REPORT ON FINANCE

Letter from CEO and Chair

CONNIE GRAHAM
Chair

Dear Stakeholders,

We are very pleased to submit our annual Report on Finance for 2023, with a healthy balance sheet, steady growth in shareholder equity and good operating performance. Following the approval of the 2022 Cost of Service Rates by the Ontario Energy Board, London Hydro's rate base assets continues to grow at a rate of 3% and in 2023, it was approximately $395 million; resulting in a healthy market value of more than half a billion dollars. London Hydro has maintained a stable dividend of $5 million annually to the Shareholder.

London Hydro continued to enhance its reliability performance throughout 2023, investing approximately $51 million in capital assets while maintaining low rates to our customers. London Hydro's grid is robust, secure and resilient; ready for increasing electrification and decarbonization of the local economy. London Hydro has reduced system losses by more than 25% over the years by modernizing the lower voltage distribution system to a high voltage. The grid is enabled to interconnect anticipated electric vehicle charging systems, energy storage systems and renewable energy distributed generation. In 2023, London Hydro welcomed about 1,000 new residential and 100 new commercial and industrial customers to the grid, investing approximately $9.8 million in connecting these new customers. Electricity is becoming the energy of choice to power our future economy and communities; today, we provide electrical connections to about 213,000 facilities.

Beginning in 2013, London Hydro started its investment in the Green Button systems and related applications. Green Button standards and systems is an enabling ecosystem for enhanced energy conservation and management. It comprises two major components: i) Green Button data platform to standardize utilities' legacy data and ii) smart Green Button applications to help customers conserve and manage their energy usage. Green Button is a universal, economical and efficient system for managing all utilities including electricity, water and gas. Not only did London Hydro deploy this system for its own customers, but we serve nine other Ontario utilities with Green Button technology to ensure a similar, highly efficient system is made available to Ontario customers. Many utilities using our system have won innovation awards for Green Button solutions – we are proud to be their partner.

ANDREW HRYMAK
Vice Chair

TANIA GOODINE
Board Member

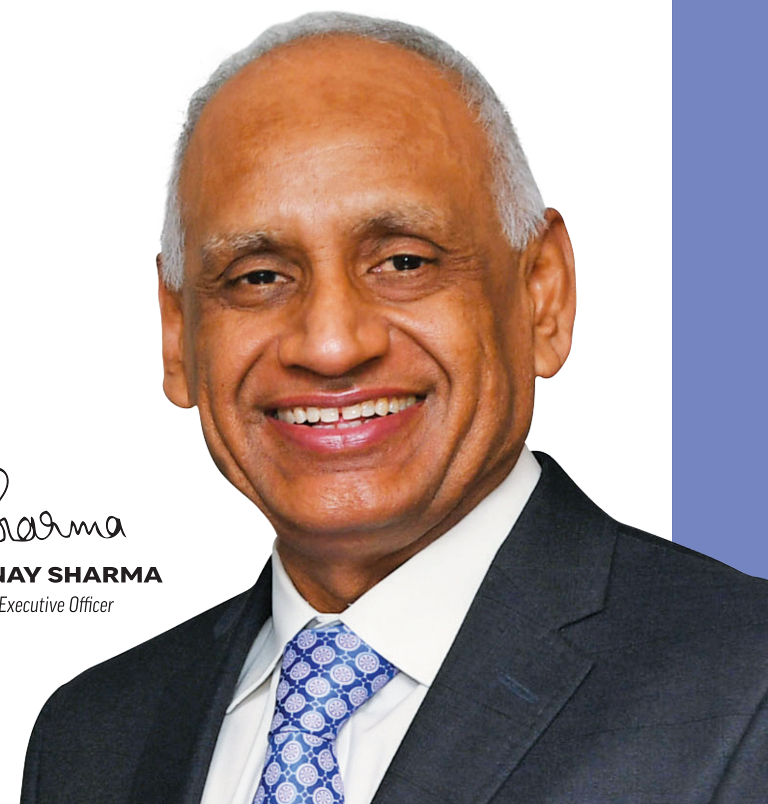
TRACY GUSTAFSON
Board Member

GUY HOLBURN
Board Member

CORRINE RAHMAN
Board Member

TIM WATSON
Board Member

VINAY SHARMA
Chief Executive Officer

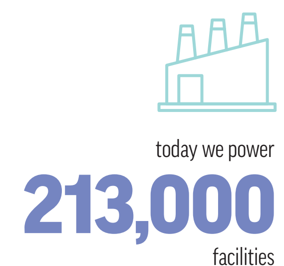


London Hydro remains a customer focused organization and has successfully delivered on its purpose of delivering safe and reliable electricity to its customers. We do so by maintaining a highly reliable grid at very competitive costs. In order to ensure enhanced services to our customers, we continuously innovate new technologies and systems. An example of such investment is increased automation through the deployment of nearly 300 automated switches, 120 fault locators, and an extensive communication network comprised of two-way radios, wireless fibre and powerline carrier.

After much hard work on the development of the Community Net Metering program, the Government of Ontario announced a set of regulations for a "West 5 Community Net Metering project" and we promptly launched this program in 2023. In tandem, to achieve a net-zero energy community development, London Hydro worked with the developer and other partners to apply for federal government funds towards the development of such a net-zero energy community, including a 1 MW battery and solar PV microgrid. The federal funds were granted toward both the West 5 and EVE Park net-zero communities, both of which are located adjacent to each other in west London. In the Community Net Metering project, there are approximately 20,000 units with 9MW of solar PV and a 1MW (2MWh) battery microgrid. Following an amendment to the initial regulation, we finally received the Government of Ontario's approval on these innovative Community Net Metering and microgrid projects. In addition to being net-zero, these projects will provide benefits to the utility as well as some insurance against outages as the microgrid is able to island. The Community Net Metering and microgrid investment in both developments was approximately $12.4 million, including an $8.2 million grant from federal funds. London Hydro is proud to be a partner with Sifton Properties and s2e to achieve these forward-looking goals.

1,000
new homes

100
new commercial/industrial customers



today we power
213,000
facilities

To our Shareholder, who are the citizens of London and their City Council representatives, we have been a fiduciary and financially responsible organization. In 2023, London Hydro successfully achieved its Vision and fully delivered on its Shareholder assigned objectives as well as the OEB mandated service standards. London Hydro maintained its low-cost utility position among Ontario utilities and earned a net income of $11.9 million, excluding unrealized mark-to-market adjustment, on total revenue of about $476 million, resulting in an OEB benchmark return on deemed equity of 7.5%, which is equivalent to 5.9% on Shareholder's actual equity.

London Hydro continues to be a strong, reliable, community-owned utility. Our customers have given us a 91% customer satisfaction rating as measured by an independent polling company. For the seventh year in a row, we have maintained an A credit rating by Standard & Poor's. In 2023, London Hydro established its Environmental, Social and Governance (ESG) policy including Diversity, Equity and Inclusion (DEI). London Hydro has begun the process of establishing benchmark data of its footprint on resources including land, water, energy, and the environment.

London Hydro's accomplishments are a direct result of the dedication and commitment of our employees, stakeholders and Board of Directors. On behalf of all of them, we submit this report fully recognizing their continued support and valuable contributions in making London Hydro a successful corporation.

Senior Leadership Team

DAVID ARNOLD
Chief Financial Officer, Vice-President of Finance, Corporate Secretary

SYED MIR
Chief Information Officer, Vice-President Corporate Services

JAC VANDERBAAN
Vice-President, Operations & Planning

ALLAN VANDAMME
Vice-President, Engineering & Construction

ELIZABETH CARSWELL
Vice-President, HR & Strategic Planning

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are of London Hydro's (also referred to as the Company) financial position, results from operations, and cashflow. It should be read in conjunction with the Financial Statements for the year ended December 31, 2023.

The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in Canadian dollars. As a rate-regulated entity, the Company has elected to adopt the IFRS14 standard that allows for reporting of certain transactions as regulatory assets and liabilities, which would otherwise not be allowed under IFRS. Such transactions, and the resulting impacts, are described in notes 2, 3, and 9 to the Statement of Financial Position for the year ended December 31, 2023.

The analysis contains some forward-looking observations and statements reflecting management's expectations concerning future performance. Such observations and expectations of future performance are subject to uncertainties arising from future general economic conditions, regulatory changes, and government decisions. Thus, the forward-looking observations and statements shall not be considered guarantees of future performance; and the future results may differ materially from the anticipated results expressed by these statements.

The Company Overview

London Hydro Inc. is a wholly-owned subsidiary of the Corporation of the City of London, established pursuant to Section 141 (1) of the Electricity Act, 1998 Ontario. The Company has been issued operating license ED-2002-0557 by the Ontario Energy Board (OEB) to distribute electricity within the service territory of the City of London. The Company owns and maintains a distribution grid to distribute electricity to about 167,000 residential and commercial customers in the City of London with a population base of approximately 450,000. As one of the larger electricity distribution companies in Ontario, London Hydro Inc. employs over 305 hardworking individuals who help to deliver a highly reliable and safe distribution of electricity to its customers.

London Hydro procures electricity (MW) from the Independent Electricity System Operator (IESO) operated market. London Hydro drew a peak demand of 681MW in the summer season of 2023 (2022 – 685MW) and about 484MW during this past winter (2022 – 486MW). London Hydro also procures wholesale market services from the IESO and transmission services from Hydro One at regulated prices. The price for electricity comprises the Hourly Ontario Energy Price (HOEP) and Global Adjustment.

Strategic Priorities

The Company continues to focus on six major priorities to fulfill its purpose and vision. These priorities include business opportunities, developing leading technologies, becoming a trusted energy consultant and partner of the customer, enhancing internal team capacity, protecting revenue, and seeking strategic partnerships. The Company continues to develop and leverage technology for increasing distribution grid automation, interconnecting an increasing number of embedded renewable energy resources, energy management, and technology and applications for customer service and convenience.

The Company also continues to advance the application of Green Button standards and technologies for managing and analyzing customers' energy consumption data, customer care, and customer billing. The OEB has granted special approval to the Company until May 2025, pursuant to Section 71(4) of the amended OEB Act, to market its Green Button related technology to other Ontario utilities and customers. The Company has had initial success with nine distribution companies in Ontario and a company outside of Ontario signing contracts with London Hydro to develop and provide Green Button services.

THE COMPANY'S PURPOSE

To deliver safe, reliable electricity and related services.

THE COMPANY'S VISION

London Hydro is a high performing electricity distributor, achieved through innovation, customer focus and operational excellence.

THE COMPANY'S PRIORITIES

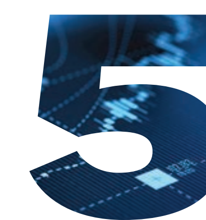
Business Opportunities

Developing Leading Technologies

Becoming A Trusted Energy Consultant And Partner Of The Customer

Enhancing Internal Team Capacity

Protecting Revenue



Seeking Strategic Partnerships

Operations Overview

The financial performance of the Company for the year ended December 31, 2023 is summarized in the following table. For the purpose of comparison to budgeted performance, and to provide a historical perspective, the Company's actual results are presented alongside the budgeted performance for December 31, 2023, and the performance for the year ending December 31, 2022.

RESULTS FOR THE YEAR ENDED

FINANCIAL HIGHLIGHTS	ACTUAL 31-Dec-23	ACTUAL 31-Dec-22	CHANGE	PLAN 31-Dec-23	PLAN VARIANCE %
Energy distributed - gigawatt hrs	3,242.0	3,269.1	(27.1)	3,294.2	(1.6)%
(in thousands of $'s)					
Energy sales	$382,829	$384,773	($1,944)	$391,576	(2.2)%
Distribution revenue	79,753	75,335	4,418	83,684	(4.7)%
Other revenue	13,389	12,481	908	12,724	5.2%
Cost of power	380,037	390,970	(10,933)	404,375	(6.0)%
Operating expenses	52,346	49,387	2,959	51,570	1.5%
Amortization expenses	24,067	22,738	1,329	24,033	0.1%
Net finance costs	12,201	(22,811)	35,012	5,422	125.0%
Income taxes	1,630	10,468	(8,838)	3,086	(47.2)%
Net earnings before regulatory adjustments	5,690	21,837	(16,147)	(502)	(1,234.6)%
Regulatory adjustment	675	9,610	(8,935)	11,224	(94.0)%
Net earnings after regulatory adjustments	$6,365	$31,447	$(25,082)	$10,722	(40.6)%
Operating expenses as a % of distribution revenue	65.6%	65.6%			
Return on Equity	2.8%	15.8%			
Energy distributed - gigawatt hrs	3,242.0	3,269.1	(0.8%)		
Number of customers	167,081	166,044	0.6%		
(in thousands of $'s)					
Operating cash flow	$22,459	$29,942			
Investing cash flow	(44,690)	(41,520)			
Financing cash flow	14,964	(5,035)			
Cash flow	(7,267)	(16,613)			
(Bank indebtedness) / Cash - end of year	$(9,429)	($2,162)			

Energy Quantities Distributed

Total energy distributed to our customers decreased from 3,269.1 gigawatt hours (GWh) in fiscal 2022 to 3,242.0 GWh in 2023, an overall decrease of -0.8%. Decreases in energy consumption are usually attributed to factors such as conservation and weather.

Distribution Revenues

London Hydro is compensated by regulated distribution rates as approved by the OEB. The annual revenue requirement of London Hydro is established as per the regulated rate making mechanism. Thus, the distribution rates for various classes of customers are determined by considering factors such as the number of customers, their energy (kWh) consumption and power demand (KW). There is not always a direct relationship between the kWh usage for customers and the distribution revenue that is charged. For example, residential customers pay a fixed distribution rate regardless of the kWh consumed, and larger customers pay distribution rates based on KW rather than the kWh consumed.

The distribution rates, up to April 30, 2022, were a result of the Company's previous Cost of Service application effective as of May 1, 2017 with annual interim increases to account for inflationary costs, while being reduced by a stretch factor, approved by the OEB. The Company received approval for the 2021 factors with a net adjustment of 1.9% effective as of May 1, 2021. The Company's 2022 Cost of Service rate application was approved in February 2022 resulting in new rates which went into effect on May 1, 2022. The Company received approval for the 2023 adjustment that resulted in a rate increase of 3.4% effective as of May 1, 2023.

Approximately 75% of distribution revenues are derived from a monthly fixed charge, as compared to 76% for 2022, while the remainder is derived on the basis of a volumetric rate for energy consumption (kWh) and power demand (KW). The distribution rates paid by residential customers are 100% fixed charges.

As of December 31, 2023, London Hydro served 167,081 customers compared to 166,044 as of December 31, 2022. While the number of customers increased by 0.6%, the composition of distribution revenue remained relatively unchanged at 64% from residential customers (2022 – 65%), 33% from general service customers (2022 – 33%), and 3% from large users and other customers (2022 – 2%).

Total distribution revenues for the year ended December 31, 2023 increased from $75.3 million in 2022 to $79.8 million.

Cost of Service Rate Making Process

The Company usually goes through a thorough cost of service process every five years, where both the detailed operating and capital expenditures are reviewed by the OEB. The end result of the process is the basis upon which upcoming distribution rates are determined. The Company's capital assets and annual operating expenditures are the prime considerations for determining the rates.

In the case where any capital expenditures are denied, the Company would have a corresponding amount of impaired assets, which could result in a write-off and, thus, negatively impact annual net income. In the case where operating expenses are denied, the Company might not earn the revenue to achieve the regulated net income. The Company's most recent cost of service was in 2022. In the intervening periods from 2023 through 2026, London Hydro will implement a rate adjustment pursuant to Incentive Rate Making (IRM) rules in connection with inflationary factors and reducing stretch factors as mentioned above.

AS OF DECEMBER 31, 2023, LONDON HYDRO SERVED 167,081 CUSTOMERS

The Company submitted a 2022 Cost of Service application in August of 2021 for new rates effective May 1, 2022. On February 24, 2022, the OEB approved these new rates, the Company's rate base of $379.6 million and a revenue requirement of $76.9 million which provides an allowable return on equity of 8.66% or net income of $13.1 million. The total bill impact for a residential customer was an increase of approximately $1.41 (1.17%) per month as compared to rates on April 30, 2022.

The Company received approval associated with the 2023 IRM application to increase rates on May 1, 2023 by 3.4% and to collect from various deferral accounts that had been accumulated. The recovery of these balances will occur over a one-year period that commenced on May 1, 2023.

Other Revenue

Other revenue earned by the Company increased from $12.5 million in 2022 to $13.4 million for 2023. This increase in 2023 of $0.9 million is primarily a result of an increase in late payment charges, other services, recoveries and sundry revenues, and gain on the disposal of property, plant and equipment.

COVID-19 Related Deferral Account

On March 25, 2020, the OEB authorized the use of deferral accounts in order to track the additional costs associated with billing system changes as well as other incremental costs resulting from COVID-19. Moreover, the OEB also authorized the use of a variance account to track lost revenues. As part of the 2022 Cost of Service settlement agreement, the Company agreed to not dispose of the values until its next Cost of Service application for 2027.

As of December 31, 2023, the total amount eligible for recovery is $1.3 million (2022 - $1.3 million), which is made up of $0.6 million of incremental costs and $0.7 million of lost revenues. Any differences between the amount recorded and the amounts ultimately awarded by the OEB will be recorded in the statement of comprehensive income.

Operating Expenses and Amortization

Total operating expenses for fiscal 2023 increased to $52.3 million from $49.4 million in 2022. The increase of $2.9 million relates to a variety of reasons including increases in labour and benefits of $1.0 million, professional services of $1.1 million, and computer hardware and software expenses of $0.9 million.

Amortization expenses increased by approximately $1.4 million from $22.7 million in 2022 to $24.1 million for 2023. This increase is the result of the Company's ongoing commitment to invest in its aging infrastructure and leading information technology to enhance the distribution grid and deliver increasing convenience to our customers.

Net Finance Costs

The Company's interest expense for the year ending December 31, 2023 was $12.2 million, compared to an interest income of $22.8 million for 2022.

This change is the result of the unrealized loss associated with the Company's swap agreements[1] being $7.5 million in 2023 compared to an unrealized gain of $27.4 million in 2022. It should be noted that these unrealized gains are adjustments reported for the purpose of the financial statements only and, so long as the debt agreements are not cancelled early, these gains are not realized. Thus, excluding these adjustments related to the swap agreements, the real interest expense should be adjusted to $4.7 million for the year ending December 31, 2023 and $4.6 million for 2022.

Once the unrealized gain amounts are excluded, the difference in the net finance costs between 2022 and 2023 remains consistent.

1 A swap agreement allows London Hydro to "swap" interest rates, so that it can have a stable and fixed rate loan at a lower interest rate. London Hydro currently has two separate swap agreements.

Income Tax Expense

London Hydro is a private, taxable corporation and as such, is required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation. The PILs required to be paid are equivalent to the income taxes that would have been paid if London Hydro was taxable under the Income Tax Act of Canada.

The PILs expense for the year ended December 31, 2023 amounted to $1.6 million, compared to $10.5 million for 2022. The decrease is a result of lower net income for 2023 as compared to 2022, which is mostly due to the change in the unrealized gain on the swap agreements.

London Hydro had Deferred Tax Liabilities of $26.3 million in 2023. This represents the temporary net difference between financial reporting carrying amounts for Property, Plant, Equipment, and Intangibles, which are in excess of their tax values, and the Deferred Taxes Receivable for Employee Future Benefits expenses that have not yet been deducted for income tax purposes. The tax impact of unrealized gains and losses associated with the Company's swap agreements and corporate minimum taxes are also considered in this liability.

As a rate-regulated corporation, Deferred Tax Liabilities (excluding swap agreements and corporate minimum tax), which will be paid on behalf of customers, will be recovered as they are paid. Therefore, increases or decreases in these Future Income Tax Liabilities are offset by regulatory assets and have no impact on the net profit of the Company.

Regulatory Assets/Liabilities

The regulatory framework requires that all energy commodity and non-commodity costs be billed at the regulated rates to customers who are on the Regulated Price Plan (RPP).

As a regulated distributor of electricity, London Hydro is obligated to supply electricity (energy), also referred to as commodity, to small residential and small commercial customers at the RPP rate and to other customers at the HOEP rates plus an added charge for Global Adjustment. The only exception to this requirement is if customers elect to purchase their electricity from an energy retailer; even then, a Global Adjustment charge is added to such customers. All other non-commodity charges are billed at regulated rates established from time to time by the OEB.

Therefore, the Company distributes electricity at a fixed rate to a larger portion of its customers, though a small number of customers pay a variable HOEP plus Global Adjustment rate for electricity based on their customer class. Differences between energy related purchases and those costs charged to customers are referred to as variances, which are recorded in Retail Settlement Variance Accounts (RSVA). The variances that accumulate in the RSVA are either returned to, or recovered from customers, depending upon the nature of the difference in accordance with regulatory directives.

As of December 31, 2023, the Company had regulatory assets of $36.0 million, compared to $35.0 million as of December 31, 2022. The regulatory assets include the difference between the amount paid by the Company for electricity related purchases and the amount charged to customers. Also impacting the regulatory asset balance is the deferred income tax asset associated with timing differences pertaining to Property, Plant, Equipment and Intangibles and Post Employment Benefits.

The Company also had regulatory liabilities in the amount of $1.4 million as of December 31, 2023, compared to $1.2 million as of December 31, 2022. The $0.2 million increase pertains to amounts due to customers in connection with legislated changes in CCA rates subsequent to the Company's 2022 Cost of Service Rate Application.

CAPITAL RESOURCES

London Hydro has debt agreements that total $220.0 million as of December 31, 2023, representing an increase of $20 million from December 31, 2022. Additionally, the Company has a letter of credit.

The Company has a $75.0 million interest rate swap agreement for an unsecured loan with Toronto Dominion Bank. Interest only payments are due monthly and commenced December 2020, while the principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

The Company has a second swap agreement with Toronto Dominion Bank for $125.0 million that became effective on June 30, 2022, and was used to repay the $40.0 million and $85.0 million Royal Bank of Canada fixed rate swaps that matured in June 2022. The $125.0 million interest rate swap agreement is an unsecured loan with Toronto Dominion Bank, has interest only payments due monthly which commenced in July 2022, while the principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

At December 31, 2023, the Company had a committed loan facility of $40.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $20.0 million (December 31, 2022 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2026. Interest options consist of bank prime rate minus 0.6%, or at Bankers' Acceptances rates plus 0.6%. A standby fee of 0.2% is charged for any unused amounts.

The Company also has an uncommitted revolving bank credit facility of $20.0 million. The short-term borrowing amount drawn by the Company on this facility as of December 31, 2023 was $9.5 million (December 31, 2022 – $1.7 million).

At December 31, 2023, the Company had provided $4.3 million (December 31, 2022 – $4.3 million) in bank Standby Letters of Credit issued to the IESO as security.

Dividend Policy

The Company's dividend policy provides for an annual dividend, subject to satisfactory cashflow. At the meeting on March 28, 2024, the Board of Directors declared a $5.0 million dividend to be paid to its Shareholder by the end of 2024. On March 30, 2023, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2023.

As a wholly-owned subsidiary of the Corporation of the City of London, the City of London is London Hydro Inc.'s sole shareholder and, as such, the entire dividend amount is paid to the City of London.

Credit Rating

London Hydro's credit rating score issued by Standards & Poor is an "A" rating with a negative outlook. This rating reflects the Company's low risk as a distribution company with regulatory cash flows. The outlook issued in May 2023 was reduced from Stable due largely to increased RSVA balances due from customers.

Liquidity and Cashflow

Cash generated from operating activities was $22.5 million during the year ended December 31, 2023, as compared to $29.9 million during 2022. Cashflows primarily relate to amounts of:

- $6.4 million in net income
- $24.1 million non-cash adjustment from amortization expenses
- ($1.1) million non-cash adjustment from amortization of deferred revenue
- $1.6 million as a result of the change in income taxes payable
- ($1.4) million of income taxes paid.
- ($0.7) million as a result of changes in regulatory balances
- ($13.4) million as a result of changes in non-cash working capital, and
- $7.5 million non-cash adjustment from the mark to market adjustment.

Cash used in investing activities increased to $44.7 million for 2023, as compared to $41.5 million in 2022, which primarily represents the net purchase of capital assets and intangible assets.

Cash generated from financing activities increased to $15.0, as compared to cash used of $5.0 million for the same period in 2022 as a result of proceeds from long-term debt.

The year-to-date change in cash is a decrease of $7.3 million leaving the Company with $9.4 million of bank indebtedness as at December 31, 2023.

FINANCIAL STATEMENTS

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London, ON N6A 5P2
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Telephone 519 672 4880
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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of London Hydro Inc.

Opinion

We have audited the financial statements of London Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

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 **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's 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 ethical 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.

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, other than the financial statements and the auditor's report thereon, included in Management's Discussion and Analysis as at the date of this auditor's 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 auditor's report.

We have nothing to report in this regard.

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 IFRS Accounting Standards, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

London, Canada

April 3, 2024

	Note		2023		2022
ASSETS					
Current assets					
Accounts receivable	5	$	90,394	$	80,056
Materials and supplies			1,105		893
Prepaid expenses			4,775		3,842
Total current assets			96,274		84,791
Non-current assets					
Property, plant and equipment	6,15		411,036		389,432
Intangible assets	7		29,321		24,340
Interest rate swap	13,23		25,550		33,016
Total non-current assets			465,907		446,788
Total assets			562,181		531,579
Regulatory balances	9		36,008		35,015
Total assets and regulatory balances		$	598,189	$	566,594
LIABILITIES					
Current liabilities					
Bank indebtedness	10	$	9,429	$	2,162
Accounts payable and accrued liabilities	11		44,130		46,931
Due to shareholder	21		6,445		5,695
Income tax payable			823		803
Current portion of lease liability	15		37		36
Current portion of customer and other deposits			800		522
Current portion of deferred revenue	12		3,520		3,058
Total current liabilities			65,184		59,207
Non-current liabilities					
Long-term debt	13,23		220,000		200,000
Post-employment benefits	14		9,188		9,855
Customer and other deposits			632		797
Deferred revenue	12		48,395		44,285
Deferred tax liability	8		26,289		25,931
Lease liability	15		2,082		2,119
Total non-current liabilities			306,586		282,987
Total liabilities			371,770		342,194
Equity					
Share capital	16		96,116		96,116
Retained earnings			123,514		122,149
Accumulated other comprehensive income			5,352		4,895
Total equity			224,982		223,160
Total liabilities and equity			596,752		565,354
Regulatory balances	9		1,437		1,240
Commitments and contingencies (Note 22), Subsequent event (Note 24)					
Total liabilities, equity and regulatory balances		$	598,189	$	566,594

On behalf of the Board:

Connie Graham, Chair of the Board

Tim Watson, Director

The accompanying notes are an integral part of these financial statements

	Note		2023		2022
Revenues					
Electricity sales	17	$	382,829	$	384,773
Distribution revenue	17		79,753		75,335
Other	18		13,389		12,481
			475,971		472,589
Operating expenses					
Electricity purchased			380,037		390,970
Operating expenses	19		52,346		49,387
Depreciation and amortization	6,7		24,067		22,738
			456,450		463,095
Income from operating activities			19,521		9,494
Net finance expense (income)	13,20		12,201		(22,811)
Income before income taxes			7,320		32,305
Income tax expense	8		1,630		10,468
Income for the year			5,690		21,837
Movement of regulatory balances					
Net movement of regulatory balances			(1,290)		7,133
Income taxes	8		1,965		2,477
	9		675		9,610
Net income for year and net movement in regulatory balances			6,365		31,447
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of post-employment benefits	14		457		5,188
Tax on remeasurements	8		(121)		(1,375)
Net movement in regulatory balances, net of tax	9		121		1,375
Other comprehensive income			457		5,188
Total comprehensive income for the year		$	6,822	$	36,635

The accompanying notes are an integral part of these financial statements

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022		$ 96,116	$ 95,702	$ (293)	$ 191,525
Net income and net movement in regulatory balances		-	31,447	-	31,447
Other comprehensive income		-	-	5,188	5,188
Dividends	16	-	(5,000)	-	(5,000)
Balance at December 31, 2022		$ 96,116	$ 122,149	$ 4,895	$ 223,160
Balance at January 1, 2023		$ 96,116	$ 122,149	$ 4,895	$ 223,160
Net loss and net movement in regulatory balances		-	6,365	-	6,365
Other comprehensive income		-	-	457	457
Dividends	16	-	(5,000)	-	(5,000)
Balance at December 31, 2023		$ 96,116	$ 123,514	$ 5,352	$ 224,982

The accompanying notes are an integral part of these financial statements

	Note	2023	2022
Operating activities			
Net income and net movement in regulatory balances		$ 6,365	$ 31,447
Adjustments for:			
Depreciation and amortization	6,7	24,067	22,738
Amortization of deferred revenue	18	(1,071)	(938)
Post-employment benefits	14	(210)	35
Gain on disposal of property, plant and equipment	18	(319)	(111)
Net finance expense (income)	20	12,201	(22,811)
Income tax expense	8	1,630	10,468
		42,663	40,828
Change in non-cash working capital:			
Accounts receivable		(10,338)	(1,329)
Materials and supplies		(212)	(345)
Prepaid expenses		(933)	(1,412)
Accounts payable and accrued liabilities		(2,801)	8,661
Due to shareholder		750	(11)
Customer and other deposits		113	(1,326)
		(13,421)	4,238
Other:			
Regulatory balances	9	(675)	(9,610)
Income tax paid		(1,373)	(1,153)
Income tax received		-	225
Interest paid	20	(5,021)	(4,791)
Interest received	20	286	205
		(6,783)	(15,124)
Net cash from operating activities		22,459	29,942
Investing activities			
Purchase of property, plant and equipment	6	(40,210)	(37,767)
Purchase of intangible assets	7	(10,654)	(8,588)
Capital contributions received from customers		5,643	4,479
Proceeds on disposal of property, plant and equipment		531	356
Net cash used in investing activities		(44,690)	(41,520)
Financing activities			
Dividends paid	16	(5,000)	(5,000)
Proceeds from long-term debt	13	20,000	125,000
Lease liability	15	(36)	(35)
Repayment of long-term debt	13	-	(125,000)
Net cash from financing activities		14,964	(5,035)
Change in cash		(7,267)	(16,613)
(Bank indebtedness) cash, beginning of year		(2,162)	14,451
Bank indebtedness, end of year		$ (9,429)	$ (2,162)

The accompanying notes are an integral part of these financial statements

1. Reporting entity

London Hydro Inc. ("the Company") is a rate regulated, municipally-owned hydro distribution company located in the City of London. The Company is a wholly-owned subsidiary company of the Corporation of the City of London and was incorporated on April 26, 2000 under the laws of the Province of Ontario, Canada.

The Company delivers electricity and related energy services to inhabitants of the City of London. The address of the Company's registered office is 111 Horton Street, London, Ontario, Canada.

2. Basis of presentation

a) Statement of compliance

The Company's financial statements have been prepared on a going-concern basis in accordance with IFRS Accounting Standards ("IFRS").

b) Approval of financial statements

These financial statements were approved by the Board of Directors on March 28, 2024.

c) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Information about judgements and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

(i) 3(b) – measurement of unbilled revenue

(ii) 3(b) – determination of the performance obligation for contributions from customers and the related amortization period

(iii) 3(d), 3(e), 6, 7 – estimation of useful lives of its property, plant and equipment and intangible assets

(iv) 3(e), 3(l), 7 – capitalization of configuration and customization costs in Software-as-a-Service ("SaaS") arrangements and determining whether services are distinct from the SaaS access

(v) 5 – estimation for allowance for doubtful accounts

(vi) 6, 15 – leases: whether an arrangement contains a lease

(vii) 9 – recognition and measurement of regulatory balances

(viii) 14 – measurement of defined benefit obligations: key actuarial assumptions

(ix) 22 – recognition and measurement of provisions and contingencies

Critical accounting estimates and judgments for leases

Judgments made in relation to accounting policies applied - Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers the facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Changes in the economic environment or changes in the industry may impact management's assessment of the lease term. Any changes in management's estimate of lease terms may have a material impact on the Company's balance sheet and statement of earnings.

Key sources of estimation - In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Critical accounting estimates and judgments for SaaS arrangements

Capitalization of configuration and customization costs in SaaS arrangements - Part of the customization and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances, modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications. This is referred to as bridging modules or application programming interfaces (APIs). Judgement was applied in determining whether the additional code meets the definition of and recognition criteria for an intangible asset in IAS 38, *Intangible Assets*.

Determination whether configuration and customization services are distinct from the SaaS access - Costs incurred to configure or customize the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customization, as well as the SaaS access over the contract term, the Company applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customization costs incurred are expensed as the software is configured or customized (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customization activities significantly modify or customize the cloud-based software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customization and modification of the cloud-based software that would be deemed significant.

2. Basis of presentation (continued)

f) Rate regulation

The Company is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies (“LDCs”), such as the Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate setting

Distribution revenue

For the distribution revenue, the Company files a “Cost of Service” (“COS”) rate application with the OEB where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder’s equity required to support the Company’s business. The COS is usually filed every five years. The Company estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are ultimately approved by the OEB after the review and revisions have been completed.

In the intervening years, an Incentive Regulation Mechanism (“IRM”) rate application is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year’s rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand (“GDP IPI-FDD”) net of a productivity factor and a “stretch factor” determined by the relative efficiency of an electricity distributor.

2. Basis of presentation (continued)

f) Rate regulation (continued)

Rate setting – Distribution revenue (continued)

The Company previously filed a COS application in August 2016 for rates effective May 1, 2017 to April 30, 2022. The GDP IPI-FDD for 2021 was 2.2%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.3)%, resulting in a net adjustment of 1.9% to the previous year's rates effective May 1, 2021.

In August 2021, the Company filed a Cost of Service application which was approved by the OEB on February 24, 2022 for rates effective May 1, 2022. The monthly total bill impact of the new rates for a typical residential customer was an increase of approximately $1.41 or 1.17% before taxes.

The GDP IPI-FDD for 2023 was 3.7%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.3)%, resulting in a net adjustment of 3.4% to the previous year's rates effective May 1, 2023.

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

Electricity rates

The OEB sets electricity prices for residential and small commercial consumers once each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers, other than consumers with retail contracts who pay a contracted rate plus a global adjustment rate adder, pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

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For the year ended December 31, 2023

3. Material accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

a) Financial instruments

Non-derivative

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f).

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables without a significant financing component are initially measured at the transaction price. All other financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets - Recognition and de-recognition

All financial assets are recognized and de-recognized on trade date. The Company determines the classification of its financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are classified as follows:

Financial assets	Classification under IFRS 9
Accounts receivable	Amortized cost

3. Material accounting policies (continued)

a) Financial instruments (continued) - Non-derivative (continued)

Financial assets - Subsequent measurement

Financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss. Financial assets at FVTPL are measured at fair value. Net changes in the fair value are recognized in profit or loss. Financial assets at fair value through other comprehensive income ("FVOCI") are measured at fair value. Net changes in the fair value are recognized in other comprehensive income.

Financial assets - Impairment

The Company applies the expected credit loss model to financial assets at amortized cost, contract assets and debt instruments measured at FVOCI. The Company measures loss allowances at an amount equal to the lifetime expected credit losses ("ECLs") in accordance with the 'simplified approach' available under the standard. Under this approach, loss allowances on trade accounts receivable are always measured at lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

Financial liabilities - Recognition and de-recognition

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are classified as follows:

Financial liabilities	Classification under IFRS 9
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to shareholder	Amortized cost
Lease liability	Amortized cost
Customer and other deposits	Amortized cost
Deferred revenue	Amortized cost
Long-term debt	Amortized cost

The Company de-recognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

Financial liabilities - Subsequent measurement

Financial liabilities at amortized cost are measured using the effective interest rate method.

3. Material accounting policies (continued)

a) Financial instruments (continued)

Derivative

Derivatives are initially measured at fair value and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss. Embedded derivatives are separated from the host contract upon initial recognition and accounted for separately at FVTPL when the host contract is not a financial asset and certain conditions are met. The Company does not use derivative instruments for speculative purposes.

The Company holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in the Statement of Comprehensive Income as incurred as a change in interest rate swap. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in the Statement of Comprehensive Income.

Hedge accounting has not been used in the preparation of these financial statements.

Fair value measurements

Financial instruments recorded on the statements of financial position are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities. The Company does not use Level 1 inputs for its fair value measurements.
- Level 2: inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly. The Company's Level 2 inputs include quoted market prices for interest rates and credit risk premiums. The Company obtains information from sources including the Bank of Canada and market exchanges. The Company uses Level 2 inputs for all of its financial instrument fair value measurements.
- Level 3: inputs that are not based on observable market data. The Company does not use Level 3 inputs for any of its fair value measurements.

3. Material accounting policies (continued)

b) Revenue recognition

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Company has the right to bill. Revenue includes rates for electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 Revenue from Contracts with Customers. Cash contributions received from developers are recorded as deferred revenue and amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 Revenue from Contracts with Customers. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Company has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Government grants are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

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3. Material accounting policies (continued)

c) Materials and supplies

Materials and supplies, the majority of which are consumed by the Company in the provision of its services, are valued at the lower of cost and net realizable value, with cost being determined on an identified-cost basis or weighted average, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the incremental cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

3. Material accounting policies (continued)

d) Property, plant and equipment (continued)

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in the Statement of Comprehensive Income. The costs of the day-to-day servicing of PP&E are recognized in the Statement of Comprehensive Income as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Company has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in the Statement of Comprehensive Income. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Building structures and components	12 - 75
Distribution system and equipment	25 - 60
Substation equipment	15 - 45
Right-of-use land asset	40
System supervisory equipment	8 - 35
Metering devices	15 - 30
Renewable generation assets	20
Automotive equipment	8 - 12
Equipment, tools and furniture	5 - 8
Computer hardware	3 - 5

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3. Material accounting policies (continued)

e) Intangible assets

Intangible assets are measured at cost, less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of intangible assets includes contracted services, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the incremental cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to complete.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization.

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Capital contributions represent costs incurred and associated with assets that are not owned by the Company. These contributions are incurred where the Company is charged with the responsibility of upgrading assets that the Company does not hold title to. Capital contributions include costs towards the refurbishment and upgrade of a transformer station and wholesale meters. These assets are measured at cost less accumulated amortization.

Intangible assets in progress consist of application software under development at December 31, 2023.

Amortization is recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

	Years
Capital contributions	30 - 45
Land rights	25
Computer software	3 - 5

3. Material accounting policies (continued)

f) Impairment

Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in the Statement of Comprehensive Income. An impairment loss is reversed through the Statement of Comprehensive Income if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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3. Material accounting policies (continued)

g) Customer and other deposits

Customer and other deposits include cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits at the rate of prime less 2% per annum. Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in the Statement of Comprehensive Income or Other Comprehensive Income ("OCI"). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in the Statement of Comprehensive Income or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in the Statement of Comprehensive Income in the year incurred.

3. Material accounting policies (continued)

i) Regulatory balances (continued)

When the Company expects to refund amounts to ratepayers in the future, the Company recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in the Statement of Comprehensive Income or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in the Statement of Comprehensive Income or OCI.

j) Post-employment benefits

Pension plan

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System (“OMERS”). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (“the Fund”), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of Comprehensive Income when they are due.

Post-employment benefits, other than pension

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans. The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management’s best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in OCI. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in the Statement of Comprehensive Income.

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3. Material accounting policies (continued)

k) Leases

The Company’s accounting policy for leases is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

3. Material accounting policies (continued)

l) Software-as-a-Service arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customize, and the ongoing fees to obtain access to the cloud provider's application software, are recognized as operating expenses when the services are received.

Some of these costs incurred are for the development of software code that enhances, modifies, or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognized as intangible software assets and amortized over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any changes are accounted for prospectively as a change in accounting estimate.

m) Finance income and finance expenses

Finance income is recognized as it accrues in the Statement of Comprehensive Income. Finance income comprises interest earned on cash.

Finance expenses comprise interest expense on borrowings and customer deposits, as well as the change in the unrealized gain/loss on the swap agreements. Finance expenses are recognized in the Statement of Comprehensive Income unless they are capitalized as part of the cost of qualifying assets.

3. Material accounting policies (continued)

n) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in the Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the "Tax Acts"). Under the Electricity Act, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes. Payments in lieu of taxes ("PILs") are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets and liabilities are recognized for unused tax losses, unused tax credits and temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

4. Standards issued not yet adopted

There is a new standard, amendments to the standard and interpretations which have not been applied in preparing these financial statements. This standard and amendments are described below:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1):

On January 23, 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 Presentation of Financial Statements (the 2020 amendments), to clarify the classification of liabilities as current or non-current. On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) (the 2022 amendments), to improve the information a company provides about long-term debt with covenants.

The 2020 amendments and the 2022 amendments (collectively "the Amendments") are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted. A company that applies the 2020 amendments early is required to also apply the 2022 amendments. For the purposes of non-current classification, the Amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period and have substance.

The Amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect a liability's classification at that date. The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2024. The extent of the impact of adoption of the standard has not yet been determined.

5. Accounts receivable

	2023	2022
Trade receivables	$ 51,497	$ 43,727
Unbilled revenue	41,717	37,221
Other	3,904	4,992
Allowance for doubtful accounts	(6,724)	(5,884)
	$ 90,394	$ 80,056

Included in accounts receivable is approximately $17.1 million (December 31, 2022 – $13.3 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

Also, included in the accounts receivable is $1.2 million (December 31, 2022 – $1.4 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

6. Property, plant and equipment

a) Cost or deemed cost:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
Balance at January 1, 2022	$ 21,554	$ 10,177	$ 388,559	$ 32,952	$ 12,868	$ 466,110
Additions	1,795	277	31,539	3,631	525	37,767
Disposals / retirements	(663)	(164)	(1,585)	(1,246)	-	(3,658)
Balance at December 31, 2022	$ 22,686	$ 10,290	$ 418,513	$ 35,337	$ 13,393	$ 500,219
Balance at January 1, 2023	$ 22,686	$ 10,290	$ 418,513	$ 35,337	$ 13,393	$ 500,219
Additions	1,271	107	30,320	3,730	4,782	40,210
Disposals / retirements	(23)	(49)	(1,856)	(2,192)	-	(4,120)
Balance at December 31, 2023	$ 23,934	$ 10,348	$ 446,977	$ 36,875	$ 18,175	$ 536,309

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
Balance at January 1, 2022	$ 4,600	$ 2,313	$ 75,306	$ 14,761	$ -	$ 96,980
Depreciation	763	377	12,835	3,245	-	17,220
Disposals / retirements	(601)	(40)	(1,538)	(1,234)	-	(3,413)
Balance at December 31, 2022	$ 4,762	$ 2,650	$ 86,603	$ 16,772	$ -	$ 110,787
Balance at January 1, 2023	$ 4,762	$ 2,650	$ 86,603	$ 16,772	$ -	$ 110,787
Depreciation	851	487	13,410	3,646	-	18,394
Disposals / retirements	(9)	(27)	(1,692)	(2,180)	-	(3,908)
Balance at December 31, 2023	$ 5,604	$ 3,110	$ 98,321	$ 18,238	$ -	$ 125,273

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
December 31, 2022	$ 17,924	$ 7,640	$ 331,910	$ 18,565	$ 13,393	$ 389,432
December 31, 2023	$ 18,330	$ 7,238	$ 348,656	$ 18,637	$ 18,175	$ 411,036

Property, plant and equipment includes a right-of-use asset with a carrying value of $2.0 million (December 31, 2022 – $2.0 million) associated with property rented from the City of London with an initial measurement of $2.3 million, amortized on a straight-line basis over 40 years commencing with the 2018 fiscal year (see Note 15).

7. Intangible assets

a) Cost or deemed cost:

	Land rights	Capital contributions	Computer software	Work in progress	Total
Balance at January 1, 2022	$ 451	$ 6,604	$ 25,302	$ 1,624	$ 33,981
Additions	341	-	4,478	3,769	8,588
Disposals / retirements	(23)	-	(3,146)	-	(3,169)
Balance at December 31, 2022	$ 769	$ 6,604	$ 26,634	$ 5,393	$ 39,400
Balance at January 1, 2023	$ 769	$ 6,604	$ 26,634	$ 5,393	$ 39,400
Additions	(44)	-	5,019	5,679	10,654
Disposals / retirements	(15)	-	(6,907)	-	(6,922)
Balance at December 31, 2023	$ 710	$ 6,604	$ 24,746	$ 11,072	$ 43,132

b) Accumulated amortization:

	Land rights	Capital contributions	Computer software	Work in progress	Total
Balance at January 1, 2022	$ 98	$ 801	$ 11,812	$ -	$ 12,711
Amortization	25	166	5,327	-	5,518
Disposals / retirements	(23)	-	(3,146)	-	(3,169)
Balance at December 31, 2022	$ 100	$ 967	$ 13,993	$ -	$ 15,060
Balance at January 1, 2023	$ 100	$ 967	$ 13,993	$ -	$ 15,060
Amortization	30	166	5,477	-	5,673
Disposals / retirements	(15)	-	(6,907)	-	(6,922)
Balance at December 31, 2023	$ 115	$ 1,133	$ 12,563	$ -	$ 13,811

c) Carrying amounts:

Balance at	Land rights	Capital contributions	Computer software	Work in progress	Total
December 31, 2022	$ 669	$ 5,637	$ 12,641	$ 5,393	$ 24,340
December 31, 2023	$ 595	$ 5,471	$ 12,183	$ 11,072	$ 29,321

During the year ended December 31, 2023, borrowing costs of $0.4 million (December 31, 2022 — $nil) were capitalized as part of the cost of intangible assets. An interest rate of 5.0% was used to determine the amount of borrowing costs to be capitalized.

8. Income tax (recovery) expense

Income tax expense (recovery) is comprised of:	2023	2022
Current income tax		
Current period income tax expense	$ 1,350	$ 1,640
Adjustment for subseqently enacted legislation		(277)
Adjustment for prior period income tax expense	43	332
	1,393	1,695
Deferred tax		
Change in recognized deductible temporary differences:		
(Loss) gain on interest rate swap	(1,978)	7,260
Corporate minimum tax	250	(964)
Property, plant, equipment and intangible assets	2,422	2,095
Post-employment benefits	55	(10)
Deferred revenue	(512)	392
	237	8,773
Total current and deferred income tax in profit and loss, before movement of regulatory balance	1,630	10,468
Other comprehensive income		
Post-employment benefits	121	1,375
Total current and deferred income tax, before movement of regulatory	1,751	11,843
Net movement in regulatory balances	(2,086)	(3,852)
Income tax (recovery) expense recognized in the Statement of Comprehensive Income	$ (335)	$ 7,991

Reconciliation of effective tax rate:	2023	2022
Income before taxes	$ 6,487	$ 44,626
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	1,719	11,826
Increase (decrease) in income taxes resulting from:		
Net movement in regulatory balances	(2,086)	(3,852)
Other items	32	17
	$ (335)	$ 7,991

Significant components of the Corporation's deferred tax balances:	2023	2022
Property, plant, equipment and intangible assets	$ (25,387)	$ (22,965)
Post-employment benefits	2,435	2,611
Deferred revenue	2,720	2,208
Future income taxes to be realized by customers	(20,232)	(18,146)
Corporate minimum tax	714	964
Gain on interest rate swap	(6,771)	(8,749)
	$ (26,289)	$ (25,931)

9. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

Regulatory assets:

Regulatory deferral account debit balances	January 1, 2022	Changes	(Recovery)/ reversal	December 31, 2022	Remaining years
Group 1 deferred accounts	$ 7,415	$ 7,115	$ -	$ 14,530	-
Regulatory settlement account	1,801	164	(1,678)	287	0.3
Other regulatory accounts	5,088	(3,034)	-	2,054	-
Income tax	14,292	3,852	-	18,144	-
	$ 28,596	$ 8,097	$ (1,678)	$ 35,015	

Regulatory deferral account debit balances	January 1, 2023	Changes	(Recovery)/ reversal	December 31, 2023	Remaining years
Group 1 deferred accounts	$ 14,530	$ (2,755)	$ -	$ 11,775	-
Regulatory settlement account	287	5,072	(3,059)	2,300	0.3
Other regulatory accounts	2,054	(351)	-	1,703	-
Income tax	18,144	2,086	-	20,230	-
	$ 35,015	$ 4,052	$ (3,059)	$ 36,008	

Regulatory liabilities:

Regulatory deferral account credit balances	January 1, 2022	Changes	Recovery/ (reversal)	December 31, 2022	Remaining years
Other regulatory accounts	$ 5,806	$ (4,771)	$ 205	$ 1,240	-
	$ 5,806	$ (4,771)	$ 205	$ 1,240	

Regulatory deferral account credit balances	January 1, 2023	Changes	Recovery/ (reversal)	December 31, 2023	Remaining years
Other regulatory accounts	$ 1,240	$ 197	$ -	$ 1,437	-
	$ 1,240	$ 197	$ -	$ 1,437	

9. Regulatory balances (continued)

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rate was set at 4.73% in the first quarter, 4.98% in the second and third quarters and 5.49% in the fourth quarter of 2023 (March 31, 2022 – 0.57%, June 30, 2022 – 1.02%, September 30, 2022 – 2.20% and December 31, 2022 – 3.87%).

Regulatory developments in Ontario's electricity industry and other governmental policy changes may affect the electricity distribution rates charged by the Company and the costs Company 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. There was no impairment recorded for the year ended December 31, 2023.

a) Group 1 deferral accounts

The Group 1 deferral accounts consist of energy related cost variances including Smart Metering Entity, Wholesale Market and Retail Transmission Charge Variances. As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers at regulated or spot rates unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed for electricity are required to be captured in the Retail Settlement Variance Accounts ("RSVA") for disposition through future rate riders. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

b) Regulatory settlement account

During 2020, the Company filed its 2021 IRM rate application in which it proposed the disposition of its Group 1 account balances as at December 31, 2019 via rate riders. These accounts included amounts accumulated between January 1, 2017 and December 31, 2019, with the exception of the Capacity Based Recovery Amount Variances, which accumulated between January 1, 2016 and December 31, 2019. The Company also proposed the recovery of the Lost Revenue Adjustment Mechanism Variance ("LRAMVA") balance accumulated between January 1, 2017 and December 31, 2017 via rate riders. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2021.

9. Regulatory balances (continued)

b) Regulatory settlement account (continued)

In February of 2022, the OEB approved the Company's 2022 Cost of Service rate application which included the disposition of its Group 1 account balances as at December 31, 2020 via rate riders. These accounts included amounts accumulated between January 1, 2020 and December 31, 2020. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2022.

The 2022 Cost of Service rate application also included a request for the disposition of the other regulatory account balances as at December 31, 2020 via rate riders. The LRAMVA balance proposed for recovery accumulated between January 1, 2018 and December 31, 2019. The OEB authorized the refund/recovery of the true-up of the funding of capital projects under the Advanced Capital Module, non-cash other post-employment benefits ("OPEB") adjustments, Retail Cost Variances, Pole Attachment Revenue variances, tax savings as a result of changes to CCA rates and the LRAMVA balances over a one-year period commencing May 1, 2022.

During 2022, the Company filed its 2023 IRM rate application in which it proposed the disposition of Group 1 account balances as at December 31, 2021 via rate riders. The disposition request included the balances of Smart Metering Entity Charge Variance, RSVA – Retail Transmission Network Charge, RSVA – Retail Transmission Connection Charge and the remainder balance of Disposition and Recovery/Refund of Regulatory Balances (2018). These accounts included amounts accumulated between January 1, 2021 and December 31, 2021. The Company also proposed the recovery of the LRAMVA balance accumulated between January 1, 2020 and December 31, 2021 via rate riders. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2023.

c) Other regulatory accounts

The other regulatory account debit balance includes deferred costs for incremental locate services as a result of the implementation of the Getting Ontario Connected Act, 2022 and various deferred costs in connection with Impacts Arising from the COVID-19 Emergency. The other regulatory account credit balance includes the carrying charges on Pension & OPEB Forecast Accrual versus Actual Cash Payment Differential amount. Distribution revenue repayable to customers as a result of tax savings due to increased capital cost allowance provided for through the Accelerated Investment Incentive introduced in Bill C-97 effective November 2018, and the $1.5 million Immediate Expense incentive effective April 2021, are also included in other regulatory account credit balances.

d) Income tax

The Company has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Company's deferred tax balance fluctuates.

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10. Short-term borrowings

Bank indebtedness includes short-term advances on the Company's revolving line of credit and includes outstanding cheques and cash. Advances are drawn from an uncommitted operating revolving line of credit facility of $20 million with the Toronto Dominion Bank. At December 31, 2023 the amount drawn by the Company under this line of credit was $9.5 million (December 31, 2022 — $1.7 million). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers' Acceptances ("B/A") rates plus a 0.70%.

11. Accounts payable and accrued liabilities

	2023	2022
Due to Independent Electricity System Operator	$ 28,312	$ 28,682
Harmonized sales tax	213	962
Payroll and benefits payable	3,683	4,102
Other	11,922	13,185
	$ 44,130	$ 46,931

12. Deferred revenue

	2023	2022
Capital contributions for completed projects	$ 41,548	$ 36,013
Deposits held	10,367	11,330
	51,915	47,343
Less: Current portion	3,520	3,058
	$ 48,395	$ 44,285

Capital contributions for completed projects are recognized as revenue on a straight-line basis over the life of the asset for which the contribution was received.

Included in deposits held is $0.4 million (December 31, 2022 – $nil) received from the Corporation of the City of London as contributions for the construction of capital assets.

13. Long-term debt

		2023		2022
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.6%, interest only payments due March 2026	$	20,000	$	-
Unsecured, non-revolving term instalment loan with an effective 10 year interest rate of 1.69%, utilizing a fixed rate swap converting variable interest rates on unsecured Bankers' Acceptances, plus a stamping fee of 0.44%, interest only payments, due June 2032		125,000		125,000
Unsecured, non-revolving term instalment loan with an effective 11.6 year interest rate of 1.53%, utilizing a fixed rate swap converting variable interest rates on unsecured Bankers' Acceptances, plus a stamping fee of 0.44%, interest only payments, due June 2032		75,000		75,000
	$	220,000	$	200,000

At December 31, 2023, the Company had a committed loan facility of $40 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $20 million (December 31, 2022 — $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2026. Interest options consist of the bank prime rate minus 0.6% or Bankers' Acceptances ("B/A") rates plus 0.6%. A standby fee of 0.2% is charged for any unused amounts.

The Company has an interest rate swap agreement with the Toronto Dominion Bank for an unsecured loan in the amount of $125 million. Interest only payments are due monthly and commenced July 2022. The principal is due at maturity June 30, 2032. The swap agreement is a fixed rate swap which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

The Company has an interest rate swap agreement with the Toronto Dominion Bank for an unsecured loan in the amount of $75 million. Interest only payments are due monthly and commenced December 2020. The principal is due at maturity June 30, 2032. The swap agreement is a fixed rate swap which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

13. Long-term debt (continued)

The derivative swap agreements entered into with the Toronto Dominion Bank do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2023 was $7.5 million (December 31, 2022 — unrealized gain $27.4 million).

At December 31, 2023, the Company would be entitled to collect $25.6 million (December 31, 2022 — $33.0 million) if it decided to cancel the swap agreements with the Toronto Dominion Bank.

During the year ended December 31, 2023, interest on long-term debt was incurred in the amount of $5.0 million (December 31, 2022 — $4.6 million) of which $0.4 million (December 31, 2022 — $nil) was capitalized as part of the cost of intangible assets.

Reconciliation of opening and closing balances for liabilities from financing activities:

		2023		2022
Balance, beginning of year	$	200,000	$	200,000
Add: Advances		20,000		125,000
Less: Repayments		-		125,000
	$	220,000	$	200,000

14. Post-employment benefits

a) Multi-employer pension plan

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. During the year ended December 31, 2023, the Company made employer contributions of $3.5 million to OMERS (December 31, 2022 — $3.3 million), of which $0.9 million (December 31, 2022 — $0.8 million) has been capitalized as part of PP&E and the remaining amount of $2.6 million (December 31, 2022 — $2.5 million) has been recognized in the Statement of Comprehensive Income. The Company estimates that a contribution of $4.0 million to OMERS will be made during the next fiscal year.

As at December 31, 2023, OMERS had approximately 612,500 members, of whom 356 were active contributors of the Company throughout the year. The most recently available OMERS annual report is for the year ended December 31, 2023, which reported that the plan was 97% funded, with an unfunded liability of $4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

14. Post-employment benefits (continued)

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans.

Reconciliation of the obligation:

	2023	2022
Defined benefit obligation, beginning of year	$ 9,855	$ 15,008
Included in profit or loss:		
Current service costs	285	517
Interest cost	475	432
Other benefits	2	(33)
	762	916
Benefits paid	(972)	(881)
	(210)	35
Actuarial (gains) / losses included in OCI:		
Changes in demographic assumptions	(1,021)	(1,582)
Changes in financial assumptions	268	(3,676)
Effect of experience adjustments	296	70
	(457)	(5,188)
Defined benefit obligation, end of year	$ 9,188	$ 9,855

Actuarial assumptions:

	2023	2022
Discount (interest) rate	4.6%	5.1%
Salary levels	4.0%	4.0%
Immediate medical costs	5.0%	4.9%
Ultimate medical costs	4.0%	4.0%
Dental cost rate	4.0%	4.0%
Year ultimate rate reached	2040	2040

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $0.9 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $0.9 million.

15. Lease liability

The Company has a lease liability in connection with a right-of-use asset associated with property rented from the City of London included in property, plant and equipment with an initial measurement of $2.3 million, amortized on a straight-line basis over 40 years commencing with the 2018 fiscal year.

Right-of-use-asset:

	2023	2022
Cost		
Balance, beginning of year	$ 2,319	$ 2,319
Balance, end of year	$ 2,319	$ 2,319
Accumulated depreciation		
Balance, beginning of year	$ 290	$ 232
Depreciation	58	58
Balance, end of year	$ 348	$ 290
Carrying amount	$ 1,971	$ 2,029

Lease liability:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 100	$ 63	$ 37
Between one and five years	400	241	159
More than five years	2,900	977	1,923
	$ 3,400	$ 1,281	$ 2,119

16. Share capital

		2023		2022
Authorized:				
An unlimited number of common shares				
An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount				
Issued:				
1,001 common shares	$	96,116	$	96,116

Dividends

The holder of the common shares is entitled to receive dividends as declared from time to time. On March 30, 2023, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2023. On March 22, 2022, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2022.

17. Revenue from contracts with customers

The Company generates revenue primarily from electricity rates and the distribution of electricity to its customers. These revenues disaggregated by type of customer are illustrated below:

Electricity rates:

		2023		2022
Residential	$	139,457	$	145,359
Commercial		225,662		224,852
Large users		15,035		12,003
Other		2,675		2,559
	$	382,829	$	384,773

Distribution revenue:

		2023		2022
Residential	$	51,025	$	48,693
Commercial		26,328		24,822
Large users		1,066		514
Other		1,334		1,306
	$	79,753	$	75,335

18. Other revenue

		2023		2022
City of London services	$	4,028	$	4,028
Late payment charges		2,934		2,503
Other services, recoveries and sundry revenues		1,675		1,423
Amortization of deferred revenue		1,071		938
Pole and other rental income		875		763
Customer billing service fees		836		859
Occupancy charges		510		588
Income tax incentive credits		453		509
Sale of scrap		367		428
Renewable generation revenue		321		331
Gain on disposal of property, plant and equipment		319		111
	$	13,389	$	12,481

19. Operating expenses

		2023		2022
Labour and benefits	$	30,787	$	29,819
Professional services		7,630		6,524
Computer hardware and software		4,835		3,963
Rental, regulatory and other expenses		1,848		1,700
Bad debts		1,842		1,604
Facilities maintenance and repair		1,656		1,715
Property tax and insurance		1,560		1,412
Corporate training and employee expenses		1,301		1,216
Materials and supplies		1,039		1,119
Fleet operations and maintenance		1,022		1,119
Postage		980		1,064
Office equipment services and maintenance		450		452
Allocations to capital and billable activities		(2,604)		(2,320)
	$	52,346	$	49,387

20. Finance expense (income)

		2023		2022
Finance income				
Interest income on bank deposits	$	(286)	$	(205)
Finance expenses				
Interest on long-term debt		4,979		4,581
Interest on short-term debt		242		73
Interest on funds used for construction project		(442)		-
Lease liability interest		64		65
Other		178		72
		5,021		4,791
Unrealized change in fair value of interest rate swap		7,466		(27,397)
Net finance expense (income)	$	12,201	$	(22,811)

21. Due to shareholder

Trade balances due to shareholder:

		2023		2022
Water consumption	$	6,033	$	5,307
Non-interest bearing trade balance due to shareholder, without stated repayment terms		412		388
	$	6,445	$	5,695

The Company delivers electricity to the City of London throughout the year for the electricity needs of the City of London and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides additional services to the City of London, including water and waste water billing, customer care services and water meter data management services.

During the year ended December 31, 2023, the Company billed customers for water related services on behalf of the shareholder and remitted funds to the shareholder in the amount of $209.0 million (December 31, 2022 – $200.5 million). The shareholder paid $3.9 million (December 31, 2022 – $3.9 million) for this service.

During the year ended December 31, 2023, the Company performed water meter data management services on behalf of the shareholder. The shareholder paid $0.1 million (December 31, 2022 – $0.1 million) for this service.

22. Commitments and contingencies

General

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the outcome of any of these matters could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2023, no assessments have been made.

Letters of credit

At December 31, 2023, the Company had provided $4.3 million (December 31, 2022 – $4.3 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Infrastructure projects of $1.4 million (2022 — $0.2 million), Information Systems projects of $8.8 million (2022 — $12.0 million) and new vehicle acquisitions of $2.8 million (2022 — $1.0 million).

Operating leases

The Company is committed to lease agreements for various vehicles, equipment and property rights. The future minimum non-cancellable annual lease payments are as follows:

		2023		2022
Less than one year	$	229	$	221
Between one and five years		439		486
More than five years		71		117
	$	739	$	824

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets or leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit. Operating leases expensed during the year ended December 31, 2023 were $0.3 million (December 31, 2022 — $0.3 million).

23. Financial instruments and risk management

Fair value disclosure

The carrying values of cash/bank indebtedness, accounts receivable, due to shareholder and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand. The carrying value of long-term debt and interest rate swap approximates fair value because of the nature of the instruments.

At December 31, 2023, the Company would be required to pay $194 million (2022 - $168 million) if it decided to payout its long-term debt obligations.

Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

a) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable relating to energy sales is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the Statement of Comprehensive Income within operating expenses. Subsequent recoveries of receivables previously provisioned are credited to operating expenses. The balance of the allowance for impairment loss at December 31, 2023 is $6.7 million (December 31, 2022 – $5.9 million). During the year ended December 31, 2023, bad debt expense was $1.8 million (December 31, 2022 – $1.6 million).

23. Financial instruments and risk management (continued)

a) Credit risk (continued)

At December 31, 2023, approximately $3.1 million (December 31, 2022 — $2.4 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption. No uncollectible accounts in connection with water consumption are realized in the Statement of Comprehensive Income since amounts are fully recovered from the City of London.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2023, approximately $6.4 million (December 31, 2022 — $5.2 million) is considered 60 days past due. The Company has approximately 167 thousand customers, the majority of whom are residential.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 25% of amounts billed to customers with the remaining 75% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2023, the Company held deposits in the amount of $1.4 million (December 31, 2022 — $1.3 million). If presented with substantial credit losses, the Company has the ability to make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

b) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have significant commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates. A 1% increase in the interest rate at December 31, 2023 would have increased interest expense on the long-term debt by $0.2 million (December 31, 2022 — $nil), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

23. Financial instruments and risk management (continued)

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The majority of accounts payable, as reported on the Statement of Financial Position, are due within 30 days.

The Company has an uncommitted operating revolving line of credit facility of $20 million with the Toronto Dominion Bank. At December 31, 2023 the amount drawn by the Company under this line of credit was $9.5 million (December 31, 2022 — $1.7 million). The line of credit is unsecured and interest options consist of the bank prime rate minus 0.5%, or B/A rates plus 0.70%.

At December 31, 2023, the Company had a committed loan facility of $40 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $20 million (December 31, 2022 — $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2026. Interest options consist of the bank prime rate minus 0.6%, or B/A rates plus 0.6%. A standby fee of 0.2% is charged for any unused amounts.

The Company also has a bilateral facility for $4.3 million for the purpose of issuing a letter of credit to support the prudential requirements of the IESO, of which $nil has been drawn and posted with the IESO (December 31, 2022 — $nil). A fee of 0.4% is charged for this letter of credit.

23. Financial instruments and risk management (continued)

c) Liquidity risk (continued)

Liquidity risk associated with financial commitments are as follows:

As at December 31, 2023	Total	Due within one year	Due in one to five years	Due in over five years
Bank indebtedness	$ 9,429	$ 9,429	$ -	$ -
Accounts payable and accrued liabilities	44,130	44,130	-	-
Lease liability	3,400	100	400	2,900
Long-term debt	220,000	-	20,000	200,000
Interest to be paid on long-term debt	38,176	5,460	18,209	14,507
	$ 315,135	$ 59,119	$ 38,609	$ 217,407

As at December 31, 2022	Total	Due within one year	Due in one to five years	Due in over five years
Bank indebtedness	$ 2,162	$ 2,162	$ -	$ -
Accounts payable and accrued liabilities	46,931	46,931	-	-
Lease liability	3,500	100	400	3,000
Long-term debt	200,000	-	-	200,000
Interest to be paid on long-term debt	39,347	4,140	16,560	18,647
	$ 291,940	$ 53,333	$ 16,960	$ 221,647

d) Capital disclosures

The main objectives of the Company, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt.

	2023	2022
Long-term debt	$ 220,000	$ 200,000
Shareholder's equity	224,982	223,160
	$ 444,982	$ 423,160

24. Subsequent event

On March 28, 2024, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2024.

2023
REPORT ON FINANCE

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