

POWERING TRANSFORMATION

2021 ANNUAL REPORT



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POWERING TRANSFORMATION



MESSAGE FROM THE CHAIR OF THE BOARD, AND PRESIDENT AND CHIEF EXECUTIVE OFFICER

We're pleased to present Toronto Hydro's 2021 Annual Report: *Powering Transformation*.

In 2021, we successfully navigated our second year powering Canada's largest city — and North America's fastest growing city — during a global pandemic that has in many ways transformed the world in which we operate. To keep up our commitment to delivering safe, reliable and clean electricity to nearly three million Torontonians, we continued to focus on preventing the transmission of COVID-19 in our workplace and among the communities we work in, and were honoured to receive the Business Continuity Institute award for Most Effective Recovery for our pandemic response. We also maintained our unwavering commitment to employee health and safety throughout the year, achieving our best Total Recordable Injury Frequency on record.

Despite facing difficult external conditions, including global supply chain challenges and disruptions, we delivered the largest investment program in our company's history to renew and expand the grid and reinforce our operations. We were able to

We are embracing the challenges of today and creating a high-performing utility of the future through a paced transformation — harnessing the city's tremendous growth while sustainably modernizing, enhancing the customer experience, and focusing on understanding and supporting key technologies and tools.

invest in the grid while maintaining our portion of the Delivery Charge below 2019 levels, which we expect will continue to be the case for residential customers until the end of 2024. We also continued to work with our customers to help them manage their bills, including by providing more flexible payment options and additional support through financial assistance programs. And while we stretched ourselves to absorb the financial impacts of COVID-19 into our operating budget, we also delivered dividends to the City of Toronto to help fund City services.

The last two years have reinforced that while the role of keeping electricity flowing safely and reliably in Canada's largest city has never

been more critical, the challenge of adapting to a changing world has never been more complex. To keep pace, we are embracing the challenges of today and creating a high-performing utility of the future through a paced transformation — harnessing the city's tremendous growth while sustainably modernizing, enhancing

the customer experience, and focusing on understanding and supporting key technologies and tools. Toronto Hydro's exciting transformation into a utility of the future is anchored by six strategic priorities, which are outlined in more detail in this report.

As we enter a future that will see increased electrification and emissions reductions, part of our transformative role will include doing our part to help build a greener city through climate action. In addition to committing to net-zero emissions in our own operations by 2040, we filed an innovative Climate Action Plan with the City of Toronto outlining how we can support the City's Net Zero Strategy. Our proposals include investing in the local grid to make it capable of supporting the level of electrification required to get Toronto to net zero.

We're already powering transformation across the city, from supporting major transit projects to enabling fleet electrification to piloting electric vehicle (EV) charging for Toronto residents, and we're proud to be recognized for these efforts. In 2021, we were named one of Canada's top 10 corporate citizens by Corporate Knights and were recognized by Electricity Canada's Centre of Excellence for our on-street EV charging pilot project with the City of Toronto and our innovative battery energy storage project at our Bulwer Station in downtown Toronto.

On behalf of Toronto Hydro, we thank our frontline workers and all of our employees for their hard work and commitment throughout another uniquely challenging year. Through their efforts, and with the continued support of our partners and stakeholders, we look forward to continuing to power our growing city while simultaneously charting a course of exciting transformation into a utility of the future.

David McFadden
Chair



Anthony Haines
President and
Chief Executive Officer

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COMPANY OVERVIEW

Toronto Hydro Corporation is a holding company which wholly owns two subsidiaries:

- **Toronto Hydro-Electric System Limited** distributes electricity; and
- **Toronto Hydro Energy Services Inc.** provides streetlighting and expressway lighting services in the city of Toronto

To learn more about our company, including our leadership, governance and sustainability performance, visit torontohydro.com/about-us.

Did you know that Toronto Hydro serves both smaller and larger customers, including:

703,947 Residential Service customers — includes houses, apartments and condominiums



82,711 General Service customers with monthly peak demand of less than 5,000 kW* — includes schools, restaurants and most shopping malls



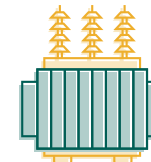
46 Large Users with monthly peak demand of 5,000 kW or greater* — includes hospitals, universities and large manufacturers



Our customers are serviced from:



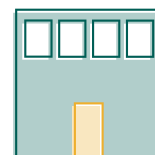
37
terminal stations



17,160*
primary switches



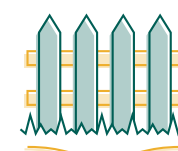
61,140*
distribution transformers



141
in-service municipal substations



15,406*
circuit kilometres of overhead wires



13,681*
circuit kilometres of underground wires



182,640*
poles



4
operation centres



1
control centre

*Averaged over a 12-month period.

*Figures are approximate.

POWERING THE UTILITY OF TOMORROW

UTILITY OF THE FUTURE: STRATEGIC PRIORITIES

For over 100 years, Toronto Hydro has been the local electric company that's owned and maintained a physical grid of poles and wires requiring a lot of manual intervention. While we will continue to be a utility that serves our customers and keeps the lights on, the way we do that is evolving markedly. Toronto Hydro's exciting transformation into a utility of the future is anchored by six strategic priorities:

Intelligent grid

The foundation for Toronto Hydro's future — the intelligent grid — involves two key areas of focus: (1) grid automation and modernization investments that enable Toronto Hydro to quickly isolate, identify and resolve issues with far less manual intervention and control; and (2) market-enabling investments that get the utility ready for a range of possible futures where the core utility function evolves dramatically.



Energy storage

We expect that, over time, energy storage will evolve to become an important part of the toolkit to help utilities and customers manage an increasingly dynamic electricity supply/demand environment.



Energy storage offers a unique opportunity to address grid-side capacity needs through tools like demand response, as well as commercial and industrial customer-side needs such as power quality improvements. As costs come down and the economics evolve, energy storage will likely evolve to be a key non-wires alternative technology that will assist Toronto Hydro and our customers in realizing the intelligent grid.

Transportation electrification

As personal, fleet and public vehicles become increasingly electric, utilities have an important role to play as partners and enablers of this future.



As Toronto continues to grow at a record rate, Toronto Hydro is already a key partner in the delivery of public transit projects underway to serve the city's increasingly dense urban footprint, ensuring the flow of safe and reliable electricity to where it's needed.

Customer experience

The second foundation for Toronto Hydro's future — the customer experience — moves the utility closer to an omni-channel view of the customer, meeting them where they are and helping them shape where they want to go with their utility service model.



This customer experience evolution is focused on: (1) a combination of two-way communication tools through digital platforms, and enhanced research and engagement tools for mass-market customers; and (2) leveraging the key account framework and deploying enhanced bespoke services to serve the unique needs of large commercial and industrial customers.

Process automation

As Toronto Hydro looks to maximize the benefits of its digitally enhanced grid, process automation will play a key role in enabling us to continue improving our productivity.



Advancements in automation, including machine vision, machine learning, blockchain technology, connected devices (i.e., the Internet of Things), robotics and drones show substantial promise to simultaneously enhance automation, reliability, productivity and cost control. By investing in and leveraging these automation technologies, Toronto Hydro has the opportunity to realize economic benefits and improve the customer experience.

Business growth

In 2021, Toronto Hydro distributed over 23 TWh of electricity to approximately 787,000 customers, and the major development trend in the city continues.



Toronto's ongoing and exponential growth supports continued investment in core utility operations. As Toronto Hydro continues to evolve, finding ways to effectively leverage this expansion to stimulate business growth in the form of new customers, buildings and infrastructure becomes increasingly important.

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MODERNIZING THE CUSTOMER EXPERIENCE

2021 highlights

- ★ Launched new customer self-serve portals for our residential and business customers, offering convenient, online access to bill and account history, pricing plan optionality, eBilling and more
- ★ Launched new power outage chat and customer chat tools on our website, offering customers convenient, real-time options for reporting or inquiring about the status of outages, and for resolving account-related inquiries
- ★ Introduced SMS outage notifications, allowing customers to sign up to receive text notifications based on the most up-to-date outage information available in our system
- ★ Launched a new, interactive streetlight map for customers to easily locate and report streetlight issues online
- Upgraded our online Construction Map to offer information about planned outages, in addition to construction projects taking place across the city
- Continued to support pricing optionality for customers on Time-of-Use and Tiered pricing, offering customers the option to choose the electricity price plan that works best for them
- Worked directly with customers throughout the pandemic to provide more flexible payment options and additional support through various financial assistance programs, including the provincial COVID-19 Energy Assistance Programs
- Enrolled an additional 33,000 customers for paperless billing, a convenient, sustainable and cost-effective way for customers to receive their bills
- Continued to drive increased customer and public safety awareness through education campaigns about electrical safety, fraud prevention and emergency preparedness

Additional highlights:



We issued accurate bills

99%*

of the time
in 2021.

In 2021, **91%** of customer inquiries were resolved on first contact, continuing our strong performance in this regard.



In 2021, we issued COVID-19 Energy Assistance Program (CEAP) credits to nearly

8,000 residential and small business customers.

*The remaining 1% represents both billing estimates (which are used in rare cases where we aren't able to obtain accurate meter readings) and billing adjustment corrections due to billing errors.

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STRONG UTILITY PERFORMANCE AND PRODUCTIVITY

2021 highlights

- Received the Most Effective Recovery Award from the Business Continuity Institute (BCI) Americas, in recognition of our quick mobilization in response to COVID-19 to protect our workforce and the public while continuing to deliver safe and reliable power throughout the city
- Achieved successful management of COVID-19 through strong health and safety protocols, including a COVID-19 vaccination policy for employees
- Completed the second year of our five-year investment plan for 2020-2024 by investing \$647.4 million primarily in our grid to maintain safety and reliability, support a growing city and meet customer service needs
- Paid dividends totalling \$70.3 million to our sole shareholder, the City of Toronto, which can be used to fund essential City services for the benefit of Toronto residents
- Continued to support Metrolinx's regional transit expansion and priority transit programs
- Performed major technology infrastructure and system upgrades to help enable our Utility of the Future Intelligent Grid strategy
- Deployed new productivity tools which contributed to reducing the time it takes to respond to high priority ("P1") equipment deficiencies and to leaking equipment
- Continued to build on improvements to our emergency response systems, including a damage assessment application tool and a high-precision weather forecasting and predictive damage modeling tool
- Responded safely and effectively to five extreme weather events throughout the year

Additional highlights:

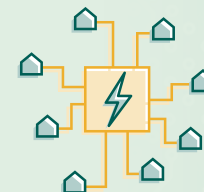
In 2021, we completed more than

300 planned capital projects as part of our grid investment initiatives and more than



4,000 reactive projects that supported our distribution system health.

We connected new services to the grid on time more than **99%** of the time in 2021.



In 2021, we achieved a Total Recordable Injury Frequency (TRIF) rate of **0.56** (our best

record to date), which was about




77% better than the Electricity Canada average.*

*TRIF, which is sometimes termed "total recordable injury rate" or simply "total recordable rate," is the ratio of injuries of a certain severity (termed "recordable injuries") to hours worked. Toronto Hydro's 2021 result was compared to the latest available average (2020) for Electricity Canada (formerly the Canadian Electricity Association) member utilities.

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LEADERSHIP ON CLIMATE ACTION

2021 highlights

-  • Filed an innovative Climate Action Plan with the City of Toronto, featuring proposals for how we can help support a net-zero future by delivering nationally significant emissions reductions, growing the local cleantech economy and promoting social equity in Toronto
- Committed to achieving net-zero emissions in our own operations by 2040, and will be introducing two new performance metrics on our corporate scorecard starting in 2022 to help track our progress: Building Emissions Reduction and Fleet Electrification
- Certified to stringent, internationally recognized standards for environmental (ISO 14001:2015) and occupational safety (ISO 45001:2018) management systems by independent third-party auditors for the ninth consecutive year
- Ranked in the top 10 on Corporate Knights' list of the Best 50 Corporate Citizens in Canada (and were second overall among electricity transmission and distribution companies)
-  • Recognized by Electricity Canada's Centre of Excellence for our on-street EV charging pilot project with the City of Toronto and our Bulwer Station Battery Energy Storage System — two examples of innovative electricity projects directly aligned with the Government of Canada's and the City of Toronto's emissions reduction targets
- Continued to decrease the size of our vehicle fleet and pursue initiatives to reduce our fleet emissions, reduce repair and maintenance costs, and extend the life cycle of our vehicles, helping to provide value to our shareholder, ratepayers and residents of Toronto
-  • Continued to support the TTC's move to electric buses (including by assisting with implementing three energy management and energy storage projects at TTC facilities), and moved forward on a partnership with TTC and Ontario Power Generation to help further electrify the TTC's fleet and reduce emissions in the city

Additional highlights:

Over the past five years, our overall emissions have decreased by **35%**.



In 2021, we achieved a corporate recycling rate of **91%**.








We reduced our paper consumption by more than **70%** in 2021 compared to 2020.



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LEADERSHIP ON CLIMATE ACTION

2021 highlights continued...

-  Continued to partner with the City of Toronto on a pilot project to install EV charging stations on select streets across the city to help better understand EV charging usage and support the reduction of greenhouse gas emissions in Toronto
-  Partnered with Plug'n Drive and Elocity Technologies Inc. on an EV smart charging pilot program to help better understand charging patterns and behaviours in Toronto, and provide customers access to monitor, schedule and control their EV charging through an app
-  Partnered with the Toronto Parking Authority (TPA) to upgrade existing charging stations and install new charging stations at select TPA locations across the city
-  Continued to provide support for connecting renewable distributed energy resources to our grid, including pre-assessments, connection impact assessments, and commissioning and engineering
-  Continued to invest in renewable generation and energy storage projects across the city, including solar photovoltaic projects on City-owned facilities, our Bulwer Battery Energy Storage System in downtown Toronto and the Eglinton Crosstown LRT battery energy storage system
- Continued to improve the system's resiliency to extreme weather events to help reduce the impacts of climate change on the residents of Toronto
- Completed tree pruning on approximately 41,000 trees that were adjacent to distribution lines in order to remove vulnerable sections of the tree canopy susceptible to damage from high winds or the accumulation of ice and snow
- Developed a tree planting program with Tree Canada to encourage customers to switch to electronic bills (eBills)

Additional highlights:

We've received BOMA BEST Certification at

three

of our work centres, in recognition of the resource efficiency and environmental programs implemented at these locations.



Since 2004, more than

5,000

trees have been

planted across the city through our partnerships with Local Enhancement & Appreciation of Forests (LEAF) and the City's Parks, Forestry and Recreation division.

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FINANCIAL PERFORMANCE

2021 highlights

- During the COVID-19 pandemic, Toronto Hydro Corporation has maintained the full range of its services while focusing on the health and safety of its employees and the community. The Corporation has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city and meet customer service needs
- Net income after net movements in regulatory balances for the year ended December 31, 2021 was \$141.0 million, compared to \$117.1 million for the comparable period in 2020
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of Toronto Hydro-Electric System Limited and were \$647.4 million for the year ended December 31, 2021, compared to \$617.2 million for the comparable period in 2020
- The Corporation's total debt to total capitalization ratios related to the trust indenture and revolving credit facility increased to 58.9% and 58.4% respectively over 2020 fiscal year-end (58.0% and 57.6% respectively), but remain below the limit of 75%

Selected annual consolidated financial information (in millions of Canadian dollars)¹

		2021 \$	2020 \$
YEAR ENDED DECEMBER 31	Total revenues	3,567.1	3,929.6
	Net income after net movements in regulatory balances	141.0	117.1
AS AT DECEMBER 31	Total assets and regulatory balances	6,413.8	6,069.0
	Total debentures ²	2,430.7	2,382.2
	Other non-current financial liabilities ³	27.5	22.1
	Total equity	1,982.7	1,912.0
	Dividends	70.3	92.6

¹ Derived from Toronto Hydro's consolidated financial statements based on extracts of selected information only and do not represent the full set of consolidated financial statements.

² Total debentures include current and long-term debentures.

³ Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customer deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

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FINANCIAL PERFORMANCE

Consolidated Statements of Income — year ended December 31 (in millions of Canadian dollars)

Consolidated Statements of Income — year ended December 31 (in millions of Canadian dollars)		2021 \$	2020 \$	Change \$
REVENUES	Energy sales	2,702.4	3,142.5	(440.1)
	Distribution revenue	759.1	694.4	64.7
	Other	105.6	92.7	12.9
		3,567.1	3,929.6	(362.5)
EXPENSES	Energy purchases	2,775.2	3,150.5	(375.3)
	Operating expenses	323.0	326.0	(3.0)
	Depreciation and amortization	292.7	274.3	18.4
		3,390.9	3,750.8	(359.9)
	Finance costs	(79.1)	(77.1)	(2.0)
	Gain on disposals of property, plant and equipment	2.7	—	2.7
	Income before income taxes	99.8	101.7	(1.9)
	Income tax expense	(21.8)	(28.6)	6.8
	Net income	78.0	73.1	4.9
	Net movements in regulatory balances	54.1	18.8	35.3
	Net movements in regulatory balances arising from deferred taxes	8.9	25.2	(16.3)
	Net income after net movements in regulatory balances	141.0	117.1	23.9

Additional information with respect to the Corporation (including its 2021 Annual Information Form and 2021 Fourth Quarter Financial Report) is available on [torontohydro.com](https://www.torontohydro.com).