



STAFF REPORT ACTION REQUIRED

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

Date:	May 26, 2010
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)* ("OBCA") 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 of the Toronto Hydro Corporation report dated May 10, 2010 in Attachment 1 to this report in order to appoint Ernst and Young LLP, Chartered Accountants, as the auditor for Toronto Hydro Corporation, authorize the Corporation's Board of Directors to fix the auditor's remuneration, and, receive the report from the Chair of the Board of Directors attached thereto; and
 - b. receiving the information report of the Deputy City Manager and Chief Financial Officer, dated May 31, 2010, "Toronto Hydro Corporation – Financial Statements" in Attachment 2 to this report together with the financial statements in Appendix A to that report; and

2. forward a copy of Toronto Hydro Corporation's 2009 Audited Consolidated Annual Financial Statements in Attachment 2 to the Audit Committee for information.

FINANCIAL IMPACT

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

EQUITY IMPACT STATEMENT (Not Applicable)

DECISION HISTORY

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

ISSUE BACKGROUND

To comply with the requirements of the OBCA, an annual meeting of the shareholder 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 August 5 and 6, 2009 and is reported in Executive Committee Item EX33.7.

COMMENTS

The report from Toronto Hydro Corporation requests that City Council consider the audited financial statements for the 2009 financial year and the auditor's report for that period, as well as its unaudited financial statements for the first quarter ending March 31, 2010.

Toronto Hydro Corporation also recommends that City Council reappoint the incumbent auditors, Ernst and Young LLP, for the 2010 financial year and authorize the Board of Directors of Toronto Hydro Corporation to fix the auditor's remuneration.

The shareholder review of Toronto Hydro Corporation's 2009 Audited Consolidated Annual Financial Statements, the Unaudited First Quarter Financial Statements and the Auditor's Report is set out in the information report of the Deputy City Manager and Chief Financial Officer in Attachment 2 to this report and is to be considered as part of the Annual General Meeting agenda.

CONTACT

Lorraine Searles-Kelly, Solicitor, Legal Services

Tel: (416) 392-7240 Fax: (416) 397-5624 Email: lsearles@toronto.ca

Joe Borowiec, Strategic and Corporate Policy Division, Tel: 416-397-9110,

Fax: 416-696-3645; E-mail: jborowie@toronto.ca

SIGNATURE

Joseph P. Pennachetti, City Manager

ATTACHMENTS

Attachment 1: Toronto Hydro Corporation Report May 10, 2010

Appendix A Resolution of the City of Toronto (“Sole Shareholder”) To Appoint the Auditor of Toronto Hydro Corporation (the “Corporation”)

Appendix B Report from Clare R. Copeland, Chairman of the Toronto Hydro Board of Directors dated May 7, 2010

Attachment 2: Report of Deputy City Manager and Chief Financial Officer dated May 31, 2010 entitled “Toronto Hydro Corporation – Financial Statements”

Appendix A 2009 Audited Consolidated Annual Financial Statements of Toronto Hydro Corporation, Unaudited First Quarter Financial Statements and Auditor's Report

Toronto Hydro Corporation Report May 10, 2010

Addressed to the Executive Committee
from Lawrence D. Wilde, Vice President, General Counsel and Corporate Secretary
Toronto Hydro Corporation

2009 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 August 5 and 6, 2009.

The directors of THC therefore hereby submit and recommend that this report and attached shareholder resolutions be reviewed by the Executive Committee and approved by the 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) 1455948 Ontario Inc., which was incorporated for the purpose of holding an equity interest in the EBT Express partnership, which until recently held an interest in SPi Group Inc., an organization providing electronic data management and transaction services through an electronic business transaction hub.

2009 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 2009 completed financial year and the auditor's report for that period, and the unaudited financial statements for the first quarter ended March 31, 2010;
- (2) re-appointment of the incumbent auditors for the 2010 financial year and re-authorization of the THC board of directors to fix their remuneration for this period; and
- (3) receipt the additional report attached hereto as Appendix B, for information purposes.

Comments

(1) Audited Financial Statements and Auditor's Report

Audited financial statements for 2009 completed financial year, and related auditor's reports, as well as the unaudited financial statements for the first quarter ended March 31, 2010 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 2010 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 - Resolutions of the City of Toronto (“Sole Shareholder”)
- Appendix B - Report from Clare R. Copeland – Chairman of the THC Board of Directors dated May __, 2010

Appendix A

Toronto Hydro Corporation
(the "Corporation")

Resolution of the City of Toronto ("Sole Shareholder")

Appointing Auditor

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 shareholder 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 resolution is hereby consented to by sole shareholder of the Corporation pursuant to the *Business Corporation Act* (Ontario).

Dated as of this _____ day of _____, 2010

City of Toronto

per: Cam Weldon
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 _____, 2010.

per: Ulli Watkiss
City Clerk

Y:\THC\Corporate\Legal Svcs\Commercial\Senior Solicitor Commercial\DRL\CITY OF TORONTO\Annual General Meetings\AGM
2009\THC- AGM Report May 4 (May 4.10).doc

Toronto Hydro Corporation – Financial Statements

Date:	May 31, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

Disclosure of Financial Results:

Section 6.6 of the Toronto Hydro 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 included as Appendix 'A' to this report and are filed with the City Clerk's office, 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 August 5 and 6, 2009 (Executive Committee Report No., EX33.7).

2009 Financial Results

For the fiscal year ended December 31, 2009, the Corporation generated a consolidated net income of \$42.1 million, which is comprised of \$42.8 million from Continuing Operations and a loss of (\$0.7) million from Discontinued Operations.

For 2008, net income was \$169.1 million, comprised of \$46.1 million from Continuing Operations, plus \$123.0 million from Discontinued Operations (primarily from the sale of the Telecom unit).

The nominal year over year change in net income from continuing operations of \$3.3 million (\$42.8 million vs \$46.1 million) and net income from discontinued operations is summarized in the table following.

Toronto Hydro Corporation
Change in Consolidated Net Income 2009 vs 2008 (\$'s million)

	2009	2008	Change
Net Revenues	508.0	495.8	12.2
Operating Expenses	(210.9)	(203.4)	(7.5)
Depreciation and Amortization	(163.0)	(156.2)	(6.8)
Change in Fair Value of Investments ⁽¹⁾	(1.0)	(22.0)	21.0
Provisions for PIL's ⁽²⁾	(19.7)	(5.7)	(14.0)
Net Interest Expense	(70.6)	(62.4)	(8.2)
Total Income from Continuing Operations	42.8	46.1	(3.3)
Add: Net Income (loss) from Discontinued Operations ⁽³⁾	(0.7)	123.0	(123.7)
Total Net Income	42.1	169.1	(127.0)

3. Impairment provision on non-bank-sponsored ABCP notes.
4. For 2008, net of recovery pursuant to the settlement of a tax audit for the years 2001 & 2002.
5. For 2009: i) 'post closing' costs on sale of Telecom (-\$1.9M) & ii) Toronto Hydro's share of proceeds in sale of its interest in "The SPi Group Inc." for a net gain of (+\$1.2M). For 2008, Operating income & sale recorded for Telecom Subsidiary.

During fiscal 2009, the City received Shareholder dividend payments totalling \$25.2 million compared with 2008 dividends of \$116.4 million, which included the special dividend resulting from the sale of the Telecom subsidiary.

Selected consolidated results of Toronto Hydro Corporation are as follows:

Selected Consolidated Results of Toronto Hydro Corporation		
(\$ millions)		
	Year ended Dec 31, 2009	Year ended Dec 31, 2008
	Actual	Actual
Shareholder's Equity	\$998.3	\$981.3
Total Assets	\$3,059.2	\$2,779.8
Cash at end of period	\$211.4	\$340.5
Debt	\$1,210.6	\$1,206.7
Dividends to City	\$25.2	\$116.4
Interest Paid	\$44.9	\$44.9

Toronto Hydro continues to focus on and execute a significantly expanded infrastructure renewal program that is expected to increase the rate base and increase earnings in the future.

Subsequent Event

On May xx, 2010, Toronto Hydro released its unaudited financial results for the fiscal quarter of 2010. For the quarter ended March 31, 2010, the Corporation generated a

consolidated net income of \$x.x million, compared with \$7.0 million for the same period in 2009.

Contributing to the \$x.x million lower net income were:

Unaudited Consolidated Financial Results of Toronto Hydro Corporation			
(\$ millions)			
	Quarter ended March 31, 2010	Quarter ended March 31, 2009	Change
Net Revenue		125.1	
Income from Discontinued Operations			
Less Expenses:			
Operating Expenses		59.3	
Depreciation & Amortization		40.8	
Net Interest Expense		17.4	
Change in fair value of Investments		(2.1)	
Provisions for PIL's		2.7	
Net Income		7.0	

CONTACT

Len Brittain, Director, Corporate Finance Division

Tel: (416) 392-5380; Fax: (416) 397-4555; E-mail: lbrittai@toronto.ca

SIGNATURE

Cam Weldon

Deputy City Manager and Chief Financial Officer

G:\TFS\PROJECTS\Hydro\Reports\Investment\AGM and other Shareholder Meetings\Finance Report on TH financials 2009 - Attachment.doc