:

(i) on a commercially prudent basis;
(ii) in a manner consistent with the energy policies established by the Shareholder from time to time;
(iii) in accordance with the following financial performance objectives (and that the Board will use its best efforts to ensure compliance):

  - THC will maintain a credit rating of A- or higher

- THC will pay dividends based on the higher of: 50% of the consolidated annual net income or $25 million
- THC will employ the most effective cost structures, implement cost reduction programs and maximize return on the Shareholder's equity;

THC reports to the City Finance Department on a regular basis with its Board of Directors-approved quarterly reports on budget-to-actual results, its five-year business plan and its annual audited consolidated financial statements. Over the course of any given year, THC and City staff meet to review and discuss issues and progress as required.

The Board has incorporated the Shareholder Direction in its corporate strategy. Accordingly, THC's goals and objectives embed key elements of the Shareholder Direction.

- People:
  - Ensure our employees are safe and healthy - *My goal is zero injury*
  - Engage, develop and empower employees

- Operations:
  - Invest in THESL's electricity infrastructure - *Modernize the utility*
  - Operate the businesses with the highest levels of integrity and fairness
  - Continue to be environmentally responsible

- Customers:
  - Be a leader in customer service – *Make a promise and keep it*
  - Ensure distribution system reliability
  - Continue with energy conservation and demand management initiatives

- Financial:
  - Provide a consistent and fair return to the Shareholder
  - Grow the unregulated businesses

As reflected further in this report, THC has and continues to meet the objectives and principles set out by the Shareholder Direction.

Purpose:

This report highlights THC's key achievements in 2006. We take pride that our core business – distributing electricity – is a necessity of life. The Board of Directors of THC reports that 2006 was another successful year of operation. Consistent with the priorities established in the Shareholder Direction, our strategy remained focused on customer service, reliability, workplace safety, customer satisfaction, energy conservation, environmental responsibility and sound financial management.

Highlights

In 2006, THC's contribution to the City through interest and dividends amounted to $108.3 million. Interest payments on the outstanding City promissory note of $980.2 million amounted to $62.1 million. Dividend payments were made in accordance with the dividend policy as set out in the Shareholder Direction and amounted to $46.2 million.

2006 was another year of legislative and regulatory changes in the energy industry. In April, the Ontario Energy Board (the "OEB") approved a decrease in electricity distribution rates in our service territory. The decrease was attributable to the benefits derived from the amalgamation of the former six utilities. The impact for an average customer was a reduction of 8.8% of distribution costs or 2.2% in total costs (an average of $36 per year for residential customers).

Throughout the year, we showed our commitment to excellence and customer services as we continued to exceed all the OEB standards.

THC continued to play a significant role in conservation in 2006. THESL, led all utilities and provincial agencies in the delivery of Conservation and Demand Management ("CDM") initiatives to help customers conserve energy, save money, and help the environment. In 2006, THESL's conservation programs allowed customers to save 155 MW through initiatives such as the Summer Challenge (10/10) program and the PeakSaver program.

Properly investing in maintenance and capital work in the distribution system is a vital role that THESLs carries out for its customers. In 2006, the Board of THC approved an increase in capital investment to modernize our aging infrastructure. The plan includes an investment of $1.3 billion over the next 10 years in core electricity distribution assets.

The transfer of the street lighting and expressway lighting assets from the City to THC's street lighting affiliate at the end of 2005 contributed significantly to the Corporation's success in 2006. The transition was done quickly and we report that all service level commitments were exceeded in 2006. As expected, this transaction is providing exceptional service to the citizens of Toronto.

In September, THC and the City amended and restated the outstanding $980.2 million promissory note by fixing the interest rate at 6.11% and establishing a repayment schedule.

For the second year in row THC was selected as one of Canada's Top 100 Employers by MacLean's magazine. Furthermore, for 2006, THC was also selected as one of the Top 50 Employers in the GTA and one of Canada's Top 10 Family-Friendly Employers. To obtain this recognition, THC went through a rigorous selection process whereby several areas such as physical workplace, work atmosphere, compensation and benefits, employee communications, performance management and employee training were evaluated.

Electricity Business Environment

In April 1999, the government of Ontario initiated a restructuring of Ontario’s electricity industry. The restructuring was intended, among other things, to facilitate competition in the generation and sale of electricity, to protect the interests of consumers with respect to prices and the reliability and quality of electricity service and to promote economic efficiency in the generation, transmission and distribution of electricity.

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act, 1998* sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB’s authority and responsibilities include the power to approve and fix rates for the distribution of electricity and the responsibility to ensure that electricity distribution companies fulfill their obligations to connect and service customers.

THESL is required to charge its customers for the following amounts (all of which, other than the distribution rate, represent a pass through of amounts payable to third parties):

[i] *Electricity Price and Related Rebates*. The electricity price and related rebates represent a pass through of the commodity cost of electricity.

[ii] *Distribution Rate*. The distribution rate is designed to recover the costs incurred by THESL for delivering electricity to customers and the OEB-allowed rate of return. Distribution rates comprise a fixed charge and a usage-based (consumption) charge.

The volume of electricity consumed by customers during any period is governed by events largely outside of THESL’s control (principally sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

[iii] *Retail Transmission Rate*. The retail transmission rate represents a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

[iv] *Wholesale Market Service Charge*. The wholesale market service charge represents a pass through of various wholesale market support costs. Retail rates for the recovery of wholesale market service charges are regulated by the OEB.

In late 2002, Bill 210 dramatically changed the operation of the electricity market effectively shutting down the active retail electricity market. Bill 210 also required municipal councils to confirm the original decision to commercialize the distribution company. City Council passed the required Council resolutions in February 2003.

In December 2003 the government passed the *Ontario Energy Board Amendment Act (Electricity Pricing)*, which was intended to remove subsidies in electricity commodity pricing and restored much of the OEB's role in approving distribution rates.

In December 2004, the Province initiated a further restructuring of Ontario's electricity industry with the passage of the *Electricity Restructuring Act, 2004*. The restructuring was intended, among other things, to ensure efficient and effective management of electricity, promote the expansion of new electricity supply and capacity, encourage electricity conservation and renewable energy and regulate prices in parts of the electricity sector.

In 2006, the OEB ordered that the Board of Directors of each of the electricity distribution utilities in the Province include one third of independent Directors. For THESL this meant that one-third of the Directors should be unrelated to the City, the THC Board of Directors or the management of THC and its affiliates. Accordingly, the City agreed to modify the Shareholder Direction to allow the THC Board of Directors to appoint independent Directors to the THESL Board of Directors in order to meet the requirement of the OEB. Following this change, the Board of Directors of THC modified the composition of the THESL Board of Directors to include 4 members of the THC Board and 2 independent Directors. The THESL Board of Directors is now comprised of:

- Clare R. Copeland (Chair of THESL and THC Boards)
- L. Ross Cullingworth (member of THC Board)
- Patricia Callon (member of THC Board)
- Brian Chu (member of THC Board)
- Colin Bastable (independent Director on THESL Board)
- David Williams (independent Director on THESL Board)

In conjunction with the changes in Board members for THESL, the THC Board of Directors decided to revise the composition of the Boards of Directors for TH Energy and THTI. The modifications were intended to provide a closer business relationship between Directors and management as these businesses are in a growth mode. Accordingly, the THC Board of Directors nominated seven members of the THC Board to serve as Directors for both TH Energy and THTI Boards. These members are:

- Clare R. Copeland (Chair of both Boards and THC Board)
- Janet Beed (member of THC Board)
- Jeffery G. Marshall (member of THC Board)
- Dr. Frank Frantisak (member of THC Board)
- David L. Bumstead (member of THC Board)
- David Shiner (member of THC Board)
- Bill Saundercook (member of THC Board)

Electricity Distribution Rates

In connection with the restructuring of Ontario's electricity industry in 1999, the OEB had authorized THESL to adjust their distribution rates to incorporate a market-based rate of return of 9.88% on the deemed equity component within THESL's 65:35 debt-to-equity capital structure. The adjustment was to be phased in over three adjustment periods to lessen the rate impact on customers. Effective on each of December 1, 2000 and March 1, 2002, the OEB authorized THESL to increase its distribution rates to allow for the recovery of additional annual revenue of $39.8 million.

In March 2005, THESL received approval from the OEB to increase distribution rates to recover $39.8 million, representing the third and final adjustment necessary to achieve a market-based rate of return of 9.88%. The rate increase was effective as of April 1, 2005 and subjected THESL to a financial commitment to invest $39.8 million in CDM activities by September 2007.

In April 2006, the OEB approved a decrease in the distribution rates of THESL for the period May 1, 2006 to April 30, 2007 representing a revenue reduction of approximately $58.0 million. The decrease in electricity distribution rates was mainly related to the benefits derived from the amalgamation of the former six utilities. The methodology used by the OEB to establish distribution rates was based on, among other things, a rate base of $1.861 billion, a deemed debt to equity structure of 65:35 and an allowed return on deemed equity of 9%.

As part of its decision, the OEB reduced the allowable interest rate recoverable on related party debt including the outstanding $980.2 million City promissory note from 6.8% to 5% per annum. The impact of the distribution rates reduction to the average customer was a reduction of 8.8% of distribution rates or 2.2% of total annual costs (an average of $36 per year for residential customers).

2006 Performance Review

In accordance with the Shareholder Direction and through its corporate strategy, THC and its subsidiary companies performed well in 2006 in the key areas of people, operations, customers and financials.

1. People

- THC maintained good performance in safety in terms of frequency of injuries and severity of injuries. Actual frequency of 4.6 reportable injuries per 100 employees was better than our target of 6.2 and our 2005 result of 6.5. Actual severity of 9.6 days per 100 employees was unfavourable compared to our target of 7.9 and our 2005 result of 7.1 due to a major accident that occurred in August 2006. The employee involved in this accident is expected back to work in May 2007.

- THC was selected among Canada’s Top 100 Employers as published by MacLean’s magazine. Furthermore, for 2006, THC was also selected as on of the Top 50 Employers in the GTA and one of Canada’s Top 10 Family-Friendly Employers.

- THESL performed a detailed review of its staffing requirements and established a hiring strategy for the next 10 years. This strategy considers our aging workforce as one third of our employees will be eligible for retirement over the next 10 years. It also considers the expected increase in investment in the electricity distribution infrastructure required during this period.

- THC achieved a higher-than-industry average satisfaction rating from its employees in an engagement survey conducted in September (70% participation rate in survey).

- THC’s Human Resources department delivered a communication in the workplace training session to all employees in collaboration with the union.

2. Operations

- In 2006, the THESL performed a detailed study of its electricity distribution infrastructure. Not unexpectedly, given the age of much of the infrastructure, the analysis showed that a significant portion of the asset base needs to be replaced in order to maintain the current level of service to customers. The study also revealed that 35% of the distribution system infrastructure is past its useful life and that large portions of the system will be in need of replacement over the next 5 to 10 years. Accordingly, an investment plan was developed and approved by the Board of Directors to improve the condition of our assets. Under this plan, $1.3 billion will be invested in our core electricity distribution assets over the next 10 years (representing an annual increase averaging $50 million).

- Following the approval of the plan THESL adjusted its 2006 capital investment program. As a result, 116% of the planned capital program was completed, which involved spending $167.7 million on capital projects for the electricity distribution infrastructure (representing 102% of the allocated budget).

- THESL installed 194,000 smart meters to residential and commercial customers following a Minister of Energy directive. Note that THESL leads all utilities in the deployment of smart meters.

- Once again, THC supported the City’s urban forest campaign, Ontario Forestry Association and Local Enhancement and Appreciation of Forest through tree planting initiatives and forestry programs. Furthermore, through its internal team of certified arborists THESL work closely with the City to develop sustainable urban forestry practices to manage the urban forest that is in proximity to its distribution lines.

- Early in 2006, we successfully integrated the street lighting and expressway lighting operations following the purchase of these assets from the City at the end of 2005. Throughout the year, we surpassed service level expectations for each of high, medium and low priority calls.

- THTI deployed a Wi-Fi network downtown Toronto. The performance of the network exceeded industry standards for speed and reliability as assessed by a survey conducted by an independent consultant. This survey ranked the performance of the network the best in North America for all wireless broadband networks (over 40 Cities were included in the survey).

- For 2006, THC was in material compliance with all environmental, health and safety regulations.

- THC continued its environmental efforts in areas such as energy efficiency, use of alternate energy and recycling. Total waste diversion at THC reached 85%. We also implemented the use of Forest Stewardship Council certified paper for many printing applications.

3. Customers

- For 2006, the electricity distribution business met or exceed all customer services requirements from the OEB:

    - Average outage duration per customer of 74.3 minutes (OEB target is 82 minutes).
    - Average number of outages per customer of 2.1 (OEB target is 2.1).
    - Average time per outage of 36.2 minutes (OEB target is 48 minutes).
    - Performed 97% of low voltage connection within 5 days (OEB target is 90%).
    - Performed 99% of low voltage connection within 10 days (OEB target is 90%).
    - Performed 97% of locates within 5 days (OEB target is 90%).
    - Kept 99% of customer appointments on time (OEB target: 90%).
    - Answered 82% of calls within 30 seconds (OEB target is 65%).

- Received customer satisfaction rating of 87% on calls received at the call center (OEB target is 80%).

- Achieved 86% of emergency calls responded within 60 minutes (OEB target is 80%).

- Responded to written inquiries within 5 days 89% of the time (OEB target is 80%).

- Our CDM programs which target a 5% load reduction by the end of 2007 (250 megawatts) off the estimated peak demand were very successful in 2006. The CDM programs approved by the OEB in 2004 entail spending $39.8 million in the areas of customer energy conservation, power distribution system loss reduction, load displacement and stand-by generators. To date, $37.0 million has been spent on conservation programs and 195 MW in savings has been delivered (current commitments should provide for 257 MW in savings). Note that under the leadership of THESL, the coalition of large distributors provided for approximately 40% of the total CDM investment in Ontario. The programs delivered by THESL in 2006 include:

    - The 2006 Summer Challenge (10/10 program), which provided 153,637 customers with a 10% rebate on their electricity bill after they reduced their consumption by 10% in the summer.

    - Several mass market programs which resulted in the distribution of over 900,000 efficient CFL bulbs and 100,000 energy-efficient LED festive light strings; and the collection of 12,279 old inefficient window air conditioner units and 2,000 old refrigerators.

    - The enrolment of 38,218 customers in the "PeakSaver" program aimed at reducing load during high consumption periods.

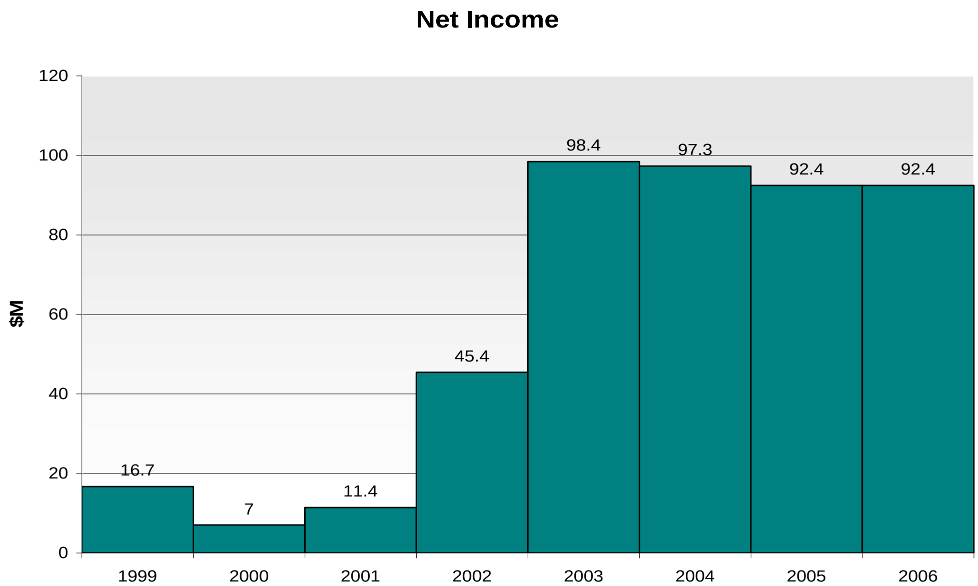
- TH Energy obtained a high level of customer's satisfaction for energy efficiency projects delivered including City projects.

- THTI met the standards set forth in their service level agreements for customer commitments related to network availability, provisioning time and mean time for repair.

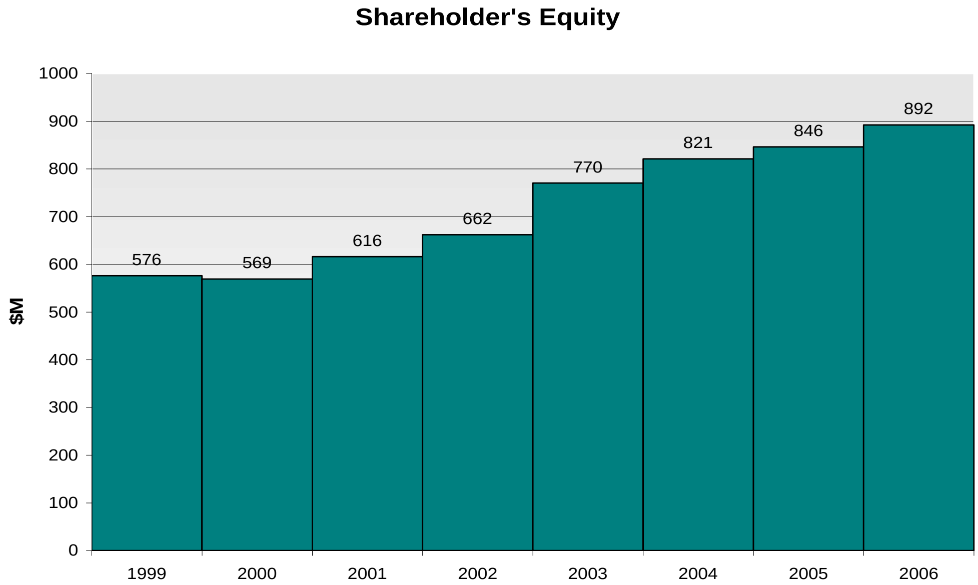
4. Financial

- In 2006, THC continued to contribute to the cash flow of the City with a total contribution of $108.3 million. The balance paid in 2006 includes dividend payments of $46.2 million (paid in accordance with Shareholder Direction) and interest payments of $62.1 million on the promissory note of $980.2 million.

- Net income of $92.4 million for 2006 exceeded the budget of $83.3 million. 2006 net income was in line with 2005 net income of $92.4 million despite lower electricity consumption arising from milder weather and CDM programs, reduction in electricity distribution rates and lower activities in our unregulated electricity retail business, which ceased on December 31, 2006.



- Shareholder equity continued to increase in 2006 with a growth of $46.2 million or 5.4% from 2005 and by $315.7 million or 55 % since incorporation in 1999.



- Throughout the year, THC maintained strong credit ratings at an A(stable) from Dominion Bond Rating Service and A- from Standard & Poors.

- THC maintained a strong cash position at the end of 2006. A portion of the current available cash will be used to fund investments in the electricity distribution infrastructure over the next few years. According to the current long-term asset plan, capital spending will increase significantly in the future to maintain the current level of reliability. Note that THC's cash position at December 31, 2006 does not reflect the $170 million required to provide payment to the IESO for electricity consumed in December and accordingly overstates the total excess cash available to THC.

- In September, THC and the City of Toronto amended and restated the outstanding $980.2 million promissory note by fixing the interest rate at 6.11% (the same interest rate payable on THC's outstanding public debentures) and establishing an agreed repayment schedule. The repayment schedule provides for payments of $245.1 million on the last business day before each of December 31, 2007, December 31, 2009, December 31, 2011 and on May 6, 2013.

- In 2006, as planned, TH Energy exited the unregulated electricity retail business following the enactment of Bill 210 in 2003. Exiting the electricity retail business will significantly reduce the net income of THC over the next few years. However, it reduces the risk profile of THC due to the speculative nature of such activities. Over the last four years, through an effective risk management strategy, the unregulated electricity retail business of TH Energy contributed significantly to the overall results of THC with a contribution to net income of $108.9 million. This contribution provided dividends amounting to $56.2 million from 2004 to 2007 ($36.9 million under the dividend policy included in the Shareholder Direction and a one-time extraordinary dividend on $19.3 million paid in 2004 in connection with the success of this business).

- On top of the dividends mentioned above regarding the unregulated electricity retail business, the City also benefited from that business through its own fixed price electricity contract. From May 1, 2002 to December 31, 2006, the City saved $34.9 million in electricity costs. This saving represents the difference between the price paid by the City and the actual market price for electricity during the period.

- In 2006, THTI grew its business through active sales management and prudent capital investment. Revenue from our telecom activities increased by 30% from $22.8 million in 2005 to $29.6 million in 2006.

- For 2006, Ernst & Young provided THC with a clean audit opinion.

- In August 2006, the Board of Directors of THC approved the establishment of an internal audit function. This new function is under the leadership of a newly recruited Director of Internal Audit who direct access to the Audit Committee of THC.

- Internal control requirements from the Ontario Securities Commission (Bill 198) were met in connection with disclosure controls and internal controls over financial reporting.

- On February 8, 2007, TH Energy sold its water heater business for cash consideration of $40.8 million subject to post closing adjustments and transaction costs. This transaction will be recorded in the financial statements in 2007. Note that all employees affected by this transaction have been redeployed within THC and its affiliates.

<u>Conclusion:</u>

The Board of Directors of THC is pleased to report that, in 2006, THC operated within the Shareholder Direction in a balanced manner by making financial contributions to the City of $108.3 million, and continuing to improve on safety, operational effectiveness, services to customers and environmental issues.

THC’s recent financial successes were due to strong and stable results from its regulated electricity distribution business and a significant contribution from its unregulated electricity retail business. Nevertheless, with THC’s energy services affiliate having exiting from the electricity retail business due to market constraints, and as the electricity distribution business faces lower regulated rates of return, the exceptional contribution to the City will not likely continue over the next few years. Accordingly, the level of financial contribution provided to the City through dividends is likely to decrease in the future despite the increase in investment in electricity infrastructures and the projected growth from THC’s unregulated affiliates.

The main focus of the Board of Directors for 2007 will be to provide ratepayers of the City with a necessity of life, electricity, safely and reliably, while meeting the expectations of the City as Shareholder. The upcoming year will provide for significant challenges for the Board of Directors. The increased need for replacement of our electricity distribution infrastructure, the continued focus on energy conservation, the implementation of our smart meter strategy, the filing of our 2008-2010 electricity distribution rates application with the OEB and the growth initiatives of our unregulated businesses will be the cornerstones of our strategy.

(Original signed by Clare R. Copeland)

Clare R. Copeland
Chairman,
Toronto Hydro Corporation

Attachment 2

Toronto Hydro Corporation – Financial Statements

Date:	May 14, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

Disclosure of Financial Results:

Section 6.6 of the Shareholder Direction requires the Corporation to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end. These documents are filed with the City Clerk's office and are posted on the internet on the Toronto Hydro Corporation website (www.torontohydro.com) and via the SEDAR website for Canadian public securities documents.

The consolidated statements are public documents upon their release. The corporation's unconsolidated statements (relating to its subsidiary companies and the holding company) remain confidential.

The *Business Corporations Act*, Ontario ("OBCA") (s.94) requires that an annual meeting of shareholders be called no later than 15 months after the last preceding annual meeting. The last annual general meeting of the Corporation was held at the Council meeting of June 27, 28, and 29, 2006 (Policy and Finance Committee Report No. 5, Clause 7).

Financial Results

For the fiscal year ended December 31, 2006, the Corporation generated a consolidated net income of $92.4 million, similar to its 2005 performance ($92.4 million), despite the winding-up of energy retailing activities.

Total consolidated assets totalled $2.6 billion as at 2006 fiscal year end compared to $2.8 billion for 2005. The decline is related to the wind-up of the energy retailing business.

During fiscal 2006, the City received interest payments of $62.1 million, and Shareholder dividend payments totalling $46.2 million.

Key consolidated results of Toronto Hydro Corporation ("the Corporation") are as follows:

Consolidated Financial Results of Toronto Hydro Corporation ($ millions)		
	Year ended Dec 31, 2006	**Year ended Dec 31, 2005**
	Actual	**Actual**
Net Income	$92.4	$92.4
Shareholder's Equity	$892.1	$845.9
Total Assets	$2,591.7	$2,819.3
Cash at end of period	$327.5	$448.4
Dividends Paid to City	$46.2	$68.0
Interest Paid	$62.1	$66.7

Subsequent Events

On February 8, 2007, the Corporation announced the closing of the sale of its water heater assets to the Consumers' Waterheater Income Fund for $40.8 million, which is subject to post-closing adjustments and transaction costs.

On March 1, 2007, the Corporation declared dividends totalling $27.2 million, comprised of:

(i) a $6 million first quarterly dividend instalment as required under the Shareholder Direction, payable to the City of Toronto March 30, 2007;
(ii) a $21.2 million payment related to earnings in fiscal 2006.

In addition, the City received an interest payment on the Promissory Note of $15 million on March 30, 2007, reflecting the revised interest rate (6.11% vs 6.8%) effective May 1 2006.

CONTACT

Len Brittain, Director, Corporate Finance Division
Tel: (416) 392-5380; Fax: (416) 397-4555; E-mail: lbrittai@toronto.ca

SIGNATURE

____
Joseph P. Pennachetti

Deputy City Manager and Chief Financial Officer