



STAFF REPORT ACTION REQUIRED with Confidential Attachments

Toronto Hydro Corporation – Annual General Meeting and 2014 Audited Financial Statements

Date:	May 8, 2015
To:	Executive Committee
From:	City Manager and Deputy City Manager & Chief Financial Officer
Wards:	City-wide
Reason for Confidential Information	This report relates to the security of property of the municipality or one of its agencies and corporations and includes personal information about identifiable individuals

SUMMARY

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 ("THC") including receipt of THC's audited annual consolidated financial statements for 2014 and appointment of the auditor for THC for 2015.

This report also contains recommendations for receipt at the Annual General Meeting of the Shareholder of THC, other reports provided by THC as required by the Amended and Restated Shareholder Direction Relating to THC ("Shareholder Direction") which, in addition to the OBCA requirements, include:

- THC's annual report and THC's report on environmental performance;
- THC's fourth quarter report to the Shareholder, internal financial statements and financial statements for its subsidiaries; THC has advised the City that Attachments 7, 8, 9 and 10 are confidential due to: the security of the property of the City; and securities requirements arising from THC's status as an offering corporation under the OBCA, THC'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;
- THC's Annual Information Form, a public document published annually as required by the Ontario Securities Commission from THC as a public debt issuer; and
- THC's disclosure of executive compensation in two parts, with the part in Attachment 11(b) being confidential as it includes personal information about identifiable individuals.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council treat that portion of the 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 "Toronto Hydro Corporation 2014 Annual Shareholder Meeting, Resolution of the Sole Shareholder – City of Toronto, Re-appointing Auditor" forming Attachment 1 to this Report in order to re-appoint KPMG LLP, Chartered Accountants as the auditor for Toronto Hydro Corporation for 2015, and to authorize the Board of Directors of Toronto Hydro Corporation to fix the auditor's remuneration;
 - b. Receiving the "Toronto Hydro Corporation 2014 Annual Report, Bringing Energy to Life", the "Toronto Hydro Corporation 2014 Annual Financial Report December 31, 2014" including "Toronto Hydro Corporation Consolidated Financial Statements December 31, 2014 and 2013", the "Toronto Hydro Corporation Annual Information Form for the Year Ended December 31, 2014", the "Toronto Hydro 2014 Environmental Performance Report", and the "Toronto Hydro Corporation CEO and CFO Certification of Annual Filings", forming Attachments 2, 3, 4, 5 and 6 respectively to this Report;
 - c. Receiving the "Toronto Hydro Corporation Fourth Quarter 2014 Report to the Shareholder December 31, 2014", the "Toronto Hydro Corporation Internal Consolidated Financial Statements December 31, 2014", the "Financial Statements Toronto Hydro-Electric System Limited December 31, 2014", and the "Financial Statements Toronto Hydro Energy Services Inc. December 31, 2014", forming Confidential Attachments 7, 8, 9 and 10 respectively to this Report; and
 - d. Receiving the two-part report "Executive Compensation Disclosure Toronto Hydro Corporation 2014", forming Attachment 11(a) and Confidential Attachment 11(b) to this Report.
2. City Council direct that Confidential Attachments 7, 8, 9 and 10 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 11(b) 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, 2014 and 2013", included as part of Attachment 3 to this Report, to the Audit Committee for information.

FINANCIAL IMPACT

THC paid the City \$60.6205 million in dividends in 2014 and, in accordance with the City's Shareholder Direction to THC, is expected to pay the City dividends of \$56.25 million in 2015 based on 50% of 2014 net income of \$112.5 million. A subsequent report on dividend related issues is planned for the Fall of 2015.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

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

[Toronto Hydro Incorporation](#)

At the Annual General Meeting of the Shareholder of THC on April 12-13, 2011, City Council in EX4.8 requested THC to circulate its Annual Information Form, detailing senior executive compensation, to Council each year with its annual financial statements.

[Toronto Hydro AGM and 2010 Audited Financial Statements](#)

At the Annual General Meeting of the Shareholder of THC on July 11-13, 2012, City Council in EX21.2 requested the THC Board of Directors to report on options for capping executive salaries, bonuses, retirement allowances and other perquisites of office and request the Chair of the THC Board of Directors to present the current policy for executive compensation.

[Toronto Hydro AGM and 2011 Audited Financial Statements](#)

Also at its meeting of July 11-13, 2012, City Council in EX21.19 adopted recommendations that among other things requested that individual variable pay remuneration (one-time lump sums) not exceed 25% of an executive employee's base salary.

[Executive Compensation for City Agencies and Corporations](#)

At its meeting of November 27-29, 2012, City Council in EX25.4 received for information the THC report regarding executive compensation policies and practices.

[Toronto Hydro Executive Compensation](#)

At its meeting of May 7-10, 2013, City Council in EX31.7 approved the Amended and Restated Shareholder Direction Relating to THC.

[Toronto Hydro Corporation – Shareholder Direction](#)

That portion of the City Council meeting of July 8-11, 2014, where EX43.7 was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Toronto Hydro Corporation.

[Toronto Hydro AGM and 2013 Audited Financial Statements](#)

ISSUE BACKGROUND

Subsection 154 (1) of the OBCA requires that the Shareholder receive THC's audited annual financial statements and the report of the auditor at the annual meeting of the Shareholder. Subsection 94 (1) requires that the directors of THC call an annual meeting of its Shareholder by no later than fifteen months after holding the last preceding annual meeting, which was held by City Council at its meeting of July 8-11, 2014.

Section 149 (2) of the OBCA requires that THC's 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 9.7 of the THC Shareholder Direction requires THC to deliver its audited consolidated annual financial statements for THC and its active Subsidiaries to the Shareholder within three months after the end of each fiscal year.

Section 9.8 of the THC Shareholder Direction requires THC to deliver an annual report detailing THC's accomplishments, Business Plan status, performance data, executive compensation information, and the financial statements noted above.

THC's audited consolidated annual financial statements for 2014 are included as part of Attachment 3 to this report and are filed with the City Clerk's office, posted on THC's website and posted on the SEDAR website for Canadian public securities documents. The consolidated statements are public documents upon their release.

[Toronto Hydro Financial Reports](#)

www.sedar.com

The Annual Information Form ("AIF") is a public document published annually by THC as a public debt issuer in accordance with Ontario Securities Commission requirements. The 2014 AIF is filed with the City Clerk's office, posted on THC's website and posted on the SEDAR website for Canadian public securities documents.

COMMENTS

1. APPOINTMENT OF AUDITOR

The auditor is selected by THC based on a competitive process, subject to Shareholder approval. Under the OBCA the auditor must be appointed annually by the Shareholder at the annual general meeting of the corporation. The auditor so appointed holds office until the close of the next annual general meeting of the Shareholder, or until a successor is appointed.

Based on a formal RFP process conducted for fiscal year 2011, THC selected KPMG, Chartered Accountants, for an initial period of 5 years. The initial appointment of KPMG as the auditor for THC was approved by City Council in early 2011.

It is recommended that City Council, acting as Shareholder, approve the Shareholder Resolution forming Attachment 1 to this Report to re-appoint KPMG, Chartered Accountants, as the auditor for THC for 2015 and to authorize the Board of Directors of THC to fix the auditor's remuneration.

2. KEY TORONTO HYDRO CORPORATION ACHIEVEMENTS IN 2014

THC's 2014 Annual Report, Bringing Energy to Life (Attachment 2 to this Report), provides information on THC's corporate governance and contains highlights on THC's operational performance in 2014. Key achievements by THC in 2014 include the following:

- Served approximately 740,000 residential, commercial and industrial customers.
- Delivered net income of \$112.5 million.
- Paid \$60.6 million in dividends to the City of Toronto.
- Maintained strong credit rating with ratings of "A (high)" by DBRS Limited and "A" by Standard & Poor's.
- Among the leading local distribution companies in the delivery of conservation and demand management (CDM) programs to help customers conserve energy, save money and help the environment.
- Invested approximately \$585.5 million through Toronto Hydro-Electric System Limited capital projects primarily to improve system reliability and address the need for additional distribution capacity.

- Cooperated on transformational construction initiatives including Metrolinx Eglinton Crosstown Light Rail Transit System, Waterfront District Redevelopment and the Toronto-York Spadina Subway Extension Project.
- Participated in the Centre for Urban Energy at Ryerson University, a research and technology demonstration centre devoted to the discovery and commercialization of innovative solutions to urban energy issues.
- Continued improving electronic communication channels with enhancements to MyTorontoHydro®, e-Bills and Time-of-Use portal to improve customer access and on-line services.
- Named one of Greater Toronto's Top Employers and one of Canada's Greenest Employers by Mediacorp Canada Inc.
- Community outreach programs included co-hosting four Brighter Nights™ community events to help increase safety and energy efficiency in neighbourhoods across Toronto.

3. SUMMARY – TORONTO HYDRO CORPORATION 2014 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

2014 Audited Consolidated Financial Results

THC's financial statements have been prepared to consolidate the operations of the following two wholly-owned subsidiaries: Toronto Hydro-Electric System Limited ("THESL"), and Toronto Hydro Energy Services Inc. ("THESI"). The principal business of THC is the distribution of electricity by THESL. THESI provides street lighting services to the City of Toronto and has only a minor impact on the consolidated figures.

The publicly reported "Toronto Hydro Corporation Consolidated Financial Statements December 31, 2014 and 2013" are included as part of the "Toronto Hydro Corporation 2013 Annual Financial Report December 31, 2013" forming Attachment 3 to this Report. Attachment 6 to this Report contains Ontario Security Commission forms certifying THC filings. THC's confidential financial statements, including unconsolidated statements relating to its subsidiary companies and the holding company, and THC's 2014 Report to the Shareholder are included in Confidential Attachments 7, 8, 9 and 10 to this Report.

Below is a summary of comparable public financial data for 2014 and 2013.

THC Audited Consolidated Key Financial Results

(\$millions)

	2014	2013	Increase/ (Decrease)	% Change
Balance Sheet as at Dec 31				
Cash	0.0	0.0	0.0	0.0
Assets	4,276.3	3,797.5	478.8	12.6
Debentures	1,649.3	1,449.3	200.0	13.8
Shareholder's Equity	1,270.4	1,218.5	51.9	4.3
Income Statement for the year ended Dec 31				
Gross Revenues	3,316.2	3,202.7	113.5	3.4
Less:				
Purchased Power and Other	(2,700.4)	(2,567.5)	132.9	4.9
Gross Margin	615.8	635.2	(19.4)	(3.1)
Less:				
Operating Expenses	(267.6)	(272.0)	(4.4)	(1.6)
Depreciation & Amortization	(160.8)	(172.8)	(12.0)	(6.9)
Net Financing Charges	(63.8)	(66.2)	(2.4)	(3.6)
Gain on Disposal of Assets	1.5	1.3	0.2	15.4
Provision for PILs	(12.6)	(4.3)	8.3	193.0
Net Income	112.5	121.2	(8.7)	(7.2)
Capital Expenditures	588.4	450.4	138.0	30.6
Dividends Paid	60.6	43.0	17.6	40.9

Gross revenues reflect all billed electricity charges, including those collected for the electricity commodity, transmission debt reduction and street lighting. Gross margin is THC revenue collected for its own activities - almost entirely electricity distribution. The decrease in gross margin is primarily a result of the revenue recognition in 2013 of \$57.5 million related to the disposition of the 2008-2010 smart meter deferral account balances that is no longer applicable in 2014.

For the fiscal year ended December 31, 2014, THC generated a consolidated net income of \$112.5 million as compared with \$121.2 million in 2013, a decrease of \$8.7 million (or 7.2%).

The increase in capital expenditures was primarily related to spending on underground infrastructure (\$64.5 million), the facilities consolidation program (\$62.2 million), Copeland Station (\$36.8 million), and overhead infrastructure (\$35.4 million). These variances were partially offset by a decrease in Hydro One capital contributions included in planned expenditures (\$14.5 million), network infrastructure and equipment spending (\$13.4 million), customer connections (\$12.0 million), externally-initiated plant relocations and expansions (\$7.9 million), and feeder automation (\$6.4 million).

4. HIGHLIGHTS – 2014 ANNUAL INFORMATION FORM

THC's Annual Information Form for the year ended December 31, 2014, forms Attachment 4 to this Report. The AIF is published annually by THC as a public debt issuer according to Ontario Securities Commission requirements.

Employees

On February 13, 2014, CUPE One ratified collective agreements governing inside and outside employees of THC for a four year period expiring January 31, 2018. The collective agreements implemented a wage increase of 1.5% on February 1, 2014 and provide for general wage increases of 1.75%, effective on each of February 1, 2015 and February 1, 2016, respectively, and 2% effective February 1, 2017. The collective agreements also contain cost of living escalator clauses that provide for wage adjustments corresponding to the percentage change in the Consumer Price Index.

Executive Compensation

Executive compensation for Named Executive Officers (NEOs) is set out in the AIF in Attachment 4 (table at page 54 of AIF). The executive compensation reported for NEOs includes base salary, performance-based incentive compensation, personal benefits and perquisites, retirement benefits, retirement allowances and termination payments.

In addition to the executive compensation reported through the AIF, 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 in Attachment 11(a) and Confidential Attachment 11(b) to this Report to present public and confidential information separately. The compensation disclosure for NEOs, which is already public information through the AIF, forms Attachment 11(a) to this Report. Reporting of additional executive compensation information includes personal information about identifiable individuals and this information is contained in Confidential Attachment 11(b) to this Report.

2015 Rate Application

On July 31, 2014, THC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, to set rates effective May 1, 2015 with subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application includes requests for approval of capital expenditures of approximately \$2.5 billion over the 2015-2019 period. This application is currently under review by the Ontario Energy Board.

Conservation and Demand Management (CDM)

On November 13, 2014, THC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period with funding of approximately \$400.0 million, which includes participant incentives and program administration costs. THC is required to provide to the IESO its plan for achieving its CDM target by May 1, 2015.

Risk Factors

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing all aspects of the business.

5. TORONTO HYDRO CORPORATION 2014 ENVIRONMENTAL PERFORMANCE

Attachment 5 to this Report contains THC's 2014 Environmental Performance Report. Highlights for 2014 include:

- Recognized as a Sustainable Electricity Company™ by the Canadian Electricity Association on June 17, 2014, based on an independent verification process against international standards including alignment of its environmental management system with ISIO 14001 and business practices that meet ISO 26000 social responsibility requirements.
- Total greenhouse gas ("GHG") emissions were 84,053 t CO₂e, a decrease of 2% relative to 2013 (Scope 1 and Scope 2 emissions as defined in the THC report).
- 87% of emissions are attributed to line losses.
- Office consolidations and renovations were completed which are expected to reduce energy usage and GHG emissions from building operations.
- CDM programs led to an estimated energy savings of 185,572 MWh and reduced summer peak demand by 65.8 MW, reducing customer GHG emissions by 17,815 tCO₂e.
- Since 2009, CDM programs helped Toronto Hydro customers reduce electricity consumption by 827,993 MWh, energy demand by 486 MW and GHG emissions by 79,487 tCO₂e.
- Since 2009, under the Feed-in Tariff (FIT) program, 724 microFIT interconnections (each under 10 kW capacity) and 206 FIT interconnections (each greater than 10 kW capacity) have been enabled, totalling more than 4.125 MW and 33.53 MW of generation respectively.

- Including other projects like load displacement, 973 renewable generation projects have been enabled since 2009, totaling about 40 MW.
- Toronto Hydro is jointly investing with the City of Toronto on solar photovoltaic (PV) projects on City-owned facilities. The first group of 10 projects with an installed capacity totalling 1 MW achieved 1,910 MWh of production in 2014.
- Under the FIT 3.0 program, Toronto Hydro and the City secured additional contracts and are moving forward with an additional 10 projects in 2015.
- Energy security and supply initiatives include building a new underground transformer station (Copeland Station) to help take pressure off of some downtown stations, and manufacturing, factory acceptance testing and delivery of most of the major equipment occurred in 2014.

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SIGNATURE

Joseph P. Pennachetti
City Manager

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Attachment 1	Toronto Hydro Corporation 2014 Annual Shareholder Meeting, Resolution of the Sole Shareholder – City of Toronto, Re-appointing Auditor
Attachment 2	Toronto Hydro Corporation 2014 Annual Report, Bringing Energy to Life
Attachment 3	Toronto Hydro Corporation Annual Financial Report December 31, 2014 Including: Toronto Hydro Corporation Consolidated Financial Statements December 31, 2014 and 2013
Attachment 4	Toronto Hydro Corporation Annual Information Form for the Year Ended December 31, 2014
Attachment 5	Toronto Hydro 2014 Environmental Performance Report
Attachment 6	Toronto Hydro Corporation CEO and CFO Certification of Annual Filings
Confidential Attachment 7	Toronto Hydro Corporation Fourth Quarter 2014 Report to the Shareholder December 31, 2014
Confidential Attachment 8	Toronto Hydro Corporation Internal Consolidated Financial Statements December 31, 2014
Confidential Attachment 9	Financial Statements Toronto Hydro-Electric System Limited December 31, 2014 and 2013
Confidential Attachment 10	Financial Statements Toronto Hydro Energy Services Inc. December 31, 2014 and 2013
Attachment 11(a)	Executive Compensation Disclosure Toronto Hydro Corporation 2014
Confidential Attachment 11(b)	Executive Compensation Disclosure Toronto Hydro Corporation 2014