

MEMORANDUM OF UNDERSTANDING

between

the City of Toronto (the "City") and Toronto Hydro-Electric System Limited ("THESL")

(pursuant to Council Decision 2022EX34.9)

WHEREAS, by way of background:

1. Toronto Hydro Corporation ("Toronto Hydro") is a private corporation owned by the City of Toronto and not an agency of the City; and
2. the governance relationship between the City and Toronto Hydro and Toronto Hydro's subsidiaries is as set out in its Amended and Restated Shareholder Direction Relating to Toronto Hydro (the "Shareholder Direction"),¹ and in applicable laws in force in Ontario; and
3. this Memorandum of Understanding arises out of this governance framework and does not modify or amend it; and
3. the City of Toronto ("City") has set out an ambitious plan to address the climate emergency through TransformTO and its Net Zero Strategy and will be undertaking numerous education and policy initiatives to encourage climate action that are expected to lead to increased electrification; and
4. THESL (a subsidiary of Toronto Hydro) as the electricity distributor for the City of Toronto has a critical role to play in assisting customers with the clean energy transition; and
5. At its meeting of April 7-8, 2021, Toronto City Council adopted Decision 2021.EX22.5, that requested that Toronto Hydro prepare an action plan for what more it could do to support climate action and the critical objectives of the City's TransformTO vision and Net Zero Strategy; and
6. At its meeting of December 15-17, 2021, Toronto City Council adopted Decision 2021.IE26.16 ("TransformTO – Critical Steps for Net Zero by 2040") that directed City staff, among other things, to undertake community outreach projects and implement community programs to achieve a Toronto community-wide reduction target of net zero greenhouse gas emissions by 2040; and

¹ [Toronto Hydro Corporation Shareholder Direction](#)

7. Toronto City Council has received Toronto Hydro's Climate Action Plan and 2022 Status Report (attached as Appendices A and B, respectively); and
8. At its meeting of July 19-22, 2022, Toronto City Council adopted Decision 2022.EX34.9 ("Update on Toronto Hydro Climate Action Plan and Next Steps") that, among other things, requested expansion of Toronto Hydro's business activities beyond electricity distribution services to establish a new stream of non-rate regulated operations within its regulated business to be called Toronto Hydro's Climate Advisory Services (the climate action opportunity that excludes Toronto Hydro owning and operating assets); and
9. There may be future impacts on the Toronto Hydro dividend to the City as a result of Climate Advisory Services; and
10. In light of the above, City Council directed in Decision 2022.EX34.9 that the City and THESL set out how they will enhance existing coordination related to communications and marketing to customers; key performance indicators; roles and responsibilities; implementation planning; and reporting to achieve climate action at scale and provide maximum value for taxpayers and electricity ratepayers in accordance with City Council's direction.

AND WHEREAS, Toronto Hydro and the City have been working together on climate change efforts as detailed below:

- a. The City has been at the vanguard of climate mitigation efforts for more than two decades and has operationalized a broad suite of programs to help address key sources of greenhouse gas emissions within the City of Toronto.
- b. Over the past 15 years, Toronto Hydro has actively contributed to the City's climate change goals by investing in delivering decarbonized energy; connecting renewable generation to the grid; driving energy efficiency and conservation; and integrating environmental sustainability into its core operations. It has a demonstrably strong record on environmental performance and has been recognized as a top environmental performer, partner and leader.
- c. The City and Toronto Hydro have been coordinating climate mitigation efforts for many years through efforts such as the on-street electric vehicle charging program.
- d. THESL's regulatory strategy, planning, operations, and advocacy are arms-length activities, as a matter of law, governance, and market expectations. They are within the scope of activities which THESL, Toronto Hydro's regulated electricity distribution subsidiary, routinely undertakes as part of its Ontario Energy Board-regulated utility business operations, as a matter of provincial jurisdiction.

- e. As climate mitigation efforts expand and governments and the private sector mobilize greater resources to respond to the climate emergency, the parties recognize that to be effective they will need to both increase their efforts and play more specialized roles over time, in accordance with their regulatory roles, legal responsibilities, areas of expertise, and mandates.
- f. Toronto Hydro's Climate Action Plan, as received by City Council, anticipates Toronto Hydro's Climate Advisory Services will be operational on a steady state basis in 2026; therefore, Toronto Hydro will progressively "do more" to advance climate action leading up to that time period, including working with the City to complement its existing programs. THESL and the City will coordinate to ensure that TransformTO and Climate Advisory Services operate in a complementary manner.
- g. City Council has directed City Staff to fulfill the following roles related to climate action:
 - i. Climate Action Programming
 - 1. City Staff will continue to implement and enhance existing climate action programs/policies/strategies such as:
 - a. The Toronto Green Standard, that sets sustainable design requirements for new buildings
 - b. The Net Zero Existing Buildings Strategy, that focuses on emission reduction in existing buildings
 - c. The Electric Vehicle Strategy, that supports the transition to electric vehicles
 - 2. To further accelerate the energy transition, the City will also develop new programs and policies that complement Toronto Hydro's Climate Advisory Services' offerings
 - ii. Collaboration / Partnerships:
 - 1. Making recommendations related to by-law and policy making
 - 2. Providing information and advice to key City decision makers
 - 3. Marshalling external organizations and businesses to align action and tackle specific problems, such as through the Climate Advisory Group
 - iii. Outreach and Engagement:
 - 1. Advocate with the federal and provincial governments to support TransformTO on behalf of all Torontonians
 - 2. Motivate citizen, community and business interest in taking action to reduce emissions
 - iv. Lead by Example:
 - 1. Reduce emissions through the City's own operations

2. Modelling net zero building retrofit practices for others to emulate
- h. Toronto City Council has requested that Toronto Hydro do more to support climate action and recognized or authorized the following roles:
 - i. Distribution Grid Owner and Operator: THESL has an indispensable role to play in planning for widespread electrification via THESL's distribution grid, the key tool towards achieving net zero within the City of Toronto. Operation, planning and expansion of the electricity distribution system is within the regulatory jurisdiction of the Province/Ontario Energy Board. This Memorandum of Understanding is not intended to govern, prescribe or restrict THESL's independent role as the licensed distribution grid owner and operator in the City of Toronto.
 - ii. Climate Advisory Services: THESL has the existing customer and business relationships to guide its customers through all stages of their journey to fully electrify their homes and businesses, including by developing programs that complement City initiatives and help customers: develop step-by-step personalized climate action plans; access available incentives; and find reputable and qualified cleantech companies to complete projects.
 - iii. Streetlighting LED Conversion: THESL's affiliate, Toronto Hydro Energy Services Inc., as the owner and operator of the streetlights within the City of Toronto, will be responsible for coordinating the streetlighting LED conversion, based on the direction and investment provided by City Council. This Memorandum of Understanding is not intended to alter or amend the existing street lighting service arrangement with the City.
 - iv. Energy Policy Advocate for Engaging with Governments and Regulators: As the licensed electricity distributor of the City, THESL has the customer relationships, regulatory experience, energy systems expertise, and technical ability to advocate for data driven policies to achieve net zero at an affordable cost.

NOW, THEREFORE, the City and THESL have reached the following understanding regarding TransformTO and Climate Advisory Services:

1. Coordinating Action

- a. The parties have not identified any duplication within existing programming. The parties understand that ongoing coordination is essential as the climate

- mitigation landscape is rapidly evolving and that their roles and responsibilities may change over time, as authorized by City Council.
- b. As THESL ramps up Climate Advisory Services, the parties recognize that a robust coordination and issues management framework is needed to preserve an effective working relationship that efficiently leverages available resources.
 - c. Coordination efforts by City and THESL climate leaders and staff will reflect that:
 - i. Though both parties will work independently, the City and THESL recognize the importance of transparency, collaboration, maintaining alignment, and cooperating to avoid duplication and overcome the inevitable challenges that will arise.
 - ii. The parties agree to consult with each other on any new climate mitigation efforts outside of the roles and responsibilities described above prior to operationalization.
 - d. Further coordination by the parties will be facilitated by THESL's inclusion in the City's TransformTO Net Zero Strategy Accountability and Management Framework:
 - i. the City's Net Zero Climate Leadership Table includes representation from City divisions, agencies, boards and corporations to work through City-specific issues as they arise and remove barriers to climate action; THESL is a formal member of this body.
 - ii. The City's Climate Advisory Group, with representation from various community groups, corporations and utilities central to achieving net zero in an equitable manner, will advise on measures to address emissions across all energy sources; THESL will attend meetings in which its Climate Action Plan or electrification and energy transition issues are discussed.
 - e. Additionally, the City and Toronto Hydro will build on the existing City-Hydro meeting framework to support collaboration and attend to issues that naturally arise in a complex initiative in an orderly manner.
 - i. This framework includes existing meetings between senior and executive leadership within both organizations, including the City Manager and the President & CEO of Toronto Hydro.
 - ii. To supplement this framework, an ongoing and regular meeting series will be established between the City's Environment & Climate Division and THESL's Climate Action Department to support coordination and collaboration throughout the various operational discussions underway, and to ensure issues are escalated and resolved in a timely manner. The City's Environment & Climate

Division and THESL's Climate Action Department will engage divisions/departments and teams as required.

- f. Toronto Hydro will continue to receive feedback from Councillors and their offices, including those related to climate action or the energy transition, through pre-existing, well-established processes.

2. Communication

- a. The parties commit to coordinating TransformTO and Climate Advisory Services' marketing plans related to major project announcements, events and press releases, to spur climate action and build the essential momentum required to achieve net zero emissions.
- b. Each party will designate a single point of contact to meet at regular intervals; align on overall communications strategies; identify opportunities to jointly promote projects; and avoid duplication.
- c. Each parties' communications will recognize the contributions of the other to the success of their climate action programs.

3. Setting Targets and Measuring Success:

- a. The TransformTO Net Zero Strategy establishes targets for 2025, 2030 and 2040.
- b. To reach these targets, the City has and will continue to establish by-laws and policy measures to make it easier for Toronto to achieve emissions reductions dependent on electrification.
- c. THESL's Climate Advisory Services climate action targets, including those related to the installation of heat pumps, solar panels and EV chargers, will be based on contributing to the success of individuals and businesses in taking climate action in alignment with funding parameters.
- d. The City and Toronto Hydro recognize that both the City's TransformTO and Toronto Hydro's Climate Advisory Services targets will evolve over time as new information becomes available. Both parties affirm that they will make reasonable efforts to align their targets and measures to provide value for money to ratepayers and taxpayers by avoiding duplication and identifying synergies.
- e. Both the City and Toronto Hydro's Climate Advisory Services will maintain Key Performance Indicators ("KPIs") that measure their own performance in achieving their respective targets. These KPIs are about measuring each organization's own efforts and progress towards achieving their goals and do not include aspects that are beyond the City or Toronto Hydro's control.

4. Value for Money

- a. As the climate crisis grows more urgent every year, the window to make significant and lasting change is diminishing. Action at scale must happen immediately.
- b. As the electricity distributor for the City of Toronto, THESL has a unique climate action value proposition with approximately 75 percent of the City's Net Zero Strategy relying upon the electricity grid. THESL, with more than a decade of experience assisting customers through its previous Conservation and Demand Management programs, and through existing relationships with its nearly 790,000 customers and the clean tech sector, is well positioned to work as a partner to accelerate and smooth the energy transition for customers.
- c. By 2026, Toronto Hydro's Climate Advisory Services business cost will be approximately \$15 million per year – only 0.17% of the \$146 billion estimated by the City that is required to achieve net zero emissions within Toronto by 2040. This modest investment, self-funded by Toronto Hydro with no ratepayer support, could mobilize as much as \$3.5 billion in climate investment. In the context of the broader societal changes necessary to get to net zero, the parties believe this expenditure provides excellent value for money to both ratepayers and taxpayers.
- d. To further provide value to taxpayers and ratepayers, the City and THESL will continually work to align the scope of activities within the roles and responsibilities set out above to avoid duplication and identify savings, particularly with respect to modeling, customer education and climate mitigation program offerings.

5. Implementation Planning

- a. City Staff will report annually to City Council on the progress made toward achieving its TransformTO net zero vision, including by developing additional specific targets to guide the transition.
- b. As THESL develops its climate action programs in cooperation with cleantech partners and technology providers, customers, funders, and other stakeholders, Toronto Hydro will provide climate action updates based on its experiences and observations to: (a) City Staff through regular meetings; and (b) City Council through its corporate reporting and public Annual General Meeting.
- c. Both parties recognize that it will take time for Climate Advisory Services to ramp up climate action programs to deliver greenhouse gas emissions reductions at scale by the late 2020s. The City and THESL are committed to

staying engaged and coordinated both within and outside of formal reporting structures as part of an ongoing dialogue over the critical next decade.

6. Each Party's Separate Responsibilities

- a. The City and THESL have statutory and regulated obligations which will remain in force separate and independent of this Memorandum of Understanding. This Memorandum of Understanding is intended to ensure that the implementation of Climate Advisory Services and TransformTO are coordinated to achieve climate action goals and provide value for money in relation to any future impacts on the Toronto Hydro dividend to the City
- b. THESL is subject to the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC") and all financial investments and services offered as part of THESL's climate action mandate will be subject to the terms of ARC.

7. Acknowledgment

The City and THESL acknowledge that this Memorandum of Understanding is not intended to (i) create a joint venture, partnership or similar arrangement between the parties, (ii) create or form the basis of any legally enforceable rights or obligations between the parties whether as a matter of contract, tort or otherwise, or (iii) prevent either party from entering into similar agreements or business arrangements with other parties but is entered into in support of achieving net zero and to reflect a shared commitment to Torontonians.

[Signature page to follow.]

Date: _____

CITY OF TORONTO

By: _____

Paul Johnson
City Manager

Date: _____

**TORONTO-HYDRO ELECTRIC SYSTEM
LIMITED**

By: _____

Anthony Haines
President and Chief Executive Officer