



REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Toronto Hydro Corporation - Annual General Meeting and 2020 Audited Financial Statements

Date: June 21, 2021

To: Executive Committee

From: City Manager and Chief Financial Officer and Treasurer

Wards: All Wards

REASON FOR CONFIDENTIAL INFORMATION

Some attachments to this report involve the security of property belonging to the City of Toronto or Toronto Hydro Corporation.

This report deals with personal matters about an identifiable person.

SUMMARY

This report transmits materials submitted to the City by the Board of Directors of the Toronto Hydro Corporation (THC). City staff have performed limited review and analysis.

This report contains recommendations for actions necessary to comply with the requirements of the Business Corporations Act, (Ontario) R.S.O. 1990, c.B.16 (OBCA) for holding the Annual General Meeting of the Shareholder of Toronto Hydro Corporation including receipt of Toronto Hydro Corporation's audited annual consolidated financial statements (Statements) for 2020 and appointment of the auditor for Toronto Hydro Corporation for 2021.

Toronto Hydro Corporation's 2020 Statements were audited by KPMG LLP and received an unqualified opinion stating that the financial statements present fairly, in all material respects, the THC financial position as at December 31, 2020 and the 2020 results of operations. The THC's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Limited review and analysis was performed by City staff.

This report contains recommendations for receipt at the Annual General Meeting of the Shareholder of information disclosing the individual compensation of executive officers employed by Toronto Hydro Corporation in 2020.

The report also responds to City Council's request to report the impact of COVID-19 on the 2020 financial statements, as well as any modifications to programs and initiatives to address the pandemic.

RECOMMENDATIONS

The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council treat the portion of the City Council meeting at which this report is being considered as the Annual General Meeting of the Shareholder for Toronto Hydro Corporation, by:

a. approving the "Resolution of the Sole Shareholder Re-appointing Auditor" in Attachment 1 Appendix A in order to re-appoint KPMG LLP as the auditor for Toronto Hydro Corporation for 2021 until the close of the next annual meeting of the Shareholder, or until a successor is appointed, at such remuneration as may be fixed by the Corporation's Board;

b. receiving the "Toronto Hydro Corporation 2020 Annual Report," "Toronto Hydro Corporation 2020 Annual Financial Report and Audited Consolidated Financial Statements," "Toronto Hydro Corporation Annual Information Form 2020," "Toronto Hydro Corporation CEO and CFO Certifications of Annual Filings 2020," "Toronto Hydro Corporation First Quarter Financial Report 2021," and the "Toronto Hydro Corporation Statement of Board Remuneration and Expenses 2020," forming Attachments 2a, 2b, 3, 5, 10, and 11 respectively to this report;

c. receiving the "Toronto Hydro Corporation Environmental Performance Report 2020," "2020 Toronto Hydro Environmental, Social Responsibility and Governance Report," and "2020 Toronto Hydro Environmental, Social Responsibility and Governance Metrics," forming Attachments 4a, 4b and 4c respectively to this report;

d. receiving the "Toronto Hydro Corporation Shareholder Report 2020, including Non-Consolidated Financial Statements 2020 and 2019," "Toronto Hydro-Electric System Limited Financial Statements 2020 and 2019," and "Toronto Hydro Energy Services Inc. Financial Statements 2020 and 2019," forming Confidential Attachments 7, 8 and 9 respectively to this report; and

e. receiving the two-part report "Toronto Hydro Corporation Executive Compensation Disclosure 2020" forming Attachment 6a and Confidential Attachment 6b to this report.

2. City Council direct that Confidential Attachments 7, 8, and 9 remain confidential in their entirety due to the security of the property of the City and securities requirements arising from Toronto Hydro Corporation's status as an offering corporation under the Business Corporations Act, (Ontario) R.S.O. 1990, c.B.16, Toronto Hydro Corporation's status as a reporting issuer under the Securities Act, (Ontario) R.S.O. 1990, c.S.5, and the application by the Ontario Securities Commission of National Instrument 51-102.
3. City Council direct that Confidential Attachment 6b remain confidential in its entirety as it deals with personal information about identifiable individuals.
4. City Council direct the City Clerk to forward a copy of the "Toronto Hydro Corporation Consolidated Financial Statements December 31, 2020 and 2019," included as part of Attachment 2b to this report, to the Audit Committee for information.
5. City Council receive the "Financial Impact of COVID-19 on Toronto Hydro Corporation's 2020 Year-End Results", forming Attachment 12 to this Report.

FINANCIAL IMPACT

Toronto Hydro's 2020 Statements recognize a net income after net movements in regulatory balances of \$117.1 million (a decrease of \$37.3 million over 2019), total assets of \$6.1 billion (an increase of \$290.3 million over 2019), and total liabilities of \$4.0 billion (an increase of \$300.6 million over 2019). Equity increased by \$24.5 million in 2020 to \$1.9 billion, and net regulatory balances decreased by \$40.2 million over 2019.

Toronto Hydro Corporation pays the City dividends, calculated based on 60% of the prior year's net income after net movements in regulatory balances, in accordance with the City's Shareholder Direction to Toronto Hydro Corporation. Toronto Hydro Corporation paid the City \$92.6 million in dividends in 2020.

The Council-approved 2021 Non-Program Operating Budget includes a dividend estimate of \$88.0 million, which was based on pre-pandemic information. The City anticipates receiving dividends totaling \$70.3 million in 2021, resulting in a revenue shortfall of \$17.7 million. The City has received dividends of \$17.6 million for the first quarter dividend of 2021 as scheduled.

DECISION HISTORY

On September 30, 2020, City Council adopted report titled EX16.18 Toronto Hydro Corporation - Annual General Meeting and 2019 Audited Financial Statements, and as Shareholder, Council also directed the Board of Toronto Hydro Corporation, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to bring forward a report on the impacts of COVID-19 on Corporation Operating and Capital Budgets and operations, detailing any modifications to their programs and initiatives to

address COVID-19, to City Council through Executive Committee, by the first quarter of 2021. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX16.18>

On July 11, 2012, City Council approved a requirement that Shareholder Directions for all wholly-owned City corporations be amended to require public disclosure to the extent permitted by law of individual executive compensation as part of the annual reporting to the Shareholder and where required obtain consent from executives.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

ISSUE BACKGROUND

City Council authorized the establishment of Toronto Hydro-Electric Commission, which is now Toronto Hydro Corporation, on January 1, 1998 pursuant to section 148 of the City of Toronto Act, 2006, and Ontario Regulation 609/06. Toronto Hydro Corporation was incorporated under the Business Corporations Act (Ontario) (OBCA) in June 23, 1999. The City is the sole shareholder.

Subsection 94(1) requires that the directors of Toronto Hydro Corporation call an annual meeting of its Shareholder no later than fifteen months after holding the last preceding annual meeting. The last annual meeting was held by City Council on September 30, 2020. Subsection 154(1) of the OBCA requires that the Shareholder receive Toronto Hydro Corporation audited annual financial statements and the report of the auditor at the annual meeting of the Shareholder.

Section 149(2) of the OBCA requires that the Toronto Hydro Corporation Shareholder at each annual meeting appoint one or more auditors to hold office until the close of the next annual meeting, and allows the Shareholder to authorize the directors to fix the auditor's remuneration.

Section 9.8 of the Shareholder Direction requires Toronto Hydro Corporation to provide an annual update to Executive Committee, in addition to the requirement of the OBCA to hold an annual general meeting.

COMMENTS

1. Appointment of Auditor

The auditor is selected by Toronto Hydro Corporation based on a competitive process, subject to Shareholder approval. KPMG LLP has been selected by Toronto Hydro Corporation as the external auditor for the 2021 calendar year and for completion of the 2021 year-end audit in 2022.

It is recommended that City Council, acting as Shareholder, approve the Shareholder Resolution in Attachment 1, Appendix A to this Report, which includes the Shareholder Resolution to appoint KPMG LLP, as the auditor for Toronto Hydro Corporation for 2021

and to authorize the Board of Directors of Toronto Hydro Corporation to fix the auditor's remuneration.

2. Key Toronto Hydro Corporation Achievements in 2020

Toronto Hydro Corporation's 2020 Annual Report (Attachment 2a) highlights key achievements in 2020. Toronto Hydro Corporation's Environmental Performance Report (Attachments 4a) provides details on the Corporation's environmental performance.

In January 2021, the City of Toronto became the first government in Canada to issue an annual report on Environmental, Social and Governance (ESG) that outlines key performance indicators to guide City operations and inform decision-making. Toronto Hydro's 2020 ESG Report and ESG Metrics (Attachments 4b and 4c) outline its performance regarding these indicators.

3. Summary – Toronto Hydro Corporation 2020 Audited Financial Statements

The Statements of Toronto Hydro Corporation for the fiscal year ended December 31, 2020 are provided in Attachment 2b to this Report, reflecting the consolidated operations of Toronto Hydro Corporation and of its wholly-owned subsidiaries, as required under Section 9.7 of the Shareholder Direction and Subsection 154(1) of the OBCA

Toronto Hydro Corporation's principal business is electricity distribution to approximately 781,000 customers in Toronto, through its distribution subsidiary (Toronto Hydro-Electric System Limited, or "THESL"). Toronto Hydro Energy Services Inc. ("THESI") is a smaller Toronto Hydro Corporation subsidiary having only a minor impact on the Toronto Hydro Corporation consolidated financial results. The business of this subsidiary includes the provision of street lighting services to the City of Toronto. THESL is regulated by the Ontario Energy Board. In December 2019, the Ontario Energy Board approved its distribution rates for 2020-2024.

Toronto Hydro Corporation's 2020 Report to the Shareholder and its confidential financial statements, including the non-consolidated statements of Toronto Hydro Corporation and its subsidiary companies, are provided in Confidential Attachments 7, 8 and 9.

Toronto Hydro Corporation is also a "market issuer" under Ontario Securities Commission rules, as a result of its issuance of debentures in the public marketplace. Attachment 5 to this Report provides the Ontario Securities Commission forms that certify Toronto Hydro Corporation's filings.

Statement of Financial Position

Table 1 summarizes the Statement of Financial Position for Toronto Hydro Corporation as at December 31, 2020, with comparative figures for 2019:

Table 1 - Toronto Hydro Corporation Consolidated Statement of Financial Position as at December 31, 2020 (\$millions)

	2020	2019	Increase/ (Decrease)	%
Assets				
Current Assets	508.1	563.7	(55.6)	-10%
Property, Plant & Equipment (PP&E)	5,039.2	4,700.9	338.3	7%
Intangible Assets	343.1	339.7	3.4	1%
Other Assets	8.2	9.4	(1.2)	-13%
Sub-total	5,898.6	5,613.7	284.9	5%
Regulatory Balances*	170.4	165.0	5.4	3%
Total Assets	6,069.0	5,778.7	290.3	5%
Liabilities				
Current Liabilities	951.1	714.3	236.8	33%
Debentures	2,082.4	2,183.0	(100.6)	-5%
Customer Deposits	18.7	18.9	(0.2)	-1%
Deferred Revenue	538.2	398.3	139.9	35%
Post-Employment Benefits	332.7	334.9	(2.2)	-1%
Deferred Tax Liabilities	47.1	23.1	24.0	104%
Other Liabilities	3.4	0.5	2.9	580%
Total Liabilities	3,973.6	3,673.0	300.6	8%
Equity				
Share Capital	817.8	817.8	-	0%
Retained Earnings	1,094.2	1,069.7	24.5	2%
Sub-total	1,912.0	1,887.5	24.5	1%
Regulatory Balances*	183.4	218.2	(34.8)	-16%
Total Liabilities, equity and regulatory balances	6,069.0	5,778.7	290.3	5%

*Regulatory balances that arise in the period impact net income after net movements in regulatory balances within the same period. These amounts are deferred as regulatory debit and credit balances on the balance sheet, and are expected to be recovered from or refunded to customers in a future period subsequent to OEB approval.

Total assets were \$6.1 billion, an increase of \$290.3 million (or 5%) compared with the previous year, resulting from:

- Current Assets: a decrease of \$55.6 million or 10% lower primarily due to lower receivables and unbilled revenue (lower electricity consumption, timing of billing and collection activities) together with a higher allowance for doubtful accounts (\$17.2 million) as a result of the COVID-19 pandemic. This was partially offset by higher pass-through electricity costs.
- Property, plant & equipment: an increase of \$338.3 million or 7% higher due to capital expenditures partially offset by depreciation including de-recognition of assets removed from service.

Total liabilities were \$4.0 billion, an increase of \$300.6 million (or 8%) compared with the previous year, resulting from:

- Current liabilities: an increase of \$236.8 million due mainly to a re-allocation \$299.8 million in prior year debentures as current liabilities (due within the year) and an issuance of a Commercial paper of \$24.0 million required for general corporate purposes. These increases were offset by a decrease in accounts payable and accrued liabilities of \$99.0 million due to lower capital activity in the fourth quarter of 2020 and timing differences in payments.
- Debentures: a decrease of \$100.6 million mainly due to the reallocation of \$299.8 million to current liabilities offset by the issuance of a new debenture of \$200.0 million.
- Non-current deferred revenue: an increase of \$139.9 million was primarily due to capital contributions received.
- Deferred tax liabilities: an increase of \$24.0 million primarily due to lower tax values as compared to the accounting values for PP&E and intangible assets.

Total equity increased by \$24.5 million to \$1.9 billion due to net income after net movements in regulatory balances of \$117.1 million offset by dividends paid to the City of \$92.6 million in 2020.

Debt

Table 2 provides a summary of the debt and shareholder equity data from the Corporation's financial report. The Corporation's revolving credit facility and unsecured debentures limit the debt to capitalization ratio to a maximum of 75%, which are covenant requirements as part of the trust indenture and revolving credit facility agreement.

Table 2 – Debt Summary and Capitalization Ratio

(in \$ millions)	2020	2019	Increase/ (Decrease)	%
Short-term debt	166.2	137.0	29.2	21%
Debentures – Current Portion	299.8	-	299.8	-
Debentures	2,082.4	2,183.0	(100.6)	-5%
Total Debt	2,548.4	2,320.0	228.4	10%
Shareholder Equity	1,912.0	1,887.5	24.5	1%
Total Capitalization	4,460.4	4,207.5	252.9	6%
Total Debt to Total Capitalization Ratios*				
Trust indenture	58.0%	56.0%		
Revolving credit facility	57.6%	55.6%		

*Debt to capitalization ratios calculated specifically as per the calculation stipulated in the trust indenture and revolving credit facility agreements.

Toronto Hydro Corporation's total debt to total capitalization ratios related to the trust indenture and revolving credit facility increased to 58.0% and 57.6%, respectively over 2019 fiscal year end (56.0% and 55.6%, respectively) but remain below the limit of 75%.

Credit Rating

Section 10.2 of the Shareholder Direction requires THC to obtain and maintain a rating of A- or higher (or its equivalent rating, depending on the credit rating agency) on its senior debt securities, as rated by two (2) accredited credit rating agencies in Ontario. Toronto Hydro Corporation's credit ratings remain at the same levels as the previous fiscal year, and are provided in Table 3.

Table 3 - Toronto Hydro Corporation Credit Ratings, December 31, 2020

	Issuer Rating	Senior Unsecured Debentures
DBRS	A stable	A stable
S&P	A stable	A

Statement of Operations

Table 4 below summarizes and compares the operating results for the year ended December 31, 2020, with comparative figures for 2019:

Table 4 - Toronto Hydro Corporation Consolidated Statement of Operations as at December 31, 2020 (\$millions)

	2020	2019	Increase/ (Decrease)	%
Revenues				
Energy Sales ¹	3,142.5	2,779.7	362.8	13%
Distribution Revenue	694.4	799.2	(104.8)	-13%
Other Revenue	92.7	94.4	(1.7)	-2%
Total Revenues	3,929.6	3,673.3	256.3	7%
Expenses				
Energy Purchases ¹	3,150.5	2,779.6	370.9	13%
Operating Expenses	326.0	308.9	17.1	6%
Depreciation & Amortization	274.3	255.6	18.7	7%
Financing Costs	77.1	80.1	(3.0)	-4%
Income Taxes	28.6	67.9	(39.3)	-58%
Total Expenses	3,856.5	3,492.1	364.4	10%
Operating Income	73.1	181.2	(108.1)	-60%
Gain on Disposal of Prop. Plant & Equip	-	2.2	(2.2)	-100%
Net Change in Regulatory Balances	44.0	(29.0)	73.0	-252%
Net Income after net movements in regulatory balances	117.1	154.4	(37.3)	-24%

¹Although its principal business is electricity distribution, most of the Toronto Hydro Corporation revenues relate to energy billings on behalf of other energy-related entities. Any difference between energy

purchases (payments) and energy sales (receipts) are deferred and treated as "regulatory balances," to be recovered or transferred in future periods.

Revenues

Total revenues in 2020 were \$4.0 billion, an increase of \$256.3 million (or 7%) from the previous year resulting from:

- Energy sales: an increase of \$362.9 million primarily due to higher commodity charges (\$355.0 million).
- Distribution revenue: a decrease of \$104.8 million was primarily due to:
 - lower revenue collected through OEB-approved rate riders (\$66.2 million); and
 - lower electricity consumption, driven by lower commercial usage as a result of the COVID-19 pandemic, combined with lower 2020 distribution rates (\$37.5 million).
- Other revenue: Other revenues include those from ancillary services, including street lighting services, and pole and duct rentals. The decrease of \$1.7 million was primarily due to lower other regulatory services charges as result of the extension of the winter disconnection ban through the spring-fall months due to COVID-19 (residential and other low volume customers) and other COVID-19 payment relief measures implemented to assist customers.

Expenditures

Total expenses in 2020 were \$3.9 billion, an increase of \$364.4 million (or 10%) over the previous year resulting from:

- Energy Purchases: an increase of \$370.9 million due to higher commodity charges (\$376.4 million).
- Income taxes: a decrease of \$39.3 million primarily due to lower income before taxes.
- Operating Expenses: an increase of \$17.1 million is primarily due to \$17.2 million in incremental bad debt expense related to COVID-19 and represents management's best estimate of the impact of the pandemic on the expected credit losses.
- Depreciation & Amortization: an increase of \$18.7 million primarily due to new in-service asset additions, partially offset by certain assets being fully depreciated and a decrease in de-recognition of assets removed from service.

The 2020 net income after net movements in regulatory balances is \$117.1 million, a decrease of \$37.3 million, or 24% lower than the previous year. This represents a 6.1% return on equity, compared to 8.2% in 2019.

In accordance with the City's Shareholder Direction, Toronto Hydro Corporation pays the City dividends, calculated based on 60% of the net income after net movements in regulatory balances. As a result, Toronto Hydro Corporation will pay the City \$70.3 million (60% of \$117.1 million) in dividends for 2021.

Capital Expenditures

Table 5 - Toronto Hydro Corporation 2020 Capital Expenditures

(in \$ millions)	2020	2019	Increase/ (Decrease)	%
Regulated capital expenditures	571.2	579.1	(7.9)	-1%
Unregulated capital expenditures	46.0	8.0	38.0	475%
Total capital expenditures	617.2	587.1	30.1	5%

The decrease in regulated capital expenditures was primarily due to behind-the-meter battery storage projects (\$22.7 million) being transferred from regulated to unregulated expenditures as a result of the OEB's 2020-2024 Custom Incentive Rate-setting (CIR) decision and rate order, and lower spending on metering (\$7.7 million), offset by higher spending on critical capital equipment to ensure sufficient stock levels were maintained during the COVID-19 pandemic (\$15.1 million) and customer connections (\$8.6 million).

The largest capital initiatives in 2020 include the delivery of customer connections, customer-initiated plant relocations, and expansions and the replacement of underground and overhead infrastructure.

Subsequent to Year End

Subsequent to the 2020 fiscal year end, THC reported its first quarterly results for 2021. The entity reported a net income (after net movements in regulatory balances) of \$35.8 million, which was slightly higher than the figure reported in the first quarter of 2020 (\$35.4 million). 2021's first quarter net income was higher than the same period in 2020 partially due to lower amounts deferred into regulatory accounts (\$10.1 million), partially offset by higher depreciation related to new in-service asset additions (\$4.6 million) and lower distribution revenue mainly related to lower electricity consumption (\$4.4 million). Electricity distribution revenues for the first quarter of 2021 were \$182.6 million, which was slightly less than the revenues reported in the first quarter of 2020 (\$187.0 million).

4. 2020 Executive Compensation

The compensation of Toronto Hydro Corporation Named Executive Officers (NEOs) is set out in the Annual Information Form in Attachment 3. The Annual Information Form is a public document published annually by Toronto Hydro Corporation as a public debt issuer in accordance with Ontario Securities Commission requirements.

In addition to the executive compensation reported through the Annual Information Form, City Council as the Shareholder has also directed that executive compensation, including compensation for executives other than NEOs, be disclosed annually to City Council as permitted by law.

This information is provided in two parts. The compensation disclosure for NEOs, which is already public information through the Annual Information Form, forms Attachment 6a to this Report. Reporting of additional executive compensation information includes personal information about identifiable individuals and this information is contained in

Confidential Attachment 6b to this Report. The protection of individual privacy is required by the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA). Specific compensation data of individual employees is private information under MFIPPA.

5. COVID-19 Impacts in 2020

In September 2020, City Council directed the Board of Toronto Hydro Corporation, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to bring forward a report on the impacts of COVID-19 on Corporation Operating and Capital Budgets and operations, detailing any modifications to their programs and initiatives to address COVID-19, to City Council through Executive Committee, by the first quarter of 2021.

Toronto Hydro Corporation provided this information directly to the City Manager in an email that is included as Attachment 12. Toronto Hydro Corporation has also provided COVID-19 Pandemic Considerations in its 2020 Statements, beginning on page 22.

6. Other Information

Staff are currently exploring opportunities to streamline the reporting requirements and the annual general meetings of all City corporations in future years.

CONTACT

Sandra Rodriguez, Director, Intergovernmental & Agencies Relations, 416.392.3832, Sandra.Rodriguez@toronto.ca

Sandra Califaretti, Director, Accounting Services, 416.397.4438, Sandra.Califaretti@toronto.ca

Michael Smith, Solicitor, Legal Services, 416.392.7245, Michael.A.Smith@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

Chris Murray
City Manager

ATTACHMENTS

Attachment 1 - Toronto Hydro Corporation Report on the 2021 Annual Shareholder Meeting

Attachment 1 Appendix A - Resolution of the Shareholder Re-appointing Auditor

Attachment 2a - Toronto Hydro Corporation 2020 Annual Report

Attachment 2b - Toronto Hydro Corporation 2020 Annual Financial Report and Consolidated Financial Statements

Attachment 3 - Toronto Hydro Corporation Annual Information Form 2020

Attachment 4a - Toronto Hydro Corporation Environmental Performance Report 2020

Attachment 4b - Toronto Hydro Corporation 2020 Environmental, Social Responsibility and Governance Report

Attachment 4c - Toronto Hydro Corporation 2020 Environmental, Social Responsibility and Governance Metrics

Attachment 5 - Toronto Hydro Corporation CEO and CFO Certification of Annual Filings 2020

Attachment 6a - Toronto Hydro Corporation Executive Compensation Disclosure 2020 (Part 1, NEOs)

Confidential Attachment 6b - Toronto Hydro Corporation Executive Compensation Disclosure 2020 (Part 2, All Executives)

Confidential Attachment 7 - Toronto Hydro Corporation Shareholder Report 2020, including Non-Consolidated Financial Statements

Confidential Attachment 8 - THESL Financial Statements 2020 and 2019

Confidential Attachment 9 - THESI Financial Statements 2020 and 2019

Attachment 10 - Toronto Hydro Corporation First Quarter Financial Report 2021

Attachment 11 - Toronto Hydro Corporation Statement of Board Remuneration and Expenses 2020

Attachment 12 - Financial Impact of COVID-19 on Toronto Hydro Corporation's 2020 Year-End Results