

Toronto Hydro-Electric System Limited Telephone: (416) 542-8000
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Toronto, Ontario M5B 1K5



March 5, 2021

Delivered via email to sandra.rodriguez@toronto.ca

Mr. Chris Murray, City Manager
City of Toronto
100 Queen St. W.
Toronto, ON M5H 2N2
c/o Sandra Rodriguez, Director, Intergovernmental and Agency Relations

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

Dear Mr. Murray,

At its meeting on September 30, 2020, City Council, as Shareholder of Toronto Hydro Corporation (**Toronto Hydro** or **Corporation**), received the 2019 Audited Financial Statements of Toronto Hydro and directed Toronto Hydro's Board of Directors to report on the impacts of COVID-19 on its operations. Toronto Hydro committed to report in the first quarter of 2021 to City Council through the Executive Committee. Toronto Hydro provides this report in satisfaction of this commitment.

Background

The principal business of Toronto Hydro is the distribution of electricity by Toronto Hydro-Electric System Limited (**LDC**). LDC owns and operates an electricity distribution system, delivering electricity to approximately 781,000 customers located in the city. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the Ontario Energy Board (**OEB**), which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario.

Toronto Hydro is a reporting issuer under the *Ontario Securities Act* and is subject to the regulatory jurisdiction of the Ontario Securities Commission. Toronto Hydro is required to publicly issue annual and quarterly financial reports, including Consolidated Financial Statements and Notes and Management's Discussion and Analysis (together the **Corporate Reports**) in accordance with legislated form requirements and International Financial Reporting Standards (**IFRS**). These public financial reporting requirements are comprehensive, while this report is scoped more narrowly to directly respond to City Council's request for information regarding the financial impacts of the COVID-19 pandemic on Toronto Hydro. Legislative requirements, however, do also place restrictions on the types of information that a reporting issuer can release and the manner of that release. Additional financial information is provided in the Corporate Reports, available on the SEDAR website at www.sedar.com and on Toronto Hydro's website at www.torontohydro.com/corporate-reports.

Toronto Hydro's Board of Directors is responsible for supervising the management of the business and affairs of the Corporation. The Board of Directors is responsible at law for approving the Corporate Reports. The most recent Corporate Reports audited by KPMG LLP are the annual

Corporate Reports for the year ended December 31, 2020 published on SEDAR. On March 3, 2021, Toronto Hydro's Board of Directors reviewed and approved the Corporate Reports.

The Financial Impact of COVID-19 on Toronto Hydro

The tables below summarize key statistics from Toronto Hydro's 2020 operating results compared with Toronto Hydro's 2019 operating results. The variances were caused, in part, by the effects of the COVID-19 pandemic. Toronto Hydro made the decision at the outset of the pandemic to continue to serve its customers, notwithstanding the extraordinary operational challenges of doing so. Toronto Hydro made the adjustments necessary to ensure the safety of its personnel and the public while continuing to perform the essential work in its OEB-approved \$4 billion plan. Toronto Hydro enhanced its plan to provide customer relief to households and businesses in acute need. Notwithstanding lost revenues and increased costs driven by the pandemic, Toronto Hydro maintained its financial performance, resulting in the payment of much needed dividends to its shareholder, the City of Toronto.

Energy Sales and Energy Purchases

Consolidated Information Detailing Energy Sales and Energy Purchases			
Year ended December 31, 2020			
(in millions of Canadian dollars)			
	2020	2019	Variance
	(\$)	(\$)	(\$)
Energy sales	3,142.5	2,779.7	362.8
Energy purchases	3,150.5	2,779.6	370.9
Settlement variance	(8.0)	(0.1)	(8.1)

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and wholesale market service charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. Energy purchases are billed monthly by the Independent Electricity System Operator (**IESO**). A difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB, therefore there is ultimately no impact to net income after net movements in regulatory balances.

Revenues

Consolidated Information Detailing Revenues			
Year ended December 31, 2020			
(in millions of Canadian dollars)			
	2020	2019	Variance
	(\$)	(\$)	(\$)
Distribution revenue	694.4	799.2	(104.8)
Other	92.7	94.4	(1.7)
	787.1	893.6	(106.5)

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers and includes revenue collected through OEB-approved rate riders. In 2020, LDC experienced lower distribution revenue in part due to the COVID-19 pandemic. This lower distribution revenue can be attributed to such factors including, but not limited to, lower commercial electricity consumption due to COVID-19. Other revenues are also lower due to direct relief provided to customers during the pandemic through reduction of late payment charges and lower other regulatory service charges as a result of the extension of the disconnection ban.

Expenses

Consolidated Information Detailing Expenses Year ended December 31, 2020 (in millions of Canadian dollars)			
	2020 (\$)	2019 (\$)	Variance (\$)
Operating expenses	326.0	308.9	17.1
Depreciation and amortization	274.3	255.6	18.7
	600.3	564.5	35.8

Toronto Hydro knows that the COVID-19 pandemic is putting economic stress on families and businesses, and it is committed to helping its customers manage their electricity bills during this challenging time. During the COVID-19 pandemic, Toronto Hydro maintained the full range of its services while focusing on the health and safety of its employees and the community. Toronto Hydro has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, and meet customer service needs. The increase in operating expenses for the year ended December 31, 2020 was primarily due to an incremental \$17.2 million of bad debt expense as a result of the COVID-19 pandemic. This incremental bad debt expense represents management's best estimate of the impact of the COVID-19 pandemic on the expected credit losses. The Corporation adjusted the expected credit loss provision based on the Corporation's current estimates and assumptions, including but not limited to recent trends for customer collections and current and forecasted economic conditions.

Net Income and Dividends

Consolidated Information Detailing Net Income Year ended December 31, 2020 (in millions of Canadian dollars)			
	2020 (\$)	2019 (\$)	Variance (\$)
Net income	73.1	183.4	(110.3)
Net movements in regulatory balances	18.8	(62.4)	81.2
Net movements in regulatory balances arising from deferred taxes	25.2	33.4	(8.2)
Net income after net movements in regulatory balances	117.1	154.4	(37.3)

Consolidated Information Detailing Dividends Year ended December 31, 2020 (in millions of Canadian dollars)			
	2020 (\$)	2019 (\$)	Variance (\$)
Dividends declared and paid	92.6	100.4	(7.8)

Despite the challenges posed by COVID-19 and subject to the restrictions imposed by law and Toronto Hydro's Shareholder Direction, in 2020, the Board of Directors of Toronto Hydro declared and paid aggregate dividends to the City of Toronto in four instalments, calculated pursuant to the Shareholder Direction.

For the year ended December 31, 2020, the decrease in net income after net movements in regulatory balances was primarily due to lower distribution revenue mainly driven by lower commercial electricity consumption as a result of the COVID-19 pandemic and higher operating expenses mainly due to incremental bad debt expense as a result of the COVID-19 pandemic.

As at December 31, 2020, Toronto Hydro expensed the amounts that it previously deferred during 2020 as a regulatory debit in the COVID-19 Emergency Deferral Account due to increased uncertainty on the recoverability of COVID-19 related costs. On December 16, 2020, OEB staff issued a proposal, which provided an update on the OEB's most recent consultation. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. Consequently, the balance of \$17.7 million that was previously recorded in the COVID-19 Emergency Deferral Account for incremental bad debt expense as at September 30, 2020, was reversed in the fourth quarter, resulting in a corresponding net income impact of \$17.7 million in 2020 upon its reversal. No amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

Contact

We trust that this report is responsive to the City's request for information regarding the financial impacts of the COVID-19 pandemic on Toronto Hydro's 2020 year-end results. Please direct any correspondence in respect of this matter to the undersigned at aklein@torontohydro.com.

Sincerely,



Amanda Klein
EVP Public & Regulatory Affairs, and Chief Legal Officer

Cc: Heather Taylor, Chief Financial Officer, City of Toronto
Stephen Conforti, Executive Director, Financial Planning, City of Toronto
Anthony Haines, President & CEO, Toronto Hydro
Aida Cipolla, EVP and Chief Financial Officer, Toronto Hydro