

Toronto Hydro Corporation Cover Report
June 26, 2023

Addressed to the Executive Committee of City Council
from Conrad Sheppard, Corporate Secretary
Toronto Hydro Corporation

2022 Annual Shareholder Meeting – Toronto Hydro Corporation

Recommendations

It is recommended that City Council, as the sole shareholder of Toronto Hydro Corporation (“THC”):

- (1) treat the portion of the City Council meeting at which this report is being considered as the Annual General Meeting of the Shareholder for Toronto Hydro Corporation;
- (2) approve and adopt the shareholder resolution attached in Attachment 2 to this report to re-appoint the auditor of THC to hold office until the close of the next annual meeting of the shareholder and to authorize the directors of THC to fix the auditor's remuneration;
- (3) approve and adopt the shareholder resolution attached in Attachment 3 to this report to approve the amended THC By-Law 1.1;
- (3) receive for its information, the following documents:
 - (a) Attachment 1a – Toronto Hydro Corporation 2022 Annual Report
 - (b) Attachment 1b – Toronto Hydro Corporation 2022 Climate Action Status Report
 - (c) Attachment 2 – Resolution of the Sole Shareholder - City of Toronto, Re-appointing Auditor;
 - (d) Attachment 3 – Resolution of the Sole Shareholder – City of Toronto, approval of the amended Toronto Hydro Corporation By-Law 1.1;
 - (e) Attachment 4 – Toronto Hydro Corporation 2022 Annual Financial Report for the Year Ended December 31, 2022 including Toronto Hydro Corporation’s audited consolidated financial statements for 2021 and the auditor's report related thereto;
 - (f) Attachment 5 – Toronto Hydro Corporation Annual Information Form for the Year Ended December 31, 2022;
 - (g) Attachment 6 – Toronto Hydro Corporation 2022 Environmental Performance Report;
 - (h) Attachment 7 – Toronto Hydro 2022 ESG Report
 - (i) Attachment 8 – Toronto Hydro Corporation CEO and CFO Certification of Annual Filings;
 - (j) Attachment 9a - Executive Compensation Disclosure of Toronto Hydro Corporation for 2022 (Part 1, NEO’s);

- (k) Confidential Attachment 9b – Executive Compensation Disclosure of Toronto Hydro Corporation for 2022 (Part 2, All);
 - (l) Confidential Attachment 10 – Toronto Hydro Corporation Report to the Shareholder for the Year Ended December 31, 2022 and Toronto Hydro Corporation Non-Consolidated Financial Statements dated December 31, 2022;
 - (m) Confidential Attachment 11 - Financial Statements of Toronto Hydro-Electric System Limited for the Years Ended December 31, 2022 and December 31, 2021;
 - (n) Confidential Attachment 12 - Financial Statements of Toronto Hydro Energy Services Inc. for the Years Ended December 31, 2022 and December 31, 2021;
 - (o) Attachment 13 – Toronto Hydro Corporation’s First Quarter Report for the Quarter Ended March 31, 2023 including Toronto Hydro Corporation’s unaudited consolidated financial statements for the first quarter of 2023;
 - (p) Attachment 14 - Statement of Remuneration and Expenses for Council Appointees for the Year Ended December 31, 2022;
- (4) authorize and direct appropriate City officials to take the necessary action to give effect to the above.

Summary of Operations

The City of Toronto is the sole shareholder of THC. THC is a holding company which wholly-owns two subsidiaries:

- (1) Toronto Hydro-Electric System Limited, which distributes electricity; and
- (2) Toronto Hydro Energy Services Inc., which provides street lighting and expressway lighting services in the City.

THC pays the City dividends, calculated based on 60% of the prior year's net income after net movements in regulatory balances, in accordance with the City of Toronto’s Amended and Restated Shareholder Direction Relating to Toronto Hydro Corporation (the “Shareholder Direction”) to THC, subject to legal requirements. THC paid the City \$84.6 million in dividends in 2022, along with a first quarter dividend of \$24.6 million for 2023.

Additional information in respect of 2022 fiscal year operations can be found in THC’s 2022 Annual Report, including a summary of highlights, customer service level achievements and information in respect of the delivery of THC’s capital program.

Purpose

Toronto Hydro provides this cover report:

- 1. In combination with the attached 2022 Annual Report in satisfaction of City staff’s request, by way of email dated April 6, 2023, that THC provide a cover report that highlights key financial information for Executive Committee and City Council consideration.

2. To comply with the requirements of subsection 94(1) of the *Business Corporations Act* (Ontario), R.S.O. 1990, c.B.16 (the "OBCA"), the directors of THC are required to call an annual meeting of its shareholder (i.e. the City of Toronto) by no later than fifteen (15) months after holding the last preceding annual meeting. The preceding annual meeting was held on July 12, 2022.
3. To comply with the requirements of subsection 149(2) of the OBCA, the shareholder shall, at each annual meeting, appoint one or more auditors to hold office until the close of the next annual meeting. Pursuant to subsection 149(7) of the OBCA, the remuneration of an auditor appointed by the shareholder shall be fixed by the shareholder, or by the directors if they are authorized to do so by the shareholder.
4. To comply with the requirements of subsection 154(1) of the OBCA and section 9.7 of the City's Shareholder Direction, the directors of THC are required to place before each annual meeting of the shareholder:
 - (a) the financial statements required to be filed under the *Securities Act* (Ontario) and the regulations thereunder relating separately to: (i) the period that began immediately after the end of the last completed financial year and ended not more than six months before the annual meeting; and (ii) the immediately preceding financial year;
 - (b) the report of the auditor, if any, to the shareholders; and
 - (c) any further information respecting the financial position of THC and the results of its operations required by the articles, the by-laws or any shareholder direction.
5. To comply with the requirements of subsection 116(2) of the OBCA and Sections 8.3 and 8.4 of the City's Shareholder Direction, the directors of THC are required to submit the by-law, amendment or repeal to the shareholders at the next meeting of shareholders, and the shareholders may, by ordinary resolution, confirm, reject or amend the by-law, amendment or repeal.

THC therefore hereby submits and recommends that this report and attached documents be received by the Executive Committee and the attached shareholder resolution be approved by the City Council.

Comments

(1) Annual Shareholder Meeting

In accordance with THC's By-Law 1.1, the City of Toronto, as shareholder, is empowered to call an annual meeting of the shareholder.

In addition, despite any provision in a corporation's by-laws or constating documents, a shareholder meeting may be held virtually or electronically and a shareholder participating by such means is deemed to be present at the meeting.

(2) Climate Action Status Report

The Climate Action Status Report is attached to this report in compliance with Sections 1 and 5 of the City Council resolution dated July 19, 2022, which requires THC to report to the City of Toronto the status of the provincially regulated expanded grid capacity for growth, electrification and incremental local renewable generation in relation to helping the City of Toronto achieve its TransformTO: Net Zero Strategy goals, as well as the progress, key performance indicators, and next steps of Climate Advisory Services to the City.

(3) Re-appointment of Auditor and Re-authorization of THC Directors to Fix Remuneration

At the preceding annual shareholder meeting, the shareholder resolved to appoint KPMG LLP, Chartered Professional Accountants, as the auditor for THC until the close of the next annual meeting of the shareholder, or until a successor is appointed, and further resolved and authorized the directors of THC to fix the auditor's remuneration.

KPMG LLP has been THC's auditor since 2011. The appointment of KPMG LLP as THC's auditor was the result of a request for proposals process undertaken by THC in late 2010. At its August 18, 2019 meeting, the Audit Committee of THC approved an Engagement Letter with KPMG LLP to provide audit and assurance services to THC and its subsidiaries for audit years 2020 through to and including 2024. At the March 1, 2023 THC Board of Directors meeting, it was resolved that the THC Board of Directors recommends to its sole shareholder that KPMG LLP be appointed as the auditor of Toronto Hydro Corporation effective for the 2023 audit year or until the appointment of a successor auditor.

(4) Approval of the Amended THC By-Law 1.1

The following document is attached to this report in compliance with the requirements of subsection 116(2) of the OBCA and Sections 8.3 and 8.4 of the Shareholder Direction:

- a) approval of the amended Toronto Hydro Corporation By-Law 1.1.

In particular, the following amendments to the THC By-Law 1.1 were approved by the Board on August 24, 2022 in accordance with THC's policy review schedule: a) minor administrative updates to reflect modern pronoun usage in line with Toronto Hydro's communication protocols or provide clarification, and b) removal of the residency requirement for directors in accordance with legislative changes to the OBCA.

(5) Audited Financial Statements and Auditor's Report

The following documents are attached to this report in compliance with the requirements of subsection 154(1) of the OBCA and Sections 9.7 and 9.8 of the Shareholder Direction, which documents have also been previously delivered by THC to the City Chief Financial Officer for

review:

- a) THC's audited consolidated financial statements for 2022 and the auditor's report related thereto;
- b) Toronto Hydro CEO and CFO Certification of Annual Filings; and
- c) THC's unaudited consolidated financial statements for the first quarter of 2023.

THC's 2022 Consolidated Financial Statements were audited by KPMG LLP and received an unqualified opinion stating that the financial statements present fairly, in all material respects, the THC financial position as at December 31, 2022 and the 2022 results of operations in accordance with International Financial Reporting Standards.

(6) Financial Information Reporting

Sections 9.7 and 9.8 of the Shareholder Direction also require THC to submit to the Executive Committee, through the City Manager and the City Chief Financial Officer, the annual audited consolidated Financial Statements of each of THC's active subsidiaries. In accordance with Section 9.8 of the Shareholder Direction, the audited financial statements and accompanying information were provided to the City Manager and City Chief Financial Officer in compliance with the Shareholder Direction. The following documents are attached to this report and 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 (Continuous Disclosure Obligations).

- a) Toronto Hydro Corporation Report to the Shareholder for the Year Ended December 31, 2022;
- b) Toronto Hydro Corporation Non-Consolidated Financial Statements dated December 31, 2022;
- c) Financial Statements of Toronto Hydro-Electric System Limited dated December 31, 2022 and 2021; and
- d) Financial Statements Toronto Hydro Energy Services Inc. dated December 31, 2022 and 2021.

Additional financial performance information and financial highlights can be found on pages 11 and 12 of THC's 2022 Annual Report and relevant financial ratios can be found on page 9 of THC's Report to the Shareholder for Year Ended December 31, 2022.

(7) Executive Compensation

Section 9.8 of the Shareholder Direction also requires THC to submit to the City Executive Committee, through the City Manager's office and City CFO, certain executive compensation information for all of the officers of THC. THC's 2022 Executive Compensation Disclosure is being submitted in two parts. The first part contains information about Named Executive Officers that has been disclosed in THC's Annual Information Form, in accordance with National Instrument 51-102. The second part contains information about the remaining officers of the THC and is confidential as it contains personal information about identifiable individuals.

(8) Future Outlook

As a reporting issuer that is subject to provincial securities legislation, THC discloses forward-looking information only in accordance with applicable legislation and the terms of its Shareholder Direction.

Pursuant to the terms of the Shareholder Direction, THC recently provided the Chief Financial Officer of the City of Toronto with THC's 2023-2025 Business Plan, as approved by the company's Board of Directors on November 16, 2022. The 2023-2025 Business Plan was provided in confidentially in accordance with the required terms of the Shareholder Direction.

THC is also periodically required to file certain types of forward-looking information with the Ontario Energy Board (OEB) as part of the process for setting its electricity distribution rates. A copy of THC's regulatory filings that were filed with the OEB as part of its 2020-2024 rates application can be found [here](#).

(9) Additional Reports

The following documents are attached to this report in compliance with Section 9.8 of the Shareholder Direction and the general requirement of paragraphs 154(1)(c) and 154(1)(d) of the OBCA:

- (a) THC's 2022 Annual Report;
- (b) THC's 2022 Environmental Performance Report;
- (c) THC'S 2022 Environmental, Social and Governance Report;
- (d) THC's 2022 Annual Information Form; and
- (e) Statement of Remuneration and Expenses for Council Appointees for the Year Ended December 31, 2022.

THC Contact

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