Consolidated **financial statements**

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2023

Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. [the 'Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment and estimates, as well as International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and, at regular meetings, reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

Bryce Conrad President and Chief Executive Officer	Geoff Simpson Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

Opinion

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

- the consolidated balance sheet as at December 31, 2023
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated 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 consolidated financial position of the Entity as at end of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 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 Management's Discussion and Analysis as at or prior to 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 23, 2024

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Revenue and other income		
Power recovery revenue [Note 19]	**861,905**	863,545
Distribution revenue [Note 19]	**224,770**	209,841
Generation revenue [Note 19]	**48,073**	45,336
Commercial services revenue [Note 19]	**36,477**	33,572
Other revenue [Note 19]	**14,382**	13,191
Government grant income	**4,336**	4,164
Business interruption proceeds [Note 4]	**4,482**	-
	1,194,425	1,169,649
Expenses		
Purchased power	**864,882**	863,139
Operating costs [Note 20]	**182,273**	160,624
Depreciation [Note 6]	**69,116**	65,709
Amortization [Note 7]	**10,488**	10,490
	1,126,759	1,099,962
Income before the undernoted items	**67,666**	69,687
Financing costs [Note 21]	**55,900**	45,026
Interest income	**(1,741)**	(1,154)
Share of loss from joint ventures [Note 8(a)]	**746**	441
Income before income taxes	**12,761**	25,374
Income tax expense [Note 22]	**10,512**	20,967
Net income	**2,249**	4,407
Net movements in regulatory balances, net of tax [Note 5]	**21,855**	35,267
Net income after net movements in regulatory balances	**24,104**	39,674

The accompanying notes are an integral part of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income
Year ended December 31, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Net income after net movements in regulatory balances	**24,104**	39,674
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(1,005)**	2,860
Items that will not be subsequently reclassified to net income		
Actuarial (loss) gain on post-employment benefits, net of tax	**(575)**	2,313
Net movement in regulatory balances related to other comprehensive income, net of tax	**201**	(1,498)
Total comprehensive income	**22,725**	43,349

The accompanying notes are an integral part of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Assets		
Current assets		
Cash	**14,920**	13,978
Accounts receivable [Note 4]	**202,873**	180,874
Income taxes receivable	**1,220**	2,818
Prepaid expenses	**9,474**	5,472
Inventory	**1,555**	1,551
Restricted cash [Note 14(b)]	**-**	2,560
	230,042	207,253
Non-current assets		
Property, plant and equipment [Note 6]	**2,039,273**	1,946,822
Intangible assets [Note 7]	**152,497**	158,415
Investment properties, at cost	**4,524**	4,548
Investments in joint ventures [Note 8(a)]	**16,849**	18,486
Notes receivables from related parties [Note 9(a)]	**20,000**	17,625
Restricted cash [Note 14(b)]	**7,160**	7,610
Deferred income tax asset [Note 22]	**8,442**	6,732
Total assets	**2,478,787**	2,367,491
Regulatory debit balances [Note 5]	**131,843**	116,513
Total assets and regulatory balances	**2,610,630**	2,484,004
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 10]	**7,822**	12,272
Commercial paper [Note 10]	**338,105**	276,390
Accounts payable and accrued liabilities [Note 11]	**207,998**	181,735
Income taxes payable	**118**	-
Deferred revenue [Note 12]	**9,604**	7,458
Current portion of long-term debt [Notes 14 and 24]	**3,796**	2,356
	567,443	480,211
Non-current liabilities		
Deferred revenue [Note 12]	**271,715**	238,443
Employee future benefits [Note 13]	**13,657**	12,642
Customer deposits	**18,026**	19,481
Long-term debt [Notes 14 and 24]	**1,074,563**	1,075,648
Deferred income tax liability [Note 22]	**118,607**	106,872
Other liabilities [Note 15]	**1,991**	2,078
Total liabilities	**2,066,002**	1,935,375
Equity		
Share capital [Note 17]	**228,453**	228,453
Accumulated other comprehensive income	**3,615**	4,994
Retained earnings	**297,601**	293,497
Total liabilities and equity	**2,595,671**	2,462,319
Regulatory credit balances [Note 5]	**14,959**	21,685
Total liabilities, equity and regulatory balances	**2,610,630**	2,484,004

Contingent liabilities and commitments [Notes 25 and 26]

On behalf of the Board:

Bernard T Ato　　　　Jacqueline Gauthier

Director　　　　Director

The accompanying notes are an integral part of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2023
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance at December 31, 2021	228,453	1,319	277,523	507,295
Net income after net movements in regulatory balances	-	-	39,674	39,674
Other comprehensive income	-	3,675	-	3,675
Dividends [Note 17(b)]	-	-	(23,700)	(23,700)
Balance at December 31, 2022	228,453	4,994	293,497	526,944
Net income after net movements in regulatory balances	-	-	24,104	24,104
Other comprehensive income	-	(1,379)	-	(1,379)
Dividends [Note 17(b)]	-	-	(20,000)	(20,000)
Balance at December 31, 2023	**228,453**	**3,615**	**297,601**	**529,669**

The accompanying notes are an integral part of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**24,104**	39,674
Adjustments for:		
Depreciation and amortization	**79,604**	76,199
Loss on disposal of non-financial assets [Note 6]	**4,047**	1,408
Amortization of debt-issuance costs	**336**	330
Share of losses from joint ventures	**746**	441
Amortization of deferred revenue [Note 19]	**(7,819)**	(6,880)
Financing costs, net of interest income and debt-issuance costs	**53,823**	43,542
Income tax expense	**10,512**	20,967
Other	**(173)**	(540)
Changes in non-cash working capital and other operating balances [Note 23]	**(7,878)**	(16,118)
Income tax refunds received	**2,162**	1,936
Income taxes paid	**(1,210)**	(3,947)
Financing costs paid, net of interest income received	**(53,723)**	(37,671)
Capital contributions from customers	**20,065**	17,826
Capital contributions from developers [Note 6]	**11,067**	9,356
Change in customer deposits	**6,460**	(2,846)
Net movements in regulatory balances	**(21,855)**	(35,267)
	120,268	108,410
Investing		
Acquisition of property, plant and equipment [Note 6]	**(154,964)**	(156,646)
Acquisition of intangible assets	**(3,629)**	(8,573)
Proceeds from disposal of property, plant and equipment	**1,247**	1,113
Capital contributions to joint venture [Note 14(c)]	**(356)**	(283)
Dividends from joint venture	**540**	600
Issuance of note receivable to related party	**(2,375)**	(1,884)
Financing costs paid	**(694)**	(849)
Restricted cash held in-trust	**3,010**	610
Repayment of note receivable from joint ventures	**-**	214
Government grant received [Note 14(c)]	**356**	283
Distributions from joint venture	**351**	601
	(156,514)	(164,814)
Financing		
Proceeds from the issuance of commercial paper, net of repayments [Note 10]	**61,715**	86,390
Proceeds from issuance of long-term debt, net of repayments [Note 14]	**19**	712
Dividends paid [Note 17(b)]	**(20,000)**	(23,700)
Repayments of lease liabilities	**(96)**	(107)
	41,638	63,295
Net change in cash, net of bank indebtedness	**5,392**	6,891
Cash, net of bank indebtedness, beginning of year	**1,706**	(5,185)
Cash, net of bank indebtedness, end of year	**7,098**	1,706

The accompanying notes are an integral part of these consolidated financial statements.

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. [the 'Corporation'] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation's primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 2711 Hunt Club Road, Ottawa, Ontario, K1G 5Z9.

Significant operating subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2023, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In addition to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Operating under the Portage Power brand, Energy Ottawa owns and operates 18 hydroelectric generating stations totalling 118 MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], EO Generation LP ['EO Gen'] and Chaudiere Financial L.P. ['CFLP'].
Envari Holding Inc. ['Envari']	Envari provides turnkey management, analysis and infrastructure services to large energy consuming organizations and non-destructive cable testing services to utility companies. Significant subsidiaries of Envari include Envari Energy Solutions Inc. and Energy Ottawa Cable Testing Services Inc. ['Cable Q'].
Telecom Ottawa Holding Inc. ['TOHI']	TOHI owns 100% of Hiboo Networks Inc. ['Hiboo'] (formerly 13310361 Canada Inc.). Hiboo provides secure, high-speed fibre optic network solutions and internet service to businesses in the Ottawa and Gatineau area.

Joint ventures the Corporation is a party of as at December 31, 2023, are as follows:

Joint venture	Principal activity
PowerTrail Inc. ['PowerTrail'] [60% owned]	Owns and operates a 6 MW landfill gas-to-energy plant at the Trail Road landfill site in Ottawa, Ontario.
Moose Creek Energy LP ['Moose Creek LP'] [50.05% owned]	Owns and operates a 4 MW landfill gas-to-energy plant at the Laflèche landfill site in Moose Creek, Ontario.
Zibi Community Utility LP ['ZCU'] [50% owned]	Owns and operates a thermal utility for the Zibi development in downtown Ottawa and Gatineau.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ['IFRS Accounting Standards'], and have been approved and authorized by the Corporation's Board of Directors for issue on April 23, 2024.

(b) Basis of measurement

The Corporation's consolidated financial statements are prepared on a historical cost basis, except for employee future benefits as disclosed in Note 3(n).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Due to the inherent uncertainty involved in making estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by regulators and governments. Management reviews its estimates and judgments on an ongoing basis using the most current information available. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment and reasonable limits of materiality within the framework of the material accounting policies. Significant areas where estimates and judgments are made in the application of IFRS Accounting Standards are as follows:

(i) Accounts receivable

Accounts receivable, which include unbilled receivables, are reported based on the amounts expected to be recovered less a loss allowance for expected credit losses. Management utilizes historical loss experience and forward-looking information in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

(ii) Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates, judgments and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions. The Corporation continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation.

(iii) Useful lives of depreciable assets

Depreciation and amortization expense are calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of electricity distribution and generation industry experience.

2. BASIS OF PRESENTATION [continued]

(d) Use of estimates and judgments [continued]

(iv) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(m). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates, generation production, inflation, terminal capitalization rates and forecasted market pricing [including ancillary, capacity and other market incentives] are subject to measurement uncertainty. Management factors in current economic conditions, past experience and obtains third party consultations to support its estimates when necessary.

(v) Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and defined benefit obligations.

(vi) Capital contributions

The timing of the satisfaction of performance obligations for capital contributions from customers is subject to certain estimates of future electricity usage.

(vii) Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income, taking into account potential tax planning opportunities. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

(viii) Indicator of asset impairment

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash-generating unit, 'CGU'] exceeds its recoverable amount. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions; changes in the degree or method of use of an asset; a lower-than-expected economic performance of an asset or a significant change in market or interest rates.

Based on management's judgment, an indicator of impairment [under IAS 36 – *Impairment of Assets* ['IAS 36']] existed within EONY at December 31, 2023 pertaining to the volatility in energy market prices in New York State and the increase in market interest rates. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(iv)] and details regarding management's 2023 value-in-use analysis are presented in Note 7 of these consolidated financial statements.

3. MATERIAL ACCOUNTING POLICIES

On January 1, 2023, the Corporation adopted amendments within IAS 1 *Presentation of Financial Statements* related to the *Disclosure of Accounting Policies*. The changes required an entity to disclose material rather than significant accounting policies and provided guidance identifying material accounting policies relevant to users of the financial statements. Accordingly, management reviewed its accounting policies and updated the accounting policy information within this note to align with these amendments.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries including those described in Note 1. Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns by directing and controlling the activities of the entity. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that control ceases to exist. Intercompany balances and transactions have been eliminated in these consolidated financial statements The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation using consistent accounting policies.

(b) Joint ventures

All joint arrangements are either classified as joint ventures or joint operations in accordance with IFRS 11 – *Joint Arrangements* ['IFRS 11'] the Corporation is party to three joint ventures as described in Note 1 of these consolidated financial statements whereby control is shared with third parties via a contractual agreement. Joint ventures are accounted for using the equity method. Under this method, the Corporation's interests in joint ventures are initially recorded at cost, and subsequently adjusted to recognize the Corporation's share of post-acquisition profits or losses, movements in other comprehensive income ['OCI'] and dividends or distributions received, as applicable.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities carried at historical cost are not re-translated; they remain at the exchange rate in effect at the date of the original transaction. Non-monetary assets and liabilities carried at fair value are translated at the exchange rate in effect at the date the fair value was measured. Any resulting exchange gains or losses are included in net income for the year.

The assets and liabilities of EONY are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenue and expenses are translated into Canadian dollars at the average exchange rate in effect during the reporting period. Any resulting exchange gains and losses arising from the translation are included in OCI for the year.

(d) Regulation – Hydro Ottawa

Hydro Ottawa is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

For fiscal year ended December 31, 2023, Hydro Ottawa continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* policy.

Annual IR applications are required to set rates and charges for the 2022-2025 rate years. On August 17, 2023, Hydro Ottawa filed its Custom IR year 4 update application seeking approval to change its base distribution rates effective January 1, 2024. Rates are adjusted using a formulaic approach following the first year base rates. The 2024 rates are based on an update to Hydro Ottawa's custom price escalation factor, working capital allowance, and Hydro Ottawa's annual incremental capital stretch factor for capital-related revenue requirement. Hydro Ottawa's 2024 rates were approved by the OEB on December 14, 2023.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates.

In January 2014, the International Accounting Standards Board ['IASB'] issued IFRS 14 – *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14.

Hydro Ottawa has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the Accounting Procedures Handbook for Electricity Distributors. Regulatory debit and credit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates, revenues that are required to be returned or collected to/from customers or balances that arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa incurs to purchase these services.

Regulatory balances principally comprise of the following:

– Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

– Settlement variances relate primarily to the charges Hydro Ottawa incurred for transmission services, commodity, wholesale market operations and global adjustment in comparison to those settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

– Lost Revenue Adjustment Mechanism ['LRAM'] account tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs.

– Earnings Sharing Mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa's approved return on equity for specific rate periods.

– Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

– Other Post-employment Benefits cash versus accrual account ['OPEB cash vs accrual'] tracks the interest on the differential of Hydro Ottawa's contributions to OPEB versus the accrued OPEB expense recorded in Hydro Ottawa's statement of income.

– Gain/Loss on Asset Disposal variance account is the difference between actual amount of gain or loss from disposal of fixed assets and the forecasted gain or loss.

Other variances and deferred costs include the following:

– The Connection Cost Recovery Agreement ['CCRA'] account allows Hydro Ottawa to record annual revenue requirements related to the difference between forecasted payments built into rates and actual payments made to Hydro One Networks Inc. ['HONI'] under the CCRA's.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

– Capital Variance Account ['CVA'] account (excluding the System Access capital variance sub-account relating to plant relocation requested by third parties and residential expansion) is an asymmetrical variance account. Accordingly, the CVA tracks on an annual basis [for years 2021-2025], the cumulative revenue requirement difference resulting from the underspending in the Corporation's three capital spending categories: System Renewal/System Service, System Access, and General Plant. The System Access capital variance sub-account records the cumulative revenue requirement difference due to both overspending or underspending and is referred to as a symmetrical variance account.

– A Performance Outcomes Accountability Mechanism account to return up to $200 annually for each under-achieved target during the 2021-2025 custom incentive rate-setting period. The five targets impacted by this mechanism account are identified in Hydro Ottawa's settlement agreement.

– The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment models.

Hydro Ottawa accrues interest on the regulatory balances as directed by the OEB.

Hydro Ottawa continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, Hydro Ottawa will recognize the provision in operating costs for the year.

(e) Revenue recognition

Depending on whether certain criteria are met, the Corporation recognizes revenue from contracts with customers when it transfers control over a product or service to a customer either over time or at a point in time. For revenue from other sources, the Corporation recognizes revenue over time taking into consideration the facts and circumstances of the arrangement.

Revenue is measured at the consideration received or receivable, excluding any discounts, rebates and sales taxes and other amounts collected on behalf of third parties in the following revenue arrangements.

(i) Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Corporation and is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system. The Corporation has determined that it acts as a principal in this revenue arrangement and therefore has presented it on a gross basis.

(ii) Distribution

The Corporation charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Corporation to recover its prudently-incurred costs and earn a fair return on invested capital. Distribution revenue is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(iii) Generation

Generation revenue is recognized over time upon the delivery of generated electricity to the customer, as measured by meter readings in accordance with the applicable contractual arrangement.

(iv) Commercial services

Commercial services revenue comprise revenue earned under contracts for service work related to distribution operations, turnkey energy management and analysis projects, the provision of streetlight installation and maintenance services, pole attachment and duct rental services and non-destructive cable testing.

Certain commercial services [distribution projects, turnkey energy management projects and streetlight installation services] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized over time proportionately with the degree of completion of the services under contract and the Corporation has an enforceable right to payment for performance completed to date. Losses on such contracts are fully recognized when they become evident and probable. Other commercial services revenues are recognized over time as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

(v) Other

Other revenue consists primarily of investment property rentals, capital contributions received from customers amortized to revenue, and other account-related charges such as account set-up and late payment fees.

In certain situations, capital contributions are required from customers to finance additions to property, plant and equipment when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide current and future customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue and amortized into revenue on a straight-line basis over time [the period a customer will receive services], which is typically equivalent to the rate used for the depreciation of the related property, plant and equipment [service life of the related assets].

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the Corporation's distribution network are considered out of scope of IFRS 15 – *Revenue from Contracts with Customers* ['IFRS 15']. Capital contributions received from developers are recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(f) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash and notes receivable from related parties.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(g) Income taxes

The Corporation, Hydro Ottawa, Energy Ottawa and Envari are each considered to be a Municipal Electric Utility ['MEU'] and are required to make payments in lieu of corporate income taxes ['PILS'] as contained in the *Electricity Act, 1998*, as all of their share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Corporation, Hydro Ottawa, Energy Ottawa, and Envari follow the liability method for recording income taxes. Under the liability method, current income taxes payable is recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The Corporation evaluates the realizability of its deferred income tax assets at the end of each reporting period. To the extent that it is not probable that taxable profit will be available against which the unused tax losses can be utilized, the deferred income tax asset is not recognized.

Hydro Ottawa recognizes regulatory balances for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates as prescribed by the OEB.

EONY is subject to the income tax regime in the United States [the 'Internal Revenue Service']. PowerTrail is taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP, CHLP, EO Gen, CHLP North, Hull Energy LP, CFLP and ZCU are not taxable entities for federal and provincial income tax purposes. Tax on the net income (loss) is borne by the individual partners through the allocation of taxable income.

(h) Restricted cash

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements is classified as restricted cash.

(i) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques. Cash and bank indebtedness are offset and the net amount is presented on the consolidated balance sheet when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(j) Financial instruments

Financial instruments are initially measured at the fair value of the consideration given or received plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Corporation's financial assets, upon initial recognition, are classified as amortized cost or fair value [whereby subsequent changes in fair value are recognized either through OCI ['FVOCI'] or through profit and loss ['FVTPL'] as unrealized market adjustments]. Financial assets are classified based on the Corporation's business model for managing such assets and the contractual terms of the related cash flows.

The Corporation's financial liabilities, upon initial recognition, are classified as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(j) Financial instruments [continued]

The Corporation classifies and subsequently measures its financial instruments as follows:

– Cash, restricted cash, accounts receivable and notes receivables from related parties are financial assets classified and measured at amortized cost using the effective interest method, less any impairment if applicable.

– Bank indebtedness, commercial paper, accounts payable and accrued liabilities, customer deposits and long-term debt are financial liabilities classified and measured at amortized cost using the effective interest rate method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The Corporation's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and liabilities. Financial instruments are classified using a three level hierarchy. The levels reflect the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

– Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

– Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL or FVOCI are subject to review for impairment at least at each reporting date. Impairment losses, if material, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

The Corporation recognizes loss allowances for expected credit losses ['ECLs'] on financial assets measured at amortized cost. The Corporation measures loss allowances for electricity receivables, unbilled receivables and trade receivables via a simplified approach as permitted by IFRS 9 - *Financial Instruments* ['IFRS 9'], at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased, the Corporation performs a quantitative and qualitative analysis based on the Corporation's historical experience and forward-looking information. The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

(k) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways, civil structures and assets under construction. Right-of-use assets under IFRS 16 – *Leases* ['IFRS 16'] are classified within property, plant and equipment in these consolidated financial statements.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers and developers. Assets that are acquired from customers and developers are measured at fair value. Contributions from customers and developers are treated as deferred revenue.

[in thousands of Canadian dollars]

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(k) Property, plant and equipment [continued]

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Corporation will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment. Emergency capital spare parts that are expected to be used for more than one year are considered to be assets under construction and are depreciated only once they are put into service.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset. Compensation from third parties for property, plant and equipment lost, impaired or given up is measured at fair value and recognized when the compensation becomes receivable.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land, buildings and structures	
Land	Indefinite
Buildings and fixtures	10 to 100 years
Civil structures	100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	10 to 50 years
Dark fibre	20 to 25 years
Reservoirs, dams and waterways	100 to 125 years
Furniture and equipment	5 to 40 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation.

Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Corporation's weighted average cost of borrowing.

(l) Intangible assets

Intangible assets include land and water rights, computer software, capital contributions, power purchase agreements, deferred contract costs and assets under development. Water rights represent the inherent value of the right to draw water from government-owned rivers and lakes for purposes of generating electricity.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(l) Intangible assets [continued]

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 15 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	14 years

(m) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or 'CGU'] may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value-in-use. If the carrying value of a non-financial asset materially exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in the consolidated statement of income.

Intangible assets with indefinite useful lives [i.e. certain water rights] and assets under development are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

When determining the recoverable amount, the Corporation determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset of the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested. Terminal values are included in the determination of management's value-in-use calculations and are based on an earnings multiple approach via a terminal capitalization rate.

At the end of a reporting period, the Corporation assesses whether there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased. If any such indication exists, the loss is reversed up to its recoverable amount where there has been a change in estimated service potential. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

Compensation for impairment of non-financial assets, such as insurance recoveries, is included in determining profit or loss when it becomes receivable and is not offset against the cost of restoring, purchasing or constructing replacement assets.

(n) Employee future benefits

(i) Pension plans

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(n) Employee future benefits [continued]

(i) Pension plans [continued]

Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Corporation shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Corporation's contributions could be increased if other entities withdraw from the plan.

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan'] which provides pension benefits for certain of the Corporation's employees and is accounted for as follows:

- Chaudiere Hydro Pension Plan assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.

- Defined benefit obligations of the Chaudiere Hydro Pension Plan are determined based on the expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of salary escalation, retirement ages and life expectancy.

- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on Chaudiere Hydro Pension Plan's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on Chaudiere Hydro Pension Plan's assets and interest costs are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

- Remeasurements arising on Chaudiere Hydro Pension Plan's assets and defined benefit obligation are presented in OCI on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return [net of costs of managing Chaudiere Hydro Pension Plan's assets] and interest income on plan assets, if applicable. Chaudiere Hydro Pension Plan's significant assumptions are assessed and revised, as appropriate.

- Past service costs are included in the cost of the Chaudiere Hydro Pension Plan for the year when they arise.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(n) Employee future benefits [continued]

(i) Pension plans [continued]

The fair value of the Chaudiere Hydro Pension Plan assets is offset against the defined benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

(ii) Other post-employment benefits

Other post-employment benefits provided by the Corporation include life insurance, a collectively bargained retirement grant and other benefits. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The defined benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for Hydro Ottawa, these amounts are reclassified to a regulatory debit balance as prescribed by the OEB.

(o) Customer deposits

Customer deposits are cash collections from non-residential customers to guarantee the payment of future energy bills and fulfillment of construction obligations. Deposits from customers to guarantee the payment of energy bills includes related interest amounts owed to the customers. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(p) Provisions and contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

[in thousands of Canadian dollars]

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(q) Deferred revenue

In certain situations, assistance in the form of contributions is required from customers and developers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized in revenue in accordance with Note 3(e)(v). In addition, loan arrangement fees received by the Corporation are treated as deferred revenue and amortized into revenue over the term of the associated loan.

(r) Debt-issuance costs

Debt-issuance costs that are external, direct and incremental arising from its debenture and bond offerings are netted against the proceeds of the debt and amortized over the life of the related instrument using the effective interest method.

4. ACCOUNTS RECEIVABLE

	2023	2022
	$	$
Receivables from contracts with customers		
Electricity receivable	**71,600**	59,994
Unbilled receivables related to electricity	**86,259**	82,660
IESO receivable	**14,065**	9,742
Trade and other receivables	**11,541**	14,352
Amounts due from related parties [Note 27]	**18,929**	17,911
Less: loss allowance [Note 18(c)]	**(4,179)**	(4,030)
	198,215	180,629
Receivables from other sources		
Business interruption proceeds	**2,653**	-
Sales tax receivable	**233**	245
Investment tax credit receivable	**1,772**	-
	202,873	180,874

On March 19, 2023, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation, resulting in significant damage, requiring replacement of the turbine-generator [the 'Unit 1 Event']. The Corporation initiated a claim under its insurance policy for the generating facility providing business interruption compensation in circumstances such as the Unit 1 Event. Business interruption proceeds are available following a 30 day grace period from the date of notice and for a total coverage maximum of $48,800. In 2023, the Corporation recognized $4,482 in business interruption proceeds under its insurance policy for lost generation revenues. At December 31, 2023, the Corporation has received $1,829 in cash proceeds from its insurance provider pertaining to these lost revenues, and has accrued business interruption proceeds of $2,653.

[in thousands of Canadian dollars]

5. REGULATORY BALANCES

Information about the Corporation's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2022 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	**2023 $**
Regulatory debit balances						
RARA	1 - 5	687	7,378	949	(73)	**8,941**
Settlement variances	1 - 5	36,724	10,279	-	(10,877)	**36,126**
OPEB cash vs accrual	1 - 5	3,218	314	-	-	**3,532**
Loss on asset disposal	1 - 5	148	-	-	(148)	**-**
Regulatory asset for deferred income taxes	[2]	74,238	8,384	-	-	**82,622**
Other variances and deferred costs	1 - 5	1,498	(814)	-	(62)	**622**
		116,513	25,541	949	(11,160)	**131,843**
Regulatory credit balances						
RLRA	1 - 5	1,148	1,794	(1,592)	(73)	**1,277**
Settlement variances	1 - 5	17,033	(1,315)	-	(10,877)	**4,841**
ESM	1 - 5	1,467	74	-	-	**1,541**
Gain on asset disposal	1 - 5	-	1,241	-	(148)	**1,093**
LRAM	1 - 5	105	2,951	-	-	**3,056**
OPEB deferral account	1 - 5	30	33	-	-	**63**
Other variances and deferred costs	1 - 5	1,902	1,248	-	(62)	**3,088**
		21,685	6,026	(1,592)	(11,160)	**14,959**

[in thousands of Canadian dollars]

5. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2021 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2022 $
Regulatory debit balances						
RARA	1 - 5	1,691	4,170	(1,600)	(3,574)	687
Settlement variances	1 - 5	13,453	23,049	222	-	36,724
OPEB cash vs accrual	1 - 5	5,561	(2,343)	-	-	3,218
LRAM	1 - 5	967	-	-	(967)	-
Loss on asset disposal	1 - 5	-	484	-	(336)	148
Regulatory asset for deferred income taxes	[2]	61,860	12,378	-	-	74,238
Other variances and deferred costs	1 - 5	2,842	(471)	7	(880)	1,498
		86,374	37,267	(1,371)	(5,757)	116,513
Regulatory credit balances						
RLRA	1 - 5	9,588	(5,441)	575	(3,574)	1,148
Settlement variances	1 - 5	12,850	4,411	(228)	-	17,033
ESM	1 - 5	2,126	(659)	-	-	1,467
Gain on asset disposal	1 - 5	336	-	-	(336)	-
LRAM	1 - 5	-	1,072	-	(967)	105
OPEB deferral account	1 - 5	12	18	-	-	30
Other variances and deferred costs	1 - 5	403	1,485	894	(880)	1,902
		25,315	886	1,241	(5,757)	21,685

[1] Other movements represent reclassifications of balances
[2] The balance is being reversed through timing differences in the recognition of deferred income tax assets [Note 3(g)]

Details and descriptions pertaining to the above regulatory debit and credit accounts are disclosed in Note 3(d) of these consolidated financial statements.

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2021	312,447	1,368,056	454,434	77,533	2,212,470
Additions, net of transfers	3,554	136,033	18,405	3,658	161,650
Disposals	(1)	(3,300)	(1,267)	(27)	(4,595)
Exchange differences	1,328	-	2,865	14	4,207
Balance as at December 31, 2022	317,328	1,500,789	474,437	81,178	2,373,732
Additions, net of transfers	14,969	113,490	15,034	24,341	167,834
Disposals	(14)	(1,427)	(5,907)	-	(7,348)
Exchange differences	(475)	-	(1,103)	(3)	(1,581)
Balance as at December 31, 2023	**331,808**	**1,612,852**	**482,461**	**105,516**	**2,532,637**
Accumulated depreciation					
Balance as at December 31, 2021	(30,892)	(250,749)	(80,347)	-	(361,988)
Depreciation	(6,113)	(43,952)	(15,576)	-	(65,641)
Disposals	-	1,159	915	-	2,074
Exchange differences	(399)	-	(956)	-	(1,355)
Balance as at December 31, 2022	(37,404)	(293,542)	(95,964)	-	(426,910)
Depreciation	(6,422)	(46,002)	(16,622)	-	(69,046)
Disposals	-	726	1,328	-	2,054
Exchange differences	130	-	408	-	538
Balance as at December 31, 2023	**(43,696)**	**(338,818)**	**(110,850)**	**-**	**(493,364)**
Net book value					
As at December 31, 2022	279,924	1,207,247	378,473	81,178	1,946,822
As at December 31, 2023	**288,112**	**1,274,034**	**371,611**	**105,516**	**2,039,273**

The Corporation's property, plant and equipment disposals include $4,330 of turbine-generator components that were identified for replacement as a result of the Unit 1 Event described in Note 4.

As at December 31, 2023, land, buildings and structures and generation and other includes $4,413 [2022 – $4,578] of ROU assets with remaining lease terms ranging between 10 and 20 years, comprising of a cost of $5,468 [2022 – $5,362] and accumulated depreciation of $1,055 [2022 – $784].

On September 30, 2022, the Corporation's subsidiary, Energy Ottawa executed an Asset Purchase Agreement, with Canadian Hydro Developers Inc., that closed on December 2, 2022 [the 'Acquisition Date'], for the asset purchase of two run of the river hydroelectric facilities [Galetta hydro facility – 1.60MW and Appleton hydro facility – 1.35MW], for cash consideration of $6,200.

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

During the year, the Corporation capitalized borrowing costs of $510 [2022 – $677] to property, plant and equipment. The average annual interest rate for 2023 was 3.4% [2022 – 2.9%].

The Corporation has entered into non-cash transactions that have been excluded from the consolidated statement of cash flows as detailed in Note 23. In addition, $12,105 [2022 – $7,587] of property, plant and equipment was contributed by developers, the directly related liability of which is included in deferred revenue.

7. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2021	61,040	75,704	75,704	19,901	232,349
Additions, net of transfers	507	4,779	15,441	(15,477)	5,250
Exchange differences	1,673	25	-	45	1,743
Balance as at December 31, 2022	63,220	80,508	91,145	4,469	239,342
Additions, net of transfers	-	7,308	(4,756)	2,248	4,800
Exchange differences	(614)	(9)	-	(25)	(648)
Balance as at December 31, 2023	**62,606**	**87,807**	**86,389**	**6,692**	**243,494**
Accumulated amortization					
Balance as at December 31, 2021	(16,364)	(47,771)	(5,263)	-	(69,398)
Amortization	(1,792)	(6,570)	(2,128)	-	(10,490)
Exchange differences	(1,013)	(25)	(1)	-	(1,039)
Balance as at December 31, 2022	(19,169)	(54,366)	(7,392)	-	(80,927)
Amortization	(1,601)	(6,732)	(2,155)	-	(10,488)
Exchange differences	409	9	-	-	418
Balance as at December 31, 2023	**(20,361)**	**(61,089)**	**(9,547)**	**-**	**(90,997)**
Net book value					
As at December 31, 2022	44,051	26,142	83,753	4,469	158,415
As at December 31, 2023	**42,245**	**26,718**	**76,842**	**6,692**	**152,497**

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

Other contractual rights includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by HONI of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers, including anticipated electricity load growth. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years. All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB.

During the year, the Corporation capitalized borrowing costs of $184 [2022 – $172] to intangible assets. The average annual interest rate for 2023 was 3.4% [2022 – 2.9%].

A significant portion of the Corporation's water rights with indefinite lives [72% or $16,941] stems from a historical 1889 lease agreement with Public Services and Procurement Canada. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and renews every 21 years into perpetuity. The Corporation also retains water rights with indefinite lives [28% or $6,459 translated US-to-CAD] at two of its EONY generating stations which stem from historical agreements with the U.S. Federal Energy Regulatory Commission ['FERC']. These FERC licenses have an indefinite life as the Corporation is granted a legal exemption from re-qualifying for these licenses due to the size of the stations.

The Corporation's annual impairment tests with respect to the CHLP and CHLP North CGUs were based on value-in-use ['VIU'] calculations. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(iv) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost to complete the refurbishment projects. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 4.4% [2022 – 4.2%].

The Corporation's impairment test at December 31, 2023 performed in light of the circumstances disclosed in Note 2(d)(viii) was based on a VIU calculation. Management's VIU calculation involved third-party forecasts of New York energy prices and supplementary revenue. Other key assumptions in the VIU calculation were a discount rate via a weighted average cost of capital ['WACC'] of 7.6% [2022 – 7.1%], a US inflation rate of 2.4% [2022 – 2.5%], and a terminal capitalization rate of 8.4% [2022 – 8.3%]. Historical production and future capital and maintenance plans were also important assumptions in the VIU analysis. After conducting its impairment test, management concluded that the value-in-use recoverable amount exceeded the carrying value of the aforementioned generating assets.

Management has identified that a reasonable possible change in one key assumption could cause the carrying value to exceed the recoverable amount. The following table shows the amount by which one assumption would need to change individually for the carrying amount to exceed the estimated recoverable amount.

	Increase (decrease)	**Revised rate**
Assumption		
Discount rate [WACC]	1.5%	7.8%
20-year forecasted market pricing: Mohawk Valley Zone E	(0.6%)	-

[in thousands of Canadian dollars]

8. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2023 $	2022 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**5,831**	6,192
Share of (loss) profit	**(6)**	240
Distributions declared and paid	**(351)**	(601)
Investment in joint venture, end of year	**5,474**	5,831
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,163**	4,668
Share of profit, net of tax	**241**	95
Dividends received	**(540)**	(600)
Investment in joint venture, end of year	**3,864**	4,163
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**8,492**	9,268
Share of loss	**(967)**	(783)
Other adjusting items related to loss	**(14)**	7
Investment in joint venture, end of year	**7,511**	8,492
Total investments in joint ventures	**16,849**	18,486

(b) Balance sheet and statement of income summary

	2023 $	2022 $
Moose Creek LP		
Current assets	**949**	813
Non-current assets	**11,063**	11,583
Total assets	**12,012**	12,396
Current liabilities	**832**	504
Total liabilities	**832**	504
Revenue	**3,532**	3,473
Net (loss) income	**(12)**	478

[in thousands of Canadian dollars]

8. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary [continued]

	2023 **$**	2022 $
PowerTrail		
Current assets	**1,111**	710
Non-current assets	**8,712**	9,423
Total assets	**9,823**	10,133
Current liabilities	**1,020**	634
Non-current liabilities	**2,052**	2,249
Total liabilities	**3,072**	2,883
Revenue	**3,865**	3,391
Net income	**401**	159
Zibi Community Utility LP		
Current assets	**3,889**	3,450
Non-current assets	**36,446**	35,638
Total assets	**40,335**	39,088
Current liabilities	**1,045**	1,475
Non-current liabilities	**24,032**	20,394
Total liabilities	**25,077**	21,869
Revenue	**1,514**	1,295
Net loss	**(1,933)**	(1,566)

(c) Credit facility

PowerTrail has an operating revolving line of credit totaling $1,000 for general business purposes and bears an annual interest at the prime rate. At December 31, 2023, PowerTrail had no amount outstanding on this line of credit. PowerTrail also has a credit facility of $200 [2022 – $200] to provide standby letters of credit to the IESO. At December 31, 2023, PowerTrail had drawn an amount of $133 [December 31, 2022 – $133] in standby letters of credit against this facility. Both of the above facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000 [2022 – $1,000]. At December 31, 2023, PowerTrail is in compliance with these customary covenants [December 31, 2022 – in compliance].

Moose Creek LP maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. At December 31, 2023, Moose Creek LP had no outstanding balances drawn against its operating revolving line of credit [December 31, 2022 – $nil]. The facility contains customary covenants and events of default. At December 31, 2023, Moose Creek LP is in compliance with these customary covenants [December 31, 2022 – in compliance].

8. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(c) Credit facility [continued]

ZCU maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate plus 1.25% or the banker's acceptance rate plus 2.75%. At December 31, 2023, ZCU had no outstanding balances drawn against its operating revolving line of credit [December 31, 2022 – $nil]. The facility contains customary covenants and events of default. At December 31, 2023, ZCU is in compliance with these customary covenants [December 31, 2022 – in compliance]. The facility is secured by a second ranking general security agreement and guaranteed by the Corporation up to its ownership share of the ZCU joint venture.

9. NOTES RECEIVABLE FROM RELATED PARTIES

(a) Zibi Community Utility LP

On January 22, 2021, the Corporation entered into a mirror loan agreement with ZCU to flow through funds received from Federation of Canadian Municipalities ['FCM'] to its joint venture to fund an ongoing green district energy construction project undertaken by ZCU. The agreement mirrors the terms of the FCM loan and grant agreement discussed in Note 14, which allows ZCU to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years and receive a non repayable grant based on the total eligible project expenditures incurred.

The loan, bearing interest of 4.66% [December 31, 2022 – 4.48%], was issued to ZCU on February 18, 2021 and as at December 31, 2023 has an outstanding balance of $20,000 [December 31, 2022 – $17,625]. Interest payments are due semi-annually on the principal amount outstanding, with principal payments beginning on December 16, 2026 and ending on February 18, 2041.

In addition, the mirror agreement also includes a loan arrangement fee payable by ZCU to the Corporation at a rate of 1.1% per annum on the initial principal amount of the loan. As at December 31, 2023, the Corporation has received $900 [December 31, 2022 – $900] in loan arrangement fees and is included in deferred revenue and amortized over the term of the loan.

(b) Moose Creek LP

As at December 31, 2022, the note receivable from Moose Creek LP was fully received.

(c) City of Ottawa

The Corporation is party to two agreements with the City of Ottawa regarding the provision of streetlight services. Over a span of an estimated six years from the contract signing date in February 2016, the Corporation is engaged to convert legacy street lights to LED ['S/L conversion contract'] and to provide maintenance services to all legacy and converted LED street lights ['S/L maintenance contract'].

While quarterly payments due under the S/L maintenance contract are under standard 30-day terms, amounts with respect to the S/L conversion contract are facilitated through an interest-bearing long-term open note at a fixed rate of 3%. Amounts billed to the City of Ottawa under the S/L conversion contract are added to the note receivable as progress towards ultimate completion occurs. As stipulated in the S/L conversion contract, the City of Ottawa is to make quarterly payments to the Corporation based on a combination of electricity savings, maintenance savings and capital expenditure savings the City of Ottawa has realized as result of the more efficient LED streetlights installed to date, until the note is repaid in full.

The outstanding note receivable was repaid in full in 2022 by the City of Ottawa and as at December 31, 2023, the outstanding balance was $nil [December 31, 2022 – $nil]. While the Corporation continues to provide streetlight conversion services to the City of Ottawa, new contracts are entered into under standard payment terms of 30-days.

10. SHORT-TERM BORROWINGS

During the year, the Corporation renewed its credit facility in an amount of $500,000 and US$200 at December 31, 2023 [December 31, 2022 – $441,000 and US$200]. The facility is structured into three types of credit availability and consists of a $500,000 [2022 – $440,000] revolving operating line maturing on August 1, 2026 and commercial card facilities of $1,000 and US$200 [2022 – $1,000 and US$200]. The revolving operating lines are committed and unsecured and can be drawn for prime rate loans, bankers' acceptances, letter of credit and other bank guarantee issuances and to backstop the Corporation's Commercial Paper Program as discussed below. Generally, the need to use these forms of credit is based on Hydro Ottawa Holding Inc.'s consolidated cash position and therefore any drawings outstanding may not necessarily coincide with the amount of outstanding amounts on the working capital facility presented on the Corporation's consolidated balance sheet. This credit facility contains customary covenants and events of default including a covenant that requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

The Corporation has a Commercial Paper Program permitting the issuance of up to $400,000 of unsecured short-term promissory notes to be issued in various maturities of no more than one year. Proceeds from the issuance of commercial paper are used to fund general corporate purposes. The Commercial Paper Program is backstopped by the Corporation's credit facility and reduces the credit facility capacity, at any given time, by the total amount of commercial paper issued and outstanding. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance and had a weighted average interest rate of 5.09% during the 2023 year [2022 – 2.40%]. As at December 31, 2023, the Corporation had $338,105 in commercial paper outstanding consisting of three tranches: $138,980, $99,775, and $99,350 maturing on January 2, 2024, January 17, 2024, and February 16, 2024, respectively [December 31, 2022 – $276,390, three tranches: $126,954, $74,853, and $74,583 maturing on January 4, 2023, January 18, 2023, and February 16, 2023, respectively].

At December 31, 2023, the Corporation had drawn $7,400 in direct advances against the revolving operating line of credit [2022 – $10,600] and $nil in bankers' acceptances against the $500,000 revolving operating line [2022 – $nil and $440,000].

At December 31, 2023, the Corporation has drawn $10,134 [2022 – $10,134] against its facilities in standby letters of credit. Drawings include a $10,000 [2022 – $10,000] letter of credit to cover its prudential support obligation as described in Note 25; and a letter of credit to Her Majesty the Queen on behalf of ZCU of $134 [2022 – $134].

On October 14, 2021, CFLP signed a new 3 year $14,526 working capital facility to fund working capital needs and/or letter of credit bond indenture requirements of CFLP, CHLP North and Hull Energy LP. The borrowers may draw from the facility by way of prime rate loans, banker acceptances or letter of credit issuances. During 2023, pursuant to the terms of the CFLP Trust Indenture, standby letters of credit were issued for the Debt Service Reserve Account ['DSRA'] as described in Note 14 in the amount of $5,120 [December 31, 2022 – $5,120], the Major Maintenance Reserve Accounts ['MMRA'] for CHLP North and Hull Energy LP in the amount of $311 and $1,716 respectively [December 31, 2022 – $520 and $1,040]. As at December 31, 2023, direct borrowings of $nil were outstanding and the facility had $7,379 available for general business purposes [December 31, 2022 – $nil and $7,846].

[in thousands of Canadian dollars]

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023 **$**	2022 $
Purchased power payable	**87,382**	70,404
Trade accounts payable and accrued liabilities	**49,259**	49,256
Customer deposits	**43,470**	35,433
Customer credit balances	**14,451**	13,137
Accrued interest on long-term debt	**13,230**	13,246
Due to related parties [Note 27]	**206**	259
	207,998	181,735

In 2019, the Corporation conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 25. The Corporation determined that it was obligated to make up a shortfall and accordingly set-up a provision. As at December 31, 2021, the Corporation maintained a provision of $3,400, which was included in accounts payable and accrued liabilities. In 2022, the Corporation received the final CCRA calculation from HONI, which required it to pay $2,509. The Corporation paid the $2,509 in 2022.

12. DEFERRED REVENUE

	2023 **$**	2022 $
Capital contributions from customers	**128,645**	112,116
Capital contributions from developers	**151,884**	132,838
Loan arrangement fee received [Note 9(a)]	**900**	900
Loan arrangement fee recognized to income [Note 9(a)]	**(129)**	(73)
Other deferred revenue	**19**	120
	281,319	245,901
Less: current portion	**9,604**	7,458
	271,715	238,443

13. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2023 amounted to $6,652 [2022 – $6,801]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan.

[in thousands of Canadian dollars]

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Defined benefit obligation

	2023 **$**	2022 $
Balance, beginning of year	**5,621**	8,168
Current service cost	**59**	109
Interest cost	**278**	242
Benefits paid	**(318)**	(951)
Employee contributions	**87**	68
Actuarial loss (gain)	**644**	(2,015)
Balance, end of year	**6,371**	5,621

(ii) Plan assets

	2023 **$**	2022 $
Fair value, beginning of year	**5,421**	7,562
Interest credit	**288**	227
Employer contributions	**214**	248
Benefits paid	**(318)**	(951)
Non-investment expenses	**(80)**	(80)
Employee contributions	**87**	68
Actuarial gain (loss)	**196**	(1,653)
Fair value, end of year	**5,808**	5,421

(iii) Funded status

	2023 **$**	2022 $
Net defined benefit liability, beginning of year	**(260)**	(606)
Change in net defined benefit liability	**(303)**	406
Funding deficit	**(563)**	(200)
Impacts on minimum funding requirements	**60**	(60)
Net defined benefit liability, end of year	**(503)**	(260)

[in thousands of Canadian dollars]

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2023, the Chaudiere Hydro Pension Plan's assets were comprised of 72.9% [2022 – nil%] fixed income Canadian bonds, 24.6% [2022 – nil%] Canadian and international equities and 2.5% [2022 – 100%] in cash. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2022 – 2.0%], an inflation rate of 2.0% [2022 – 2.0%] and a discount rate of 4.7% [2022 – 5.1%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014. An actuarial extrapolation was performed at December 31, 2023 and December 31, 2022. The last actuarial valuation was performed at January 1, 2023.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonable changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $420 or 12.5% [2022 – $683 or 12.1%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $38 or 1.1% [2022 – $165 or 2.9%].

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2022 – 2.0%] and a discount rate of 4.7% [2022 – 5.0%]. Cost trends for health are estimated to increase [at a declining rate from 6.0% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

Information about the Corporation's other post-employment benefits is as follows:

	2023 **$**	2022 $
Defined benefit obligation, beginning of year	**12,382**	15,625
Current service costs	**507**	798
Interest on defined benefit obligation	**671**	480
Past service cost	**6**	-
Remeasurement of the defined benefit obligation	**-**	(557)
Benefits paid	**(893)**	(814)
Actuarial loss (gain)	**481**	(3,150)
Defined benefit obligation, end of year	**13,154**	12,382

An actuarial extrapolation was performed as at December 31, 2023. As a result of this exercise, the Corporation increased the accumulated liability by $772 [December 31, 2022 – decreased by $3,243 based on an actuarial valuation].

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

[in thousands of Canadian dollars]

14. LONG-TERM DEBT

	2023	2022
	$	$
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**200,274**	202,630
Series 2019-1, 3.53%, due December 31, 2059	**290,514**	290,514
Note payable		
4.26% loan, due February 18, 2041	**20,000**	17,625
	1,085,788	1,085,769
Less: current portion	**(3,796)**	(2,356)
Less: unamortized debt-issuance costs	**(7,429)**	(7,765)
	1,074,563	1,075,648

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures will be $20,067 in 2024, $17,453 in 2025, and $14,839 in 2026 and 2027.

(b) Senior secured amortizing bonds

The Series 2019-1 senior secured amortizing green bonds [the '2019-1 bonds'] totalling $290,514 were issued on behalf of Hull Energy LP and CHLP North [refurbishment 'project owners'] in 2019. The Series 2019-1 bonds carry an interest rate of 3.53% and mature on December 31, 2059. Equal semi-annual interest-only payments are due and payable on June 30 and December 31 each year until and including June 30, 2024. Thereafter, semi-annual blended repayments of principal and interest will be due and payable on June 30 and December 31 each year commencing on December 31, 2024 until and including the maturity date. In addition, a balloon payment of $43,577 [15% of the principal] will be due and payable on the maturity date. The 2019-1 bonds are secured by the total refurbishment project assets, where the project assets of Hull Energy LP and CHLP North represent 76.8% and 23.2% of the security, respectively.

The Corporation's senior secured amortizing bonds [the '2016-1 bonds'] carry an interest rate of 4.08% and mature on March 31, 2057. Equal semi-annual interest-only payments were due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date. The 2016-1 bonds are secured by a first-charge interest on the assets of CHLP.

[in thousands of Canadian dollars]

14. LONG-TERM DEBT [CONTINUED]

(b) Senior secured amortizing bonds [continued]

In accordance with the Trust Indenture, CFLP was required to maintain in a DSRA [classified as restricted cash on the consolidated balance sheet], an amount equal to the next six months of interest and principal, funded in accordance with Chaudiere North LP's Pro Rata Portion of the DSRA. During 2022, the DSRA has been fully funded with a standby letter of credit as described in Note 10.

As required by the applicable Trust Indenture, CHLP is to maintain in a DSRA an amount equal to the next six months of interest and principal and payments due under the bonds; during the year CHLP maintained a deposit of $5,330 [December 31, 2022 – $5,330] in the DSRA [classified as restricted cash on the consolidated balance sheet] to replace a standby letter of credit as described in Note 10. CHLP also maintained, in a Major Maintenance Reserve Account ['MMRA'], an amount that covers a portion of the projected major maintenance expenditures in the coming three years [2023 – $1,830 and 2022 – $2,280] which is also classified as restricted cash on the consolidated balance sheet.

During the year, CHLP North withdrew $2,560 in the Over Production Sharing Reserve Account ['OPSRA'; classified as restricted cash on the consolidated balance sheet] pursuant to the terms of the Trust Indenture and the applicable Power Purchase Agreement.

The Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR'] for both CFLP and CHLP. Both CFLP and CHLP's DCSR's divides the sum of the respective entities net operating and investing cash flows [as defined by their respective Trust Indentures] by the applicable interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the 2019-1 and 2016-1 bonds at December 31, 2023 and 2022, as applicable.

(c) Note payable

On January 22, 2021, the Corporation entered into a loan and grant agreement with the FCM to fund an ongoing green district energy construction project undertaken by its 50% owned-and-controlled joint venture, ZCU. The FCM loan and grant agreement allows the Corporation to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years, in addition to a non-repayable grant based on the total eligible project expenditures incurred.

The loan, bearing interest of 4.26% [December 31, 2022, 4.08%], was issued from FCM to the Corporation on February 18, 2021 and has an outstanding balance of $20,000 as at December 31, 2023 [December 31, 2022 – $17,625]. Interest payments are payable semi-annually on the principal amount outstanding, with principal payments beginning on December 16, 2026 and ending on February 18, 2041. Interest payments on the loan will be $810 in 2024, $850 in 2025, $850 in 2026, $828 in 2027, and $772 in 2028. In addition, the Corporation received grant funds of $356 [2022 – $283] from FCM.

The Corporation has a mirror loan agreement with ZCU to flow through the above loan and grant funds received from FCM to its joint venture as discussed in Note 9(a).

15. OTHER LIABILITIES

	2023	2022
	$	$
Lease liabilities	**1,654**	1,667
Other	**337**	411
	1,991	2,078

[in thousands of Canadian dollars]

15. OTHER LIABILITIES [CONTINUED]

The Corporation's lease liabilities are calculated under the assumption that all applicable renewal periods at the Corporation's option will be exercised, and thus have lease terms ranging between 2033 and 2043.

16. CAPITAL DISCLOSURES

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

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and its long-term debt; and
- Align the capital structure of the Corporation's regulated subsidiary, Hydro Ottawa, with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2023 **$**	2022 $
Commercial paper	**338,105**	276,390
Long-term debt	**1,078,359**	1,078,004
Total debt	**1,416,464**	1,354,394
Equity	**529,669**	526,944
Total capital	**1,946,133**	1,881,338

A subsidiary of the Corporation, Hydro Ottawa is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Corporation's actual capital structure may differ from the OEB deemed structure.

As at December 31, 2023, the Corporation's debt to capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 72.9% [2022 – 72.5%]. The Corporation's debt to capitalization ratio excluding non-recourse debt is 64.0% [2022 – 62.5%]. The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Corporation met its capital management objectives, which have not changed during the year.

[in thousands of Canadian dollars]

17. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

	2023	2022
	$	$
214,901,003 Class A common shares	**228,453**	228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

A shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa's net income or $20,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines; is not in breach of any covenants on its senior unsecured debentures or credit facility obligations; and the payment thereof does not negatively impact the Corporation's credit rating.

On April 20, 2023, the Board of Directors declared a $20,000 dividend to the City of Ottawa, which was paid in increments of $5,000, $5,000, $5,000, and $5,000 on April 27, 2023, July 4, 2023, October 3, 2023 and December 1, 2023, respectively [April 14, 2022 the Board of Directors declared a $23,700 dividend to the City of Ottawa, which was paid in increments of $8,700, $5,000, $5,000, and $5,000 on April 21, 2022, July 4, 2022, October 3, 2022 and December 1, 2022, respectively].

Subsequent to year-end, the Board of Directors declared a $20,000 dividend on April 23, 2024 on the common shares of the Corporation outstanding on December 31, 2023.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying value of the Corporation's financial instruments, except for the instruments described below, approximate fair value because of the short maturity and nature of the instruments. The fair value measurement of the financial instrument for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [Note 3(j)].

The Corporation has estimated the fair value of the note receivable from its joint venture, ZCU, as at December 31, 2023 as amounting to $18,041 [2022 – $16,850]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the loans at the estimated interest rate of 6.0% [2022 – 5.0%] that would be available to ZCU on December 31, 2023.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(a) Fair value disclosures [continued]

The Corporation has estimated the fair value of the senior unsecured debentures and note payable as at December 31, 2023 as amounting to $555,125 [2022 – $523,894]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and February 2, 2045 at the estimated interest rate of 4.6% for the senior unsecured debentures and 5.6% for the note payable [2022 – 5.0% for the senior unsecured debentures and note payable] that would be available to the Corporation on December 31, 2023.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2023 as amounting to $406,503 [2022 – $392,761]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the bonds at the estimated interest rate of 5.1% [2022 – 5.4%] that would be available to the Corporation at December 31, 2023.

(b) Market risk

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk. As the Corporation has not entered into significant hedging transactions or derivative contracts, there is no exposure to commodity price risk.

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. Under the Corporation’s credit facility, advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. In addition, the fees payable on bankers' acceptances via the operating and capital lines are based on a margin determined by reference to the Corporation's credit rating. The Corporation is also exposed to fluctuations in short term interest rates in connection with outstanding issuances under its Commercial Paper Program. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to the Corporation's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed-interest-rate debt], and the Corporation incorporates a mix of fixed and floating rate instruments, there is limited exposure to interest rate risk.

The Corporation is also exposed to fluctuations in interest rates as the regulated rate of return for the Corporation'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 sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Corporation’s outstanding drawings on its credit facility. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $3,455.

(ii) Foreign exchange risk

The Corporation’s earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase [or decrease] in the U.S. dollar relative to the Canadian dollar exchange rate of CDN $1 equals U.S $0.76 as at December 31, 2023 would increase [or decrease] the equity of the Corporation by approximately $2,846.

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with electricity-related accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 364,000 customers served by Hydro Ottawa, the majority of which are residential. As a result, the Corporation did not earn a significant amount of electricity-related revenue and does not have a significant electricity-related receivable from any individual customer. The Corporation is exposed to a concentration of credit risk in generation-related accounts receivable due to the small number of entities the Corporation services. The Corporation relies on its power purchase agreements with the IESO and the Niagara Mohawk Power Corporation to support its Canadian and U.S. generation operations.

The Corporation performs ongoing credit evaluations of its customers serviced by Hydro Ottawa and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2023, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $14,336 [2022 – $14,533] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation applies the *IFRS 9 – Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of twelve months before December 31, 2023 or December 31, 2022 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2023 and December 31, 2022 was determined as follows for trade and other receivables.

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2023				
Outstanding for 30 days or less	**106,894**	0.00 %	-	106,894
Outstanding for more than 30 days but no more than 120 days	**8,407**	13.94 %	1,172	7,235
Outstanding for more than 120 days	**5,492**	40.48 %	2,223	3,269
Unbilled receivables relating to electricity	**86,259**	0.91 %	784	85,475
	207,052		4,179	202,873
December 31, 2022				
Outstanding for 30 days or less	**87,014**	0.00 %	-	87,014
Outstanding for more than 30 days but no more than 120 days	**9,501**	12.69 %	1,206	8,295
Outstanding for more than 120 days	**3,441**	62.45 %	2,149	1,292
Unbilled receivables relating to electricity	**84,948**	0.79 %	675	84,273
	184,904		4,030	180,874

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

The following table reconciles the opening and closing loss allowance for trade and other receivables:

	2023	2022
	$	$
Balance, beginning of year	**4,030**	3,139
Net remeasurement of loss allowance	**2,338**	2,454
Write-offs	**(2,344)**	(1,709)
Recoveries of amounts previously written-off	**155**	146
Balance, end of year	**4,179**	4,030

Impairment losses on trade and other receivables are presented as net impairment losses within the consolidated statement of income. When a receivable is deemed to be uncollectible, it is written off and the expected loss allowance is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of impairment losses included in operating costs in the consolidated statement of income.

As at December 31, 2023, the Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 10, are maintained to meet obligations as they come due while minimizing standby fees and interest.

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(d) Liquidity risk [continued]

Liquidity risks associated with financial commitments are as follows:

	2023		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Bank indebtedness	**7,822**	**-**	**-**
Commercial paper [(1)]	**338,105**	**-**	**-**
Accounts payable and accrued liabilities	**207,998**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.97%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.99%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.61%, due February 3, 2025	**-**	**200,000**	**-**
Series 2015-2, 3.64%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.08%, due March 31, 2057	**2,449**	**11,165**	**186,660**
Series 2019-1, 3.53%, due December 31, 2059	**1,347**	**11,066**	**278,101**
Loan			
4.26% loan, due February 18, 2041	**-**	**3,333**	**16,667**
Interest to be paid on long-term debt	**39,265**	**137,008**	**561,181**
	596,986	**362,572**	**1,417,609**

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

[in thousands of Canadian dollars]

19. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2023	2022
	$	$
Revenue from contracts with customers		
Power recovery and distribution		
Residential service [(1)]	**420,648**	422,311
General service [(2)]	**604,514**	587,499
Large users [(3)]	**61,513**	63,576
	1,086,675	1,073,386
Generation	**48,073**	45,336
Commercial services		
Lighting	**11,199**	9,862
Buildings	**6,044**	7,366
Electrical	**10,025**	6,491
Service work related to distribution operations	**5,335**	6,164
Pole attachment and duct rental	**3,874**	3,689
	36,477	33,572
Other		
Account-related charges and miscellaneous	**5,101**	4,636
Capital contributions from customers amortized to revenue	**3,693**	3,301
	8,794	7,937
	1,180,019	1,160,231
Revenue from other sources		
Other		
Investment property rentals	**1,462**	1,675
Capital contributions from developers amortized to revenue	**4,126**	3,579
	5,588	5,254
	1,185,607	1,165,485

[(1)] Residential service means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.

[(2)] General service means a service supplied to premises other than those receiving residential service and large users and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

[(3)] Large users means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

[in thousands of Canadian dollars]

20. OPERATING COSTS

	2023 **$**	2022 $
Salaries, wages and benefits	**90,056**	92,660
Contracted services - distribution system maintenance	**21,032**	15,133
Contracted services - customer owned plant	**6,493**	6,015
Contracted services - other	**26,236**	19,159
General and administrative	**49,982**	44,702
Other electricity distribution costs	**13,242**	9,238
Inventory expensed as cost of goods sold and other	**1,740**	2,349
Capital recovery	**(26,508)**	(28,632)
	182,273	160,624

21. FINANCING COSTS

	2023 **$**	2022 $
Interest on long-term debt	**39,590**	39,635
Short-term interest and fees relating to credit facility	**16,895**	6,154
Interest on lease liabilities	**109**	86
Less: capitalized borrowing costs	**(694)**	(849)
	55,900	45,026

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2023 **$**	2022 $
Current tax (recovery) expense		
Current income tax (recovery) expense	**(54)**	1,467
Deferred income tax expense		
Origination and reversal of temporary differences	**10,566**	19,500
Income tax expense recognized in net income	**10,512**	20,967

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

Income tax (recovery) expense recognized in OCI comprises the following:

	2023 $	2022 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(363)**	1,032
Other	**(239)**	1,137
Income tax (recovery) expense recognized in other comprehensive income	**(602)**	2,169

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2023 $	2022 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**34,616**	60,641
Income taxes at statutory rate	**9,173**	16,070
Increase (decrease) in income taxes resulting from:		
Permanent differences	**2,341**	2,374
Tax rate differential on net capital loss carryforwards and other	**73**	1,900
Impact on foreign exchange translation on subsidiary	**9**	25
Foreign tax rate differential	**8**	2
Provision to return adjustment	**(533)**	(212)
Change in unrecognized tax benefit	**969**	514
Tax impact on joint venture	**2**	(89)
Current tax recovery from loss carryback	**(888)**	-
Other	**(642)**	383
	10,512	20,967
Effective income tax rate	**30.37 %**	34.57 %

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

The Corporation's subsidiary Hydro Ottawa, as a rate-regulated enterprise, is required to recognize deferred income tax assets and liabilities and related regulatory deferral account credit and debit balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Corporation's net deferred income tax asset are as follows:

	2023 **$**	2022 $
Property, plant and equipment and intangible assets	**757**	2,900
Employee future benefits	**245**	139
Non-capital loss carryforwards	**7,523**	4,281
Other temporary differences	**(83)**	(588)
	8,442	6,732

Significant components of the Corporation's net deferred income tax liability are as follows:

	2023 **$**	2022 $
Property, plant and equipment and intangible assets	**(128,361)**	(114,647)
Tax recognized in OCI	**(1,372)**	(1,885)
Non-capital loss carryforwards	**42**	29
Net capital loss carryforwards	**-**	1,961
Employee future benefits	**4,179**	4,142
Other	**6,905**	3,528
	(118,607)	(106,872)

Movements in the net deferred income tax asset balances during the year were as follows:

	2023 **$**	2022 $
Deferred income tax asset, beginning of year	**6,732**	6,923
Impact of foreign exchange rate change on opening deferred income tax asset	**(61)**	239
Recognized in net income	**1,732**	(354)
Recognized in OCI	**39**	(76)
Deferred income tax asset, end of year	**8,442**	6,732

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

Movements in the net deferred income tax liability balances during the year were as follows:

	2023	2022
	$	$
Deferred income tax liability, beginning of year	**(106,872)**	(85,633)
Recognized in net income	**(12,298)**	(19,145)
Recognized in OCI	**563**	(2,094)
Deferred income tax liability, end of year	**(118,607)**	(106,872)

The Corporation's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be collected from customers in future electricity rates is $82,622 [2022 – $74,239].

As at December 31, 2023, the Corporation had Canadian capital losses of $1,415 [2022 – $1,415] and Canadian non-capital losses of $6,937 [2022 – $3,373] for which the tax benefit has not been recognized in these consolidated financial statements.

As at December 31, 2023, the Corporation had Canadian non-capital losses of $17,790 [2022 – $10,023] for tax purposes for which the tax benefit has been recognized in these consolidated financial statements. As at December 31, 2023, the Corporation had Canadian capital losses of $nil [2022 – $7,816].

As at December 31, 2023, the Corporation has U.S. federal losses carried forward of $11,388 [December 31, 2022 – $6,763] and New York losses carried forward of $8,939 [December 31, 2022 – $4,509] that can be carried forward indefinitely. These losses are considered more likely than not to be realized, resulting in a recognized deferred income tax asset of $2,850 at December 31, 2023 [December 31, 2022 – $1,652].

Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Net deferred income tax assets of $2,839 [2022 – $2,389] have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a net deferred income tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

A deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

[in thousands of Canadian dollars]

23. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2023 **$**	2022 $
Accounts receivable	**(21,734)**	(8,154)
Prepaid expenses	**(4,004)**	(1,486)
Note receivable from parent	**-**	19
Accounts payable and accrued liabilities	**26,720**	(16,420)
Inventory	**(4)**	(344)
Customer deposits in accounts receivable	**(7,915)**	3,194
Net change in accruals related to property, plant and equipment	**(941)**	7,073
	(7,878)	(16,118)

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2023 **$**	2022 $
Long-term debt, beginning of year	**1,075,648**	1,075,790
Proceeds from issuance of long-term debt	**2,375**	1,884
Current portion of long-term debt	**(3,796)**	(2,356)
Amortization of debt-issuance costs expensed	**336**	330
Long-term debt, end of year	**1,074,563**	1,075,648

25. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2023, the Corporation had drawn standby letters of credit in the amount of $10,000 [2022 – $10,000] against its credit facility to cover its prudential support obligation.

The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

25. CONTINGENT LIABILITIES [CONTINUED]

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 7 of these consolidated financial statements. Each of the Corporation's CCRAs has a term of 25 years. To the extent that the cost of a project is not recoverable from future transformation connection revenues, the Corporation is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Corporation. These agreements require periodic reviews whereby a comparison of actual to forecasted load is conducted, and a true-up calculation performed. When a true-up calculation shows the Corporation's actual load for the past period and updated load forecast for the future period are lower than the initial load, the Corporation is obligated to make up this shortfall. When the Corporation's actual load and updated load forecast are higher than the initial load, the Corporation is entitled to a rebate. HONI is expected to perform true-up calculations in years 5 and 10 and in year 15 if the difference between the actual incremental load and initial load at the end of year 10 is greater than 20%.

The Corporation is contingently liable for its contractor's obligations relating to the performance and completion of a project. As a result, the Corporation has provided its customer, the City of Ottawa, with surety performance bonds in connection with a project to design, procure and install charging and electrical infrastructure at one of its OC Transpo facilities. Surety bonds do not transfer risk, but instead provide a financial guarantee to the customer that the Corporation and its subcontractors will fulfill their obligations under the original contract. As at December 31, 2023, management does not foresee any possible issues relating to the performance and completion of the contract.

Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation's insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

26. COMMITMENTS

As at December 31, 2023, the Corporation has $167,673 in total open commitments spanning between 2024 and 2030. These include commitments relating to a call centre services agreement, distribution-related construction projects, overhead and underground services and other services relating to the Corporation's operations.

The Corporation maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between September 30, 2022 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels and are not factored in the calculation of the Corporation's lease liability or effective lease term. The Corporation's anticipated future minimum lease payments will be: 2024 to 2028 – $746 and $38,023 thereafter.

27. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $294 [2022 – $364] via its regulated subsidiary, Hydro Ottawa, and $18,922 [2022 – $18,336] via Envari. During the year, the Corporation also received $4,235 [2022 – $6,055] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure; earned $nil [2022 – $19] in interest revenue with respect to the note receivable from the City of Ottawa; incurred $32 [2022 – $33] in lease interest expense and made $52 [2022 – $52] in lease liability repayments with respect to a long-term lease outstanding with the City of Ottawa at December 31, 2023.

The Corporation incurred $4,393 [2022 – $4,998] of operating costs to the City of Ottawa. The Corporation also incurred $55 [2022 – $846] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2023, the Corporation's accounts receivable and customer deposits include $16,725 [2022 – $15,857] and $1,866 [2022 – $1,711], respectively, while the Corporation's accounts payable and accrued liabilities include $206 [2022 – $259] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 9 of these consolidated financial statements and the Corporation's long-term lease liability to the City of Ottawa included in Note 15 at December 31, 2023 is $748 [2022 – $776].

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $nil [2022 – $2] on its settled note receivable from the Moose Creek LP joint venture as disclosed in Note 9, as well as $44 [2022 – $43] in other revenue for the provision of administrative services. As at December 31, 2023, the Corporation's accounts receivable include $nil [2022 – $4] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

(ii) PowerTrail

During the year, the Corporation earned other revenue of $44 [2022 – $43] for the provision of administrative services. As at December 31, 2023, the Corporation's accounts receivable include $nil [2022 – $36] due in respect of the transactions described.

(iii) ZCU

During the year, the Corporation earned interest income in the amount of $804 [2022 – $758] on its note receivable from ZCU disclosed in Note 9 of these consolidated financial statements. At December 31, 2023, accounts receivable includes $338 due from ZCU with respect to the transactions described [2022 – $303 with respect to amounts paid on the joint venture's behalf].

[in thousands of Canadian dollars]

27. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2023 **$**	2022 $
Salaries, director fees and other short-term benefits	**1,975**	1,906
Employee future benefits	**512**	551
Other long-term benefits	**33**	33
	2,520	2,490