



FINANCIAL REPORT  
DECEMBER 31, 2019

# TORONTO HYDRO CORPORATION

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## GLOSSARY

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**CDM** – Conservation and Demand Management

**CEO** – Chief Executive Officer

**CIR** – Custom Incentive Rate-setting

**City** – City of Toronto

**Copeland Station** – The Clare R. Copeland transformer station, formerly called “Bremner Station”

**Corporation** – Toronto Hydro Corporation

**COVID-19** – Coronavirus disease 2019

**ECA** – Energy Conservation Agreement

**Electricity Act** – *Electricity Act, 1998* (Ontario), as amended

**ERM** – Enterprise risk management

**ERP** – Enterprise resource planning

**GWh** – Gigawatt hour

**HONI** – Hydro One Networks Inc.

**IAS** – International Accounting Standard

**IASB** – International Accounting Standards Board

**IESO** – Independent Electricity System Operator

**IFRIC** – IFRS Interpretations Committee

**IFRS** – International Financial Reporting Standards

**IRM** – Incentive Regulation Mechanism

**ITA** – Income Tax Act (Canada), as amended

**ITC** – Investment tax credit

**kW** – Kilowatt

**LDC** – Toronto Hydro-Electric System Limited

**LRAM** – Lost revenue adjustment mechanism

**MD&A** – Management's Discussion and Analysis

**MEU** – Municipal electricity utility

**OCI** – Other comprehensive income

**OEB** – Ontario Energy Board

**OEB Act** – Ontario Energy Board Act, 1998 (Ontario), as amended

**OFHP** – Ontario's Fair Hydro Plan

**OMERS** – Ontario Municipal Employees Retirement System

**OPEB** – Other post-employment benefits

**OREC** – *Ontario Rebate for Electricity Consumers Act, 2016* (Ontario)

**PILs** – Payments in lieu of corporate taxes

**PP&E** – Property, plant and equipment

**TA** – Taxation Act, 2007 (Ontario), as amended

**TH Energy** – Toronto Hydro Energy Services Inc.

**Toronto Hydro** – Toronto Hydro Corporation and its subsidiaries

**US GAAP** – United States Generally Accepted Accounting Principles

**WMS** – Wholesale Market Service

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

## Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2019 was \$15.5 million and \$154.4 million, respectively, compared to \$31.9 million and \$167.3 million for the comparable periods in 2018;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$199.4 million and \$587.1 million for the three months and year ended December 31, 2019, respectively, compared to \$157.3 million and \$511.3 million for the comparable periods in 2018;
- On November 12, 2019, the Corporation issued \$400.0 million of senior unsecured debentures. The issuance consisted of two tranches of debt, \$200.0 million of 2.43% senior unsecured debentures due on December 11, 2029 (“Series 14”), and \$200.0 million of 2.99% senior unsecured debentures due on December 10, 2049 (“Series 15”). The Series 14 and Series 15 debentures bear interest payable semi-annually in arrears;
- The Corporation’s Series 3 debentures matured and were repaid on November 12, 2019;
- On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed by LDC on August 15, 2018 (“2020-2024 CIR decision and rate order”). The 2020-2024 CIR decision and rate order approved a rate base of \$4,514.8 million and revenue requirement of \$750.2 million for 2020. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020;
- Effective March 5, 2020, all non-Councillor directors were re-appointed to the Board of Directors of Toronto Hydro Corporation, with the exception of Brian Chu who resigned from the Board; and
- On March 27, 2020, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$25.0 million with respect to the first quarter of 2020, payable to the City by March 31, 2020.

## Introduction

This MD&A should be read in conjunction with the Corporation’s audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2019 and 2018, which were prepared in accordance with IFRS (the “Consolidated Financial Statements”).

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval website at [www.sedar.com](http://www.sedar.com).

## Business of Toronto Hydro Corporation

The Corporation is a holding company which wholly owns two subsidiaries:

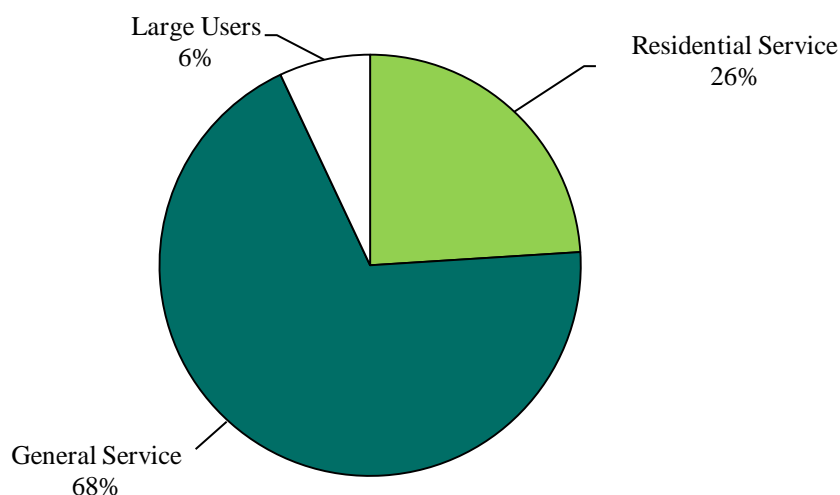
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the City.

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to its subsidiaries. The City is the sole shareholder of the Corporation.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 778,000 customers located in the City. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the year ended December 31, 2019, LDC earned energy sales and distribution revenue of \$3,578.9 million from general service users<sup>1</sup>, residential service users<sup>2</sup> and large users<sup>3</sup>.

### LDC Energy Sales and Distribution Revenue by Class

Year ended December 31, 2019



<sup>1</sup> “General Service” means a service supplied to premises other than those receiving “Residential Service” and “Large Users” and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

<sup>2</sup> “Residential Service” means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

<sup>3</sup> “Large Users” means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

## Electricity Distribution – Industry Overview

Under government regulations, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs from customers in accordance with rate-setting procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.
- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are a pass-through to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are a pass-through to the IESO.
- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation is exempt from tax under the ITA if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Electricity Act provides that an MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act, and therefore, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation.

## Results of Operations

### *Net Income after Net Movements in Regulatory Balances*

| <b>Consolidated Statements of Income</b>                              |                |              |               |
|---|----------------|--------------|---------------|
| <b>Three months ended December 31</b>                                 |                |              |               |
| <b>(in millions of Canadian dollars)</b>                              |                |              |               |
|   | <b>2019</b>    | <b>2018</b>  | <b>Change</b> |
|   | <b>\$</b>      | <b>\$</b>    | <b>\$</b>     |
| <b>Revenues</b>   |                |              |               |
| Energy sales  | 776.2          | 660.2        | 116.0         |
| Distribution revenue  | 200.5          | 163.9        | 36.6          |
| Other   | 25.1           | 23.4         | 1.7           |
|   | <b>1,001.8</b> | <b>847.5</b> | <b>154.3</b>  |
| <b>Expenses</b>   |                |              |               |
| Energy purchases  | 737.8          | 621.6        | 116.2         |
| Operating expenses  | 88.8           | 73.5         | 15.3          |
| Depreciation and amortization   | 74.0           | 67.3         | 6.7           |
|   | <b>900.6</b>   | <b>762.4</b> | <b>138.2</b>  |
| Finance costs   | (19.7)         | (18.8)       | (0.9)         |
| Gain on disposal of PP&E  | -              | 0.2          | (0.2)         |
| <b>Income before income taxes</b>                                     | <b>81.5</b>    | <b>66.5</b>  | <b>15.0</b>   |
| Income tax expense  | (10.8)         | (16.2)       | 5.4           |
| <b>Net income</b>   | <b>70.7</b>    | <b>50.3</b>  | <b>20.4</b>   |
| Net movements in regulatory balances                                  | (59.9)         | (26.3)       | (33.6)        |
| Net movements in regulatory balances arising from deferred tax assets | 4.7            | 7.9          | (3.2)         |
| <b>Net income after net movements in regulatory balances</b>          | <b>15.5</b>    | <b>31.9</b>  | <b>(16.4)</b> |

The decrease in net income after net movements in regulatory balances for the three months ended December 31, 2019 was primarily due to higher operating expenses (\$15.3 million) mainly related to post-employment benefit past service costs, higher depreciation related to new in-service asset additions (\$6.7 million) and lower consumption (\$2.1 million), partially offset by higher 2019 electricity distribution rates (\$8.5 million).

The net increase in distribution revenue is due to the implementation of the OEB-approved 2019 rate riders, which recovered \$30.1 million from customers in the quarter. The 2019 rate riders do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances, given IFRS treatment.



**Consolidated Statements of Income**  
**Year ended December 31**  
(in millions of Canadian dollars)

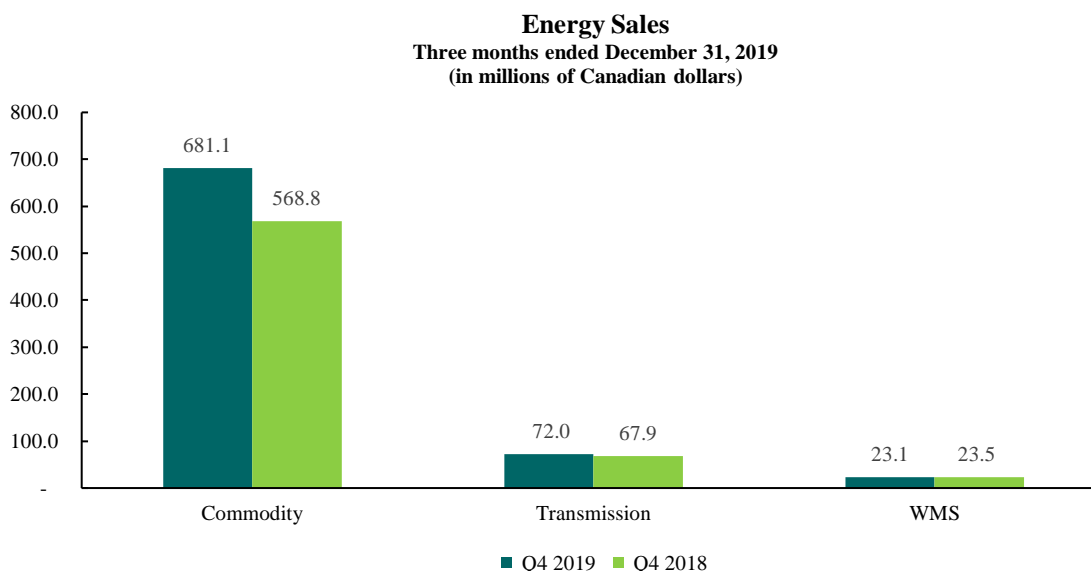
|   | 2019<br>\$     | 2018<br>\$     | Change<br>\$  |
|---|----------------|----------------|---------------|
| <b>Revenues</b>   |                |                |               |
| Energy sales  | 2,779.7        | 2,704.1        | 75.6          |
| Distribution revenue  | 799.2          | 674.2          | 125.0         |
| Other   | 94.4           | 94.4           | -             |
|   | <b>3,673.3</b> | <b>3,472.7</b> | <b>200.6</b>  |
| <b>Expenses</b>   |                |                |               |
| Energy purchases  | 2,779.6        | 2,646.3        | 133.3         |
| Operating expenses  | 308.9          | 307.5          | 1.4           |
| Depreciation and amortization   | 255.6          | 238.3          | 17.3          |
|   | <b>3,344.1</b> | <b>3,192.1</b> | <b>152.0</b>  |
| Finance costs   | (80.1)         | (74.6)         | (5.5)         |
| Gain on disposal of PP&E  | 2.2            | 108.6          | (106.4)       |
| <b>Income before income taxes</b>                                     | <b>251.3</b>   | <b>314.6</b>   | <b>(63.3)</b> |
| Income tax expense  | (67.9)         | (82.4)         | 14.5          |
| <b>Net income</b>   | <b>183.4</b>   | <b>232.2</b>   | <b>(48.8)</b> |
| Net movements in regulatory balances                                  | (62.4)         | (111.9)        | 49.5          |
| Net movements in regulatory balances arising from deferred tax assets | 33.4           | 47.0           | (13.6)        |
| <b>Net income after net movements in regulatory balances</b>          | <b>154.4</b>   | <b>167.3</b>   | <b>(12.9)</b> |

The decrease in net income after net movements in regulatory balances for the year ended December 31, 2019 was primarily due to higher depreciation related to new in-service asset additions (\$17.3 million), lower electricity consumption (\$13.7 million), higher finance costs (\$5.5 million) and amounts deferred into regulatory accounts (\$5.1 million) for future refunds to customers. These variances were partially offset by higher 2019 electricity distribution rates (\$30.7 million).

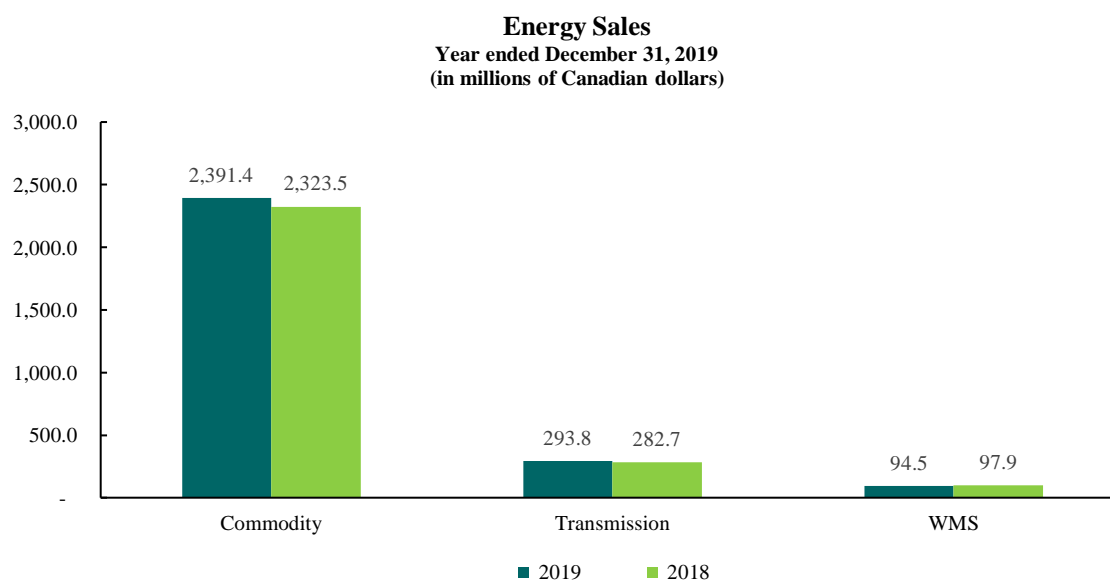
The net increase in distribution revenue is due to the implementation of the OEB-approved 2019 rate riders, which recovered \$107.4 million from customers. The variance in gain on disposal of PP&E is primarily due to the gain realized on a property sale in 2018, which is being refunded to customers. The 2019 rate riders and gain on disposal do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances, given IFRS treatment.

## Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. For any given period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14"), this settlement variance is presented within regulatory balances on the Corporation's consolidated balance sheets ("Consolidated Balance Sheets") and within net movements in regulatory balances on the Corporation's consolidated statements of income ("Consolidated Statements of Income").



Energy sales for the three months ended December 31, 2019 were \$776.2 million compared to \$660.2 million for the comparable period in 2018. The increase was primarily due to higher commodity charges (\$112.3 million).



Energy sales for the year ended December 31, 2019 were \$2,779.7 million compared to \$2,704.1 million for the comparable period in 2018. The increase was due to higher commodity charges (\$67.9 million) and higher retail transmission charges (\$11.1 million), partially offset by lower WMS charges (\$3.4 million).

### ***Distribution Revenue***

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers and includes revenue collected through OEB-approved rate riders.

Distribution revenue for the three months and year ended December 31, 2019 was \$200.5 million and \$799.2 million, respectively, compared to \$163.9 million and \$674.2 million for the comparable periods in 2018.

The net increase in distribution revenue for the three months ended December 31, 2019 was primarily due to higher revenue collected through OEB-approved rate riders (\$30.1 million) and higher 2019 electricity distribution rates (\$8.5 million), partially offset by lower electricity consumption (\$2.1 million).

The net increase in distribution revenue for the year ended December 31, 2019 was primarily due to higher revenue collected through OEB-approved rate riders (\$107.4 million) and higher 2019 electricity distribution rates (\$30.7 million), partially offset by lower electricity consumption (\$13.7 million).

### ***Other Revenue***

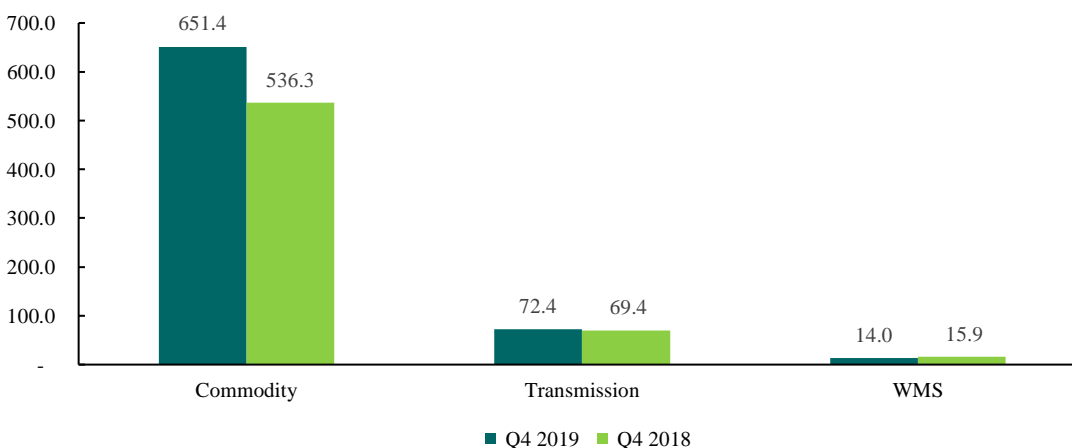
Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, other regulatory service charges and capital contributions.

Other revenue for the three months and year ended December 31, 2019 was \$25.1 million and \$94.4 million, respectively, compared to \$23.4 million and \$94.4 million for the comparable periods in 2018. Other revenue, for the three months and year ended December 31, 2019, was in line with the comparable periods in 2018.

### ***Energy Purchases***

LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

**LDC Energy Purchases**  
Three months ended December 31, 2019  
(in millions of Canadian dollars)



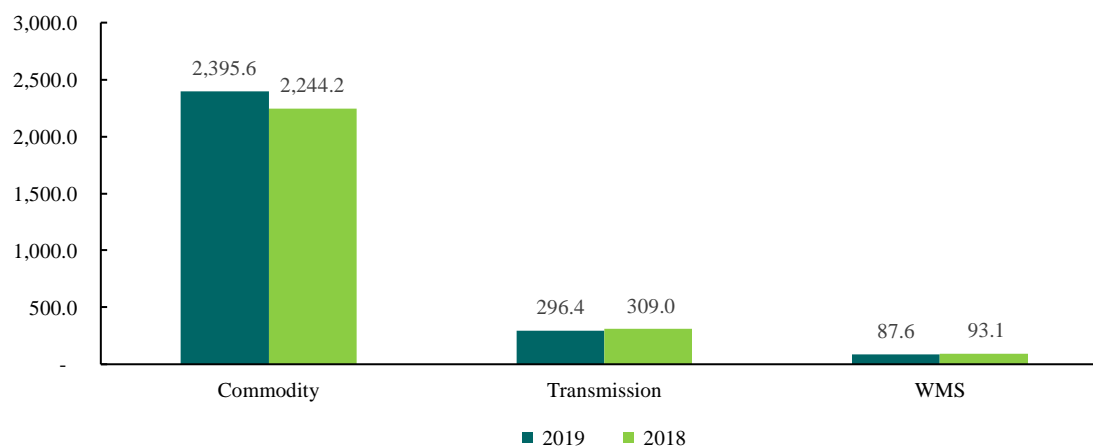
Energy purchases for the three months ended December 31, 2019 were \$737.8 million compared to \$621.6 million for the comparable period in 2018. The increase was primarily due to higher commodity charges (\$115.1 million).

**Energy Purchases, Energy Sales, and Settlement Variances**  
**Three months ended December 31, 2019**  
(in millions of Canadian dollars)

|                             | Energy Purchases<br>\$ | Energy Sales<br>\$ | Settlement Variances<br>\$ |
|-----------------------------|------------------------|--------------------|----------------------------|
| Commodity charges           | 651.4                  | 681.1              | (29.7)                     |
| Retail transmission charges | 72.4                   | 72.0               | 0.4                        |
| WMS charges                 | 14.0                   | 23.1               | (9.1)                      |
| <b>Total</b>                | <b>737.8</b>           | <b>776.2</b>       | <b>(38.4)</b>              |

For the three months ended December 31, 2019, LDC recognized \$776.2 million in energy sales to customers and was billed \$737.8 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$38.4 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance (\$38.3 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

**LDC Energy Purchases**  
**Year ended December 31, 2019**  
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2019 were \$2,779.6 million compared to \$2,646.3 million for the comparable period in 2018. The increase was primarily due to higher commodity charges (\$151.4 million), partially offset by lower retail transmission charges (\$12.6 million) and lower WMS charges (\$5.5 million).

**Energy Purchases, Energy Sales, and Settlement Variances**  
**Year ended December 31, 2019**  
(in millions of Canadian dollars)

|                             | Energy Purchases<br>\$ | Energy Sales<br>\$ | Settlement Variances<br>\$ |
|-----------------------------|------------------------|--------------------|----------------------------|
| Commodity charges           | 2,395.6                | 2,391.4            | 4.2                        |
| Retail transmission charges | 296.4                  | 293.8              | 2.6                        |
| WMS charges                 | 87.6                   | 94.5               | (6.9)                      |
| <b>Total</b>                | <b>2,779.6</b>         | <b>2,779.7</b>     | <b>(0.1)</b>               |

For the year ended December 31, 2019, LDC recognized \$2,779.7 million in energy sales to customers and was billed \$2,779.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$0.1 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance (\$0.4 million including carrying charges on the accumulated settlement variance balance; see the regulatory credit balance table in note 8 to the Consolidated Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

***Operating Expenses***

Operating expenses for the three months and year ended December 31, 2019 were \$88.8 million and \$308.9 million, respectively, compared to \$73.5 million and \$307.5 million for the comparable periods in 2018.

The increase in operating expenses for the three months ended December 31, 2019 was primarily due to post-employment benefit past service costs.

The operating expenses for the year ended December 31, 2019 were in line with the comparable period in 2018.

***Depreciation and Amortization***

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months and year ended December 31, 2019 was \$74.0 million and \$255.6 million, respectively, compared to \$67.3 million and \$238.3 million for the comparable periods in 2018.

The increase in depreciation and amortization for the three months ended December 31, 2019 was primarily due to new in-service asset additions and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

The increase in depreciation and amortization for the year ended December 31, 2019 was primarily due to new in-service asset additions, partially offset by certain assets being fully depreciated and lower derecognition of assets removed from service.

***Finance Costs***

Finance costs for the three months and year ended December 31, 2019 were \$19.7 million and \$80.1 million, respectively, compared to \$18.8 million and \$74.6 million for the comparable periods in 2018. The increase was primarily due to lower capitalized borrowing costs in 2019.

***Gain on Disposals of PP&E***

Gain on disposals of PP&E for the three months and year ended December 31, 2019 was \$nil and \$2.2 million, respectively, compared to \$0.2 million and \$108.6 million for the comparable periods in 2018.

The decrease in gain on disposals of PP&E for the year ended December 31, 2019 was primarily due to a higher gain realized in connection with the disposal of a property in the second quarter of 2018 which is being refunded to customers.

### ***Income Tax Expense and Income Tax Recorded in Net Movements in Regulatory Balances***

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2019 was \$6.1 million and \$34.5 million, respectively, compared to \$8.3 million and \$35.4 million for the comparable periods in 2018.

The favourable variance for the three months ended December 31, 2019 was primarily due to lower income before taxes and the enactment of tax measures permitting accelerated capital cost allowance deductions, offset by lower net deductions for permanent and other temporary differences between accounting and tax treatments compared to the same period in 2018.

The favourable variance for the year ended December 31, 2019 was primarily due to lower tax recognized on property dispositions, the enactment of tax measures permitting accelerated capital cost allowance deductions and lower income before taxes, offset by lower net deductions for permanent and other temporary differences between accounting and tax treatments compared to 2018.

### ***Net Movements in Regulatory Balances***

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The increase in the regulatory debit (\$39.1 million) and increase in the regulatory credit (\$40.0 million) balances for the year ended December 31, 2019 equals the sum (\$0.9 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets and net movement in regulatory balances related to OCI, shown for the period (see “Financial Position” below). Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on settlement variance under “Results of Operations” above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three months and year ended December 31, 2019 was a charge of \$59.9 million and \$62.4 million, respectively, compared to a charge of \$26.3 million and \$111.9 million for the comparable periods in 2018. The charge of \$59.9 million for the three months ended December 31, 2019 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, amounts being deferred into regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders. The charge of \$26.3 million for the three months ended December 31, 2018 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts being deferred into capital-related regulatory accounts for future refunds to customers, partially offset by amounts disposed through OEB-approved rate riders.

The charge of \$62.4 million for the year ended December 31, 2019 was primarily due to amounts disposed through OEB-approved rate riders, amounts being deferred into regulatory accounts for future refunds to customers, partially offset by LRAM. The charge of \$111.9 million for the year ended December 31, 2018 was primarily due to the gain realized on disposal of a property in the second quarter of 2018, the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts being deferred into capital-related regulatory accounts for future refunds to customers, partially offset by amounts disposed through OEB-approved rate riders and LRAM.

## Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2019.

| <b>Summary of Quarterly Results of Operations</b><br>(in millions of Canadian dollars) |                              |                               |                          |                           |
|--|------------------------------|-------------------------------|--------------------------|---------------------------|
|  | <b>December 31,<br/>2019</b> | <b>September 30,<br/>2019</b> | <b>June 30,<br/>2019</b> | <b>March 31,<br/>2019</b> |
|  | \$                           | \$                            | \$                       | \$                        |
| Energy sales   | 776.2                        | 737.2                         | 602.6                    | 663.7                     |
| Distribution revenue   | 200.5                        | 207.5                         | 198.3                    | 192.9                     |
| Other  | 25.1                         | 25.6                          | 23.3                     | 20.4                      |
| <b>Revenues</b>  | <b>1,001.8</b>               | <b>970.3</b>                  | <b>824.2</b>             | <b>877.0</b>              |
| Net income after net movements<br>in regulatory balances                               | 15.5                         | 50.2                          | 46.1                     | 42.6                      |
|  | <b>December 31,<br/>2018</b> | <b>September 30,<br/>2018</b> | <b>June 30,<br/>2018</b> | <b>March 31,<br/>2018</b> |
|  | \$                           | \$                            | \$                       | \$                        |
| Energy sales   | 660.2                        | 741.1                         | 660.4                    | 642.4                     |
| Distribution revenue   | 163.9                        | 175.8                         | 162.9                    | 171.6                     |
| Other  | 23.4                         | 21.7                          | 28.0                     | 21.3                      |
| <b>Revenues</b>  | <b>847.5</b>                 | <b>938.6</b>                  | <b>851.3</b>             | <b>835.3</b>              |
| Net income after net movements<br>in regulatory balances                               | 31.9                         | 50.4                          | 42.5                     | 42.5                      |

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased extreme weather events as a result of climate change, such as heat waves, intense rain events, and higher average maximum temperatures. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. The variation from the seasonal trend for the fourth quarter of 2019 was due to higher commodity charges charged by the IESO and the variation for the second quarter of 2018 was due to higher commodity charges charged by the IESO, partially offset by lower distribution revenue due to amounts disposed through OEB-approved rate riders.

## Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheets as at December 31, 2019 as compared to the Consolidated Balance Sheets as at December 31, 2018.

| <b>Consolidated Balance Sheets Data</b><br>(in millions of Canadian dollars) |                                       |  |
|--|---------------------------------------|--|
| <b>Balance Sheet Account</b>   | <b>Increase<br/>(Decrease)<br/>\$</b> | <b>Explanation of Significant Change</b>   |
| <b>Assets</b>  |                                       |  |
| Accounts receivable and unbilled revenue                                     | 43.0                                  | The increase was primarily due to timing of billing and collection and higher electricity consumption, partially offset by lower pass-through electricity costs.   |
| PP&E and intangible assets   | 329.6                                 | The increase was primarily due to capital expenditures (see “Investing Activities” below), partially offset by depreciation including derecognition.   |
| <b>Liabilities and Equity</b>  |                                       |  |
| Commercial paper   | 23.0                                  | The increase was primarily due to issuances required for general corporate purposes (see “Liquidity and Capital Resources” below).   |
| Accounts payable and accrued liabilities                                     | (20.3)                                | The decrease was primarily due to lower electricity costs payable to the IESO, partially offset by timing differences in payments.   |
| Customer deposits  | (11.8)                                | The decrease was primarily due to re-classification of customer deposits to deferred revenue.  |
| Deferred revenue   | 120.9                                 | The increase was primarily due to additional capital contributions received in 2019 and re-classification of customer deposits as noted above.   |
| Post-employment benefits   | 59.0                                  | The increase was primarily due to the recognized actuarial loss incurred as a result of lower discount rates and past service costs recorded in 2019.  |
| Deferred tax liabilities   | 23.4                                  | The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, partially offset by the tax treatment on the actuarial loss recorded on post-employment benefits. |
| Retained earnings  | 54.0                                  | The increase was due to net income after net movements in regulatory balances (\$154.4 million), offset by dividends paid and declared (\$100.4 million).  |



**Consolidated Balance Sheets Data**  
(in millions of Canadian dollars)

| Balance Sheet Account      | Increase<br>(Decrease)<br>\$ | Explanation of Significant Change  |
|----------------------------|------------------------------|--|
| <b>Regulatory Balances</b> |                              |  |
| Regulatory debit balances  | 39.1                         | The increase was primarily due to the actuarial loss recognized to reflect the impact of lower discount rates and deferred taxes, partially offset by amounts disposed through OEB-approved rate riders. |
| Regulatory credit balances | 40.0                         | The increase was primarily due to amounts being deferred into capital and tax related regulatory accounts for future refunds to customers.   |

**Liquidity and Capital Resources**

The Corporation's current assets and current liabilities amounted to \$563.7 million and \$714.3 million, respectively, as at December 31, 2019, resulting in a working capital deficit of \$150.6 million. The deficit is primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program (defined in "Financing Activities" below) and Working Capital Facility (defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations. See "Liquidity Risk" under note 15 to the Corporation's 2019 Annual Financial Statements.

The amount available under the Revolving Credit Facility (defined in "Financing Activities" below) and the outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

| (in millions of Canadian dollars) | Revolving<br>Credit Facility<br>Limit<br>\$ | Revolving<br>Credit Facility<br>Borrowings<br>\$ | Commercial<br>Paper<br>Outstanding<br>\$ | Revolving<br>Credit Facility<br>Availability<br>\$ |
|-----------------------------------|---|--|--|--|
| December 31, 2019                 | 800.0                                       | -  | 136.0                                    | 664.0  |
| December 31, 2018                 | 800.0                                       | -  | 113.0                                    | 687.0  |

The Corporation is a party to a \$20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ("Working Capital Facility"). As at December 31, 2019, \$1.0 million had been drawn under the Working Capital Facility, compared to \$12.6 million as at December 31, 2018.

**Consolidated Statements of Cash Flow Data**  
(in millions of Canadian dollars)

|   | Three months       |         | Year               |         |
|---|--------------------|---------|--------------------|---------|
|   | ended December 31, |         | ended December 31, |         |
|   | 2019               | 2018    | 2019               | 2018    |
|   | \$                 | \$      | \$                 | \$      |
| Working capital facility, beginning of period | (8.2)              | (7.4)   | (12.6)             | (11.7)  |
| Net cash provided by operating activities     | 236.9              | 277.2   | 596.6              | 596.7   |
| Net cash used in investing activities         | (150.6)            | (106.4) | (569.0)            | (376.9) |
| Net cash used in financing activities         | (79.1)             | (176.0) | (16.0)             | (220.7) |
| Working capital facility, end of period       | (1.0)              | (12.6)  | (1.0)              | (12.6)  |

***Operating Activities***

Net cash provided by operating activities for the three months and year ended December 31, 2019 was \$236.9 million and \$596.6 million, respectively, compared to \$277.2 million and \$596.7 million for the comparable periods in 2018.

The decrease in net cash provided by operating activities for the three months ended December 31, 2019 was primarily due to timing differences in the settlement of receivables and payables, partially offset by changes in regulatory balances. Net cash provided by operating activities for the year ended December 31, 2019 was in line with the prior year.

***Investing Activities***

Net cash used in investing activities for the three months and year ended December 31, 2019 was \$150.6 million and \$569.0 million, respectively, compared to \$106.4 million and \$376.9 million for the comparable periods in 2018.

The increase in net cash used in investing activities for the three months ended December 31, 2019 was primarily due to higher cash spending on capital projects in 2019.

The increase in net cash used in investing activities for the year ended December 31, 2019 compared to 2018 was primarily related to higher proceeds received on the disposition of a property in 2018 and higher cash spending on capital projects in 2019.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

The following table summarizes the Corporation's capital expenditures (on an accrual basis) for the periods indicated.

**Capital Expenditures**  
(in millions of Canadian dollars)

|   | Three months       |              | Year               |              |
|---|--------------------|--------------|--------------------|--------------|
|   | ended December 31, |              | ended December 31, |              |
|   | 2019               | 2018         | 2019               | 2018         |
|   | \$                 | \$           | \$                 | \$           |
| Regulated LDC                                 |                    |              |                    |              |
| Distribution system                           |                    |              |                    |              |
| Planned <sup>1</sup>                          | 163.2              | 120.6        | 482.2              | 369.7        |
| Reactive                                      | 12.3               | 13.1         | 47.4               | 63.8         |
| Copeland Station                              | -                  | 2.2          | 1.5                | 9.9          |
| Technology assets                             | 14.1               | 14.9         | 37.2               | 54.4         |
| Other <sup>2</sup>                            | 7.8                | 1.4          | 10.8               | 4.0          |
| Regulated capital expenditures                | 197.4              | 152.2        | 579.1              | 501.8        |
| Unregulated capital expenditures <sup>3</sup> | 2.0                | 5.1          | 8.0                | 9.5          |
| <b>Total capital expenditures</b>             | <b>199.4</b>       | <b>157.3</b> | <b>587.1</b>       | <b>511.3</b> |

<sup>1</sup> Includes, among other initiatives, the replacement of underground and overhead infrastructures, delivery of customer connections, and customer-initiated plant relocations and expansions.

<sup>2</sup> Includes fleet capital and buildings.

<sup>3</sup> Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2019 were \$197.4 million and \$579.1 million, respectively, compared to \$152.2 million and \$501.8 million for the comparable periods in 2018.

For the three months ended December 31, 2019, the increase in regulated capital expenditures was primarily related to higher spending on overhead infrastructure (\$12.4 million), customer-initiated plant relocations and expansions (\$8.4 million), station programs related to the renewal of aging station infrastructure (\$6.9 million) and network infrastructure (\$6.6 million).

For the year ended December 31, 2019, the increase in regulated capital expenditures was primarily related to higher spending on customer-initiated plant relocations and expansions (\$54.9 million), customer connections (\$16.1 million) and overhead infrastructure (\$14.4 million), partially offset by lower spending on technology assets (\$17.2 million).

The largest capital initiatives in 2019 include the delivery of customer connections, the replacement of underground and overhead infrastructures and customer-initiated plant relocations and expansions.

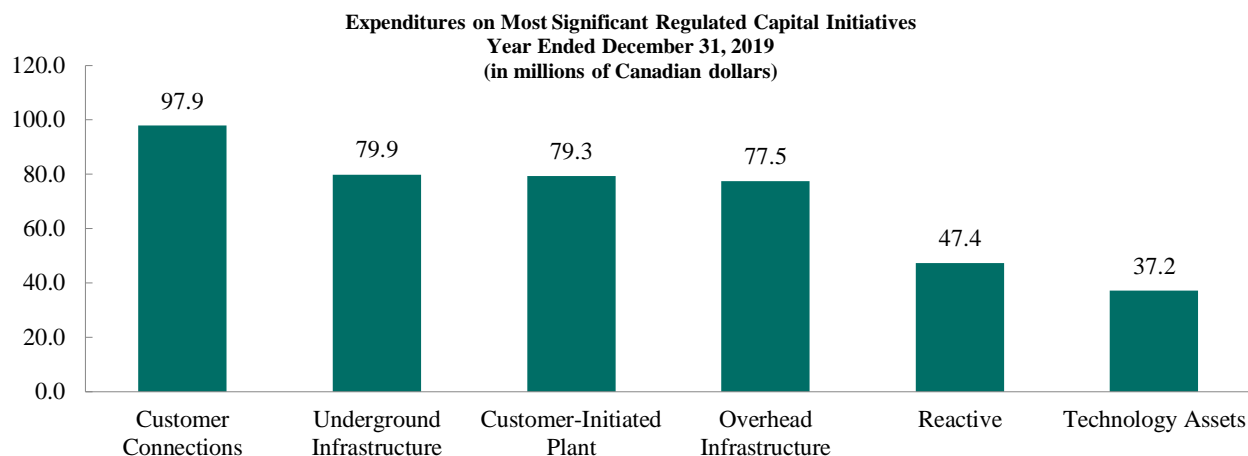
The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the year ended December 31, 2019, capital expenditures for the delivery of customer connections were \$97.9 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2019, capital expenditures for the underground and overhead infrastructures were \$79.9 million and \$77.5 million, respectively.

Customer-initiated plant relocations and expansions includes relocating infrastructure to accommodate constructions by third parties. For the year ended December 31, 2019, capital expenditures for customer-initiated plant relocations and expansions was \$79.3 million.

Copeland Station is the first transformer station built in downtown Toronto since the 1960s and is the second underground transformer station in Canada. It provides electricity to buildings and neighbourhoods in the central-southwest area of Toronto. The Copeland Station construction project was completed in the second quarter of 2019 and the total cumulative capital expenditures were \$204.0 million, plus capitalized borrowing costs. Certain previously disclosed disputes between LDC and Carillion Construction Inc. in respect of the Copeland Station construction project have been resolved and such resolution is reflected in an order of the Ontario Superior Court of

Justice dated January 13, 2020. LDC's total cumulative capital expenditures for such project have not changed as a result of this resolution.



### ***Financing Activities***

Net cash used in financing activities for the three months and year ended December 31, 2019 was \$79.1 million and \$16.0 million, respectively, compared to \$176.0 million and \$220.7 million for the comparable periods in 2018.

The decrease in cash used in financing activities for the three months ended December 31, 2019 was primarily due to the Corporation's issuance of the Series 14 and 15 debentures, partially offset by repayment of the Series 3 debenture.

The decrease in cash used in financing activities for the year ended December 31, 2019 was primarily due to the Corporation's issuance of the Series 14 and 15 debentures upon repayment of the Series 3 debenture in the fourth quarter of 2019 and an increase in commercial paper issued in 2019.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. As at December 31, 2019, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

On August 22, 2019, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2023 to October 10, 2024.

The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

For the three months and year ended December 31, 2019, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$326.9 million and \$333.9 million, respectively, with a weighted average interest rate of 1.92% and 1.94% (compared to \$289.2 million and \$239.6 million, respectively, with a weighted average interest rate of 1.92% and 1.68% for the comparable periods in 2018).

Additionally, the Corporation is a party to a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at December 31, 2019, \$33.2 million of letters of credit had been issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated July 30, 2019 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

As at December 31, 2019, the Corporation had debentures outstanding in the principal amount of \$2.2 billion. These debentures will mature between 2021 and 2063. As at December 31, 2019, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

On November 12, 2019, the Corporation issued \$400.0 million of senior unsecured debentures. The issuance consisted of two tranches of debt, \$200.0 million of 2.43% senior unsecured debentures due on December 11, 2029 at a price of \$999.28 per \$1,000 principal amount (“Series 14”), and \$200.0 million of 2.99% senior unsecured debentures due on December 10, 2049 at a price of \$999.59 per \$1,000 principal amount (“Series 15”). The Series 14 and Series 15 debentures bear interest payable semi-annually in arrears. The net proceeds of both Series were used to reduce indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with bank affiliates of one or more dealers, to refinance the Corporation’s outstanding debentures upon maturity, to finance the Corporation’s capital expenditure program and for general corporate purposes. Debt issuance costs of \$2.5 million relating to both Series of debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

The Corporation’s Series 3 debentures matured and were repaid on November 12, 2019.

The following table sets out the current credit ratings of the Corporation.

**Credit Ratings  
As at December 31, 2019**

|                             | <b>DBRS</b>   |        | <b>Standard &amp; Poor’s</b> |         |
|-----------------------------|---------------|--------|------------------------------|---------|
|                             | Credit Rating | Trend  | Credit Rating                | Outlook |
| Issuer rating               | A             | Stable | A                            | Stable  |
| Senior unsecured debentures | A             | Stable | A                            | -       |
| Commercial paper            | R-1 (low)     | Stable | -                            | -       |

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next twelve months.

For the year ended December 31, 2019, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$100.4 million (2018 - \$93.9 million).

On March 27, 2020, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$25.0 million, payable to the City by March 31, 2020.

## Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

### Summary of Contractual Obligations and Other Commitments As at December 31, 2019 (in millions of Canadian dollars)

|   | Total   | 2020  | 2021/2022 | 2023/2024 | After 2024 |
|---|---------|-------|-----------|-----------|------------|
|   | \$      | \$    | \$        | \$        | \$         |
| Commercial paper <sup>1</sup>                       | 136.0   | 136.0 | -         | -         | -          |
| Debentures – principal repayment                    | 2,195.0 | -     | 300.0     | 250.0     | 1,645.0    |
| Debentures – interest payments                      | 1,547.2 | 77.6  | 143.0     | 121.4     | 1,205.2    |
| Capital projects <sup>2</sup> and other             | 14.9    | 6.3   | 8.6       | -         | -          |
| Leases  | 0.3     | -     | 0.1       | 0.1       | 0.1        |
| Total contractual obligations and other commitments | 3,893.4 | 219.9 | 451.7     | 371.5     | 2,850.3    |

<sup>1</sup> The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

<sup>2</sup> Primarily commitments for construction services.

## Corporate Developments

### Changes to the Corporation's Board of Directors

Effective March 5, 2020 the following directors were re-appointed to the Board of the Corporation for a term of office ending March 5, 2022, each continuing to serve until a respective successor director is appointed: David McFadden (as Chair of the Board), Tamara Kronis, Juliana Lam, Michael Nobrega, Mary Ellen Richardson, Howard Wetston and Heather Zordel.

Brian Chu resigned from the Board effective March 5, 2020.

The terms of office of Deputy Mayor Denzil Minnan-Wong, Deputy Mayor Stephen Holyday and Councillor Paul Ainslie as directors of the Corporation remain unaffected and continue until December 31, 2020 or until their respective successors are appointed.

### Electricity Policy Developments

On May 9, 2019, the Government of Ontario enacted Bill 87, the *Fixing the Hydro Mess Act, 2019*. The legislation, however, is not yet fully in force as there are varying commencement provisions for different schedules of the Fixing the Hydro Mess Act. Once proclaimed in its entirety, the legislation will amend the Electricity Act, the OEB Act, the Energy Consumer Protection Act, the OREC, and the OFHP.

Included among the amendments most relevant to the Corporation are those related to changing the governance of the OEB. These amendments will come into force on a date to be named by proclamation of the Lieutenant Governor of Ontario. Once that occurs the OEB will have a board of directors, the roles of Chair and CEO will be bifurcated, and a new position called Chief Commissioner will be established. As a general protocol, the administrative and rule-making functions of the OEB will be managed by the board of directors and CEO, and the adjudicative functions of the OEB will be performed by the commissioners.

In addition, the Fixing the Hydro Mess Act revises the mechanism by which customers currently receive credits on their bills through the OFHP and OREC. Included among the revisions most relevant to the Corporation are regulatory amendments that change the display of the credit on the bill (including renaming the rebate the "Ontario Electricity Rebate"), that modify the eligibility requirements for the rebate, and that reduce potential liability associated with billing and settlement activities associated with the credit. These changes came into effect November 1, 2019.

Effective March 24, 2020, the Ontario provincial government issued an emergency order pursuant to the Emergency Management and Civil Protection Act in connection with the COVID-19 outbreak. The order sets the time of use price for electricity for customers, at 10.1 cents per kWh irrespective of the time or day that electricity is consumed. By comparison, prior to the order, customers subject to time of use pricing paid 10.1 cents per kWh during off-peak hours, 14.4 cents per kWh during mid-peak hours, and 20.8 cents per kWh during on-peak hours. The provincial government announced that the flat rate of 10.1 cents per kWh will be in place for 45 days. The impacts and implications of this recent announcement are still being assessed by Toronto Hydro, however, the imposition of the temporary time of use rates under the emergency order is not expected to have a direct impact on distribution revenue and is only expected to have a minimal impact on expenses incurred by LDC.

### ***CDM Activities***

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provided combined funding of approximately \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The program for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$217.3 million from the IESO as at December 31, 2019 (2018 - \$162.4 million) to deliver certain CDM programs. On September 26, 2018, \$15.8 million was confirmed by the IESO as the joint mid-term incentive, of which \$14.9 million representing LDC’s portion was received in November 2018. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC is entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 will remain in effect notwithstanding the termination of the ECA and LDC will remain responsible for its obligations under such agreements. Participants will have until December 31, 2020 to complete the projects. Amounts received from the IESO for the funding of the projects under the participant agreements but not yet spent, are presented in the Corporation’s Consolidated Balance Sheets under current liabilities as deferred conservation credit.

### ***Electricity Distribution Rates***

The OEB’s regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and custom index adjustments similar to IRM. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base. Custom index adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

On July 31, 2014, LDC filed its first CIR application. CIR is an OEB ratemaking methodology that utilizes a cost of service approach in the first year and a custom index approach in the subsequent years, for a given period. On December 29, 2015, the OEB issued a Decision approving the CIR application, and on March 1, 2016 issued a Final Rate Order which began the process of LDC receiving revenue to fund its 2015-2019 investment plan and operations. Pursuant to the decision, for each subsequent year during that period, LDC was required to file rate applications to finalize annual distribution rates on a custom index basis.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB’s approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a Decision and Rate Order approving LDC’s 2019 rates and providing for other deferral and variance account dispositions. This was the final annual rate application to finalize distribution rates in the 2015-2019 period.

On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requested approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also sought approval to include in LDC's rate base capital amounts that were incurred prior to 2020. On December 19, 2019, the OEB issued its 2020-2024 CIR decision and on February 20, 2020, the OEB issued its CIR rate order, both in relation to the rate application filed on August 15, 2018. The 2020-2024 CIR decision and rate order approved a rate base of \$4,514.8 million and revenue requirement of \$750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately \$3.8 billion for the 2020-2024 period. The financial considerations of the OEB's 2020-2024 CIR decision and rate order has been reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (see note 8 to the Consolidated Financial Statements). In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

### Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers.

### Share Capital

Share capital consists of the following:

| (in millions of Canadian dollars)   | 2019<br>\$ | 2018<br>\$ |
|---|------------|------------|
| <b>Authorized</b>   |            |            |
| The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. |            |            |
| <b>Issued and outstanding</b>   |            |            |
| 1,200 common shares, of which all were fully paid.  | 817.8      | 817.8      |



## Transactions with Related Parties

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

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### Summary of Transactions with Related Parties (in millions of Canadian dollars)

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|   | Year ended December 31 |       |
|---|------------------------|-------|
|   | 2019                   | 2018  |
|   | \$                     | \$    |
| Revenues                                    | 299.3                  | 276.7 |
| Operating expenses and capital expenditures | 7.3                    | 18.3  |
| Dividends declared and paid                 | 100.4                  | 93.9  |

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### Summary of Amounts Due to/from Related Parties (in millions of Canadian dollars)

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|  | As at December 31 |      |
|--|-------------------|------|
|  | 2019              | 2018 |
|  | \$                | \$   |
| Accounts receivable                      | 20.0              | 9.8  |
| Unbilled revenue                         | 24.4              | 23.9 |
| Accounts payable and accrued liabilities | 24.1              | 40.5 |
| Customer deposits                        | 14.1              | 17.3 |
| Deferred revenue                         | 2.7               | 2.5  |

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Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable represent receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

## Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the three months and year ended December 31, 2019 and 2018. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

## **Risk Management and 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, based on an overall enterprise risk philosophy, and achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure.

Toronto Hydro's ERM framework utilizes industry best practices and international guidelines tailored to meet Toronto Hydro's circumstances, and focuses on identifying emerging trends in risks and related opportunities particular to Toronto Hydro through a comprehensive evaluation of Toronto Hydro's business and the industry generally. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations and has made it an important part of its decision-making processes. The ERM framework helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing key aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification, risk trends and risk interdependencies. The risk criteria used to assess each enterprise risk relate to: reputational, financial, distribution system, information system, compliance, occupational health and safety, and public safety impacts.

Toronto Hydro has assigned designated responsible persons for each enterprise risk to ensure that it is being monitored through qualitative and quantitative risk indicators and that short interval controls and long-term mitigation plans are in place. Each designated responsible person provides regular risk reporting and briefings to the executive team on their enterprise risk. Additionally, Toronto Hydro's risk governance structure includes internal coordination efforts to align outreach to key external stakeholders to help reduce risks and identify opportunities for engagement.

Internal ERM professionals meet regularly with the designated responsible persons to gather and review risk indicators and trends, and identify potential emerging facts that could impact Toronto Hydro and/or augment other risks. Such risk management processes and tools help Toronto Hydro prioritize its mitigation efforts as well as identify areas for improvement.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units at all levels, in strategic and functional matters, the ERM governance structure is comprised of three key levels.

At the first level is the Board, which maintains a general understanding of Toronto Hydro's risk profile, the risk categories and the types of risks to which Toronto Hydro may be exposed, and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key risks that may impede Toronto Hydro from achieving certain or all of its strategic objectives, and which are most material to its operational success.

The second level is the executive team, which ensures systems are in place to identify, manage, and monitor risks and trends. Through input from the business and other considerations, the executive team assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Members of the senior leadership team have been assigned to be the designated responsible person for managing and reporting enterprise risks. Members of this group have also been assigned as stakeholder coordinators to ensure that Toronto Hydro is working effectively with external stakeholders to mitigate risks. Working with the executive team, the senior leadership team oversees Toronto Hydro's risk profile and its performance against the defined risk philosophy. This group understands changes in risk status and trends, identifies potential opportunities, and determines responses and action plans that are then implemented by the organization. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

Toronto Hydro reviews its risk philosophy and enterprise risks on an annual basis, and is continually reviewing its ERM program to ensure that Toronto Hydro is focused upon and responsive to risks of the greatest significance, likelihood and impact. Toronto Hydro's ERM program is focused on the key strategic and functional risk categories facing the organization. This allows Toronto Hydro's executive leadership and responsible business units to concentrate on these risks, focus on key data points and undertake deeper dives into root causes and risk trends in

these areas on both a short-interval and long-term basis. By focusing in particular on the strategic risks to the organization, decision-making is strengthened and Toronto Hydro has a greater ability to realize opportunities central to its interests.

Toronto Hydro's business is subject to a variety of risks including those key risk areas described in the following sections. There can be no assurance that any steps Toronto Hydro may take to manage risks will avoid future loss resulting from the occurrence of such risks.

## **Strategic Risks**

### **Oversight Risk**

Risk that provincial government or regulator activity (laws, frameworks or policies) impedes Toronto Hydro's effective performance, and its ability to meet its objectives and serve its customers.

Toronto Hydro is subject to the risk that its business activities may be impeded through the actions of regulatory authorities or by changes in regulation. There is a risk that future changes to Ontario's regulatory model, manner of regulation, and/or broader climate change and energy policy framework does not align with Toronto Hydro's business direction and could materially adversely affect Toronto Hydro's strategic goals and financial results.

Ontario's electricity industry regulatory and other energy policy developments may affect the electricity distribution rates charged by LDC, the costs LDC is permitted to recover and the activities LDC and others may undertake. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, as well as creating barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates at levels that will permit LDC to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the OEB will approve and permit recovery through rates of past and future expenditures incurred by LDC in providing distribution services to customers, in a timely manner or at all;
- the OEB will adopt other rate-setting principles, formulae, and inputs in a manner that result in rates that properly support LDC's activities;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates; and
- the OEB, IESO or other governmental authority will not permit, enable or facilitate other parties in providing distribution services in LDC's licensed area, or permit loads within LDC's service area to become served by a means other than through LDC's electricity distribution system.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect on Toronto Hydro.

LDC actively participates in industry engagement efforts in order to mitigate the above risks and realize potential opportunities in regulatory, climate change and energy policy development. Through these types of engagements, Toronto Hydro monitors proposed regulatory, climate change and energy policy changes that may impede its business. LDC also employs a comprehensive organizational regulatory application program, which includes a risk assessment, to ensure that all applications to the OEB achieve the highest utility standard of evidence gathering, preparation and presentation.

Additionally, the policy priorities of provincial and federal governments and regulatory bodies beyond those specifically applicable to the climate change and energy space, including policies of more general application, and the implementation of policies by such bodies, may impact Toronto Hydro's ability to deliver effective and efficient operations, meet business objectives, report on its activities and capitalize upon new opportunities. Developments and changes in any of the laws, rules, regulations, policies, permits, or directives applicable to the businesses carried on by Toronto Hydro, and the manner of implementation and application of the same, could materially adversely affect Toronto Hydro. This may include developments with respect to labour and employment laws, changes to accounting standards and financial reporting requirements and environmental obligations, among others. This may also include changes to public safety rules, such as restrictive measures affecting the mobility or availability of human and/or non-human resources associated with contagious diseases such as COVID-19 or other adverse public health

developments, among others. Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario, and resulted in emergency management measures being taken by Toronto Hydro. Toronto Hydro actively engages with government entities and participates in industry organizations to monitor emerging policies and where possible plays an advocacy role.

### **Franchise Risk**

Risk that restrictions in LDC's business model and/or external conditions impede its ability to maintain and grow its right to be the sole provider of electricity distribution services in the City (its franchise) and serve its customers. Toronto Hydro is subject to the risk that it is displaced from its strategic position or fails to gain a strategic advantage, which could materially adversely affect Toronto Hydro's strategic goals and financial results.

The OEB has the authority to grant municipal distribution licences, has issued to LDC a licence stipulating a service area that reflects the territory within the City, and has not granted any other distribution licence that permits distribution within LDC's service area. In addition, there is a legal framework in place that establishes LDC, as the holder of the municipal distribution licence in the City, to be the sole provider of distribution activities across municipal rights of way. There is no assurance that these frameworks will continue to exist sufficiently or at all in order to provide LDC the opportunity to be the comprehensive distribution provider in the City.

While other regulated and unregulated entities have always competed with LDC and its predecessors to provide customers with other sources of energy, including electricity, and energy services, the pervasiveness of this competition and its effects on LDC's distribution business have varied over time and continue to vary based on many factors, including the relative price of energy source (e.g. natural gas, grid-supplied electricity, behind-the-meter generation), climate change policy, technology development (e.g. energy storage, energy efficiency), customer preference, government-based incentives, regulatory frameworks, and compliance frameworks especially for non-utility entities.

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience. Failure to effectively scan our external and internal environment and take appropriate action could lead to missed business opportunities and loss of competitive advantage.

Risks to Toronto Hydro's franchise interests may also result from impairment to Toronto Hydro's image in the community, public confidence or brand. Toronto Hydro is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Negative perceptions regarding this commitment could impact the public's perception of Toronto Hydro. In addition, events and/or external factors that draw negative media attention to Toronto Hydro could cause reputational damages and impact Toronto Hydro's business and relationship with its stakeholders. These factors could lead customers, governments and regulators to look more favourably to alternative services and service providers to utility-based electricity distribution.

Toronto Hydro has dedicated personnel focused on monitoring external competitive factors, including alternative service providers and technologies, and developing strategies for further enhancing the LDC's interactive grid which support the reliability of its core infrastructure grid operations, promote greater value, and deliver solutions for its customers. Additionally, Toronto Hydro maintains relationships with its customers to better understand the specific needs and expectations of each class of customer. Toronto Hydro also conducts customer research and consultations in the ordinary course of its operations, and as part of the development of its rate application whereby it directly considered customer preferences and feedback, in addition to other inputs, as part of developing its business plan. Toronto Hydro also has dedicated personnel focused on the utility's key account customers, which respond to issues raised by large commercial and industrial customers and assists with their energy management needs. Through these types of engagements, Toronto Hydro can monitor its customers' specific needs and can work with them to develop energy solutions.

## **Governance Risk**

Risk that municipal activity (laws, policies, or intervention) impedes Toronto Hydro's effective performance, and ability to meet its objectives and serve its customers.

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in carbon emissions and adaptation to climate change as part of initiatives such as the City's TransformTO Climate Action Strategy. This may require Toronto Hydro to make additional investments in infrastructure and necessitate additional time, money and effort related to compliance with such requirements. The City also plays a role as a municipal asset manager and could substantially impact Toronto Hydro's operations and impose material costs through its infrastructure policies (e.g. asset relocation costs, work restrictions, climate change adaptation, etc.)

As the Corporation's sole shareholder, the City has set out the governing objectives and principles, including financial objectives, for the Corporation through the Shareholder Direction, as described above. Under the Shareholder Direction, the City has the power to direct Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time. Certain conflicts may arise where the City's goals and objectives in implementing such rules, policies, directives or objectives differ from the Shareholder Direction principles and could materially adversely affect Toronto Hydro's business, operations, financial condition or prospects.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers. Through such engagements the parties review and consider the challenges to Toronto Hydro achieving the objectives and principles set out under the Shareholder Direction, and in particular the impact that proposed changes in city by-laws or municipal policies may create for Toronto Hydro's ability to meet its business objectives and serve its customers.

## **Functional Risks**

### **Cyber Security Risk**

Risk that Toronto Hydro is unable to adequately safeguard digital information assets, connections to digital infrastructure, physical assets and people from threats or vulnerabilities.

Toronto Hydro's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, billing and business systems to capture data and to produce timely and accurate information.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. Toronto Hydro has implemented security controls substantially aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer information. A significant breach could materially adversely affect the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity

incident or other unauthorized access, which could materially adversely affect Toronto Hydro and also result in third-party claims against Toronto Hydro.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Additionally, in respect of Toronto Hydro's operational technology systems in general, there is a degree of isolation from business systems and independent operation which mitigates against wider systemic risk to the business systems. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

### **Human Capital Risk**

Risk that Toronto Hydro is unable to maintain necessary resource talent and skilled resources.

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements. All retirements pose risks for knowledge management and business continuity at Toronto Hydro. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances, including limitations and restrictions placed on human resources as a result of COVID-19. Toronto Hydro's ability to make such changes or adapt, in turn, will continue to depend in part on its relationship with its labour unions, including negotiating collective bargaining agreements with the Society of United Professionals and PWU. There can be no assurance that Toronto Hydro will be able to secure the support of its labour unions.

Toronto Hydro's ability to develop its work processes to meet changing circumstances also depends on its ability to access adequate resources from its external contractor community. Toronto Hydro's ability to successfully access and benefit from third party service providers will depend, in part, on a lack of disruption that may be caused by COVID-19. If such disruption occurs, there may be a material adverse effect on Toronto Hydro's business and operations. One way in which Toronto Hydro seeks to mitigate this risk is through its use of business practices and internal procedures to identify a diverse group of reputable third-party service providers and entering into contracts with, and monitoring the performance of, these third-party service providers.

### **Operations Risk**

Risk that Toronto Hydro is not able to effectively meet the needs of its customers and a growing city, and maintain the security and reliability of the distribution grid at acceptable levels. The primary factors driving Toronto Hydro's operations risk relate to asset management, customer management, physical security, and business interruption.

Toronto Hydro may be unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets (including assets not directly involved in electricity distribution such as facilities and computer systems) and the inability to replace or expand infrastructure in an optimal timeframe. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability, hardening against the effects of climate change, and customer service requirements now and in the future.

LDC estimates that approximately 32% of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives by 2025. Asset condition assessment demographics also indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is a growing city and LDC must make upgrades to keep pace with urban intensification and electrification and ensure good stewardship of the distribution system in a manner that accounts for a changing climate. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. Toronto Hydro

has experienced several extreme weather events in recent years, including ice storms, freezing rain, extreme wind and flooding, that have led to a significant number of customers experiencing electricity outages. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond and adapt to climate change, and adoption of electric vehicles and fuel-switching potentially increases, the pressures on Toronto Hydro's system will only increase, and such factors may drive a need for incremental capital expenditures for system upgrades so that the grid can reliably handle increased loads.

LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of Toronto Hydro to fund additional infrastructure investments, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. It uses a variety of asset and project management tools to implement its plans, measures progress on a recurring short interval basis, and regularly monitors and manages the health of its assets. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, climate change readiness, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Toronto Hydro may also fail to accurately measure customer electricity consumption, respond to and address customer service issues or bill customers correctly or on time (including meter to cash management). In order to provide timely and accurate billing and customer service, Toronto Hydro has implemented a number of policies, procedures and guidelines including those related to metering, accounts receivable and connections/disconnections. Toronto Hydro monitors metering/billing accuracy, customer communications and customer service quality on an ongoing basis.

Toronto Hydro also faces external threats to its physical and perimeter security. This includes the security of Toronto Hydro's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, Toronto Hydro has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness. Toronto Hydro has also implemented electronic security technologies to ensure that only authorized personnel have access to Toronto Hydro facilities.

Similarly, Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption after an incident that is beyond normal operations. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, as well as terrorism and pandemics, such as COVID-19. Costs and operational changes, associated with COVID-19 may have a material and adverse effect on Toronto Hydro's business and operations, including but not limited to its ability to build, repair and maintain capital infrastructure, and resultant impacts on revenue. The spread of COVID-19 could also disrupt Toronto Hydro's operations if any of its employees, contractors or representatives are suspected of being, or have been, infected by the virus. Toronto Hydro has implemented various initiatives aimed at improving the system's resiliency to increasingly frequent extreme weather events caused by climate change. These initiatives include updating major equipment specifications, revising planning guidelines, investigating the load forecast impact, revising design practices, and enhancing maintenance programs. Toronto Hydro has also implemented a grid emergency management program to prepare for and respond to major threats to operations such as COVID-19, and major power outage events. The grid emergency management program has incorporated recommendations from the independent review panel of experts formed to review Toronto Hydro's response to the 2013 Ice Storm that affected Toronto. Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

## **Safety Risk**

Risk to Toronto Hydro employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro activities.

As an electricity distribution company, Toronto Hydro is inherently subject to the risk that employees may be exposed to serious or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of Toronto Hydro's business and business activities, occupational safety is an integral part of Toronto Hydro's corporate culture. Employees could be exposed to hazards when performing their work duties. This includes but is not limited to hazards such as electrical contact, working in confined spaces, fires and explosions, slips, trips and falls, motor vehicle accidents, and the risk of illnesses such as COVID-19. Toronto Hydro is subject to compliance with provincial Health and Safety legislation. Toronto Hydro's management approach to occupational safety is to meet or exceed legal compliance requirements and eliminate or safeguard known occupational hazards and risks. Toronto Hydro also uses an Internal Responsibility System to clearly define responsibility and accountability for safety at each level within the organization. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of Toronto Hydro's corporate values, including safety. LDC received OHSAS 18001 certification in 2013. This was migrated to ISO 45001 in 2019 as OHSAS 18001 will discontinue in March 2021. LDC conducts annual third-party audits to maintain ISO 45001 certification. In addition, occupational health and safety legal compliance audits are conducted every two years. The ISO 45001 certificate expires February 4, 2022.

Due to the nature of Toronto Hydro's business of operating and maintaining its distribution system, Toronto Hydro is also subject to the risk of public injuries or fatalities. Toronto Hydro mitigates risks to public safety through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. "Safety by Design" principles are applied in the development of construction standards and design practices. New products for use in the distribution system go through a thorough review and introduction process. The selection process for new products and the development of standards promotes customer health and safety.

## **Financial Risk**

Risk that Toronto Hydro is unable to maintain its financial health and performance at acceptable levels.

Toronto Hydro is directly and indirectly subject to various market and credit fluctuations which could materially adversely affect Toronto Hydro. For example, LDC is exposed to credit risk with respect to customer non-payment of electricity bills. LDC is permitted, at certain times of the year, to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is for the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis. LDC's security interest or other measures, if any, may also not provide sufficient protection. Additionally, security interests and other measures taken by, or in favour of, LDC, if any, may not provide sufficient protection.

Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, as at December 31, 2019, by \$50.5 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2019, by \$64.9 million.

Toronto Hydro is exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, as well as customer deposits, while most of its remaining obligations for the most recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the most recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. Toronto Hydro estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$2.0 million to annual finance costs.



Toronto Hydro typically has limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2019 was not material.

Toronto Hydro also may not be able to optimize its debt to equity ratio or access capital markets at effective rates. There can be no assurance that debt or equity financing will be available or sufficient to meet Toronto Hydro's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to Toronto Hydro.

The COVID-19 outbreak has caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on Toronto Hydro's operating results and financial position in the future. Toronto Hydro is actively monitoring the situation and assessing potential implications that this can have on LDC or the Corporation. In response, Toronto Hydro has implemented its grid emergency management program and is developing ongoing response plans through its financial planning processes. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and Toronto Hydro's business cannot be determined with certainty at this time.

Toronto Hydro relies on debt financing through the Corporation's MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, which could also be significantly affected by COVID-19, the regulatory environment in Ontario, Toronto Hydro's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market. In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation's ability to access short term capital and pay its obligations as they become due could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or unavailable, which could materially adversely affect the Corporation's financial health and performance. As the City of Toronto is the sole shareholder of the Corporation, it is dependent on the City for new equity which may not be available.

Toronto Hydro's financial health and performance may also be adversely affected by events or measures that reduce the demand for electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions such as schools and government operations as a result of extreme storms and other weather conditions, natural disasters, terrorism, and pandemics such as COVID-19.

The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

### **Compliance Risk**

Risk that Toronto Hydro does not meet its material compliance obligations under legal and regulatory instruments.

Toronto Hydro is committed to complying with applicable legal and regulatory requirements and other requirements to which the organization subscribes. Toronto Hydro has a Corporate Compliance program that strengthens the organization's culture of compliance and aims to provide reasonable assurance, to Toronto Hydro's senior leadership and Toronto Hydro's Board of Directors, of adherence with material compliance requirements. There can be no assurance that Toronto Hydro will be in material compliance with applicable future laws, rules, regulations and policies at all times. Failure by Toronto Hydro to comply with applicable laws, rules, regulations and policies may subject Toronto Hydro to civil or regulatory proceedings that could have a material adverse effect on Toronto Hydro. The OEB may not allow recovery in rates for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

## Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 25(j) to the Consolidated Financial Statements relating to principal versus agent determination for recording revenue on a gross or net basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following notes to the Consolidated Financial Statements:

- Note 24 – Recognition and measurement of provisions and contingencies;
- Note 25(b) – Recognition and measurement of regulatory balances;
- Notes 25(f) and 25(g) – Determination of useful lives of depreciable assets;
- Note 25(j) – Revenue recognition – measurement of unbilled revenue;
- Notes 25(m) and 13 – Measurement of post-employment benefits – key actuarial assumptions; and
- Notes 25(o) and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used.

## Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. The significant accounting policies of the Corporation are summarized in note 25 to the Consolidated Financial Statements.

## Changes in Accounting Policies

On June 7, 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23"). The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in situations in which there is uncertainty over income tax treatments. The interpretation is applicable for annual reporting periods beginning on or after January 1, 2019.

Effective January 1, 2019, the Corporation has adopted IFRIC 23 with no impact on the Consolidated Financial Statements.

## Future Accounting Pronouncements

A number of new interpretations and amendments to existing standards have been issued but are not yet effective for the year ended December 31, 2019, and have not been applied in preparing the Consolidated Financial Statements.

## Definition of Material (Amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1") and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8"))

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 – the amendments clarify the definition of 'material' and align the definition used in the *Conceptual Framework for Financial Reporting* and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation's consolidated financial statements.

## Forward-Looking Information

Certain information included in this MD&A constitutes “forward-looking information” within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words “anticipates”, “believes”, “budgets”, “committed”, “can”, “could”, “estimates”, “expects”, “focus”, “forecasts”, “future”, “intends”, “may”, “might”, “once”, “plans”, “propose”, “projects”, “schedule”, “seek”, “should”, “trend”, “will”, “would”, “objective”, “outlook” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled “Results of Operations”; the effect of changes in energy consumption on future revenue as described in the section entitled “Summary of Quarterly Results of Operations”; the Corporation’s plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled “Liquidity and Capital Resources”; the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled “Liquidity and Capital Resources”; the payment of dividends as described in the section entitled “Liquidity and Capital Resources”; the effects of the Fixing the Hydro Mess Act on the Corporation’s business as described in the section entitled “Electricity Policy Developments”; the duration of the implementation of flat time of use electricity rates by the provincial government, and the impacts upon Toronto Hydro, as described in the section entitled “Electricity Policy Developments”; the termination of the ECA, and the continuance of participant agreements that were in effect before April 1, 2019 and LDC’s continued responsibility for its obligations thereunder as described in the section entitled “Corporate Developments”; the continued settlement with the IESO until all continued projects are completed and the completion of a finance and compliance audit thereafter as described in the section entitled “Corporate Developments”; electricity distribution rates and rate applications as described in the section entitled “Corporate Developments”; the expectation that the adoption of the amendments to IAS 1 and IAS 8 will not have a material impact on the Corporation’s consolidated financial statements, if any; and the impact on Toronto Hydro’s operating results and financial position in the future, and the ultimate duration and magnitude of the impact on the economy and Toronto Hydro’s business, of COVID-19 as described in the section entitled “Financial Risk”; the success of monetary and fiscal interventions by Governments and central banks designed to stabilize economic conditions as a result of COVID-19 as described in the section entitled “Financial Risk”; Toronto Hydro’s active monitoring of the COVID-19 situation and development of a response plan through its financial planning processes as described in the section entitled “Financial Risk”.

The forward-looking information is based on estimates and assumptions made by the Corporation’s management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation’s capital projects, no unforeseen changes to project plans, no significant changes to the seasonal weather patterns in accordance with historical seasonal trends because of climate change, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and services in a timely and cost efficient manner, continued contractor performance, compliance with covenants, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the ratings issued by credit rating agencies, the level of interest rates and the Corporation’s ability to borrow and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC’s capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements; risks associated with capital projects; risks associated with

electricity industry regulatory developments and other governmental policy changes, including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of the Corporation's information assets, including but not limited to the collection, use and disclosure of personal information; risks associated with failure of the ERP system; risk of external threats to LDC's facilities and operations posed by unexpected weather conditions caused by climate change and other factors, risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends, terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events, risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions and the availability of financing; risk to the Corporation's employees and the general public of serious/fatal injuries and illnesses relating to or impacting upon its activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives that can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic and its potential inability to train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A and in the 2018 Annual MD&A. Please review the section "Risk Management and Risk Factors" in this MD&A and in the 2018 Annual MD&A in detail. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in this MD&A and in the 2018 Annual MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2019, 2018 and 2017. This information has been derived from the Corporation's consolidated financial statements.

|  | 2019    | 2018    | 2017                           |
|--|---------|---------|--------------------------------|
|  | \$      | \$      | \$                             |
|  |         |         | <i>[Restated]</i> <sup>6</sup> |
| <b>Year Ended December 31</b>                                      |         |         |                                |
| Total Revenues <sup>1</sup>  | 3,673.3 | 3,472.7 | 3,642.1                        |
| Net income after net movements in regulatory balances <sup>1</sup> | 154.4   | 167.3   | 156.5                          |
| <b>As at December 31</b>   |         |         |                                |
| Total assets and regulatory balances <sup>2</sup>                  | 5,778.7 | 5,360.1 | 5,226.2                        |
| Total debentures <sup>2,3</sup>                                    | 2,183.0 | 2,034.9 | 2,034.0                        |
| Other non-current financial liabilities <sup>4</sup>               | 19.4    | 33.9    | 9.1                            |
| Total equity <sup>2</sup>  | 1,887.5 | 1,833.5 | 1,760.4                        |
| Dividends <sup>5</sup>   | 100.4   | 93.9    | 75.0                           |

<sup>1</sup> See "Results of Operations" for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.

<sup>2</sup> See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

<sup>3</sup> Total debentures include current and long-term debentures.

<sup>4</sup> 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.

<sup>5</sup> See "Liquidity and Capital Resources" for further details on dividends.

<sup>6</sup> These numbers have been restated to account for the impact of adopting IFRS 15 *Revenue from Contracts with Customers*.

## Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at [www.sedar.com](http://www.sedar.com).

Toronto, Canada

March 27, 2020



CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

See Financial Report for abbreviations and defined terms  
used in the audited consolidated financial statements.



## MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements have been prepared by management of Toronto Hydro Corporation (the "Corporation"), who are responsible for the integrity, consistency and reliability of the information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and applicable securities legislation.

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 25 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 27, 2020.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and internal audit, which is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Corporation's assets are safeguarded and transactions are properly authorized and executed. The system includes formal policies and procedures and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these internal controls and reports its findings to management and the Audit Committee of the Corporation, as required.

The Board of Directors, through its Audit Committee, is responsible for overseeing management in the performance of its financial reporting and internal controls. The Audit Committee is composed of independent directors and meets periodically with management, the internal auditors and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholder, the appointment of the external auditors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Consolidated Financial Statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Corporation's shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The attached Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"

Anthony Haines

President and Chief Executive Officer

"Aida Cipolla"

Aida Cipolla

Executive Vice-President and Chief Financial Officer



KPMG LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5  
Canada  
Tel 416-777-8500  
Fax 416-777-8818

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

### ***Opinion***

We have audited the consolidated financial statements of Toronto Hydro Corporation (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended

and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal



control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Sarah DeGuzman.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, stylized font. A horizontal line is drawn underneath the signature.

Toronto, Canada

March 27, 2020

## CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

| As at December 31  | <i>Note</i> | 2019<br>\$     | 2018<br>\$ |
|--|-------------|----------------|------------|
| <b>ASSETS</b>  |             |                |            |
| <b>Current</b>   |             |                |            |
| Accounts receivable                                      | 4, 15[b]    | 247.5          | 215.7      |
| Unbilled revenue   | 15[b]       | 293.8          | 282.6      |
| Income tax receivable                                    |             | 0.5            | -          |
| Materials and supplies                                   |             | 7.8            | 8.1        |
| Other assets   | 5           | 14.1           | 10.7       |
| <b>Total current assets</b>                              |             | <b>563.7</b>   | 517.1      |
| Property, plant and equipment                            | 6           | 4,700.9        | 4,392.1    |
| Intangible assets  | 7           | 339.7          | 318.9      |
| Deferred tax assets                                      | 20          | -              | 0.3        |
| Other assets   | 5           | 9.4            | 5.8        |
| <b>Total assets</b>                                      |             | <b>5,613.7</b> | 5,234.2    |
| Regulatory balances                                      | 8           | 165.0          | 125.9      |
| <b>Total assets and regulatory balances</b>              |             | <b>5,778.7</b> | 5,360.1    |
| <b>LIABILITIES AND EQUITY</b>                            |             |                |            |
| <b>Current</b>   |             |                |            |
| Working capital facility                                 | 9           | 1.0            | 12.6       |
| Commercial paper   | 9           | 136.0          | 113.0      |
| Accounts payable and accrued liabilities                 | 10          | 505.1          | 525.4      |
| Income tax payable                                       |             | -              | 5.1        |
| Customer deposits  |             | 49.1           | 48.1       |
| Deferred revenue   | 11          | 13.6           | 12.9       |
| Deferred conservation credit                             | 3[b]        | 9.5            | 8.2        |
| Debentures   | 12          | -              | 249.8      |
| Other liabilities  |             | -              | 0.3        |
| <b>Total current liabilities</b>                         |             | <b>714.3</b>   | 975.4      |
| Debentures   | 12          | 2,183.0        | 1,785.1    |
| Customer deposits  |             | 18.9           | 31.7       |
| Deferred revenue   | 11          | 398.3          | 278.1      |
| Post-employment benefits                                 | 13          | 334.9          | 275.9      |
| Deferred tax liabilities                                 | 20          | 23.1           | -          |
| Other liabilities  |             | 0.5            | 2.2        |
| <b>Total liabilities</b>                                 |             | <b>3,673.0</b> | 3,348.4    |
| <b>Equity</b>  |             |                |            |
| Share capital  | 16          | 817.8          | 817.8      |
| Retained earnings  |             | 1,069.7        | 1,015.7    |
| <b>Total equity</b>                                      |             | <b>1,887.5</b> | 1,833.5    |
| <b>Total liabilities and equity</b>                      |             | <b>5,560.5</b> | 5,181.9    |
| Regulatory balances                                      | 8           | 218.2          | 178.2      |
| <b>Total liabilities, equity and regulatory balances</b> |             | <b>5,778.7</b> | 5,360.1    |

Commitments, contingencies and subsequent events

2, 23, 24

### ON BEHALF OF THE BOARD:

"David McFadden"  
David McFadden, Director

"Michael Nobrega"  
Michael Nobrega, Director

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

| Year ended December 31  | Note | 2019<br>\$     | 2018<br>\$     |
|---|------|----------------|----------------|
| <b>Revenues</b>   |      |                |                |
| Energy sales  | 17   | 2,779.7        | 2,704.1        |
| Distribution revenue  | 17   | 799.2          | 674.2          |
| Other   | 17   | 94.4           | 94.4           |
|   |      | <b>3,673.3</b> | <b>3,472.7</b> |
| <b>Expenses</b>   |      |                |                |
| Energy purchases  |      | 2,779.6        | 2,646.3        |
| Operating expenses  | 18   | 308.9          | 307.5          |
| Depreciation and amortization   | 6, 7 | 255.6          | 238.3          |
|   |      | <b>3,344.1</b> | <b>3,192.1</b> |
| Finance costs   | 19   | (80.1)         | (74.6)         |
| Gain on disposals of property, plant and equipment                    |      | 2.2            | 108.6          |
| <b>Income before income taxes</b>                                     |      | <b>251.3</b>   | <b>314.6</b>   |
| Income tax expense  | 20   | (67.9)         | (82.4)         |
| <b>Net income</b>   |      | <b>183.4</b>   | <b>232.2</b>   |
| Net movements in regulatory balances                                  | 8    | (62.4)         | (111.9)        |
| Net movements in regulatory balances arising from deferred tax assets | 8    | 33.4           | 47.0           |
| <b>Net income after net movements in regulatory balances</b>          |      | <b>154.4</b>   | <b>167.3</b>   |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

| Year ended December 31  | Note  | 2019<br>\$   | 2018<br>\$   |
|---|-------|--------------|--------------|
| <b>Net income after net movements in regulatory balances</b>                                    |       | <b>154.4</b> | <b>167.3</b> |
| <b>Other comprehensive income</b>   |       |              |              |
| <b>Items that will not be reclassified to income or loss</b>                                    |       |              |              |
| Remeasurements of post-employment benefits, net of tax [2019 - \$10.1, 2018 - (\$9.9)]          | 13    | (28.1)       | 27.3         |
| Net movements in regulatory balances related to OCI, net of tax [2019 - \$10.1, 2018 - (\$9.9)] | 8, 13 | 28.1         | (27.3)       |
| <b>Other comprehensive income, net of tax</b>   |       | <b>-</b>     | <b>-</b>     |
| <b>Total comprehensive income</b>   |       | <b>154.4</b> | <b>167.3</b> |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

| Year ended December 31                                | <i>Note</i>   | 2019<br>\$     | 2018<br>\$ |
|---|---------------|----------------|------------|
| <b>Share capital</b>                                  | <i>16</i>     | <b>817.8</b>   | 817.8      |
| <b>Retained earnings, beginning of year</b>           |               | <b>1,015.7</b> | 942.6      |
| Transition adjustment                                 |               | -              | (0.3)      |
| Net income after net movements in regulatory balances |               | <b>154.4</b>   | 167.3      |
| Dividends   | <i>16, 22</i> | <b>(100.4)</b> | (93.9)     |
| <b>Retained earnings, end of year</b>                 |               | <b>1,069.7</b> | 1,015.7    |
| <b>Total equity</b>                                   |               | <b>1,887.5</b> | 1,833.5    |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

| Year ended December 31  | <i>Note</i> | 2019<br>\$     | 2018<br>\$     |
|---|-------------|----------------|----------------|
| <b>OPERATING ACTIVITIES</b>   |             |                |                |
| Net income after net movements in regulatory balances                 |             | 154.4          | 167.3          |
| Net movements in regulatory balances                                  | 8           | 62.4           | 111.9          |
| Net movements in regulatory balances arising from deferred tax assets | 8           | (33.4)         | (47.0)         |
| Adjustments   |             |                |                |
| Depreciation and amortization   | 6, 7        | 255.6          | 238.3          |
| Amortization of deferred revenue                                      | 11          | (5.9)          | (5.3)          |
| Finance costs   |             | 80.1           | 74.6           |
| Income tax expense  |             | 67.9           | 82.4           |
| Post-employment benefits  |             | 20.8           | 0.1            |
| Gain on disposals of property, plant and equipment                    |             | (2.2)          | (108.6)        |
| Other   |             | 0.8            | 0.8            |
| Capital contributions received  | 11          | 127.8          | 106.5          |
| Net change in other non-current assets and liabilities                |             | (5.8)          | (2.4)          |
| Increase (decrease) in customer deposits                              |             | (11.8)         | 21.7           |
| Changes in non-cash working capital balances                          | 21          | (76.8)         | (1.0)          |
| Income tax paid   |             | (37.3)         | (42.6)         |
| <b>Net cash provided by operating activities</b>                      |             | <b>596.6</b>   | <b>596.7</b>   |
| <b>INVESTING ACTIVITIES</b>   |             |                |                |
| Purchase of property, plant and equipment                             | 21          | (518.3)        | (439.8)        |
| Purchase of intangible assets   | 21          | (53.0)         | (54.5)         |
| Proceeds on disposals of property, plant and equipment                |             | 2.3            | 117.4          |
| <b>Net cash used in investing activities</b>                          |             | <b>(569.0)</b> | <b>(376.9)</b> |
| <b>FINANCING ACTIVITIES</b>   |             |                |                |
| Increase (decrease) in commercial paper, net                          | 9           | 23.0           | (46.0)         |
| Dividends paid  | 16          | (100.4)        | (93.9)         |
| Proceeds from issuance of debentures                                  | 12          | 399.8          | -              |
| Debt issuance costs paid  | 12          | (2.5)          | -              |
| Repayment of debentures   | 12          | (250.0)        | -              |
| Repayment of lease liability  |             | (0.2)          | (1.8)          |
| Interest paid   |             | (85.7)         | (79.0)         |
| <b>Net cash used in financing activities</b>                          |             | <b>(16.0)</b>  | <b>(220.7)</b> |
| <b>Net change in cash and cash equivalents during the year</b>        |             | <b>11.6</b>    | <b>(0.9)</b>   |
| Working capital facility, beginning of year                           |             | (12.6)         | (11.7)         |
| <b>Working capital facility, end of year</b>                          |             | <b>(1.0)</b>   | <b>(12.6)</b>  |

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

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### 1. NATURE OF BUSINESS

The Corporation was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the Electricity Act. The Corporation is wholly owned by the City and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

The Corporation and its subsidiaries distribute electricity to customers and provide street lighting and expressway lighting services in the City.

### 2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2019 and 2018 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS as issued by the IASB.

The Consolidated Financial Statements are presented in Canadian dollars, the Corporation's functional currency, and have been prepared on the historical cost basis, except for post-employment benefits which are recorded at actuarial value.

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 27, 2020 when the Corporation's Consolidated Financial Statements were authorized for issuance by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in these notes to the Consolidated Financial Statements [notes 3[a], 8, 13 and 16].

The summary of significant accounting policies has been disclosed in note 25.

### 3. REGULATION

The OEB has regulatory oversight of electricity matters in Ontario. The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.
- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are a pass-through to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are a pass-through to the IESO.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

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- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC’s customers and load.

### *a) Electricity Distribution Rates*

The OEB’s regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and custom index adjustments similar to IRM. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base. Custom index adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

On July 31, 2014, LDC filed its first CIR application. CIR is an OEB ratemaking methodology that utilizes a cost of service approach in the first year and a custom index approach in the subsequent years, for a given period. On December 29, 2015, the OEB issued a Decision approving the CIR application, and on March 1, 2016 issued a Final Rate Order [“2015-2019 CIR decision and rate order”] which began the process of LDC receiving revenue to fund its 2015-2019 investment plan and operations. Pursuant to the Decision, for each subsequent year during that period, LDC was required to file rate applications to finalize annual distribution rates on a custom index basis.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB’s approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a Decision and Rate Order approving LDC’s 2019 rates and providing for other deferral and variance account dispositions. This was the final annual rate application to finalize distribution rates in the 2015-2019 period.

On August 15, 2018, LDC filed a CIR application seeking approval of LDC’s 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requested approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also sought approval to include in LDC’s rate base capital amounts that were incurred prior to 2020. On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 [“2020-2024 CIR decision and rate order”].

### *b) CDM Activities*

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. [“Oakville Hydro”] for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provided combined funding of approximately \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The program for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$217.3 million from the IESO as at December 31, 2019 [2018 - \$162.4

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

million] to deliver the CDM programs. On September 26, 2018, \$15.8 million was confirmed by the IESO as the joint mid-term incentive, of which \$14.9 million representing LDC's portion was received in November 2018. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC is entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 will remain in effect notwithstanding the termination of the ECA and LDC will remain responsible for its obligations under such agreements. Participants will have until December 31, 2020 to complete the projects. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

|                                    | 2019<br>\$   | 2018<br>\$   |
|------------------------------------|--------------|--------------|
| Trade receivables                  | 217.5        | 201.5        |
| Due from related parties [note 22] | 20.0         | 9.8          |
| Other                              | 10.0         | 4.4          |
|                                    | <b>247.5</b> | <b>215.7</b> |

### 5. OTHER ASSETS

Other assets consist of the following:

|  | 2019<br>\$  | 2018<br>\$  |
|--|-------------|-------------|
| Prepaid expenses                                   | 12.9        | 9.4         |
| Deferred financing costs                           | 1.5         | 1.6         |
| Other  | 9.1         | 5.5         |
| <b>Total other assets</b>                          | <b>23.5</b> | <b>16.5</b> |
| Less: Current portion of other assets relating to: |             |             |
| Prepaid expenses                                   | 12.9        | 9.4         |
| Deferred financing costs                           | 0.4         | 0.4         |
| Other  | 0.8         | 0.9         |
| <b>Current portion of other assets</b>             | <b>14.1</b> | <b>10.7</b> |
| <b>Non-current portion of other assets</b>         | <b>9.4</b>  | <b>5.8</b>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

### 6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

|  | Distribution<br>assets<br>\$ | Land and<br>buildings<br>\$ | Equipment<br>and other<br>\$ | Construction<br>in progress<br>\$ | Total<br>\$    |
|--|------------------------------|-----------------------------|------------------------------|-----------------------------------|----------------|
| <b>Cost</b>                            |                              |                             |                              |                                   |                |
| Balance as at January 1, 2018          | 3,749.2                      | 391.3                       | 273.2                        | 374.9                             | 4,788.6        |
| Additions/(Transfers)                  | 363.6                        | 18.7 <sup>(1)</sup>         | 27.4                         | 53.0                              | 462.7          |
| Disposals and retirements              | (32.0)                       | (0.4)                       | (4.4)                        | —                                 | (36.8)         |
| Balance as at December 31, 2018        | 4,080.8                      | 409.6                       | 296.2                        | 427.9                             | 5,214.5        |
| Additions/(Transfers)                  | <b>414.6</b>                 | <b>19.1</b>                 | <b>46.7</b>                  | <b>53.3</b>                       | <b>533.7</b>   |
| Disposals and retirements              | <b>(30.3)</b>                | <b>(1.8)</b>                | <b>(15.2)</b>                | —                                 | <b>(47.3)</b>  |
| <b>Balance as at December 31, 2019</b> | <b>4,465.1</b>               | <b>426.9</b>                | <b>327.7</b>                 | <b>481.2</b>                      | <b>5,700.9</b> |
| <b>Accumulated depreciation</b>        |                              |                             |                              |                                   |                |
| Balance as at January 1, 2018          | 479.5                        | 36.3                        | 129.4                        | —                                 | 645.2          |
| Depreciation                           | 147.6                        | 15.0                        | 27.3                         | —                                 | 189.9          |
| Disposals and retirements              | (8.4)                        | (0.3)                       | (4.0)                        | —                                 | (12.7)         |
| Balance as at December 31, 2018        | 618.7                        | 51.0                        | 152.7                        | —                                 | 822.4          |
| Depreciation                           | <b>156.4</b>                 | <b>15.3</b>                 | <b>27.6</b>                  | —                                 | <b>199.3</b>   |
| Disposals and retirements              | <b>(7.0)</b>                 | <b>(0.5)</b>                | <b>(14.2)</b>                | —                                 | <b>(21.7)</b>  |
| <b>Balance as at December 31, 2019</b> | <b>768.1</b>                 | <b>65.8</b>                 | <b>166.1</b>                 | —                                 | <b>1,000.0</b> |
| <b>Carrying amount</b>                 |                              |                             |                              |                                   |                |
| Balance as at December 31, 2018        | 3,462.1                      | 358.6                       | 143.5                        | 427.9                             | 4,392.1        |
| <b>Balance as at December 31, 2019</b> | <b>3,697.0</b>               | <b>361.1</b>                | <b>161.6</b>                 | <b>481.2</b>                      | <b>4,700.9</b> |

<sup>(1)</sup> Includes transitional adjustment for the recognition of the right-of-use assets upon adoption of IFRS 16 *Leases* on January 1, 2018.

As at December 31, 2019, “Land and buildings” included right-of-use assets related to leases of land and office space with cost of \$7.6 million [December 31, 2018 - \$8.8 million], accumulated depreciation of \$0.6 million [December 31, 2018 - \$0.7 million], and carrying amount of \$7.0 million [December 31, 2018 - \$8.1 million]. For the year ended December 31, 2019, the Corporation recorded depreciation expense of \$0.3 million [2018 - \$0.3 million] related to the right-of-use assets.

For the year ended December 31, 2019, borrowing costs in the amount of \$3.2 million [2018 - \$3.7 million] were capitalized to PP&E with an average capitalization rate of 3.57% [2018 - 3.61%].

“Construction in progress” additions are net of transfers to the other PP&E categories.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

### 7. INTANGIBLE ASSETS

Intangible assets consist of the following:

|  | Computer software | Contributions | Software in development | Contributions for work in progress | Total        |
|--|-------------------|---------------|-------------------------|------------------------------------|--------------|
|  | \$                | \$            | \$                      | \$                                 | \$           |
| <b>Cost</b>                            |                   |               |                         |                                    |              |
| Balance as at January 1, 2018          | 136.9             | 75.5          | 54.2                    | 114.1                              | 380.7        |
| Additions/(Transfers)                  | 73.8              | 88.6          | (39.2)                  | (74.6)                             | 48.6         |
| Disposals and retirement               | (2.9)             | —             | —                       | —                                  | (2.9)        |
| <b>Balance as at December 31, 2018</b> | <b>207.8</b>      | <b>164.1</b>  | <b>15.0</b>             | <b>39.5</b>                        | <b>426.4</b> |
| Additions/(Transfers)                  | <b>27.8</b>       | <b>25.2</b>   | <b>6.7</b>              | <b>6.4</b>                         | <b>66.1</b>  |
| Other                                  | —                 | (12.7)        | —                       | —                                  | (12.7)       |
| <b>Balance as at December 31, 2019</b> | <b>235.6</b>      | <b>176.6</b>  | <b>21.7</b>             | <b>45.9</b>                        | <b>479.8</b> |
| <b>Accumulated amortization</b>        |                   |               |                         |                                    |              |
| Balance as at January 1, 2018          | 77.4              | 7.1           | —                       | —                                  | 84.5         |
| Amortization                           | 20.9              | 3.6           | —                       | —                                  | 24.5         |
| Disposals and retirement               | (1.5)             | —             | —                       | —                                  | (1.5)        |
| <b>Balance as at December 31, 2018</b> | <b>96.8</b>       | <b>10.7</b>   | <b>—</b>                | <b>—</b>                           | <b>107.5</b> |
| Amortization                           | <b>25.8</b>       | <b>6.8</b>    | —                       | —                                  | <b>32.6</b>  |
| <b>Balance as at December 31, 2019</b> | <b>122.6</b>      | <b>17.5</b>   | <b>—</b>                | <b>—</b>                           | <b>140.1</b> |
| <b>Carrying amount</b>                 |                   |               |                         |                                    |              |
| Balance as at December 31, 2018        | 111.0             | 153.4         | 15.0                    | 39.5                               | 318.9        |
| <b>Balance as at December 31, 2019</b> | <b>113.0</b>      | <b>159.1</b>  | <b>21.7</b>             | <b>45.9</b>                        | <b>339.7</b> |

For the year ended December 31, 2019, borrowing costs in the amount of \$0.5 million [2018 - \$5.2 million] were capitalized to intangible assets with an average capitalization rate of 3.57% [2018 - 3.61%].

“Software in development” and “Contributions for work in progress” additions are net of transfers to the other intangible asset categories.

“Contributions” represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The remaining amortization periods for computer software and contributions range from less than one year to nine years, and from nine to 25 years, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

### 8. REGULATORY BALANCES

Debit balances consist of the following:

|                                  | January 1,<br>2019 | Balances<br>arising in<br>the<br>period | Recovery/<br>reversal | Other<br>movements | December 31,<br>2019 | Remaining<br>recovery/<br>reversal<br>period<br>(months) | Carrying<br>charges<br>applicable |
|----------------------------------|--------------------|---|-----------------------|--------------------|----------------------|--|-----------------------------------|
|                                  | \$                 | \$                                      | \$                    | \$                 | \$                   |  |                                   |
| OPEB net actuarial loss          | 48.1               | 38.2                                    | —                     | —                  | 86.3                 | note 8[a]  | —                                 |
| LRAM                             | 29.0               | 18.8                                    | (11.9)                | —                  | 35.9                 | note 8[b]  | (1)                               |
| Deferred taxes                   | —                  | 23.3                                    | —                     | (1.9)              | 21.4                 | note 8[c]  | —                                 |
| OPEB cash versus accrual         | 5.4                | 1.7                                     | —                     | —                  | 7.1                  | note 8[d]  | —                                 |
| Foregone revenue                 | 23.2               | —                                       | (20.4)                | —                  | 2.8                  | note 8[e]  | —                                 |
| IFRS transitional<br>adjustments | 7.0                | —                                       | —                     | (7.0)              | —                    | note 8[f]  | —                                 |
| Stranded meters                  | 3.6                | —                                       | —                     | (3.6)              | —                    | note 8[g]  | (1)                               |
| Named properties                 | 1.6                | —                                       | (1.5)                 | —                  | 0.1                  | note 8[h]  | —                                 |
| Capital contributions            | 0.5                | —                                       | (0.5)                 | —                  | —                    | note 8[i]  | —                                 |
| Other                            | 7.5                | 3.9                                     | —                     | —                  | 11.4                 | 34   | (1)                               |
|                                  | 125.9              | 85.9                                    | (34.3)                | (12.5)             | 165.0                |  |                                   |

|                                  | January 1,<br>2018 | Balances<br>arising in<br>the<br>period | Recovery/<br>reversal | Other<br>movements | December 31,<br>2018 | Remaining<br>recovery/<br>reversal<br>period<br>(months) | Carrying<br>charges<br>applicable |
|----------------------------------|--------------------|---|-----------------------|--------------------|----------------------|--|-----------------------------------|
|                                  | \$                 | \$                                      | \$                    | \$                 | \$                   |  |                                   |
| OPEB net actuarial loss          | 85.3               | (37.2)                                  | —                     | —                  | 48.1                 | note 8[a]  | —                                 |
| LRAM                             | 16.7               | 18.7                                    | (6.4)                 | —                  | 29.0                 | note 8[b]  | (1)                               |
| Foregone revenue                 | 44.0               | —                                       | (20.8)                | —                  | 23.2                 | 12   | —                                 |
| Gain on disposal                 | 19.1               | —                                       | —                     | (19.1)             | —                    | note 8[k]  | (1)                               |
| IFRS transitional<br>adjustments | 15.0               | —                                       | (8.0)                 | —                  | 7.0                  | 12   | —                                 |
| OPEB cash versus accrual         | 4.2                | 1.2                                     | —                     | —                  | 5.4                  | note 8[d]  | —                                 |
| Stranded meters                  | 7.5                | —                                       | (3.9)                 | —                  | 3.6                  | 12   | (1)                               |
| Named properties                 | 3.1                | —                                       | (1.5)                 | —                  | 1.6                  | 12   | —                                 |
| Capital contributions            | 1.0                | —                                       | (0.5)                 | —                  | 0.5                  | 12   | —                                 |
| Other                            | 4.0                | 3.5                                     | —                     | —                  | 7.5                  | —  | (1)                               |
|                                  | 199.9              | (13.8)                                  | (41.1)                | (19.1)             | 125.9                |  |                                   |

<sup>(1)</sup> Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.45% for January 1, 2019 to March 31, 2019 and 2.18% for April 1, 2019 to December 31, 2019 [January 1, 2018 to March 31, 2018 - 1.50%, April 1, 2018 to September 30, 2018 - 1.89% and October 1, 2018 to December 31, 2018 - 2.17%].

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

|                                     | January 1,<br>2019 | Balances<br>arising in<br>the<br>period | Recovery/<br>reversal | Other<br>movements | December 31,<br>2019 | Remaining<br>recovery/<br>reversal<br>period<br>(months) | Carrying<br>charges<br>applicable |
|-------------------------------------|--------------------|---|-----------------------|--------------------|----------------------|--|-----------------------------------|
|                                     | \$                 | \$                                      | \$                    | \$                 | \$                   |  |                                   |
| Capital-related revenue requirement | 56.5               | 20.6                                    | —                     | —                  | 77.1                 | note 8[j]  | (1)                               |
| Gain on disposal                    | 61.8               | 1.3                                     | (1.3)                 | —                  | 61.8                 | note 8[k]  | (1)                               |
| Derecognition                       | 21.8               | 11.0                                    | —                     | —                  | 32.8                 | note 8[l]  | (1)                               |
| Tax-related variances               | 1.1                | 10.9                                    | (0.6)                 | —                  | 11.4                 | note 8[m]  | (1)                               |
| Development charges                 | 7.9                | 3.0                                     | —                     | —                  | 10.9                 | note 8[n]  | (1)                               |
| Settlement variances                | 19.2               | (0.4)                                   | (9.9)                 | —                  | 8.9                  | note 8[o]  | (1)                               |
| Accounts receivable credits         | —                  | 3.4                                     | —                     | —                  | 3.4                  | note 8[p]  | (1)                               |
| IFRS transitional adjustments       | —                  | —                                       | 7.8                   | (7.0)              | 0.8                  | note 8[f]  | —                                 |
| Stranded meters                     | —                  | —                                       | 4.0                   | (3.6)              | 0.4                  | note 8[g]  | (1)                               |
| Deferred taxes                      | 1.9                | —                                       | —                     | (1.9)              | —                    | note 8[c]  | —                                 |
| Smart meters                        | 0.3                | —                                       | (0.3)                 | —                  | —                    | —  | —                                 |
| Other                               | 7.7                | 3.0                                     | —                     | —                  | 10.7                 | 1 - 48   | (1)                               |
|                                     | 178.2              | 52.8                                    | (0.3)                 | (12.5)             | 218.2                |  |                                   |

|                                     | January 1,<br>2018 | Balances<br>arising in<br>the<br>period | Recovery/<br>reversal | Other<br>movements | December 31,<br>2018 | Remaining<br>recovery/<br>reversal<br>period<br>(months) | Carrying<br>charges<br>applicable |
|-------------------------------------|--------------------|---|-----------------------|--------------------|----------------------|--|-----------------------------------|
|                                     | \$                 | \$                                      | \$                    | \$                 | \$                   |  |                                   |
| Gain on disposal                    | —                  | 99.0                                    | (18.1)                | (19.1)             | 61.8                 | note 8[k]  | (1)                               |
| Capital-related revenue requirement | 25.0               | 31.5                                    | —                     | —                  | 56.5                 | note 8[j]  | (1)                               |
| Derecognition                       | 15.9               | 5.9                                     | —                     | —                  | 21.8                 | note 8[l]  | (1)                               |
| Settlement variances                | 41.0               | 58.2                                    | (80.0)                | —                  | 19.2                 | note 8[o]  | (1)                               |
| Development charges                 | 5.3                | 2.6                                     | —                     | —                  | 7.9                  | note 8[n]  | (1)                               |
| Deferred taxes                      | 58.8               | (56.9)                                  | —                     | —                  | 1.9                  | note 8[c]  | —                                 |
| Tax-related variances               | 9.3                | —                                       | (8.2)                 | —                  | 1.1                  | —  | (1)                               |
| Smart meters                        | 0.3                | —                                       | —                     | —                  | 0.3                  | —  | —                                 |
| Other                               | 4.4                | 3.7                                     | (0.4)                 | —                  | 7.7                  | —  | (1)                               |
|                                     | 160.0              | 144.0                                   | (106.7)               | (19.1)             | 178.2                |  |                                   |

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.45% for January 1, 2019 to March 31, 2019 and 2.18% for April 1, 2019 to December 31, 2019 [January 1, 2018 to March 31, 2018 - 1.50%, April 1, 2018 to September 30, 2018 - 1.89% and October 1, 2018 to December 31, 2018 - 2.17%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

[All tabular amounts in millions of Canadian dollars]

reclassification of regulatory deferral accounts considered to be insignificant into the “Other” categories. There was no impairment recorded for the year ended December 31, 2019.

Reconciliation between the net movements in regulatory balances shown in the regulatory debit and credit balances tables and the net movements presented on the consolidated statements of income and the consolidated statements of comprehensive income is as follows:

|   | 2019<br>\$   | 2018<br>\$    |
|---|--------------|---------------|
| Total movements per regulatory debit balances table                   | 39.1         | (74.0)        |
| Total movements per regulatory credit balances table                  | (40.0)       | (18.2)        |
| <b>Total net movements</b>  | <b>(0.9)</b> | <b>(92.2)</b> |
| Net movements per financial statements:                               |              |               |
| Net movements in regulatory balances                                  | (62.4)       | (111.9)       |
| Net movements in regulatory balances arising from deferred tax assets | 33.4         | 47.0          |
| Net movements in regulatory balances related to OCI, net of tax       | 28.1         | (27.3)        |
| <b>Total net movements per financial statements</b>                   | <b>(0.9)</b> | <b>(92.2)</b> |

Regulatory developments in Ontario's electricity industry and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. There is a risk that the OEB may disallow the recovery of a portion of certain costs incurred in the current period through future rates or disagree with the proposed recovery period. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, any impairment will be recorded in the period when the assessment is made.

The regulatory balances of the Corporation consist of the following:

### ***a) OPEB net actuarial loss***

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2019 of \$38.2 million is related to the actuarial loss recorded for the year [2018 - \$37.2 million actuarial gain] [note 13[a)]. The net position is an actuarial loss recoverable in future rates.

In the 2020-2024 CIR decision and rate order, the OEB approved partial recovery of the balance amounting to \$6.4 million over a 10-month period commencing on March 1, 2020.

### ***b) Lost revenue adjustment mechanism***

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. The province's Conservation First Framework has been discontinued and replaced by an Interim Framework which may result in changes to the scope and impact of CDM programs in the post-2020 period. New variances are accrued based on current CDM activities. Approved variances for 2017 were recovered through OEB-approved rate riders over 12 months commencing on January 1, 2019. Variances pertaining to years subsequent to 2017 have yet to be applied for disposition.

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### *c) Deferred taxes*

This regulatory balance relates to both deferred tax amounts reclassified under IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"] [note 25[b]] and the expected future electricity distribution rate impact to customers arising from timing differences in the recognition of deferred tax assets and liabilities. LDC does not apply for disposition of the balance since it is reversed through timing differences in the recognition of deferred tax assets and liabilities.

The amounts reclassified under IFRS 14 include the deferred tax asset related to regulatory balances of \$6.1 million (debits) as at December 31, 2019 [December 31, 2018 - \$1.1 million (debits)], and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$5.5 million (credits) as at December 31, 2019 [December 31, 2018 - \$1.0 million (debits)].

The deferred tax amount related to the expected future impact to electricity distribution rates was \$20.8 million (debits) as at December 31, 2019 [December 31, 2018 - \$4.0 million (credits)].

### *d) OPEB cash versus accrual*

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. In the 2015-2019 CIR decision and rate order, the OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs.

In the 2020-2024 CIR decision and rate order, the OEB approved recovery of the 2019 balance over a 10-month period commencing on March 1, 2020 and recovery of OPEB costs on an accrual basis.

### *e) Foregone revenue*

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the 2015-2019 CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

### *f) IFRS transitional adjustments*

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the 2015-2019 CIR decision and rate order, the OEB approved recovery of the forecasted balance over 46 months commencing on March 1, 2016.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual IFRS transitional adjustments over a 10-month period commencing on March 1, 2020.



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### ***g) Stranded meters and smart meters***

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

In the 2015-2019 CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

The OEB ruling on smart meters permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allowed LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual net book value of stranded meters as at December 31, 2014 over a 48-month period commencing on January 1, 2021.

### ***h) Named properties***

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

### ***i) Capital contributions***

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

### ***j) Capital-related revenue requirement***

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the balance to ratepayers through a rate rider.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

### ***k) Gain on disposal***

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (credits) and the after-tax gain realized on two significant LDC properties (credits). As part of the 2015-2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. The gain on disposal of the two properties was realized by LDC in 2015 and 2018, respectively. In connection with the disposal of the second property, LDC realized a gain of \$98.6 million (net of tax and selling costs of \$14.9 million). The proceeds on disposition of this property were \$122.2 million. In the second quarter of 2017, LDC realized a gain in connection with the disposal of a third property.

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In the 2020-2024 CIR decision and rate order, the incremental balance related to the actual realized gain and tax savings that exceeded the approved rate riders in connection with the disposal of the two LDC properties was approved for disposition over a 22-month period commencing on March 1, 2020. The OEB also approved disposition of the actual realized gain and tax savings in connection with the disposal of the third property over 22-month period commencing on March 1, 2020.

### *l) Derecognition*

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 12-month period commencing on January 1, 2022.

### *m) Tax-related variance accounts*

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019.

In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of the related balance over a 24-month period commencing on January 1, 2023.

In addition, the balance includes a residual credit balance that arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates.

### *n) Development charges*

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits on offers to connect from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, LDC retains the excess expansion deposit not otherwise returned to the connecting customer.

The excess expansion deposits were recorded as a regulatory balance on the consolidated balance sheets, with a corresponding offset in net movements in regulatory balances.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

### *o) Settlement variances*

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2017, including carrying charges forecasted to the end of 2018, were disposed through OEB-approved rate riders over 12 months commencing on January 1, 2019.

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In the 2020-2024 CIR decision and rate order, the OEB approved disposition of \$7.5 million related to the 2018 settlement variances over a 22-month period commencing on March 1, 2020. Settlement variances pertaining to years subsequent to 2018 have yet to be applied for disposition.

### *p) Accounts receivable credits*

This regulatory account relates to historical closed customer accounts with unclaimed credit balances.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

## 9. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility [“Revolving Credit Facility”], pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On August 22, 2019, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2023 to October 10, 2024. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

- a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO [“Prudential Facility”]; and
- a \$20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management [“Working Capital Facility”].

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

|                   | Revolving<br>Credit Facility<br>Limit<br>\$ | Revolving<br>Credit Facility<br>Borrowings<br>\$ | Commercial<br>Paper<br>Outstanding<br>\$ | Revolving<br>Credit Facility<br>Availability<br>\$ |
|-------------------|---|--|--|--|
| December 31, 2019 | 800.0                                       | —  | 136.0                                    | 664.0  |
| December 31, 2018 | 800.0                                       | —  | 113.0                                    | 687.0  |

For the year ended December 31, 2019, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$333.9 million [2018 - \$239.6 million] with a weighted average interest rate of 1.94% [2018 - 1.68%].

As at December 31, 2019, \$1.0 million had been drawn under the Working Capital Facility [December 31, 2018 - \$12.6 million] and \$33.2 million of letters of credit had been issued against the Prudential Facility [December 31, 2018 - \$33.3 million].

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### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

|   | 2019<br>\$   | 2018<br>\$   |
|---|--------------|--------------|
| Trade payables                          | 308.4        | 335.1        |
| Accrued liabilities                     | 153.5        | 130.1        |
| Due to related parties <i>[note 22]</i> | 24.1         | 40.5         |
| Accrued interest                        | 17.5         | 17.6         |
| Other                                   | 1.6          | 2.1          |
|   | <b>505.1</b> | <b>525.4</b> |

### 11. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers and developers to construct or acquire PP&E and revenue from ancillary services which have not yet been recognized into other revenue *[note 25[j]]*.

|  | 2019<br>\$   | 2018<br>\$   |
|--|--------------|--------------|
| Capital contributions, beginning of year               | 288.6        | 188.2        |
| Capital contributions received                         | 127.8        | 106.5        |
| Amortization   | (5.9)        | (5.3)        |
| Other  | (0.1)        | (0.8)        |
| <b>Capital contributions, end of year</b>              | <b>410.4</b> | <b>288.6</b> |
| Other, beginning of year                               | 2.4          | 1.7          |
| Other received   | 10.0         | 8.4          |
| Revenue recognized                                     | (10.9)       | (7.7)        |
| <b>Other, end of year</b>                              | <b>1.5</b>   | <b>2.4</b>   |
| <b>Total deferred revenue</b>                          | <b>411.9</b> | <b>291.0</b> |
| Less: Current portion of deferred revenue relating to: |              |              |
| Capital contributions                                  | 12.1         | 10.5         |
| Other  | 1.5          | 2.4          |
| <b>Current portion of deferred revenue</b>             | <b>13.6</b>  | <b>12.9</b>  |
| <b>Non-current portion of deferred revenue</b>         | <b>398.3</b> | <b>278.1</b> |

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### 12. DEBENTURES

Debentures consist of the following:

|  | 2019<br>\$     | 2018<br>\$ |
|--|----------------|------------|
| Senior unsecured debentures              |                |            |
| Series 3 – 4.49% due November 12, 2019   | —              | 250.0      |
| Series 6 – 5.54% due May 21, 2040        | 200.0          | 200.0      |
| Series 7 – 3.54% due November 18, 2021   | 300.0          | 300.0      |
| Series 8 – 2.91% due April 10, 2023      | 250.0          | 250.0      |
| Series 9 – 3.96% due April 9, 2063       | 245.0          | 245.0      |
| Series 10 – 4.08% due September 16, 2044 | 200.0          | 200.0      |
| Series 11 – 3.55% due July 28, 2045      | 200.0          | 200.0      |
| Series 12 – 2.52% due August 25, 2026    | 200.0          | 200.0      |
| Series 13 – 3.485% due February 28, 2048 | 200.0          | 200.0      |
| Series 14 – 2.43% due December 11, 2029  | 200.0          | —          |
| Series 15 – 2.99% due December 10, 2049  | 200.0          | —          |
| <b>Total debentures</b>                  | <b>2,195.0</b> | 2,045.0    |
| Less: Unamortized debt issuance costs    | 11.2           | 9.4        |
| Unamortized discount/premium             | 0.8            | 0.7        |
| Current portion of debentures            | —              | 249.8      |
| <b>Long-term portion of debentures</b>   | <b>2,183.0</b> | 1,785.1    |

All debentures of the Corporation rank equally.

The Corporation filed a base shelf prospectus dated July 30, 2019 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

On November 12, 2019, the Corporation issued \$400.0 million of senior unsecured debentures. The issuance consisted of two tranches of debt, \$200.0 million of 2.43% senior unsecured debentures due on December 11, 2029 at a price of \$999.28 per \$1,000 principal amount [“Series 14”], and \$200.0 million of 2.99% senior unsecured debentures due on December 10, 2049 at a price of \$999.59 per \$1,000 principal amount [“Series 15”]. The Series 14 and Series 15 debentures bear interest payable semi-annually in arrears. The net proceeds of both Series were used to reduce indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with bank affiliates of one or more dealers, to refinance the Corporation’s outstanding debentures upon maturity, to finance the Corporation’s capital expenditure program and for general corporate purposes. Debt issuance costs of \$2.5 million relating to both Series of debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

The Corporation’s Series 3 debentures matured and were repaid on November 12, 2019.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which,

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subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

### 13. EMPLOYEE FUTURE BENEFITS

#### *Multi-employer pension plan*

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2019, the OMERS plan was 97.0% funded [December 31, 2018 - 96.0%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2019, the Corporation's contributions were \$18.2 million [2018 - \$18.1 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately \$19.0 million to the OMERS plan in 2020.

#### *Post-employment benefits*

##### *a) Benefit obligation*

|  | 2019<br>\$   | 2018<br>\$   |
|--|--------------|--------------|
| Balance, beginning of year   | 275.9        | 313.0        |
| Current service cost   | 3.2          | 4.8          |
| Interest cost  | 10.3         | 11.0         |
| Benefits paid  | (10.6)       | (10.9)       |
| Past service cost <sup>(1)</sup>   | 15.1         | —            |
| Experience loss (gain) <sup>(2)</sup>  | 1.4          | (8.2)        |
| Actuarial gain arising from changes in demographic assumptions <sup>(2)</sup>          | —            | (22.4)       |
| Actuarial loss (gain) arising from changes in financial assumptions <sup>(2) (3)</sup> | 39.6         | (11.4)       |
| <b>Balance, end of year</b>  | <b>334.9</b> | <b>275.9</b> |

<sup>(1)</sup> An arbitration process was ongoing prior to December 31, 2019 with respect to certain employees of the Corporation. As a result of the arbitrator's decision received on March 3, 2020, the Corporation recorded an estimated past service cost relating to the existence of a post-employment benefit obligation as at December 31, 2019. The plan amendment details have yet to be finalized.

<sup>(2)</sup> Actuarial loss (gain) on accumulated sick leave credits of \$2.8 million [2018 - (\$4.8) million] is recognized in benefit cost [note 13[c]] and actuarial loss (gain) on medical, dental and life insurance benefits of \$38.2 million [2018 - (\$37.2) million] is recognized in OCI [note 13[d]].

<sup>(3)</sup> Reflects the impact of change in discount rate [note 13[e]].

##### *b) Amounts recognized in regulatory balances*

As at December 31, 2019, the amount recognized in regulatory balances related to net actuarial loss was \$86.3 million [December 31, 2018 - \$48.1 million] [note 8[a]].

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### c) *Benefit cost recognized*

|   | 2019<br>\$  | 2018<br>\$  |
|---|-------------|-------------|
| Current service cost  | 3.2         | 4.8         |
| Interest cost   | 10.3        | 11.0        |
| Past service cost [note 13[a]]                                | 15.1        | —           |
| Actuarial loss (gain) on other employee benefits [note 13[a]] | 2.8         | (4.8)       |
| <b>Benefit cost</b>   | <b>31.4</b> | <b>11.0</b> |
| Capitalized to PP&E and intangible assets                     | 7.6         | 4.8         |
| Charged to operating expenses                                 | 23.8        | 6.2         |

### d) *Amounts recognized in OCI*

|   | 2019<br>\$  | 2018<br>\$    |
|---|-------------|---------------|
| Actuarial loss (gain) [note 13[a]]                              | 38.2        | (37.2)        |
| Income tax expense (recovery) in OCI [note 20]                  | (10.1)      | 9.9           |
| <b>Remeasurements of post-employment benefits, net of tax</b>   | <b>28.1</b> | <b>(27.3)</b> |
| Net movements in regulatory balances related to OCI, net of tax | (28.1)      | 27.3          |
| <b>OCI, net of tax</b>  | <b>—</b>    | <b>—</b>      |

### e) *Significant assumptions*

|   | 2019<br>% | 2018<br>% |
|---|-----------|-----------|
| <b>Discount rate used in the calculation of:</b>                      |           |           |
| Benefit obligation as at December 31                                  | 3.00      | 3.75      |
| <b>Assumed medical and dental cost trend rates as at December 31:</b> |           |           |
| Rate of increase in dental costs assumed for next year                | 4.00      | 4.00      |
| Rate of increase in medical costs assumed for next year               | 5.00      | 5.00      |

### f) *Sensitivity analysis*

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2019 was 17.3 [2018 - 16.7]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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Changes in key assumptions would have had the following effect on the benefit obligation:

| Change in assumption               |      | 2019<br>\$ | 2018<br>\$ |
|------------------------------------|------|------------|------------|
| Benefit obligation                 |      | 334.9      | 275.9      |
| Discount rate                      | 1% ↑ | (50.5)     | (41.3)     |
|                                    | 1% ↓ | 64.9       | 53.1       |
| Medical and dental cost trend rate | 1% ↑ | 41.4       | 35.7       |
|                                    | 1% ↓ | (37.0)     | (31.9)     |

## 14. CAPITAL MANAGEMENT

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of LDC;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses debt capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2019, the Corporation's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2018. As at December 31, 2019, equity amounted to \$1,887.5 million [December 31, 2018 - \$1,833.5 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, amounted to \$2,320.2 million [December 31, 2018 - \$2,162.0 million].

The Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization as defined in the agreements. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2019 and December 31, 2018, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.



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### 15. FINANCIAL INSTRUMENTS

#### a) Recognition and measurement

As at December 31, 2019 and December 31, 2018, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable approximated their carrying amounts due to the short maturity of these instruments [note 25[k]]. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The carrying amounts and fair values of the Corporation's debentures consist of the following:

|  | 2019            |                           | 2018            |                           |
|--|-----------------|---------------------------|-----------------|---------------------------|
|  | \$              |                           | \$              |                           |
|  | Carrying amount | Fair value <sup>(1)</sup> | Carrying amount | Fair value <sup>(1)</sup> |
| Senior unsecured debentures              |                 |                           |                 |                           |
| Series 3 – 4.49% due November 12, 2019   | —               | —                         | 249.8           | 254.5                     |
| Series 6 – 5.54% due May 21, 2040        | 198.8           | 278.1                     | 198.7           | 249.5                     |
| Series 7 – 3.54% due November 18, 2021   | 299.6           | 308.2                     | 299.4           | 307.6                     |
| Series 8 – 2.91% due April 10, 2023      | 249.5           | 255.9                     | 249.3           | 250.7                     |
| Series 9 – 3.96% due April 9, 2063       | 243.4           | 297.3                     | 243.4           | 246.4                     |
| Series 10 – 4.08% due September 16, 2044 | 198.4           | 238.0                     | 198.4           | 207.9                     |
| Series 11 – 3.55% due July 28, 2045      | 198.4           | 220.3                     | 198.4           | 190.6                     |
| Series 12 – 2.52% due August 25, 2026    | 199.1           | 203.5                     | 199.0           | 192.3                     |
| Series 13 – 3.485% due February 28, 2048 | 198.5           | 219.2                     | 198.5           | 187.8                     |
| Series 14 – 2.43% due December 11, 2029  | 198.7           | 198.8                     | —               | —                         |
| Series 15 – 2.99% due December 10, 2049  | 198.6           | 200.7                     | —               | —                         |
|  | <b>2,183.0</b>  | <b>2,420.0</b>            | 2,034.9         | 2,087.3                   |

<sup>(1)</sup> The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [note 25[l]].

#### b) Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

##### Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The credit risk related to cash and cash equivalents is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. As at December 31, 2019, LDC had approximately 778,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2019, LDC held security deposits in the amount

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of \$68.0 million [December 31, 2018 - \$79.8 million], of which \$35.2 million [December 31, 2018 - \$51.9 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. The Corporation's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2019, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2019 and December 31, 2018.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

|  | 2019<br>\$   | 2018<br>\$   |
|--|--------------|--------------|
| Accounts receivable (net of loss allowance)                  |              |              |
| Outstanding for not more than 30 days                        | 198.7        | 188.6        |
| Outstanding for more than 30 days and not more than 120 days | 41.9         | 21.5         |
| Outstanding for more than 120 days                           | 6.9          | 5.6          |
| <b>Total accounts receivable</b>                             | <b>247.5</b> | <b>215.7</b> |
| Unbilled revenue (net of loss allowance)                     | 293.8        | 282.6        |
| <b>Total accounts receivable and unbilled revenue</b>        | <b>541.3</b> | <b>498.3</b> |

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the loss allowance as at December 31, 2019 and December 31, 2018.

The Corporation has a broad base of customers. As at December 31, 2019 and December 31, 2018, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk.

Reconciliation between the opening and closing loss allowance balances for accounts receivable and unbilled revenue is as follows:

|                             | 2019<br>\$    | 2018<br>\$    |
|-----------------------------|---------------|---------------|
| Balance, beginning of year  | (10.8)        | (10.2)        |
| Transitional adjustment     | —             | (0.3)         |
| Loss allowance              | (6.3)         | (4.5)         |
| Write-offs                  | 5.5           | 4.4           |
| Recoveries                  | (0.2)         | (0.2)         |
| <b>Balance, end of year</b> | <b>(11.8)</b> | <b>(10.8)</b> |

### c) Market risks

#### Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations [note 13[f)]. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program

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[note 9] and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2019, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$2.0 million to annual finance costs.

### Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

Liquidity risks associated with financial commitments are as follows:

|   | 2019              |                    |                    |                    |                    |                   |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
|   | Due within 1 year | Due within 2 years | Due within 3 years | Due within 4 years | Due within 5 years | Due after 5 years |
|   | \$                | \$                 | \$                 | \$                 | \$                 | \$                |
| Working Capital Facility                                | 1.0               | —                  | —                  | —                  | —                  | —                 |
| Commercial paper <sup>(1)</sup>                         | 136.0             | —                  | —                  | —                  | —                  | —                 |
| Accounts payable and accrued liabilities <sup>(2)</sup> | 487.6             | —                  | —                  | —                  | —                  | —                 |
| Obligations under leases                                | —                 | —                  | —                  | 0.1                | 0.1                | 0.1               |
| Senior unsecured debentures                             |                   |                    |                    |                    |                    |                   |
| Series 6 – 5.54% due May 21, 2040                       | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 7 – 3.54% due November 18, 2021                  | —                 | 300.0              | —                  | —                  | —                  | —                 |
| Series 8 – 2.91% due April 10, 2023                     | —                 | —                  | —                  | 250.0              | —                  | —                 |
| Series 9 – 3.96% due April 9, 2063                      | —                 | —                  | —                  | —                  | —                  | 245.0             |
| Series 10 – 4.08% due September 16, 2044                | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 11 – 3.55% due July 28, 2045                     | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 12 – 2.52% due August 25, 2026                   | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 13 – 3.485% due February 28, 2048                | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 14 – 2.43% due December 11, 2029                 | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Series 15 – 2.99% due December 10, 2049                 | —                 | —                  | —                  | —                  | —                  | 200.0             |
| Interest payments on debentures                         | 77.6              | 76.8               | 66.2               | 62.5               | 58.9               | 1,205.2           |
|   | 702.2             | 376.8              | 66.2               | 312.6              | 59.0               | 2,850.3           |

<sup>(1)</sup> The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

<sup>(2)</sup> Accounts payable and accrued liabilities exclude \$17.5 million of accrued interest on debentures included within "Interest payments on debentures".

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### *Foreign exchange risk*

As at December 31, 2019, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Consolidated Financial Statements.

## 16. SHARE CAPITAL

Share capital consists of the following:

|  | 2019<br>\$   | 2018<br>\$ |
|--|--------------|------------|
| <b>Authorized</b><br>The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. |              |            |
| <b>Issued and outstanding</b><br>1,200 common shares, of which all were fully paid.  | <b>817.8</b> | 817.8      |

### *Dividends*

The Shareholder Direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to credit rating and dividends.

Subject to applicable law, the Shareholder Direction provides that the Corporation will pay dividends to the City each year amounting to 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year. The dividend is declared in quarterly instalments, subject to the discretion of the Board of Directors and payable to the City by the last business day of each fiscal quarter.

For the year ended December 31, 2019, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$100.4 million [2018 - \$93.9 million].

On March 27, 2020, the Board of Directors of the Corporation declared a dividend in the amount of \$25.0 million, payable to the City by March 31, 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 17. REVENUES

Revenues consist of the following:

|  | 2019<br>\$     | 2018<br>\$     |
|--|----------------|----------------|
| <b>Revenue from contracts with customers</b> |                |                |
| Energy sales                                 | 2,779.7        | 2,704.1        |
| Distribution revenue                         | 799.2          | 674.2          |
| Ancillary services revenue                   | 16.0           | 21.3           |
| Street lighting services                     | 20.0           | 21.1           |
| Pole and duct rentals                        | 18.3           | 15.7           |
| Other regulatory service charges             | 10.2           | 11.7           |
| Miscellaneous                                | 8.2            | 9.0            |
| <b>Revenue from other sources</b>            |                |                |
| Capital contributions                        | 5.9            | 5.3            |
| CDM mid-term incentive <i>[note 3[b]]</i>    | —              | 2.7            |
| Other  | 15.8           | 7.6            |
|  | <b>3,673.3</b> | <b>3,472.7</b> |

Energy sales and distribution revenue by customer class are as follows:

|  | 2019<br>\$     | 2018<br>\$     |
|--|----------------|----------------|
| Residential service <sup>(1)</sup>                 | 917.2          | 815.4          |
| General service <sup>(2)</sup>                     | 2,443.6        | 2,337.3        |
| Large users <sup>(3)</sup>                         | 218.1          | 225.6          |
| <b>Total energy sales and distribution revenue</b> | <b>3,578.9</b> | <b>3,378.3</b> |

<sup>(1)</sup>“Residential Service” means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.

<sup>(2)</sup>“General Service” means a service supplied to premises other than those receiving “Residential Service” and “Large Users” and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

<sup>(3)</sup>“Large Users” means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 18. OPERATING EXPENSES

Operating expenses consist of the following:

|                                    | 2019<br>\$   | 2018<br>\$ |
|------------------------------------|--------------|------------|
| Salaries and benefits              | 242.8        | 231.5      |
| External services                  | 147.1        | 151.5      |
| Other support costs <sup>(1)</sup> | 23.8         | 20.4       |
| Materials and supplies             | 18.1         | 22.7       |
| Less: Capitalized costs            | (122.9)      | (118.6)    |
|                                    | <b>308.9</b> | 307.5      |

<sup>(1)</sup> Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2019, the Corporation recognized operating expenses of \$9.3 million related to materials and supplies used to service electricity distribution assets [2018 - \$11.7 million].

### 19. FINANCE COSTS

Finance costs consist of the following:

|   | 2019<br>\$  | 2018<br>\$ |
|---|-------------|------------|
| Interest income                           | (3.0)       | (1.4)      |
| Interest expense                          |             |            |
| Interest on long-term debt <sup>(1)</sup> | 77.9        | 78.2       |
| Interest on short-term debt               | 8.1         | 5.8        |
| Other interest                            | 0.8         | 0.9        |
| Capitalized borrowing costs               | (3.7)       | (8.9)      |
|   | <b>80.1</b> | 74.6       |

<sup>(1)</sup> Includes amortization of debt issuance costs, discounts and premiums.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 20. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

|   | 2019<br>\$   | 2018<br>\$   |
|---|--------------|--------------|
| <b>Rate reconciliation before net movements in regulatory balances</b>                    |              |              |
| Income before income taxes  | 251.3        | 314.6        |
| Statutory Canadian federal and provincial income tax rate                                 | 26.5%        | 26.5%        |
| Expected income tax expense   | 66.6         | 83.4         |
| Non-taxable amounts   | (0.8)        | (9.4)        |
| Gain on disposal  | 0.4          | 8.0          |
| Other   | 1.7          | 0.4          |
| <b>Income tax expense</b>   | <b>67.9</b>  | <b>82.4</b>  |
| <b>Effective tax rate</b>   | <b>27.0%</b> | <b>26.2%</b> |
| <b>Rate reconciliation after net movements in regulatory balances</b>                     |              |              |
| Net income after net movements in regulatory balances, before income tax <sup>(1)</sup>   | 188.9        | 202.7        |
| Statutory Canadian federal and provincial income tax rate                                 | 26.5%        | 26.5%        |
| Expected income tax expense   | 50.1         | 53.7         |
| Temporary differences recoverable in future rates   | (15.7)       | (25.5)       |
| Gain on disposal  | 0.4          | 8.0          |
| Other   | (0.3)        | (0.8)        |
| <b>Income tax expense and income tax recorded in net movements in regulatory balances</b> | <b>34.5</b>  | <b>35.4</b>  |
| <b>Effective tax rate</b>   | <b>18.3%</b> | <b>17.5%</b> |

<sup>(1)</sup> Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

Income tax expense as presented in the consolidated statements of income and statements of comprehensive income are as follows:

|   | 2019<br>\$  | 2018<br>\$  |
|---|-------------|-------------|
| Income tax expense  | 67.9        | 82.4        |
| Income tax recorded in net movements in regulatory balances                               | (33.4)      | (47.0)      |
| <b>Income tax expense and income tax recorded in net movements in regulatory balances</b> | <b>34.5</b> | <b>35.4</b> |
| Income tax expense (recovery) in OCI [note 13[d]]   | (10.1)      | 9.9         |
| Income tax expense (recovery) in OCI recorded in net movements in regulatory balances     | 10.1        | (9.9)       |
| <b>Income tax expense in OCI</b>  | <b>—</b>    | <b>—</b>    |

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Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

|   | 2019<br>\$  | 2018<br>\$  |
|---|-------------|-------------|
| <b>Current tax expense</b>  |             |             |
| Current year  | 34.8        | 36.1        |
| Adjustment for tax positions taken in prior periods                                       | (0.4)       | (0.6)       |
|   | 34.4        | 35.5        |
| <b>Deferred tax expense</b>   |             |             |
| Origination and reversal of temporary differences   | 0.1         | (0.1)       |
| <b>Income tax expense and income tax recorded in net movements in regulatory balances</b> | <b>34.5</b> | <b>35.4</b> |

Deferred tax assets (liabilities) consist of the following:

|                                     | Net balance<br>January 1,<br>2019<br>\$ | Recognized in<br>net income<br>\$ | Recognized in<br>OCI<br>\$ | Net balance<br>December 31,<br>2019<br>\$ |
|-------------------------------------|---|-----------------------------------|----------------------------|---|
| PP&E and intangible assets          | (45.9)                                  | (37.4)                            | —                          | (83.3)                                    |
| Post-employment benefits            | 73.0                                    | 5.6                               | 10.1                       | 88.7                                      |
| Other taxable temporary differences | (26.8)                                  | (1.7)                             | —                          | (28.5)                                    |
|                                     | 0.3                                     | (33.5)                            | 10.1                       | (23.1)                                    |

|                                     | Net balance<br>January 1,<br>2018<br>\$ | Recognized in<br>net income<br>\$ | Recognized in<br>OCI<br>\$ | Net balance<br>December 31,<br>2018<br>\$ |
|-------------------------------------|---|-----------------------------------|----------------------------|---|
| PP&E and intangible assets          | (14.9)                                  | (31.0)                            | —                          | (45.9)                                    |
| Post-employment benefits            | 82.9                                    | —                                 | (9.9)                      | 73.0                                      |
| Other taxable temporary differences | (11.0)                                  | (15.8)                            | —                          | (26.8)                                    |
|                                     | 57.0                                    | (46.8)                            | (9.9)                      | 0.3                                       |

As at December 31, 2019, the Corporation had accumulated net capital losses of \$18.7 million [December 31, 2018 - \$18.7 million], which are available to offset capital gains in future years. There were no accumulated non-capital losses for income tax purposes as at December 31, 2019 and December 31, 2018.

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom.

|                                  | 2019<br>\$ | 2018<br>\$ |
|----------------------------------|------------|------------|
| Deductible temporary differences | 7.2        | 7.3        |
| Net capital losses               | 5.0        | 5.0        |
|                                  | 12.2       | 12.3       |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 21. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided (used) cash as follows:

|  | 2019<br>\$    | 2018<br>\$   |
|--|---------------|--------------|
| Accounts receivable                      | (31.8)        | 2.6          |
| Unbilled revenue                         | (11.2)        | (5.2)        |
| Income tax receivable                    | (0.5)         | —            |
| Materials and supplies                   | 0.3           | 1.2          |
| Other current assets                     | (3.4)         | 2.0          |
| Accounts payable and accrued liabilities | (26.8)        | 6.2          |
| Income tax payable                       | (5.1)         | (7.7)        |
| Deferred revenue                         | 0.7           | 2.2          |
| Deferred conservation credit             | 1.3           | (1.1)        |
| Other current liabilities                | (0.3)         | (1.2)        |
|  | <b>(76.8)</b> | <b>(1.0)</b> |

Reconciliation between the amounts presented on the consolidated statements of cash flows and total additions to PP&E and intangible assets is as follows:

|   | 2019<br>\$   | 2018<br>\$   |
|---|--------------|--------------|
| Purchase of PP&E, cash basis                        | 518.3        | 439.8        |
| Net change in accruals related to PP&E              | 14.5         | 20.3         |
| Other   | 0.9          | 2.6          |
| <b>Total additions to PP&amp;E</b>                  | <b>533.7</b> | <b>462.7</b> |
| Purchase of intangible assets, cash basis           | 53.0         | 54.5         |
| Net change in accruals related to intangible assets | 0.4          | (5.9)        |
| Other   | 12.7         | —            |
| <b>Total additions to intangible assets</b>         | <b>66.1</b>  | <b>48.6</b>  |

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Summary of changes in liabilities arising from financing activities:

|                                 | 2018    | Cash flows <sup>(1)</sup> | Non-cash changes | 2019    |
|---------------------------------|---------|---------------------------|------------------|---------|
|                                 | \$      | \$                        | \$               | \$      |
| <b>Year ended December 31</b>   |         |                           |                  |         |
| Commercial paper                | 113.0   | 23.0                      | —                | 136.0   |
| Dividends payable               | —       | (100.4)                   | 100.4            | —       |
| Debentures [note 12]            | 2,034.9 | 147.3                     | 0.8              | 2,183.0 |
| Accrued interest <sup>(2)</sup> | 17.6    | (85.7)                    | 85.6             | 17.5    |
| Lease liability <sup>(3)</sup>  | 1.3     | (0.2)                     | (0.8)            | 0.3     |
|                                 | 2,166.8 | (16.0)                    | 186.0            | 2,336.8 |

|                                 | 2017    | Cash flows <sup>(1)</sup> | Non-cash changes | 2018    |
|---------------------------------|---------|---------------------------|------------------|---------|
|                                 | \$      | \$                        | \$               | \$      |
| <b>Year ended December 31</b>   |         |                           |                  |         |
| Commercial paper                | 159.0   | (46.0)                    | —                | 113.0   |
| Dividends payable               | —       | (93.9)                    | 93.9             | —       |
| Debentures [note 12]            | 2,034.0 | —                         | 0.9              | 2,034.9 |
| Accrued interest <sup>(2)</sup> | 15.9    | (79.0)                    | 80.7             | 17.6    |
| Lease liability <sup>(3)</sup>  | 1.5     | (1.8)                     | 1.6              | 1.3     |
|                                 | 2,210.4 | (220.7)                   | 177.1            | 2,166.8 |

<sup>(1)</sup> Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis.

<sup>(2)</sup> Included within accounts payable and accrued liabilities [note 10].

<sup>(3)</sup> Included within other liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 22. RELATED PARTY TRANSACTIONS

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties.

| Summary of Transactions with Related Parties | 2019<br>\$ | 2018<br>\$ |
|--|------------|------------|
| Revenues                                     | 299.3      | 276.7      |
| Operating expenses and capital expenditures  | 7.3        | 18.3       |
| Dividends declared and paid                  | 100.4      | 93.9       |

| Summary of Amounts Due to/from Related Parties | 2019<br>\$ | 2018<br>\$ |
|--|------------|------------|
| Accounts receivable                            | 20.0       | 9.8        |
| Unbilled revenue                               | 24.4       | 23.9       |
| Accounts payable and accrued liabilities       | 24.1       | 40.5       |
| Customer deposits                              | 14.1       | 17.3       |
| Deferred revenue                               | 2.7        | 2.5        |

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 16].

Accounts receivable represent receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Key management personnel include the Corporation's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

|                              | 2019<br>\$ | 2018<br>\$ |
|------------------------------|------------|------------|
| Short-term employee benefits | 4.7        | 4.8        |
| Post-employment benefits     | 0.9        | 1.0        |
| Termination benefits         | —          | 1.9        |
|                              | 5.6        | 7.7        |

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### 23. COMMITMENTS

#### *Capital projects*

As at December 31, 2019, the future minimum payments for capital projects and other commitments were as follows:

|   | Capital projects <sup>(1)</sup><br>and other<br>\$ |
|---|--|
| Less than one year  | 6.3  |
| Between one and five years                                    | 8.6  |
| <b>Total amount of future minimum payments <sup>(2)</sup></b> | <b>14.9</b>  |

<sup>(1)</sup> Mainly commitments for construction services.

<sup>(2)</sup> Refer to note 15 for financial commitments excluded from the table above.

### 24. CONTINGENCIES

#### *Legal Proceedings*

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers.

### 25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *a) Basis of consolidation*

The Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

#### *b) Regulation*

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14.

#### *Regulatory Balances*

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

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The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Corporation's consolidated balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the consolidated balance sheets and are presented on the consolidated statements of income and the consolidated statements of comprehensive income as net movements in regulatory balances and net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

### ***c) Cash and cash equivalents***

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the consolidated statements of cash flows, cash and cash equivalents (working capital facility) include bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

### ***d) Accounts receivable and unbilled revenue***

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through a loss allowance, if applicable, and the amount of the related impairment loss is recognized in the consolidated statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When the Corporation considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, adjusted for forward-looking factors specific to the current economic and credit conditions.

The Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses ["ECL"] for all trade receivables or contract assets that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by the Corporation to measure the lifetime ECL of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of

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actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status.

### *e) Materials and supplies*

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The Corporation classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

### *f) Property, plant and equipment*

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use. Any gain or loss arising on derecognition is recorded in the consolidated statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

|                        |               |
|------------------------|---------------|
| Distribution assets:   |               |
| Distribution lines     | 1.7% to 5.0%  |
| Transformers           | 3.3% to 5.0%  |
| Meters                 | 2.5% to 6.7%  |
| Stations               | 2.0% to 10.0% |
| Buildings              | 1.3% to 5.0%  |
| Equipment and other:   |               |
| Street lighting assets | 1.7% to 5.0%  |
| Other capital assets   | 4.0% to 25.0% |
| Right-of-use assets    | 1.0% to 11.1% |

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

### *g) Intangible assets*

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

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|                   |                |
|-------------------|----------------|
| Computer software | 10.0% to 25.0% |
| Contributions     | 4.0%           |

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed at each financial year-end and adjusted if appropriate.

### *h) Impairment of non-financial assets*

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

### *i) Capitalized borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is the Corporation's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Capitalization commences immediately as the expenditure on a qualifying asset is incurred. Borrowing costs are included in the cost of PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

### *j) Revenue recognition*

The Corporation assesses each contract with the customer to identify the performance obligation. Revenue is recognized when the control of the goods or services has been transferred to the customer at a point of time or over time. The transaction price and the payment terms are agreed upon in the contract between the Corporation and the customer.

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. The performance obligation is satisfied over time when the electricity is simultaneously received and consumed by the customer. The majority of billing cycles and payment terms are on a monthly basis. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis. The Corporation has primary responsibility for the delivery of electricity to the customer. For any given period, energy sales should be equal to the cost of energy purchased. However, a difference

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between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances on the consolidated statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

Other revenue includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, pole and duct rentals, other regulatory service charges, capital contributions and CDM programs.

Capital contributions received in advance from electricity customers and developers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15 *Revenue from Contracts with Customers*.

Revenues and costs associated with CDM programs are presented using the net basis of accounting and recorded in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

The Corporation has not incurred any additional costs to obtain or fulfill contracts with its customers nor any kind of variable considerations from the above mentioned revenue generating activities.

### ***k) Financial instruments***

All financial assets and financial liabilities are classified as “Amortized cost”. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm’s length transaction between willing parties.

The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the consolidated balance sheets:

- Cash and cash equivalents are classified as “Amortized cost” and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Working Capital Facility, Revolving Credit Facility and commercial paper are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation’s revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.



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- Accounts payable are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Customer deposits are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.
- Obligations under leases are classified as “Amortized cost” and are initially measured at fair value, or the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.
- Debentures are classified as “Amortized cost” and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation’s current borrowing rate for similar debt instruments [note 15[a]]. Debt issuance costs incurred in connection with the Corporation’s debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

### *l) Fair value measurements*

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation’s assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

### *m) Employee benefits*

#### *(i) Short-term employee benefits*

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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### *(ii) Multi-employer pension plan*

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the province of Ontario for employees of municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

### *(iii) Post-employment benefits*

The Corporation has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. The Corporation also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Past service cost is recognized when a plan amendment or curtailment occurs. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on post-employment benefits other than sick leave credits are recognized in OCI as they arise, and are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2018.

### *n) Customer deposits*

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

### *o) Income taxes*

Under the Electricity Act, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred tax assets and liabilities

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for the future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits or liabilities associated with the revenue impact resulting from the realization of deferred taxes is recorded within regulatory balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the consolidated statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the consolidated statements of income.

### *p) Use of judgments and estimates*

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 25[j] relating to principal versus agent determination for recording revenue on a gross or net basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 24 – Recognition and measurement of provisions and contingencies;
- Note 25[b] – Recognition and measurement of regulatory balances;
- Notes 25[f] and 25[g] – Determination of useful lives of depreciable assets;
- Note 25[j] – Revenue recognition – measurement of unbilled revenue;
- Notes 25[m] and 13 – Measurement of post-employment benefits – key actuarial assumptions; and
- Notes 25[o] and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used.

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### *q) Changes in accounting standards*

On June 7, 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments* ["IFRIC 23"]. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in situations in which there is uncertainty over income tax treatments. The interpretation is applicable for annual reporting periods beginning on or after January 1, 2019.

Effective January 1, 2019, the Corporation has adopted IFRIC 23 with no impact on the Consolidated Financial Statements.

### *r) Future accounting pronouncements*

A number of new interpretations and amendments to existing standards have been issued but are not yet effective for the year ended December 31, 2019, and have not been applied in preparing the Consolidated Financial Statements.

#### **Definition of Material (Amendments to IAS 1 *Presentation of Financial Statements* ["IAS 1"] and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ["IAS 8"])**

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 - the amendments clarify the definition of 'material' and align the definition used in the *Conceptual Framework for Financial Reporting* and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation's consolidated financial statements.