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Attachment 1- CONFIDENTIAL INFORMATION
April 8, 2013

CITY OF TORONTO

**AMENDED AND RESTATED
SHAREHOLDER DIRECTION
RELATING TO
TORONTO HYDRO CORPORATION**

**July 1, 1999 as amended and restated as of October 3, 2002,
as further amended as of October 1, 2004 , as further amended and restated as of June 27,
2006; and as further amended and restated as of October 23, 2007; and as further amended
and restated as of XXX, 2013**

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SHAREHOLDER DIRECTION

WHEREAS *Toronto Hydro Corporation* (the “**Corporation**”) is a corporation existing under the *Business Corporations Act* (Ontario);

AND WHEREAS the *City of Toronto* (the “**Shareholder**”) is the beneficial owner of all of the issued shares of the *Corporation*;

AND WHEREAS the *Corporation* and the *Subsidiaries* (together, “**Toronto Hydro**”) are the successors to the business of Toronto Hydro Electric Commission;

AND WHEREAS *Toronto Hydro’s* business (the “**Business**”) is integral to the well-being and infrastructure of the City of Toronto;

AND WHEREAS the *Business* is subject to the provisions of the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998*, as such statutes may be amended or re-enacted from time to time;

AND WHEREAS the *Corporation* is a reporting issuer subject to *Securities Rules* (as herein defined);

AND WHEREAS the *Shareholder* wishes to establish certain principles of governance relating to *Toronto Hydro*;

NOW THEREFORE THIS SHAREHOLDER DIRECTION IS HEREBY AMENDED AND RESTATED AND WITNESSES AS FOLLOWS:

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this *Shareholder Direction*, in addition to the terms defined in the recitals, the following terms will have the meanings set out below:

“**Affiliate Relationships Code**” means the *Ontario Energy Board Affiliate Relationships Code For Electricity Distributors and Transmitters*, as amended from time to time;

“**Associate**” means a *Person* that is associated with the *Corporation* or any *Subsidiary* as such relationship is defined in the *OBCA*;

“**Auditor General**” means the *City of Toronto’s* Auditor General or his/her designate or any *Person* acting in that capacity;

“**Board**” means the board of directors of the *Corporation*;

“Body Corporate” means a firm, partnership, unincorporated association, joint venture, body corporate, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry or commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

“Business Plan” means the business plan referenced in Section 9.1

“Chair” means the Chair of the *Board*;

“Citizen Directors” means the citizen directors referenced in Section 5.1;

“City Authorized Representative” means the City authorized representative referenced in Section 9.3;

“City CFO” means the *City of Toronto's* Deputy City Manager and Chief Financial Officer or the *Person* acting in that capacity or his/her designate;

“City Chief Corporate Officer” means the *City of Toronto's* Chief Corporate Officer or the *Person* acting in that capacity or his/her designate;

“City Council” means the Council of the *City of Toronto* when exercising its authority in its capacity as a municipal government or as the *Shareholder* of the *Corporation*;

“City Council Directors” means the *City Council* directors as referenced in Section 5.1;

“City Liaison” means the City officer or delegated staff member referenced in Section 8.2;

“City of Toronto” means the municipal corporation continued under the *City of Toronto Act, 2006*;

“City Manager” means the *City of Toronto's* City Manager or the *Person* acting in that capacity or his/her designate;

“Directed by Council” means a direction from *City Council*, acting on behalf of the *City of Toronto* in its capacity as *Shareholder*, to the *Corporation*, which direction shall be in the form of a recommendation or resolution adopted by *City Council* which directs the *Corporation* as it applies to the *Corporation* or any of its *Subsidiaries*, and subject to *Law*, in making any direction *City Council* shall take into consideration the objectives and principles set out in Section 2.2.2 herein;

“Distribution Company” means any one or more *Subsidiaries* licensed to own or operate an electricity distribution system under the *Ontario Energy Board Act, 1998*;

“Energy Services” means Toronto Hydro Energy Services Inc.;

“Executive Compensation Information” means, for all of the officers of the *Corporation*, the same executive compensation information as is required to be disclosed by the *Corporation* for its Named Executive Officers in the Summary Compensation Table of its Annual Information Form pursuant to Form 51-102F6 (Statement of Executive Compensation) issued under the National Instrument 51-102 (Continuous Disclosure Obligations);

“Financial Statements” means, for any particular period, the audited or unaudited (as stipulated in this *Shareholder Direction*), consolidated or unconsolidated (as stipulated in this *Shareholder Direction*), comparative financial statements of the *Corporation* or its *Subsidiaries*, as applicable, consisting of not less than a balance sheet, a statement of income and retained earnings, a statement of changes in financial position, a report or opinion of the auditor (in the case of audited *Financial Statements*) and such other statements, reports, notes and information prepared in accordance with accounting principles as permitted at *Law*;

“Governmental Authority” means a federal, provincial, state, regional, municipal or local government, domestic or foreign, including any entity, *Person*, court or other body or organization exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government;

“Law” means any statute, law, ordinance, rule, regulation, restriction, code, regulatory policy or guideline or order of any *Governmental Authority*, including without limitation all *Securities Rules* and all applicable by-laws or rules of any *Regulator*;

“Lien” means any mortgage, hypothec, assignment, encumbrance, lien or security interest, regardless of form, that secures the payment of any indebtedness or liability or the observance or performance of any obligation;

“OBCA” means the *Business Corporations Act* (Ontario), as amended or re-enacted from time to time;

“Ontario Energy Board” or **“OEB”** means the Ontario Energy Board, or its successor;

“Ontario Energy Board Act, 1998” or **“OEB Act”** means the *Ontario Energy Board Act, 1998* (Ontario), as amended or re-enacted from time to time;

“Person” means an individual, limited liability company, unincorporated syndicate, unincorporated organization, *Body Corporate* or *Governmental Authority*;

“Receiving Party” means the receiving party as referenced in Sections 4.4 and 6.3;

“Regulator” means the *Ontario Energy Board*, the Ontario Securities Commission and each other *Governmental Authority* having jurisdiction over *Toronto Hydro* or the *Business*, and any successor(s) thereto;

“**Securities Rules**” means all statutes, laws, ordinances, rules, regulations, restrictions, instruments, codes, regulatory policy or guidelines applicable to the *Corporation* as a reporting issuer under the *Securities Act* (Ontario), as amended from time to time;

“**Shareholder**” means the *City of Toronto* as the beneficial owner of all of the issued shares of the *Corporation*, exercising its authority as *Shareholder* through *City Council*;

“**Shareholder Direction**” means this Shareholder Direction Relating to Toronto Hydro Corporation dated as of July 1, 1999, as amended and restated from time to time; and

“**Subsidiary**” means, with respect to the *Corporation*, any *Body Corporate* of which more than 50% of the outstanding securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by the *Corporation*, and includes any *Body Corporate* in like relation to a *Subsidiary*.

1.2 City Authorized Representative, City Council, City of Toronto and Shareholder

- a) Wherever there is a reference to a *City Authorized Representative* in this *Shareholder Direction*, that reference shall be deemed to include any individual acting in that capacity or any successor *City Authorized Representative* duly appointed or designated by the *City of Toronto* as being responsible for that office.
- b) In this *Shareholder Direction* the use of the terms *City Council*, *City of Toronto* and *Shareholder* shall be interpreted to reflect the actions or authority of the municipal government, municipal corporation or the corporate shareholder as reasonably indicated by the context.

1.3 Calculation of Time

In this *Shareholder Direction*, a period of days will be deemed to begin on the first day after the event which began the period and to end at 5:00 p.m. (Toronto time) on the last day of the period. If, however, the last day of the period does not fall on a business day, the period will terminate at 5:00 p.m. (Toronto time) on the next business day.

1.4 Regulatory Matters

In the event of any conflict between any approval or matter *Directed* by *Council* or other requirement of the *Shareholder* under this *Shareholder Direction* and any decision, order or policy of any *Regulator*, the decision, order or policy of the *Regulator* shall govern and *Toronto Hydro* will at all times comply with any decision, order or policy of the *Regulator* whether or not an approval or matter *Directed* by *Council* has first been given in respect thereof by the *Shareholder* under this *Shareholder Direction*. For greater certainty, *Toronto Hydro* will not seek any order from any *Regulator* for any matter that would require the approval of the *Shareholder* under this *Shareholder Direction* without first giving notice of its intention to seek such an order to the *Shareholder*.

ARTICLE 2 OBJECTIVES AND PRINCIPLES

2.1 Purposes

The purposes of this *Shareholder Direction* are as follows:

- a) subject to the *Board's* authority to manage or supervise the management of the business and affairs of the *Corporation*, to provide the *Board* with the *Shareholder's* fundamental principles regarding the *Business*;
- b) to inform the residents of the *City of Toronto* of the *Shareholder's* fundamental principles regarding the *Business*; and
- c) to set out the accountability, responsibility and relationship between the *Board* and the *Shareholder*.

2.2 Shareholder Objectives and Principles

2.2.1 Subject to *Law*, the *Corporation* shall and shall direct its *Subsidiaries* to conduct their affairs and govern their operations in accordance with such rules, policies, directives or objectives as *Directed by Council* from time to time.

2.2.2 The following objectives and principles shall govern the operations of *Toronto Hydro*:

- a) to operate *Toronto Hydro* on an efficient and commercially prudent basis;
- b) to optimize the *Shareholder's* return on equity and operate *Toronto Hydro* with a view to meeting the financial performance objectives of the *Shareholder* as set out in this *Shareholder Direction*;
- c) to provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the *City of Toronto*;
- d) to operate *Toronto Hydro* in an environmentally responsible manner consistent with the *City of Toronto's* energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
- e) to ensure that the *Business* is managed in material compliance with all *Law*; and

f) to engage in recruitment and procurement practices designed to attract employees and suppliers from the *City of Toronto*'s diverse community.

2.2.3 The *Board* is responsible for determining and implementing the appropriate balance among the objectives and principles in Section 2.2.2 and for causing *Toronto Hydro* to conduct its affairs in accordance with the same.

ARTICLE 3 BUSINESS OF TORONTO HYDRO

3.1 Business of Toronto Hydro

Subject to *Law* and the ongoing ability of the *Corporation* and the *Subsidiaries* to meet the financial objectives of the *Shareholder* set out in this *Shareholder Direction* and the ability of the *Board* to demonstrate the same, the *Corporation* may engage in, and may authorize the *Subsidiaries*, to engage in, any of the business activities permitted by the *Ontario Energy Board Act, 1998*, as may be amended from time to time. Without limiting the foregoing, and for ease of reference, an extract of the relevant provisions of the *Ontario Energy Board Act, 1998* is attached as Appendix A to this *Shareholder Direction*.

ARTICLE 4 BOARD OF DIRECTORS

4.1 Responsibilities of the Board of Directors

Subject to *Law* and any matters requiring approval of the *Shareholder* pursuant to this *Shareholder Direction*, the *Board* is responsible for supervising the management of the business and affairs of the *Corporation*, including the following specific matters:

- a) establishing sound financial principles and performance objectives;
- b) approving any dividend payment or distribution of capital;
- c) appointing the officers of the *Corporation*;
- d) approving the overall business strategy and related *Business Plan*;
- e) approving the financing strategy, including the selection of financial institutions and related banking authorities;
- f) directing labour and employee relations matters; and
- g) approving the financial statements in accordance with the requirements of the *OBCA*.

4.2 Committees of the Board

The *Board* may form committees and delegate such decision making or other responsibilities to the committees, as permitted by *Law*, from time to time.

The committee of the *Board* responsible for compensation related matters shall include at least one *City Council Director*.

4.3 Conflict of Interest Policy

The directors and officers of the *Corporation* will strictly abide by the requirements of the *OBCA* and the *Corporation* in respect of conflicts of interest, including any requirements in respect of disclosure and abstention from voting.

4.4 Confidentiality

The *Shareholder* and the directors and officers of the *Corporation* will ensure that no confidential information of the *Shareholder* or *Toronto Hydro* is disclosed or otherwise made available to any *Person*, except to the extent that:

- a) disclosure to a *Receiving Party's* employees or agents is necessary for the performance of any *Receiving Party's* duties and obligations under this *Shareholder Direction*;
- b) disclosure is required in the course of any legal or regulatory proceedings or actions or pursuant to any *Law*; or
- c) the confidential information becomes part of the public domain (other than through unauthorized disclosure by the *Receiving Party*).

ARTICLE 5 BOARD STRUCTURE

Without restricting the rights of the *Shareholder*, this article provides information regarding *City Council's* “Public Appointments Policy” and “Policy on Board Governance Structures” as amended from time to time.

5.1 Composition of the Board

5.1.1 The *Board* will be composed of eleven (11) directors comprising:

- a) the Mayor of the *City of Toronto* or a member of *City Council* whom the Mayor recommends as his/her designate and who is appointed by *City Council*;

- b) two (2) members of *City Council* (together with the Mayor or Mayor's Designate, the “*City Council Directors*”); and
- c) eight (8) residents of Toronto who are not elected officials or employees of the *City of Toronto* or any of its agencies or corporations (“*Citizen Directors*”), one of whom shall be the *Chair*.

5.1.2 The *Shareholder* shall appoint all members of the *Board* of the *Corporation*.

5.1.3 The *Chair* of the *Board* shall be appointed by the *Board* upon the nomination of the *Shareholder* from time to time.

5.2 Qualifications of Directors

In addition to the general eligibility requirements as set out at *Law* (including without limitation the *OBCA* and *Securities Rules*) and in the *City of Toronto*'s “Public Appointments Policy” and “Policy on Governance Structures”, as amended by *City Council* from time to time, *Board* members should collectively represent a range of expertise including:

- a) experience on a public utility commission or board of a major corporation or other commercial enterprise;
- b) experience or knowledge with respect to:
 - i. corporate finance;
 - ii. corporate governance;
 - iii. market development;
 - iv. large system operation and management;
 - v. urban energy industries;
 - vi. public policy issues and the *Law* relating to Toronto Hydro and the electricity industry;
 - vii. environmental matters;
 - viii. labour relations;
 - ix. occupational health and safety issues
- c) commercial sensitivity and acumen;
- d) independence of judgment;
- e) personal integrity; and
- f) at least three directors with financial management expertise.

5.3 Vacancies

If a member of the *Board* ceases to be a director for any reason, the *Shareholder* will fill the vacancy created thereby as soon as reasonably possible.

5.4 Term

- a) The term for *City Council Directors* shall be two (2) years. Incumbent *City Council Directors* may be reappointed by the *Shareholder*, for such consecutive terms as the *Shareholder* may determine, in its discretion.
- b) The term for *Citizen Directors* shall be two (2) years. Incumbent *Citizen Directors* may be reappointed by the *Shareholder*, at its discretion, for an additional term without a formal *Citizen Director* recruitment process. Where any *Citizen Director* has served for two (2) consecutive terms, or a total of four (4) consecutive years, then the *Shareholder* shall proceed with a formal *Citizen Director* recruitment process prior to reappointing an incumbent director for that position. The maximum number of consecutive two (2) year terms for any *Citizen Director* shall be of four (4) terms for a maximum term of eight (8) consecutive years as a *Citizen Director*.
- c) Notwithstanding any of the foregoing, all directors are appointed at the pleasure of the *Shareholder* and the *Shareholder* may elect, in its discretion, to replace any appointed director at any time and for any reason. All directors shall continue to serve on the *Board* past the end of their term until such time as such successors are appointed by the *Shareholder*.

ARTICLE 6 SUBSIDIARIES

6.1 Board of Directors of Subsidiaries

- a) Subject to *Law* and any matters requiring approval of the *Shareholder* pursuant to this *Shareholder Direction*, the *Corporation* shall cause the business and affairs of the *Subsidiaries* to be managed or supervised by their respective boards of directors.
- b) The *Board* will appoint the directors of the *Subsidiaries* from among the directors of the *Corporation*, provided however that the appointment of the directors of the *Distribution Company* shall be subject to and meet all requirements for independence as may set out by the *Ontario Energy Board's Affiliate Relationships Code* as amended from time to time. Without limiting the foregoing, and for ease of reference, an extract of the relevant section of the *Affiliate Relationships Code* is attached as Appendix B to this *Shareholder Direction*.
- c) The *Chair* shall notify the *City Manager* of the names of, remuneration to be paid to, and the process used to select, any independent directors as required by the *OEB* from time to time.

6.2 Conflict of Interest Policy

The *Corporation* will cause the directors and officers of each *Subsidiary* to strictly abide by the requirements of the *OBCA* and the *Corporation* in respect of conflicts of interest, including any requirements in respect of disclosure and abstention from voting.

6.3 Confidentiality

The *Corporation* will cause the directors and officers of each *Subsidiary* to ensure (the *Shareholder* and the directors and officers of each *Subsidiary* are hereinafter referred to as a “*Receiving Party*”), that no confidential information of the *Shareholder* or *Toronto Hydro* is disclosed or otherwise made available to any *Person*, except to the extent that:

- a) disclosure to a *Receiving Party*’s employees or agents is necessary for the performance of any *Receiving Party*’s duties and obligations under this *Shareholder Direction*;
- b) disclosure is required in the course of any legal or regulatory proceedings or actions or pursuant to any *Law*; or
- c) the confidential information becomes part of the public domain (other than through unauthorized disclosure by the *Receiving Party*).

6.4 Vacancies

If a member of the *Board* of directors of any *Subsidiary* ceases to be a director for any reason, the *Corporation* will cause the vacancy to be filled by another director of the *Corporation* as soon as reasonably possible.

ARTICLE 7 BOARD REMUNERATION AND EXPENSE REIMBURSEMENT

7.1 Remuneration

- a) The *Chair* will receive remuneration in the amount of \$75,000 per annum; and
- b) Each director of the *Corporation*, other than the *Chair*, will receive remuneration in the amount of \$12,500 per annum plus:
 - (i) \$1,000 for each meeting of the *Board* attended;
 - (ii) \$1,000 for each meeting of the board of a *Subsidiary* attended, provided the meeting is other than on a day when there is a meeting of the *Board*; and
 - (iii) \$1,000 for each meeting of a committee of the *Board* attended, provided the meeting is other than on a day when there is a meeting of the *Board* and subject to an aggregate annual maximum of \$5,000 for meetings of committees of the *Board*.

- c) Notwithstanding any of the foregoing, *City Council Directors* will receive no remuneration and the maximum aggregate remuneration for a director other than the *Chair* is \$30,000 per annum.
- d) The remuneration of the directors of the *Corporation* for their respective services as directors will be as determined by the *Shareholder* under *City Council's* Board remuneration policy as amended from time to time.

7.2 Reimbursement Policy

The *Board* shall establish an expense reimbursement policy to provide for the reimbursement of out-of-pocket expenses for *Board* members while conducting *Board* business. Such policy shall require that the *Board* pre-approve the amount and reason for all major expenses for directors.

ARTICLE 8 SHAREHOLDER MATTERS

8.1 Decisions of the Shareholder

- a) Where the *Corporation* wishes or is required to obtain an approval or decision from the *Shareholder* pursuant to this *Shareholder Direction* or otherwise, the *Corporation* shall submit a written request to the appropriate *City Liaison* for the approval or decision which includes all information necessary for the *Shareholder* to make an informed decision.
- b) Where possible and permitted by *Law*, the *Corporation* shall submit its request and supporting information in a timely manner that enables the *City Liaison* to comply with deadlines for submission to *City of Toronto* Committees and *City Council*. The *City Manager* or the *City CFO*, as appropriate, shall determine how a particular matter for which approval or decision has been requested will proceed.

8.2 Liaison with the City

- a) For corporate governance matters requiring the *Shareholder's* approval, as set out in this *Shareholder Direction* or pursuant to the *OBCA*, and for all other day-to-day matters with respect to corporate governance, the designated *City Liaison* is the *City Manager*.
- b) For financial matters requiring the *Shareholder's* approval, as set out in Article 9 and Article 10, and for all other day-to-day financial matters, the designated *City Liaison* is the *City CFO*.
- c) For program matters concerning the *Corporation's* operations, and for all other day-to-day operational matters, the designated *City Liaison* is the *City Chief Corporate Officer*.

8.3 Matters Requiring Shareholder Approval under the OBCA

In accordance with the provisions of the *OBCA*, the *Corporation* shall not, and shall ensure that each *Subsidiary* does not, without the approval of the *Shareholder*:

- a) amend its articles or make, amend or repeal any by-law;
- b) amalgamate (except for an amalgamation with one or more *Subsidiaries*), apply to continue as a *Body Corporate* under the *Law* of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;
- c) take or institute proceedings for any winding up, arrangement, reorganization or dissolution;
- d) create new classes of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;
- e) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback, or other transaction, all or substantially all of its assets or undertaking;
- f) change the auditor;
- g) make any change to the number of directors comprising the *Board*; or
- h) enter into any transaction or take any action that requires *Shareholder* approval pursuant to the *OBCA*.

8.4 By-Laws

Subject to *Law*:

- a) The *Board* may, by resolution, make, amend, or repeal any of its by-laws and the changes take effect at such time as the *Board* approves.
- b) Where the *Board* makes, amends or repeals a by-law, the *Board* shall submit the by-law, amendment or repeal to the *Shareholder* as soon as possible and by no later than the next *City Council* meeting, and the *Shareholder* may confirm, reject or amend the by-law, amendment or repeal.
- c) Where a by-law is made, amended or repealed by the *Board* under Section 8.4 (a), the by-law, amendment or repeal is effective from the date of the resolution of the *Board* until it is confirmed, confirmed as amended or rejected by the *Shareholder* under Section 8.4 (b) or until it ceases to be effective under Section 8.4 (d) and, where the by-law is confirmed or confirmed as amended, it continues in effect in the form in which it was so confirmed.
- d) If a by-law or an amendment or repeal of a by-law is rejected by the *Shareholder*, or if the *Board* does not submit the by-law, amendment or repeal to the *Shareholder* as required under

Section 8.4 (b), the by-law, amendment or repeal ceases to be effective on the date of such rejection or on the date of the meeting of the *Shareholder* at which it should have been submitted, as the case may be, and no subsequent resolution of the *Board* to make, amend or repeal a by-law having substantially the same purpose or effect is effective until it is confirmed or confirmed as amended by the *Shareholder*.

8.5 Other Matters Requiring Shareholder Approval

- a) Unless the *Shareholder* approves otherwise, the *Corporation* shall ensure that the *Distribution Company* does not:
- (i) provide any financial assistance, whether by loan, guarantee or otherwise, to any *Person* other than in accordance with this *Shareholder Direction*;
 - (ii) create any *Lien* on its assets other than:
 - (1) any *Lien* in favour of the *Shareholder*;
 - (2) *Liens* securing purchase money obligations, trade debts or other liabilities incurred in the ordinary course of business (other than in relation to the borrowing of money) if the aggregate principal amount of such obligations does not exceed \$10,000,000 at any time;
 - (3) *Liens* securing credit facilities created or incurred for the purpose of providing operating financing for day-to-day working capital requirements of the *Distribution Company* if the aggregate principal amount of such credit facilities does not exceed \$100,000,000 at any time; or
 - (4) *Liens* held by any *Governmental Authority* that have not at the time been filed or registered against the title to the *Distribution Company*'s assets or served upon the *Distribution Company* pursuant to *Law* or that relate to obligations of the *Distribution Company* that are not due or delinquent;
- b) unless the *Shareholder* approves otherwise, the *Corporation* shall not, and shall ensure that the *Subsidiaries* do not:
- (i) provide any financial assistance, whether by loan, guarantee or otherwise, to any director or officer of the *Corporation* or of any *Subsidiary* or *Associate*;
 - (ii) invest funds in publicly-traded securities other than government debt, Canadian chartered bank or Canadian corporate securities rated less than A/R-1 (low) (or its equivalent) by Standard & Poor's, Dominion Bond Rating Service Limited; or Moody's;
 - (iii) acquire any interest in the distribution system, undertaking or securities of a distributor (as defined in the *Electricity Act, 1998*) operating outside of the municipal boundaries

of the *Shareholder* other than in accordance with Section 8.6 of this *Shareholder Direction*; and

- (iv) subject to Section 8.5, enter into any agreement, commitment or investment that provides recourse to the assets of the *Corporation* or the *Distribution Company* in favour of any third party in such assets;
- c) unless the *Shareholder* approves otherwise the *Corporation* shall not, and shall ensure that the *Distribution Company* does not:
- (i) provide any financial assistance, whether by loan, guarantee or otherwise, to or make any investments, whether by loan, equity or otherwise, in any *Subsidiary* other than the *Distribution Company*, other than:
 - (1) trade payables incurred in the ordinary course of business on customary terms;
 - (2) that portion of any investment in any *Subsidiary* attributable to the value of the assets, property and undertaking of the business of the *Distribution Company* transferred by the *Distribution Company* to the *Subsidiary*;
 - (3) financial assistance to a *Subsidiary* provided to replace financial assistance provided to the *Distribution Company* in respect of a business of the *Distribution Company* transferred by the *Distribution Company* to the *Subsidiary*; and
 - (4) in accordance with this *Shareholder Direction*;

unless, after giving effect to the investment or financial assistance, the aggregate amount of all investments in and financial assistance to such *Subsidiaries* does not exceed 12% of *Shareholder's* equity in the *Distribution Company*, as shown on its most recent *Financial Statements*, and unless the investment or financial assistance is included in the *Business Plan*; provided that, in the case of the *Distribution Company*, the *Distribution Company* does not contravene the *Affiliate Relationships Code*.

For greater certainty, in this Section 8.5, the term “financial assistance” does not include remuneration paid in the normal course of business to directors, officers or employees, including honoraria, wages, salaries or bonuses, or any reimbursement for expenses arising from such *Person's* duties.

8.6 Acquisition of Distributor under Certain Conditions

The *Corporation* is authorized, and shall authorize the *Distribution Company*, to acquire any interest in the distribution system, undertaking or securities of a distributor (as defined in the *Electricity Act, 1998*) operating outside of the municipal boundaries of the *Shareholder*, provided that:

- a) the *Corporation* or the *Distribution Company*, as the case may be, has determined that the proposed acquisition presents a reasonable opportunity to create additional value in *Toronto Hydro* for the *Shareholder*;
- b) the *Shareholder*'s dividend will not be adversely affected by the proposed acquisition, either in the immediate or long term;
- c) there is no dilution of the *Shareholder*'s shareholding in the *Corporation*;
- d) if it is necessary to place *Liens* on any assets of the *Distribution Company* to effect the acquisition, the *Liens* are placed on the assets or securities of the distributor being acquired;
- e) the *Corporation* provides the *Shareholder* with a quarterly update on its acquisition activity and the acquisition activity of the *Distribution Company*, indicating the bids that have been submitted, commentary on successful bids and commentary on unsuccessful bids indicating any underlying reasons for the lack of success; and
- f) where an acquisition has been successful, the *Corporation* reports to the *Shareholder* at the next meeting of *City Council* after the acquisition with particulars of the acquisition, including financing information which details how each of the conditions set out in Subsections 8.6 (a), (b), (c) and (d) have been satisfied.

8.7 Provision of Financial Assistance

Despite Section 8.5,

- a) the *Corporation* is authorized to provide financial assistance to the *Subsidiaries* by guarantees, letters of credit, direct loans or otherwise, for the purposes of enabling them to carry on their business, including in the case of the *Distribution Company*, for the purposes of satisfying the prudential requirements of the Independent Electricity System Operator (or its successor) which form part of the market rules to ensure the uninterrupted supply and payment of electricity.
- b) subject to the terms and conditions of the *Affiliate Relationships Code*, the *Corporation* shall authorize the *Distribution Company* to provide financial assistance to other *Subsidiaries* by guarantees, letters of credit, direct loans or otherwise for the purposes of enabling them to carry on their business:

provided that such financial assistance does not exceed an aggregate amount of \$500 million. For the purposes of this Section 8.7 only, except in the case of the *Distribution Company*, "Subsidiary" means a wholly-owned *Subsidiary* of the *Corporation*.

ARTICLE 9 REPORTING

9.1 Business Plan

Not later than the end of each fiscal year, the *Board* will approve and the *Chair* shall submit to the *City CFO* a business plan for the next three (3) fiscal years (the “*Business Plan*”). The *Business Plan* will be prepared on a consistent basis with the *Business Plan* then in effect. The *Corporation* will carry on its business and operations in accordance with the *Business Plan* which will include, in respect of the period covered by such *Business Plan*.

- a) the strategic direction, key objectives, priorities and business initiatives that the *Corporation* proposes to undertake;
- b) the metrics for monitoring the accomplishments and financial performance of the *Corporation* in the previous fiscal year, including the *Corporation’s* liquidity and debt coverage, and the *Corporation’s* then current return on equity;
- c) an operating and capital expenditure budget for the *Corporation* and each of the *Subsidiaries* for the next fiscal year and corresponding operating and capital expenditure projections for each fiscal year thereafter, including the anticipated resources necessary to implement the *Business Plan*;
- d) the projected annual revenues and profits for each fiscal year for the *Corporation* and each of the *Subsidiaries*;
- e) projected dividend payments to the *Shareholder*;
- f) an acquisition budget setting forth the nature and type of capital expenditures proposed to be made by the *Corporation* and its *Subsidiaries* in the following fiscal year, supported by explanations, notes and information upon which the budget was based;
- g) energy conservation programmes and environmental plans, including the level of commitment to renewable energy and co-generation;
- h) any material variances in the projected ability of any business activity to meet or continue to meet the financial objectives of the *Shareholder* as set out in this *Shareholder Direction* or as *Directed by Council* from time to time;
- i) any material variances from the *Business Plan* then in effect; and
- j) any such additional information as the *City CFO* may request of the *Chair* in writing from time to time.

9.2 Quarterly Reports

Within 60 days after the end of each fiscal quarter, the *Board* will approve (on a consistent basis with the previous fiscal quarter) and the *Chair* shall submit to the *City CFO* a quarterly report. The quarterly report will include, in respect of the immediately preceding fiscal quarter:

- a) quarterly *Financial Statements*;
- b) such explanations, notes and information as is required to explain and account for any variances between the actual results from operations and the budgeted amounts set forth in the current *Business Plan*, including any material variances in the projected ability of any business activity to meet or continue to meet the financial objectives of the *Shareholder*;
- c) information that is likely to materially affect the *Shareholder's* financial objectives or the *City of Toronto's* energy policies; applicable to the *Corporation*, as *Directed by Council* from time to time;
- d) information that is likely to materially affect customers' perceptions or opinions regarding *Toronto Hydro*;
- e) information regarding any matter, occurrence or other event which is a material breach or violation of any *Law*; and
- f) any such additional information as the *City CFO* may request of the *Chair* in writing from time to time.

9.3 Access to Records

- a) Subject to *Law*, the *Shareholder* may at any time duly appoint, in its discretion, any staff of the *City of Toronto* as one or more *City Authorized Representatives* in addition to the currently appointed *Auditor General*, *City Manager*, *City CFO* and *City Chief Corporate Officer*.
- b) The *Corporation* shall provide any *City Authorized Representative* with access to the books and records of the *Corporation* and its *Subsidiaries* during normal business hours as *Directed by Council*.
- c) The access by the *City Authorized Representative* to the *Corporation's* books and records is limited to situations where the *City Authorized Representative* has been specifically appointed by *City Council* to gain access to the *Corporation's* books and records for a specific purpose or project and where the *City Authorized Representative* has not been able to obtain the necessary information through the *Shareholder Direction* reporting mechanisms, through inquiries to senior management of the *Corporation*, or through a request from *City Council* to the *Chair* of the *Corporation*.

- d) The *City Authorized Representative* shall treat all information of *Toronto Hydro* with the same level of care and confidentiality as any confidential information of the *Shareholder* and shall be deemed to be subject to, and shall at all times comply with all *Law* with respect to such information.

9.4 Audit of Financial Statements

The *Corporation's* consolidated *Financial Statements* and the *Financial Statements* of all active Subsidiaries will be audited.

9.5 Internal Audit

The *Corporation* shall have an internal auditor who is independent of management and reports directly to the *Board* or a committee of the *Board* and who has the authority to undertake financial and performance audits, as may be requested by the *Board* or committee of the *Board* from time to time, and make recommendations to the *Board* or committee of the *Board*, as applicable, concerning all departments, offices, activities and programs of the *Corporation*.

9.6 Accounting

Subject to *Law*, the *Corporation* will, in consultation with its external auditor, adopt and use such accounting policies and procedures which may be approved by the *Board* from time to time.

9.7 Annual Financial Statements

The *Board* will deliver to the *City Manager* and the *City CFO*, as soon as practicable and in any event within three (3) months after the end of each fiscal year, the annual audited consolidated *Financial Statements* of the *Corporation* and its active *Subsidiaries*, and information concerning its *Subsidiaries*, equity interests and joint ventures as *Directed by Council*, for consideration by the *Shareholder*.

9.8 Annual Report

Together with the annual audited consolidated *Financial Statements* noted in Section 9.7 above, the *Board* will deliver to the City Executive Committee through the *City Manager's* office and the *City CFO* an annual report outlining:

- a) the *Corporation's* accomplishments during the fiscal year along with explanations, notes and information required to explain and account for any variances between the *Corporation's* actual results and the *Business Plan* in effect for the year;
- b) the progress made, using quantifiable performance data, towards accomplishing the principles set forth in Section 2.2.2 d);
- c) the *Executive Compensation Information*, as permitted by *Law*, which the *Shareholder* agrees it will receive and use in accordance with all *Law* including all applicable privacy law;

- d) a copy of the *Corporation's* Annual Information Form; and
- e) an annual report detailing the total remuneration and expenses paid by the *Corporation* for each member of the *Board*.

ARTICLE 10 FINANCIAL PERFORMANCE

10.1 Financial Performance

The *Board* will use its best efforts to ensure that *Toronto Hydro* meets the financial performance standards set out in this Article 10.

10.2 Credit Rating

The *Corporation* shall obtain and maintain, and, if necessary for financing purposes, shall cause the *Distribution Company* 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 (which credit rating agencies include Standard & Poor's, DBRS and Moody's).

10.3 Debt Financing

The *Corporation* shall optimize, and, if necessary for financing purposes, shall cause its *Subsidiaries* to optimize, its debt financing in accordance with the provisions of this *Shareholder Direction*.

10.4 Dividend Policy

Subject to any restrictions imposed by *Law* and this *Shareholder Direction*, the *Board* of the *Corporation* shall declare aggregate dividends with respect to each fiscal year in the amount of:

- a) 50% of the *Corporation's* prior fiscal year's annual consolidated net income,
- b) with a minimum annual amount of \$25 million, payable to the *Shareholder* in equal instalments of \$6.25 million payable on the last day of each fiscal quarter of the year (March 31, June 30, September 30 and December 31), and
- c) with the balance of the annual dividend, if any, payable within ten (10) days from the date of approval by the *Board* of the *Corporation's* annual audited consolidated *Financial Statements*.

**ARTICLE 11
AMENDMENTS**

11.1 Amendments

This *Shareholder Direction* may be amended solely at the discretion of the *Shareholder*. The *Shareholder*, if possible, will provide prior written notice to the *Board* of any proposed amendments to this *Shareholder Direction*.

DATED at Toronto as of this ____ day of _____, 2013.

CITY OF TORONTO

For: _____
Joseph P. Pennachetti
City Manager

For: _____
Ulli Watkiss
City Clerk

Approved as to Form

For: _____
Anna Kinastowski
City Solicitor

Authorized by Clause 14 of Policy and Finance Committee Report No. 13, adopted by Council at its meeting on October 1, 2 and 3, 2002, as amended by:

- Clause 24 of Policy and Finance Committee Report No. 7, adopted by Council at its meeting on September 28, 29, 30 and October 1, 2004;
- Clause 7 of Policy and Finance Committee Report No. 4, adopted by Council at its meeting of May 23, 24 and 25, 2006;
- Clause 7 of Policy and Finance Committee Report No. 5, adopted by Council at its meeting on June 27, 28 and 29, 2006;
- Executive Committee Item EX12.3 as amended and adopted by Council at its meeting on October 22 and 23, 2007, and
- Authorized by Executive Committee Item EX ____ as adopted by Council at its meeting on
- _____, 2013.

City Clerk

APPENDIX A

Ontario Energy Board Act, 1998 – Permitted Activities

Note: The following extract is being provided as an appendix to this *Shareholder Direction* for reference purposes only and the reader is cautioned to review the *Ontario Energy Board Act, 1998* and its regulations for any updates or revisions, from time to time.

a) Restriction on business activity

71. (1) Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity. 2004, c. 23, Sched. B, s. 12.

Exception

(2) Subject to section 80 and such rules as may be prescribed by the regulations, a transmitter or distributor may provide services in accordance with section 29.1 of the *Electricity Act, 1998* that would assist the Government of Ontario in achieving its goals in electricity conservation, including services related to,

- (a) the promotion of electricity conservation and the efficient use of electricity;
- (b) electricity load management; or
- (c) the promotion of cleaner energy sources, including alternative energy sources and renewable energy sources. 2004, c. 23, Sched. B, s. 12.

Exception

(3) Despite subsection (1), a distributor may own and operate,

- (a) a renewable energy generation facility that does not exceed 10 megawatts or such other capacity as may be prescribed by regulation and that meets any criteria that may be prescribed by the regulations;
- (b) a generation facility that uses technology that produces power and thermal energy from a single source and that meets any criteria that may be prescribed by the regulations; or
- (c) a facility that is an energy storage facility and that meets any criteria that may be prescribed by the regulations. 2009, c. 12, Sched. D, s. 11; 2011, c. 1, Sched. 4, s. 1.

b) Municipally-owned distributors

73. (1) If one or more municipal corporations own, directly or indirectly, voting securities carrying more than 50 per cent of the voting rights attached to all voting securities of a corporation that is a distributor, the distributor's affiliates shall not carry on any business activity other than the following:

1. Transmitting or distributing electricity.
2. Owning or operating a generation facility that was transferred to the distributor pursuant to Part XI of the *Electricity Act, 1998* or for which the approval of the Board was obtained under section 82 or for which the Board did not issue a notice of review in accordance with section 80.
3. Retailing electricity.

4. Distributing or retailing gas or any other energy product which is carried through pipes or wires to the user.
5. Business activities that develop or enhance the ability of the distributor or any of its affiliates to carry on any of the activities described in paragraph 1, 3 or 4.
6. Business activities the principal purpose of which is to use more effectively the assets of the distributor or an affiliate of the distributor, including providing meter installation and reading services, providing billing services and carrying on activities authorized under section 42 of the *Electricity Act, 1998*.
7. Managing or operating, on behalf of a municipal corporation which owns shares in the distributor, the provision of a public utility as defined in section 1 of the *Public Utilities Act* or sewage services.
8. Renting or selling hot water heaters.
9. Providing services related to the promotion of energy conservation, energy efficiency, load management or the use of cleaner energy sources, including alternative and renewable energy sources.

Limitation

(2) In acting under paragraph 7 of subsection (1), the distributor's affiliate shall not own or lease any works, pipes or other machinery or equipment used in the manufacture, processing or distribution of a public utility or in the provision of sewage services.

Municipal corporation

(3) Subsection (1) does not restrict the activities of a municipal corporation.

APPENDIX B

Affiliate Relationships Code– Independent Directors

Note: The following extract of the Affiliate Relationships Code is being provided as an appendix to this *Shareholder Direction* for reference purposes only and the reader is cautioned to review the Affiliate Relationships Code and its regulations for any updates or revisions, from time to time.

2.1.2 A utility shall ensure that at least one-third of its Board of Directors is independent from any affiliate.