



STAFF REPORT INFORMATION ONLY

City Objectives in Shareholder Direction to Toronto Hydro Corporation

Date:	April 16, 2007
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

In response to a request by the Executive Committee, the City Manager consulted with other City and Hydro staff in reviewing the Shareholder Direction to Toronto Hydro Corporation (THC) and has concluded that the Direction still fairly articulates the City's goals and objectives for THC. The Direction has been amended a number of times since its initial approval in July 1999. Staff are not aware of any issue that would require amendment at this time.

Financial Impact

Receipt of this report has no financial impact.

DECISION HISTORY

On January 15, 2007, the Executive Committee had before it a report dated January 2, 2007 from the City Manager entitled "Designation of Certain Officials under New Statutory Accountability Requirements" and requested that "the City Manager report to the Committee on the current status of the Toronto Hydro Shareholder's Agreement in meeting the City's goals and objectives."

ISSUE BACKGROUND

It has been almost eight years since the shareholder direction to Toronto Hydro Corporation was adopted in 1999. A periodic review to determine whether it is still relevant is good business practice.

COMMENTS

1. Toronto Hydro Corporation Background

Toronto Hydro Corporation (THC) is an independent business corporation incorporated under the *Ontario Business Corporations Act*. THC's Board of Directors is responsible for overseeing the operational and financial management of THC. The Board is appointed by City Council and its composition is eight citizens and three councillors.

Toronto Hydro operates three major wholly owned affiliates in the electricity distribution, energy management services and telecommunications services businesses. THC serves 599,000 residential and 79,000 commercial and industrial customers in the City.

THC reports its financial results to the City Finance Division quarterly and meets with City staff as required to discuss issues and initiatives. City Council appoints THC's auditor and receives the annual audited financial statements at THC's Annual General Meeting.

2. Amendments to the Shareholder Direction to Toronto Hydro Corporation

Since its first adoption by Council in 1999, the Shareholder Direction has been amended when necessary to reflect specific matters as set out in the following table.

Date Council Approved Amendment	Purpose of Amendment
June 7, 8 & 9, 2000	To permit Toronto Hydro to acquire, but not merge, other municipal electrical utilities, subject to certain conditions including the preservation of dividend expectations, without prior consent of the Shareholder
October 1, 2 & 3, 2002	To permit issue of commercial debt
September 28, 29, 30 and October 1, 2004	To amend dividend policy
May 23, 24 & 25, 2006	To permit the appointment of independent directors to the Board of THESL, a subsidiary
June 27, 28 & 29, 2006	To remove limit on capital expenditures for THESL and to change when Hydro's annual business plan is to be submitted

In addition, City Council has adopted a number of shareholder resolutions relieving THC of certain shareholder direction obligations relating to debt, liquidity and financial security restrictions.

3. City Goals and Objectives in the Toronto Hydro Shareholder Direction

The Shareholder Direction sets out the City's objectives and operating principles for THC which, taken together, provide a comprehensive range of goals to guide the actions of

THC. The shareholder direction charges Toronto Hydro's Board of Directors with the responsibility of determining and implementing the appropriate balance amongst those objectives and principles and for causing THC to conduct its affairs accordingly. Attachment 1 provides an extract from the Shareholder Direction setting out the City's objectives and principles for THC. These goals are still relevant today and staff are not aware of any issue that would require any amendment at this time.

4. Conclusion

The City's Shareholder Direction to THC has been kept up-to-date through periodic amendments since its initial approval in 1999. The City's objectives for Toronto Hydro and the operating principles articulated in the Direction are still relevant today.

Staff of the City Corporate Finance and Legal Services Divisions and Toronto Hydro Corporation were consulted during preparation of this report.

CONTACT

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SIGNATURE

Shirley Hoy, City Manager

ATTACHMENTS

Attachment 1: Extracts from the City's Shareholder Direction to Toronto Hydro Corporation

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Extracts from the City's Shareholder Direction to Toronto Hydro Corporation

Article 2.2 Shareholder Objectives

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

- (a) the value of Toronto Hydro be maintained or increased;
- (b) the Shareholder's income stream from Toronto Hydro be comparable to the Shareholder's estimated financial benefit if Toronto Hydro had been sold as a going concern;
- (c) Toronto Hydro's consumers not be unduly impacted by the succession by Toronto Hydro of Toronto Hydro Electric Commission; and
- (d) environmental impacts related to Toronto Hydro be improved.

Article 2.3 Principles

The following principles will govern the operations of Toronto Hydro:

- (a) The Business is integral to the well-being and the infrastructure of the City of Toronto. The Corporation recognizes that it is in the best interests of Toronto Hydro and the community of stakeholders whom the Business affects that Toronto Hydro conduct 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 financial performance objectives of the Shareholder
- (b) THC will provide, through the Distribution Company, a reliable, effective and efficient electricity distribution system.
- (c) Distribution rates applicable to customers of the Distribution Company will be set by the Board in accordance with the rates fixed by the Ontario Energy Board from time to time.
- (d) The Business is at all times subject to such licences, codes, policies, rules, orders, interim orders, approvals, consents and other actions of any Regulator.
- (e) Toronto Hydro will provide its services with an emphasis on customer orientation and satisfaction.
- (f) Toronto Hydro will operate in a safe and environmentally-responsible manner.
- (g) THC will promote energy conservation and environmental responsibility.
- (h) The Board is responsible for determining and implementing the appropriate balance among the foregoing principles and for causing Toronto Hydro to conduct its affairs in accordance with the same.
- (i) THC will operate in a manner that will protect and enhance the City's urban forest."