

City of Peterborough Holdings Inc.

ANNUAL REPORT 2015



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IN MEMORIAM

Don Brown
Supervisor, Generation Operations

1978 – 2016

Our 2015 Annual Report

Peterborough Utilities Group (PUG) has been an integral part of the Peterborough community for more than 100 years. Through the many facets of our business—electricity, water, educational and conservation programs, Riverview Park and Zoo—we have taken an active role in Peterborough and the surrounding communities.

Through the introduction of innovative products and solutions to conserve energy and water, and through our leadership in the development of renewable generation, our community commitment is forward-looking to a sustainable, cleaner energy footprint.

Our ability to effectively connect with our customers is made possible through a strong foundation of business performance. We are pleased to provide this Annual Report for the fiscal year ended December 31, 2015 for the City of Peterborough Holdings Inc. (CoPHI), operating as PUG. This year's report continues to underscore our commitment to strong business performance, driving community value now and for the future.

Over the past several years, PUG has grown and diversified its business. We are proud of the gains that have been made in recent years to ensure that PUG can be part of the community for the next 100 years. In the past several years, our diversification path—by business line growth and through investment in complementary technology—has created a significant, positive change to PUG's composition. These gains have been achieved through the concerted and collective efforts of an entire organization of dedicated employees whose commitment is "to be the best."

Peterborough Utilities has been providing reliable electric and water services for over 100 years.



Our continued growth and diversification will provide ongoing and growing cash returns to support the Peterborough community for years to come. Furthermore, our growth and diversification will enable us to adapt and respond to rapid industry change, as currently faced in the regulated business, and as other future changes occur. PUG is unique amongst its peers of municipally owned utilities. Its diversification provides resiliency and options to respond to change.

We operate in industries that are highly regulated and susceptible to change and risk dictated by regulation and provincial policy. Energy will continue to be under pressure to deliver a new value proposition to the future consumer. The new consumer requires technology, innovation and service with reduced costs and lower consumer rates. Simply put, doing much more with less. This will require the business to be more responsive, and consumer-enabling. To effectively deliver under this new paradigm requires increased capital investment and utility growth. For many municipally owned utilities, the future is daunting and choices are limited. Past days of utility self-sufficiency without the need for municipal funding or indirect taxpayer support, are being eroded.

For PUG, while future change is inevitable, we take great comfort and pride that as an organization we have positioned ourselves for long-term success and opportunity with one aim in mind: to provide a best-in-class and enduring connection to our customers and the communities we serve.

Our performance is only possible through the ongoing support of all our stakeholders, including our customers, employees, suppliers, and business partners. Oversight through our highly qualified Board of Directors and the support of our Shareholder, the City of Peterborough, has been essential to PUG's success.

Thanks to all for your invaluable contributions. We hope you enjoy reading this 2015 Annual Report.

A blue ink signature of John Stephenson, consisting of a stylized 'J' followed by 'Stephenson' in a cursive script.

John Stephenson
President and CEO
Peterborough Utilities Group

A blue ink signature of David Bignell, featuring a stylized 'D' followed by 'Bignell' in a cursive script.

David Bignell
Chair
City of Peterborough Holdings Inc.

Thank you to our customers, employees and
Board of Directors for making 2015 a success.

Change is Coming to Our Industry

We know that the coming years will be marked by significant change in our industry, and that change will undoubtedly affect PUG, although precisely how is currently uncertain.

On April 16, 2015, the Premier's Advisory Council on Government Assets released a set of recommendations to help Ontario "maximize the value of its key provincial assets," including the Liquor Control Board of Ontario, Hydro One and Ontario Power Generation. Those recommendations, most of which came into effect in 2016, are known as The Clark Report.

Over the past several years, our management team and our Board have been preparing for these changes. We have been monitoring industry developments and engaging with industry experts to examine the potential impacts and have developed plans to address them. And we continue to consider the way we position ourselves and our revenue streams in order to achieve—and exceed—our goals, and those of our community.

PUG is, and will continue to be, a leader in water and energy conservation as well as electricity generation. We currently supply 38 MW of energy when operating at peak capacity and we will be increasing that by at least another 30 MW in the next five to six years.

No matter what happens, whether the recommendations in The Clark Report are implemented or not, some things will not change. PUG's greatest assets have always included its readiness to communicate with its customers, and its transparency. One of our core values is to "contribute to the betterment of the communities we serve," and that will remain a keystone. We will continue to communicate with our customers through our bi-monthly newsletter, our website, social media, customer service programs and other avenues, to maintain openness in a spirit of mutual respect for our customers and the residents of Peterborough.

As our Value Statement makes clear: We will continue to conduct our business with integrity and the highest ethical standards, and to be accountable for our behaviour and actions.

And that will never change.



Energy and Water Conservation

In 2015, as in past years, we successfully achieved our aggressive demand reduction goals. In fact, PUG was one of just 12 Local Distribution Companies (LDCs) in Ontario that were able to achieve their targets in terms of reduced demand and reduced KWh consumed. This year, we focussed on ensuring that customers understand how to manage their electricity and water consumption to their best advantage, and we supported them in their reduction efforts through technology and a number of conservation programs.

We have our customers—including our residential and our industrial and commercial clients—to thank for this achievement. Without their participation in our residential and commercial conservation programs, we could not have continued to reach these significant goals.

Since 2006, PUG has reduced energy usage by 130 GWh and reduced demand by 69 MW. That is the equivalent of removing 6,900 homes from the energy grid. In 2015, we set up more than 8,000 in-home displays as part of our *peaksaver PLUS*® program. These displays give customers accurate information on how much energy they are using, which helps them to make choices about when they use electricity (peak and off-peak times), and how much they use each month.

Since 2011 we have been installing new water meters in the homes and businesses we serve. This year, we completed this installation program. These meters help to promote water conservation in Peterborough by providing customers with an accurate measure of the water they have consumed. In addition, to aid them in controlling water usage, we have included weekly water usage information on the Lowfoot conservation reports.



Our Performance

PUG continued to grow its businesses and revenue streams throughout 2015. In this Annual Report, you will find detailed information about that growth. The average return on equity over the past five years has remained solid, at 8.8%. This is important, because we realize that change is coming; not just for PUG but for all utilities in Ontario. The Provincial Government, through tax incentives and other financial initiatives, is strongly encouraging greater consolidation within the industry. Because PUG has focussed on maintaining its growth and diversification away from its regulated businesses, we are uniquely positioned to adapt to the changing times in our industry, without adverse financial impact to the City or its constituents. Through the concerted efforts of all our employees and our managers, PUG has consistently provided:

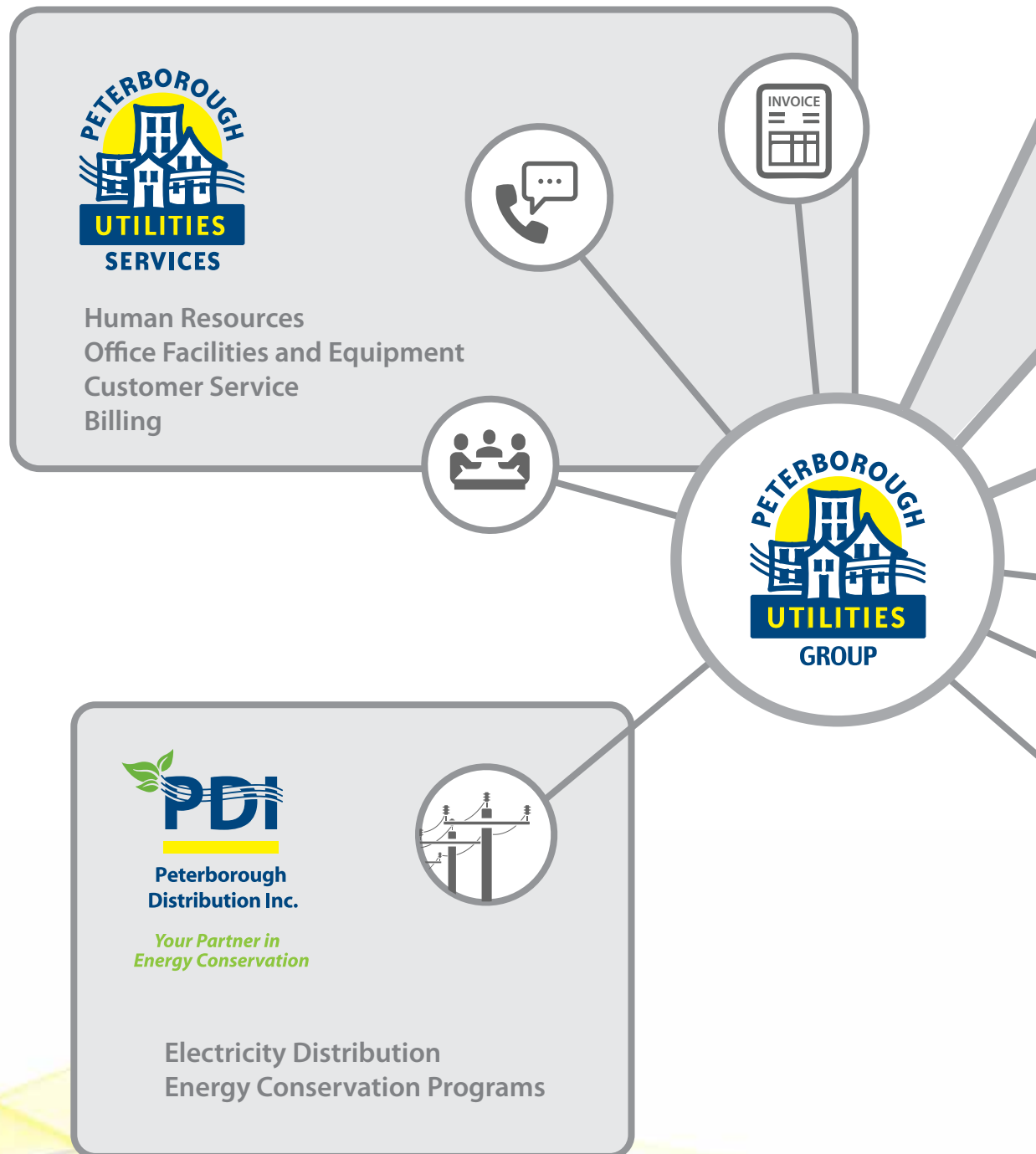
- a substantial annual cash distribution to the City of Peterborough for its constituents (2015: \$5.34 million; 2014: \$5.23 million);
- competitive water and electricity distribution rates, comparable to those of other companies in our industry; and
- safe, high-quality water and reliable electricity for our customers.

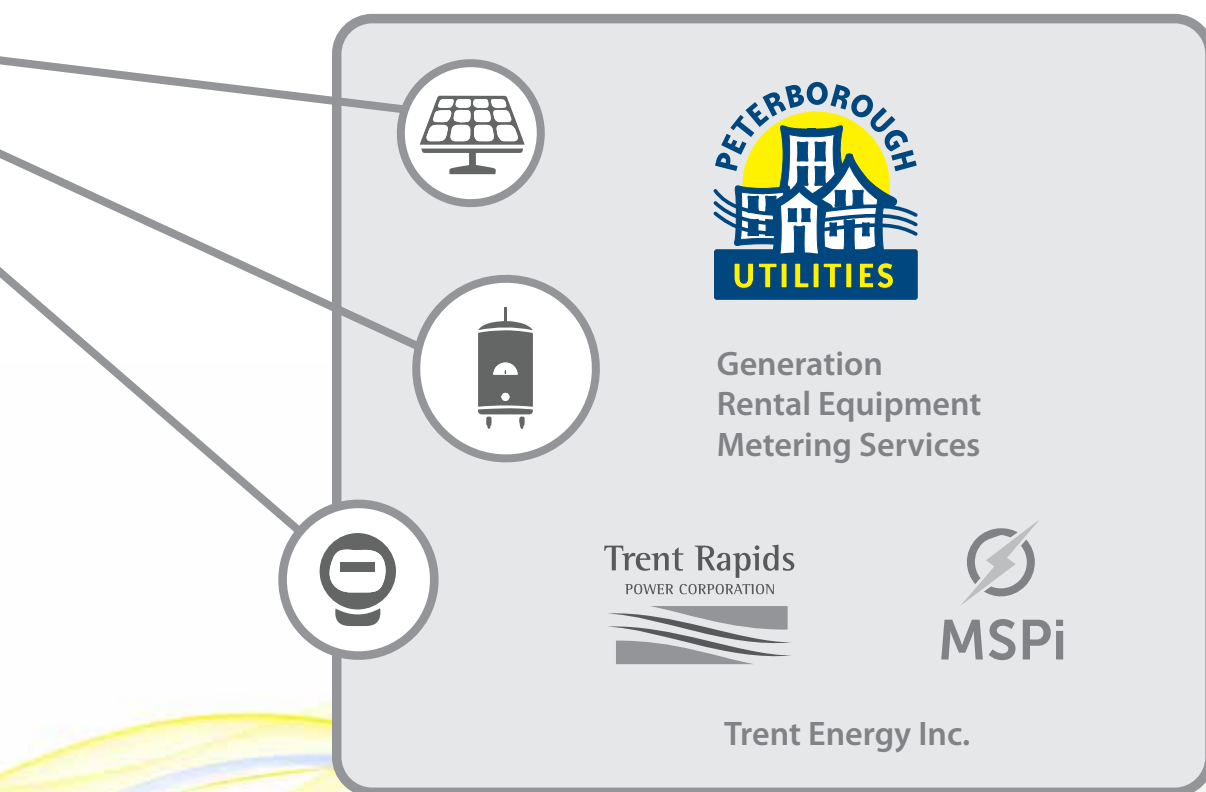
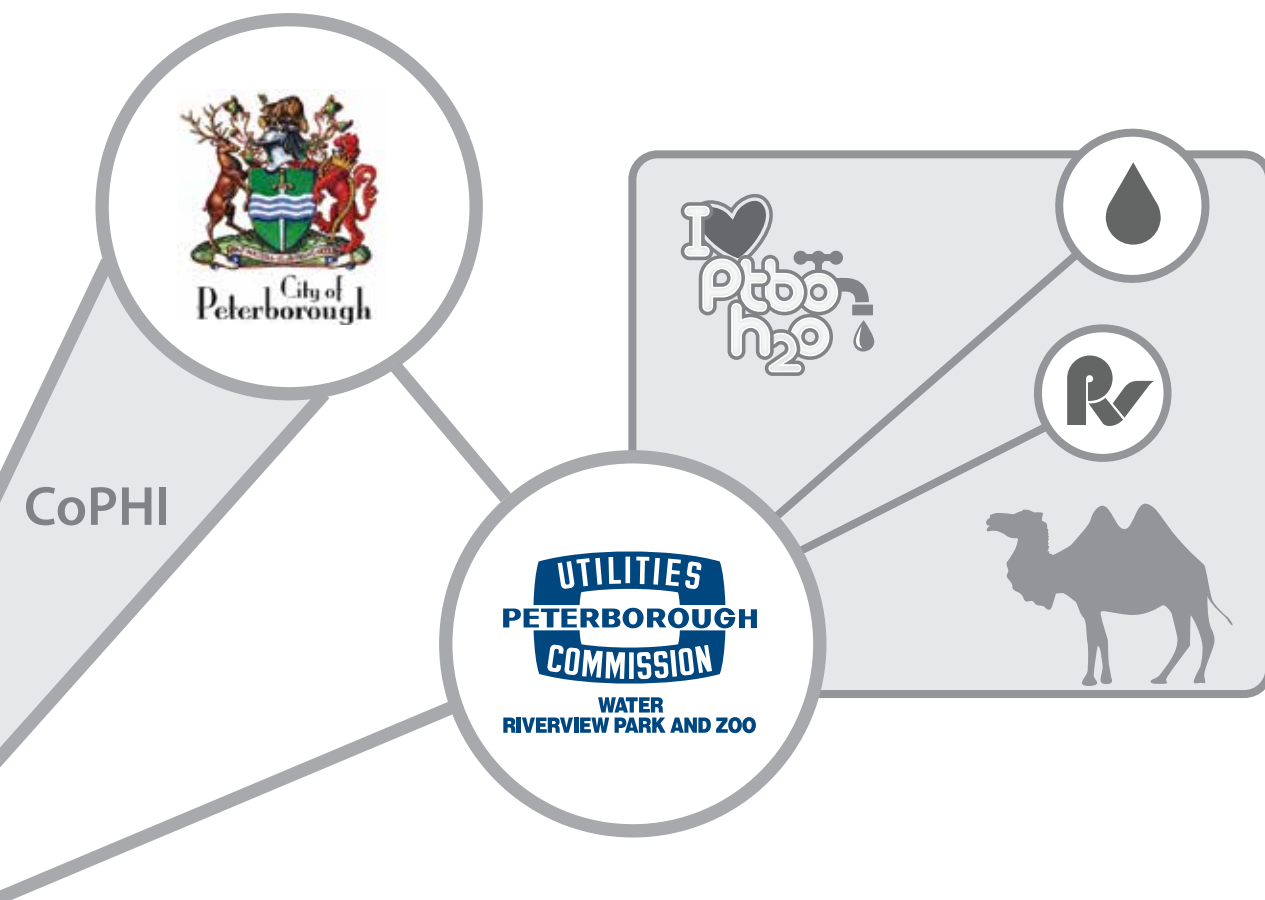
PUG's annual cash distribution to the City was \$5.34 million in 2015, up more than \$110,000 from 2014.



Business Overview

The City of Peterborough Holdings Inc. (CoPHI), operating as the Peterborough Utilities Group, is wholly owned by the Corporation of the City of Peterborough. CoPHI includes three wholly owned subsidiaries: Peterborough Distribution Inc. (PDI), Peterborough Utilities Inc. (PUI) and Peterborough Utilities Services Inc. (PUSI).





Proud to be an Employer of Choice in Peterborough

Peterborough Utilities' vision is to be the investment of choice for our shareholder, the utility of choice for our customers, and the employer of choice for exceptional people.

In order to achieve this mission, PUG strives to build and maintain a workplace culture that includes values that are developed by, and important to, our employees.

PUG Values



Respect: We will be considerate of the opinions, values, beliefs and dignity of others and cultivate an environment of teamwork and collaboration.

Environment: We will promote and support resource conservation and sustainability, and conduct business in an environmentally responsible manner.

Safety: We will be leaders in safety and conduct our business in a way that protects the health and safety of employees, contractors and the communities we serve.

Professionalism: We will conduct our business with integrity and the highest ethical standards and be accountable for our behaviours and actions.

Excellence: We are committed to giving our full effort in all that we do. We strive for a culture that embraces continual improvement.

Customer and Community Focus: We will provide value to the customers and communities we serve by providing reliable, efficient and high-quality service. We will contribute to the betterment of the communities we serve.

Through these core values, PUG will be a great place to work, a respected corporate citizen and a leader within its industries.



John Stephenson presents Cindy Weiss with the 2015 President's Award.

PUG employs many Fleming College graduates.



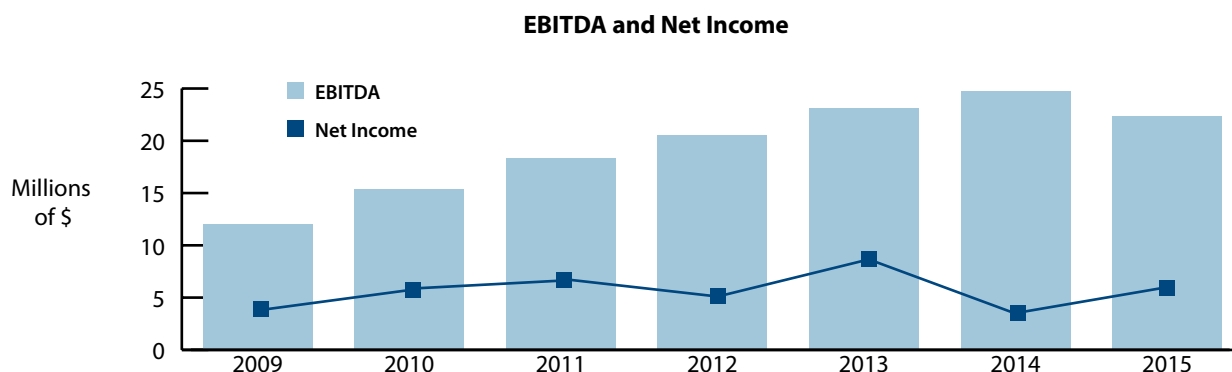
2015 CoPHI Financial Performance

Revenue

PUG's ongoing commitment to grow its business by delivering valued-added services to the community as well as increase its renewable generation business has resulted in a 55% growth in revenue since 2009. The growth in revenue forms the basis for the maintenance and growth of earnings.

Net Earnings and EBITDA

Net Income for 2015 was \$5.50 million, up from \$3.11 million in 2014. The growth in earnings is primarily due to improvements at the Lily Lake solar facility.



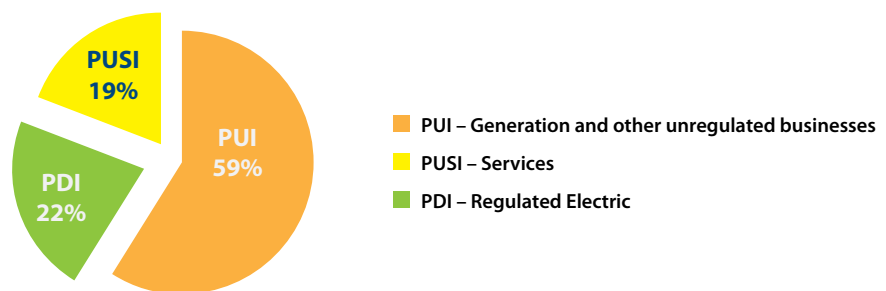
In 2015, CoPHI's Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) decreased to \$22.29 million compared to \$24.71 million in 2014. The reduction in 2015 is a result of lower than normal water levels in the first quarter of 2015, resulting in reduced hydro-electric generation. Over the past seven years, primarily as a result of investment in renewable generation assets, EBITDA has grown 85%, from \$12.04 million in 2009, to its current level of \$22.29 million. Management considers EBITDA to be a strong measure of cash flow performance and of our ability to fund our future growth and commitments to our capital providers.

EBITDA, an important metric of our success, has increased 85% since 2009.

Shareholder Returns

In 2015, the company paid the City of Peterborough aggregate dividends and interest of \$5.35 million (up from \$5.23 million in 2014), which included a 2.3% increase in distributions over the previous year. Cumulatively, \$70.13 million in distributions have been paid to the City of Peterborough by the utility since its incorporation in 2000. The distributions to the City are funded by dividends from the operating companies of CoPHI. As a result of capital requirements and regulatory restrictions affecting cash flow in PDI, the majority of the distribution in 2015 was provided by PUI and the unregulated businesses, as illustrated in the chart below.

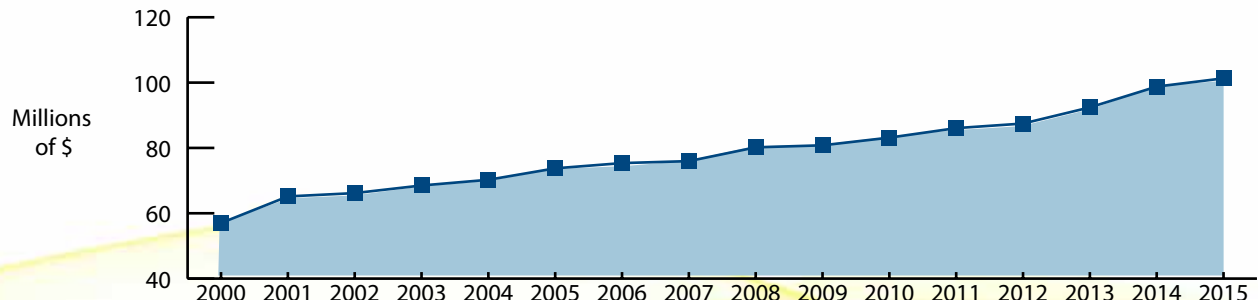
Source of Dividends



More than \$70 million has been paid to the City of Peterborough since 2000.

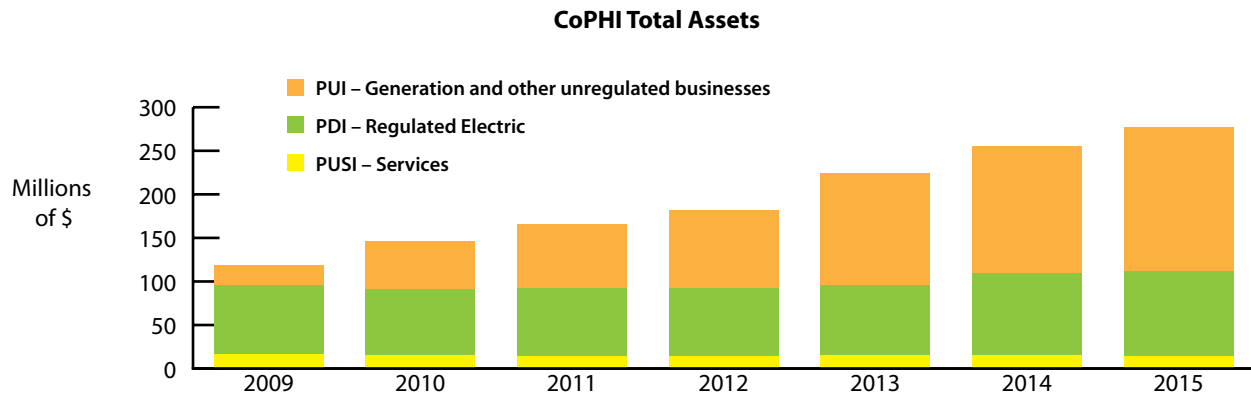
In addition to receiving dividends from CoPHI each year, the City also benefits as the value of its investment in CoPHI increases. Since 2000, the carrying value of the City's total investment (equity and loans) in CoPHI has increased from approximately \$65 million in 2000 to over \$100 million currently. This value does not reflect fair market value premiums that may exist if the assets of the company have appreciated beyond their cost.

Book Value of Investment in CoPHI

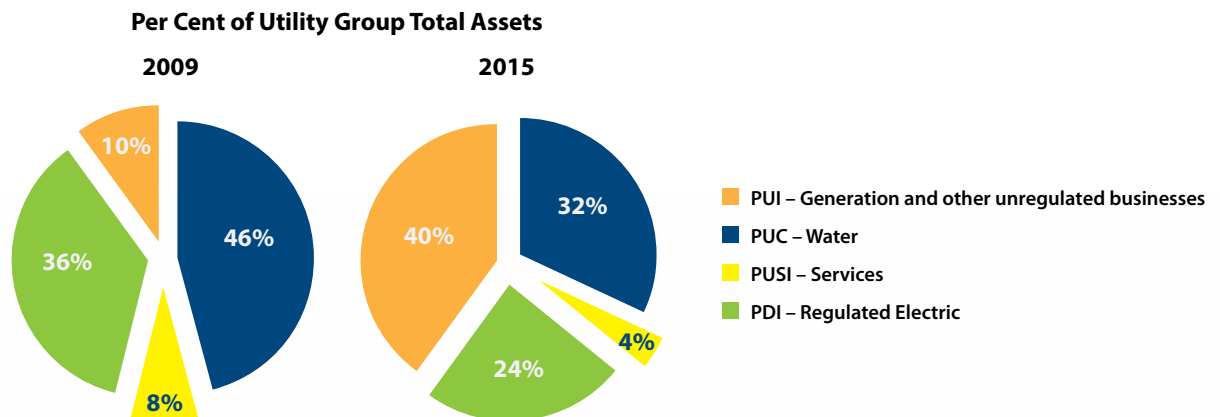


Total Assets

Since 2009, the company has strategically increased its non-regulated business and in particular its renewable generation portfolio. These investments are environmentally positive, without increasing local distribution rates. Cash flow generated from these new assets reduces the company's dependence on the regulated business, providing an alternative means to fund distributions to the City. Total company assets have increased 135% from \$118 million in 2009 to \$277 million in 2015. The vast majority of this growth has been in the renewable generation business. Composition and growth of company assets by principal business segment is illustrated in the chart below.



In addition to the direct assets owned by CoPHI, the Peterborough Utilities Group, through its service company PUSI, also manages the assets of the Peterborough Utilities Commission (PUC). Assets under management, represented by the direct holdings of CoPHI and the PUC, have increased from \$220 million in 2009 to \$409 million in 2015. The regulated PDI business which previously represented 36% of the groups assets now represents 24% of the total. The composition of assets under management by the group is illustrated by the charts below.



Revenues

Total company revenue increased 2.51% from \$139.42 million in 2014 to \$142.92 million in 2015:

- Total regulated electricity and electrical distribution revenues increased by \$6.45 million, to \$109.28 million from \$102.83 million in 2014. This increase is due to the cost of electricity, transmission and wholesale charges collected on behalf of and remitted to the Independent Electricity System Operator (IESO), in the amount of \$95.13 million (2014: \$88.58 million). The remaining regulated revenue of \$14.15 million (2014: \$14.25 million) is the distribution revenue earned by Peterborough Distribution Inc. Fiscal 2015 net distribution revenue decreased as a result of the removal of certain rate riders included in the 2014 distribution tariff.
- Total revenues from unregulated operations were \$20.30 million (2014: \$23.86 million). Generation revenue is the largest component of unregulated revenue and is the primary source of the \$3.4 million decrease in revenue for the year. In 2015, generation revenue decreased 14.2% to \$14.75 million. This decrease was due to poor hydrology resulting from lower than normal water levels experienced primarily during the Spring months.
- Total revenues earned in the services company (PUSI), net of intercorporate eliminations, were \$12.36 million compared to \$11.77 million in the previous year.



Operations and Administration Expense

The company's operations and administration expense of \$119.58 million (2014: \$118.36 million) increased by \$1.22 million compared to the previous year. The largest component of this expense is the cost of power and other wholesale market charges invoiced to the company and rebilled to our customers. In 2015 the cost of power was \$94.15 million compared to \$91.96 million in 2014, accounting for the increase in operation and administrative expenses during the year. Other cost elements included in this category, such as wages and benefits, materials and administrative expenses, were \$974,000 less than in the previous year.

Amortization Expense

In 2015, the company's amortization expense of \$10.40 million was \$4.29 million lower than in the previous year (2014: \$14.69 million). Amortization in the previous year was higher than normal, a result of accelerated amortization related to solar panels at Lily Lake, in the amount of \$4.31 million.

Net Movement on Regulatory Deferral Accounts

The company recognizes an expense or revenue each year for the difference between what it charges its customers for electricity and transmission, and what it pays the Independent Electricity System Operator (IESO) in the amount necessary to flow the costs to its customers without a mark-up or loss. In 2015, the company recognized a regulatory expense of \$975,000 for amounts to be refunded to its customers. In 2014, additional revenue of \$3.38 million was necessary to compensate PDI for costs incurred with the IESO that had not been passed on to its customers.

Financing Expense

Financing and other costs totalling \$4.49 million were down \$1.48 million from the previous year due to decreased interest on shareholder debt as a result of corporate debt restructuring in 2014.

CoPHI's capital assets have increased by more than 86% since 2009.



Our Commitment to Health and Safety

Workplace Safety is Central to our Values

In the past 10 years, we have had just one lost-time workplace injury. We are proud of our excellent safety record, especially considering the fact that PUG has 170 employees in the utility industry, where workplace hazards tend to be more prevalent than in other fields.

Our low injury rate is no accident—safety is central to our values. We believe that any workplace injury, accident or occupational disease is unacceptable and preventable. We promote continual improvement through our Quest for Zero (injuries) program. PUG is committed to protecting the health and safety of our employees, customers, contractors, suppliers and the communities we serve. Our Safety Management Program complies with or exceeds the requirements of the ISO 18001 Health & Safety Management Standard.

That is one reason why PUG was named Canada's Safest Employer in 2012 by *Canadian Occupational Safety* magazine and has continued to achieve the Silver Award each year after that: 2013, 2014 and 2015.



One of Canada's Safest Employers, four years running.



John Stephenson, President and CEO of Peterborough Utilities Group (right) accepting the Silver Award for Canada's Safest Employer in 2015.



Environmental Stewardship

ELECTRIC VEHICLE CHARGING STATIONS

As part of its climate-change strategy, the Provincial Government has created a new division within the Ministry of Transportation: Electric Vehicle Chargers Ontario (EVCO). Grants are awarded to public and private sector partners to create a network of fast-charging electric vehicle stations in cities, along highways and at workplaces, condominiums, and in public spaces across Ontario.

In conjunction with the City of Peterborough, PUG applied to EVCO to have charging stations placed in PDI distribution areas. We are pleased to announce that PUG was awarded six charging sites, with a total of nine charging ports. Two of the charging stations will be Level III, DC fast-charge stations, which can give equipped vehicles an 80% charge in just half an hour.

The remaining charging stations will be Level II, 40-amp charging stations, which will provide a full charge to most vehicles in three to four hours.

PUG is pleased to be a part of this new electric highway initiative, using clean, zero-emission transportation.

PUG is helping to bring electric vehicle charging stations to Peterborough.

CHILDREN'S WATER FESTIVAL

In May 2015, the 14th Annual Children's Water Festival took place. Year after year, the festival's attendance increases, along with the profile and popularity of this engaging and educational event.



Operational Performance



Peterborough Distribution Inc. (PDI) – Regulated Operations

CUSTOMER RATES AND REGULATIONS

The regulated business (PDI) charges distribution rates as reviewed and approved by the Ontario Energy Board (OEB). The component of rates directly controlled by PDI represents approximately 20% of the residential customer's electricity bill. PDI's distribution rates for a typical residential customer consuming 800 kWh of electricity a month are, on average, lower than those of our peers.

The electrical distribution rates charged by the company to its customers are approved annually by the OEB. The Board's mission is to promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers in obtaining reliable, cost-effective energy services. The rate-setting format currently in place for the company provides for a detailed review of its costs every four years combined with annual rate adjustments based on an inflationary factor reduced by an amount to encourage productivity savings.

As a result of this process, increases to the distribution rate component of our customers' electricity bills was limited to 1.15% in 2015 and 1.65% in 2016. In May 2016 PDI was the seventh lowest cost distributor in the comparative group, and fourth in the previous year. The lower ranking for 2016 is not a result of the nominal rate increases noted above. The change in relative ranking is primarily a result of temporary rate charges implemented in 2016 to compensate PDI for energy charges it paid to the IESO which were not charged to customers in previous years. These temporary charges will end on April 30, 2017.

Consistent with the OEB's mission, the OEB's Renewed Regulatory Framework is a performance-based approach that seeks: customer focus, operational effectiveness, public policy responsiveness and financial performance. To facilitate performance monitoring of distributors, in 2014 the OEB produced its first distributor scorecard, which tracks these outcomes. PDI's 2014 Scorecard published in 2015 is available on our website.

Residential Customer Bill - 800 kWh As of May 30, 2016		
1	Kingston	\$ 148.71
2	Barrie - Power Stream	148.90
3	Brantford Power	150.48
4	Sudbury	151.36
5	Lakefront	152.28
6	Oshawa	152.52
7	Peterborough	152.64
8	North Bay	153.11
9	Veridian	153.75
10	Entegrus (Chatham)	153.91
11	Welland	155.71
12	Newmarket	155.95
13	Milton Hydro	156.11
14	Niagara Peninsula Energy	160.03
15	Whitby	160.05
16	Bluewater Power (Sarnia)	161.09
	Hydro One Networks (Brampton)	150.84
	Hydro One Networks (Urban)	164.92

REGULATORY CHANGES

The OEB introduced many regulatory changes in 2015. For residential customers, the Debt Retirement Charges (DRC) ended, but continue on for other customer rate classes until the end of 2017. The Ontario Clean Energy Benefit (OCEB) ended in December of 2015, while the work continues to ready systems and functionality to accommodate the Ontario Energy Support Program (OESP) to assist low-income customers with their energy bills.

2015 INVESTMENTS IN INFRASTRUCTURE

Maintaining our infrastructure is of vital importance to ensure system reliability and to keep power interruptions to a minimum throughout the year. That is why PDI continued, in 2015, to make capital investments of more than \$7.7 million in our infrastructure and improve our operations.

2015 Highlights:

- \$2.2 million investment in the Hilliard Street distribution substation to allow for improved reliability and expansion of the 27.6 kV distribution system;
- \$2.8 million in pole replacements, as well as the replacement of overhead and underground lines;
- \$1.5 million in new customer connections and residential subdivisions;
- We invested in upgrades to our GIS (Geographic Information System), which maps and manages our assets;
- In conjunction with the City of Peterborough, infrastructure relocations (poles and lines) and road improvements were completed along Parkhill Road West, Brealey Drive, and Ashburnham Drive;
- \$1.2 million investment in the Bell Fibre-to-the-Home project which included the installation of 135 new wooden poles and corresponding infrastructure;
- In 2015 we also completed the first phase of the three-year rehabilitation project in Peterborough's Edmison Heights neighbourhood. This included replacing 15 electrical transformers and more than 8.7 kilometers of high- and low-voltage cable.

35,333 customers

564 km distribution line

11,178 poles

3,843 transformers

*Hilliard Street distribution substation:
improved reliability.*



1% **8 GWh**
Street and Sentinel Lighting

36%
287 GWh
Residential
Service

63%
495 GWh
General Service
and Large Users

117.6 million kWh

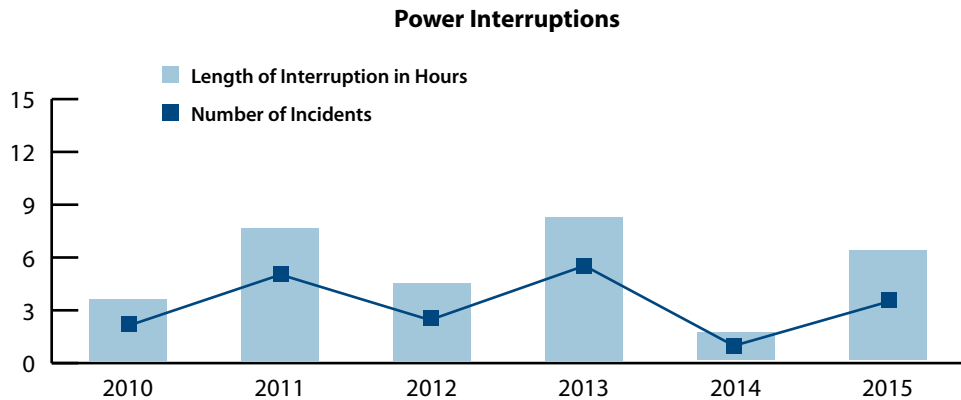
Renewable Energy
Generated

= enough to power
12,250 homes



POWER OUTAGES AND EMERGENCY RESPONSE

System reliability is always one of our top priorities. For all utilities, including PUG, it is an ever-increasing challenge because climate change has brought with it extreme and unpredictable weather conditions which can affect our service. For instance, there were two major storms in 2015, on July 31 and August 2, which affected our ability to supply power to our customers.



If the two major 2015 storms are excluded from these statistics, the average number of hours that power to a customer was interrupted drops to 1.8, which is below PDI's internal target for reliability.

To ensure reliability and limit power outages, we invest in system automation improvements and new infrastructure, and we conduct ongoing proactive maintenance such as tree-trimming.

96% of customers were satisfied with the reliability of our service.

97% of customers were satisfied with the way we handled extreme-weather power outages.

ENERGY CONSERVATION

This was a transition year for PDI's Conservation Group. The Independent Electricity System Operator's (IESO's) 2011–2014 conservation plan (known as a “framework”) was extended to 2015 in order to clear up uncompleted projects and allow utilities to begin to work under the organization's new “Conservation First” framework. The overall goal for Ontario for that framework is to reduce electricity consumption by 7 billion kWh by Dec. 31, 2020, with all LDCs contributing to that conservation goal.

Local Distribution Companies (LDCs) were required to come up with new conservation plans, to be submitted to the IESO by May 1, 2015. The new framework presented many challenges. Not only had the IESO nearly doubled the targets over the previous framework, but it also changed the framework and funding structure which now includes operating costs, and in some areas, reduced customer incentive programs.

Final results were released in 2015 for the 2011–2014 framework; PDI had met and exceeded its goals by more than 80%—one of just 12 LDCs in Ontario to do so in both areas. PDI achieved 84% of its demand (51 MW) goal and 91% of its consumption (35 GWh) goal. That success was in large part due to the cooperation and participation of all of PDI's customers—residential, commercial and industrial—in our programs, as well as the assistance of community partners in a number of agencies in our distribution area.

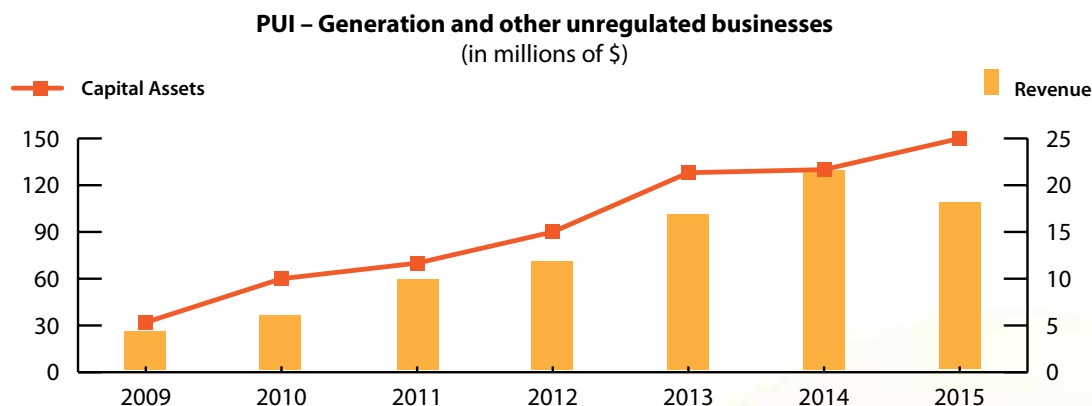
PDI met or exceeded its energy conservation goals
by more than 80% – one of just 12 Ontario LDCs to do so.





Peterborough Utilities Inc. (PUI)

The unregulated businesses of PUG are continuing to make investments in new renewable generation projects. Long-term power purchase agreements, along with the optimization of production from existing generation facilities, will yield substantive revenues for the foreseeable future. The annual growth of generation assets and revenue is reflected in the chart below.



PUI business continues to be a significant growth opportunity for PUG and the City.

6 generation facilities
+ 5 more facilities to come online in 2016

33.6 MW generation capacity
+ 40.8 MW by the end of 2016
+ 17 MW under development

LONDON STREET GENERATING STATION EXPANSION

In 2015 we began a 6 MW expansion of the London Street Generating Station. It was originally built in 1920, with the capability of producing 4 MW of power. The expansion is slated to be completed, and generation started, in the third quarter of 2016. The renovation will allow the London Street Station to generate clean, renewable energy for the community until the year 2100—and beyond.

LILY LAKE SOLAR FARM

This year we also completed renovations and remediation at the Lily Lake Solar Farm. We installed 2.5 MW of new, made-in-Ontario solar modules to replace ones that had been prematurely deteriorating. Now that the modules have been upgraded, they will be capable of producing at least 20% more electricity, ensuring increased revenue each year for the life of the facility.

BIOGAS PROJECT

We began construction on a 380 kW biogas project at the City of Peterborough's Waste Water Treatment Plant this year. The project will optimize the use of previously wasted methane gas which is produced by the plant's anaerobic digesters, to generate electricity and heat. The project is slated to begin commercial operation in the Summer of 2016.

FEED-IN-TARIFF CONTRACTS

In 2015 we continued to develop a number of solar photovoltaic projects with Feed-in-Tariff (FIT) contracts totalling more than 14.5 MW. A FIT contract is one that is designed to boost investment in renewable energy projects. The first group of projects is scheduled to be constructed during the Summer of 2016. This includes the 438 kW Kinsmen Civic Centre and the 250 kW PUG Ashburnham Garage. These projects are being developed in partnership with the City of Peterborough.

LIMITED PARTNERSHIPS ESTABLISHED

PUI established limited partnerships with the Curve Lake Economic Development Corporation that successfully obtained contracts for two new hydroelectric generation projects. When completed, they will have a total capacity of 5.5 MW, under IESO's Large Renewable Procurement (LRP) program.

WHOLESALE METER SERVICES

PUI's other primary business unit, MSP (Meter Service Provider), provides wholesale meter services to clients throughout Ontario. This business unit had another successful year in 2015, with revenues exceeding target by 16%.



WATER HEATERS

For more than 50 years, the technology used in water heaters has not changed significantly, other than with the introduction of more well-insulated water heaters to decrease standby heat loss. However, in 2015, two new types of water heaters were introduced using new technology, which we are now able to offer to our water heater rental customers.

1. Plastic tank, titanium coil

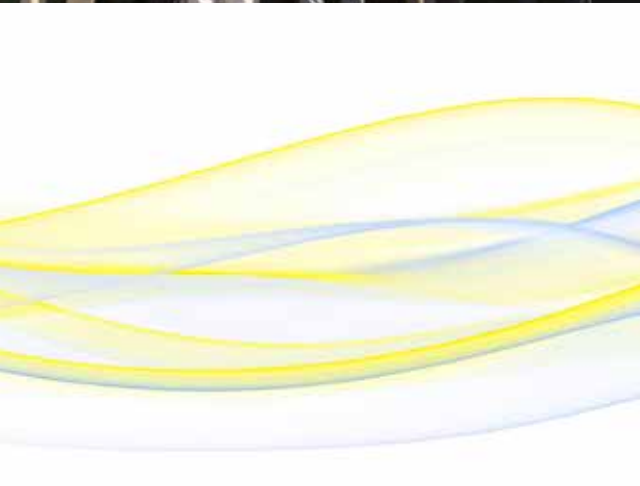
The new plastic water heaters have the lowest standby heat loss on the market due to their design, better insulation and plastic tank. And, because they're made of plastic there's no more rusting or leaking. These water heaters are designed to last. Most water heater elements are made of copper and can and will eventually become corroded and either fail or leak. The elements in the plastic tank are made of titanium and are designed to last for the life of the tank.

2. Three elements, no waiting

The second water heater we now offer has three heating elements instead of two: the top element is 3800W, the middle one is 3000W and at the bottom is an 850W element. This water heater takes advantage of Time of Use (TOU) rates. During the day, for instance, when hot water usage is low and peak rates are in place, it uses the low wattage element to maintain the temperature of the tank. It provides fast recovery, so when more hot water is needed, it's available quickly.



10,676 water heater customers





PUSI Services Operations

WATER SERVICES

Through the operation of the services company, PUSI, we provide full municipal water services for the PUC to City of Peterborough customers.

This includes:

- water utility operations and capital asset planning;
- rehabilitation and replacement;
- water and waste-water services to the Township of Selwyn to operate both the Village of Lakefield and Woodland Acres systems; and
- the operation, maintenance and capital upgrades for the Riverview Park & Zoo.

Meter replacements

This year, work continued on new multi-residential and ICI meter replacements. (Single-family residential water meter replacements were completed in 2013.) Nearly 70% of the water meter replacements for multi-unit residential locations were completed this year, with more than 23,000 meters installed since 2010.

Excellent audit results

The Peterborough, Lakefield and Woodland Acres Drinking Water Systems maintained full accreditation by meeting or exceeding the Drinking Water Quality Management Standard. An off-site verification audit was conducted in October 2015, as well as an internal audit. Those audits described the management system as "well documented... and effective."

This year, the Ministry of Environment and Climate Change also performed an inspection of the Peterborough and Lakefield Water Treatment Plants and the Woodland Acres distribution system. All of those water systems received a 100% inspection rating.



Capital projects

This year's major capital project was the construction of a redundant chlorine contact tank and additional reservoir storage at the Water Treatment Plant. The new tanks were put into service on November 19, allowing us to remove from service the existing 1921-vintage chlorine contact tank and reservoir which will undergo renovations in 2016.

This year, we also replaced more than 1.3 kilometres of distribution watermains and upgraded 3.9 kilometres of existing watermains with cement-mortar lining.

Ground-breaking research

The Peterborough Water Treatment Plant (WTP) is currently conducting some exciting research that could fundamentally change the way municipalities treat waste water.

The WTP has partnered with the University of Toronto's Drinking Water Research Group, led by Dr. Robert Andrews. They have built a "pilot plant" which they are using to test cutting-edge technology. A pilot plant is a scaled-down version of a larger industrial system – in this case, a smaller version of Peterborough's main water treatment facility. The pilot plant can conduct many of the treatments the actual plant does, including coagulation, tapered mixing, flocculation, settling and filtration.

A coagulation study has been completed, using an ozone contactor and biofiltration columns to study ozone and biological treatment processes on water in the Otonabee River.

A strenuous grant application successfully secured a grant of more than \$2 million to fund this important, ground-breaking pilot program.

The research will play a key role in evaluating potential long-term treatment alternatives, such as biofiltration, for the Otonabee river source water. If these alternatives are determined to be more efficient and eco-friendly, they could change the way water is treated not only in Peterborough but in other municipalities as well.



27,659 customers

422 km of watermains

2,300 water hydrants

12.1 million litres of water processed



RIVERVIEW PARK AND ZOO

Exceptional veterinary care

Our consulting veterinarian, Dr. John Sallaway, provided regular and emergency care for the animals at Riverview Park and Zoo throughout 2015. As well, during a four-day round-up from October 26 to 29, our zoo staff and our consulting veterinarians, Dr. Cranfield and Dr. Sallaway, performed annual check-ups and treatments on 86 animals as part of their healthcare program. This included physical exams, surgery, numerous inoculations and treatments, blood samples, and the trimming of many hooves, claws, beaks and tusks, as well as dentistry care and dental cleaning.

Population

There were 13 births, 21 new acquisitions and 19 deaths of animals this year. Post-mortem examinations were performed on the animals that had died to determine cause of death. There were no deaths attributed to communicable disease.

As of December 31, 2015, the animal collection on-site consisted of 132 animals, representing a total of 52 species. The collection also had 30 animals in on loan and four animals out on loan.

Our Zoo team takes great care of all our 132 animals;
comprising 52 different species.



Education Program

The 2015 education program continued to grow, thanks to strong support from our volunteers. The program included:

- educators with roving touch-tables;
- public speaking engagements;
- behind-the-scenes tours;
- the parent and tot Zoo Crew program;
- formal guided tours;
- our Zoo Academy curriculum-based day sessions for visiting classes;
- Meet The Keeper sessions;
- a seasonal conservation exhibit; and
- other specialized and custom sessions for visiting groups.

Research with Trent, Concordia

Riverview Park & Zoo participated in research and educational projects for Trent University involving the synchrony of captive ruminant species at our Zoo. As well, Riverview Park & Zoo participated in a study with Concordia University on the impact of various levels of human visitor traffic and interaction on the Bennett's wallaby.



CUSTOMER SERVICE

Customer Service had a challenging, but ultimately very successful, year in 2015. The introduction of the Ontario Energy Support Program and the first full year of metered water presented new challenges for the Customer Service Group.

After the launch of metered water, it was on to Summer water billing. Although it was anticipated to be a difficult transition for customers, there was only a slight increase in consumption during the Summer months. This lower-than-anticipated water usage may have been due to the wetter-than-usual Spring and early Summer; however, we found that many customers were conserving water during the hotter and dryer month of August.

To assist customers with both their electric and water consumption, we increased the promotion of the Lowfoot weekly report, which was augmented to include water consumption. This move has proven to be so positive that by the end of 2015 nearly 10,000 customers had enrolled in the program.

In 2015, the Ontario Energy Board introduced the Ontario Energy Support Program (OESP), designed to assist low-income customers with their energy bills. The concept was introduced in April, with customer enrollment beginning in October.

Both of these changes led to increased call volumes for Customer Service. Even with these challenges, Customer Service exceeded the requirements mandated by the Ontario Energy Board. Our staff fielded 73,526 calls in 2015, answering 82.0% of them within 30 seconds and only 1.5% of calls were abandoned.

73,526 calls in 2015

2,862 Facebook likes 

6,382 followers on Twitter



8,422 tweets since 2011

BILLING INTEGRATION AND SYSTEMS

Every year, regulatory changes are introduced by the Ontario Energy Board that require billing and system changes. Every few years there are more regulatory changes than usual—2015 was one of those years.

The Ontario Energy Board announced that the Ontario Clean Energy Benefit (OCEB) would come to an end on December 31, 2015. They also announced that for residential customers, the Debt Retirement Charge (DRC) would end on December 31, 2015, but continue for all commercial and industrial customers.

In addition to these challenges, the Billing Integration team was also required to configure the system to accept OESP applications from customers by the end of October. This allowed them just six months to configure our billing system to respond and accept these applications in machine-to-machine transactions.

Thanks to the team members' hard work and ability to overcome many significant obstacles, low-income customers in Peterborough began receiving their OESP credits on January 1, 2016.

In 2015, Customer Service exceeded the requirements mandated by the Ontario Energy Board.



Community Involvement

Having a community focus is very important to PUG—in fact, it's one of our core values. We are proud to be part of the Peterborough community, and to participate in many community activities.

Our employees regularly show the importance of this value by volunteering and giving back to the communities we serve—which are also the communities in which most of our employees live.

This year, our staff members continued to show strong support for the United Way in their efforts to serve and provide services to those in need in our community. They have raised more than \$161,358 over the past eight years for this very worthwhile organization that is so central to Peterborough and the surrounding regions.

For the second year in a row, PUG staffers also participated in the Heart & Stroke Foundation's Big Bike event, raising nearly \$4,000 over the past two years.

For more than 10 years, PUG employees have shopped early for the Children's Aid Angel Tree Program, which helps to add a little magic to the Christmases of many local children. This year, 45 children received gifts from PUG employee sponsors.



Being active in our community is one of our values and we take it to heart.



INDEPENDENT AUDITORS' REPORT

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

To The Shareholder Of City Of Peterborough Holdings Inc.

The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2015, the summary consolidated statement of income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, are derived from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards, of the City of Peterborough Holdings Inc. for the year ended December 31, 2015. We expressed an unmodified audit opinion on those financial statements in our report dated April 7, 2016. Those financial statements and the summary financial statements, do not reflect the effect of events that occurred subsequent to the date of our report on those financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the City of Peterborough Holdings Inc.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the City of Peterborough Holdings Inc. as at and for the year ended December 31, 2015 are a fair summary of those consolidated financial statements, in accordance with International Financial Reporting Standards.

Collins Barrow Kawartha LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
August 31, 2016

Consolidated Statement of Financial Position

As at December 31, 2015
(\$s in thousands)

	2015 \$	2014 \$
ASSETS		
Current assets		
Cash	8,593	10,531
Restricted cash	3,953	2,995
Accounts receivable	9,259	9,802
Unbilled revenue on customer accounts	11,060	9,714
Inventories	1,773	1,766
Prepaid expenses	338	445
Income taxes receivable	–	727
	34,976	35,980
Other assets		
Intangible assets	4,430	4,646
Property, plant and equipment	229,117	205,370
Deferred tax assets	4,175	4,411
	237,722	214,427
Regulatory assets	4,212	5,388
	276,910	255,795
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	20,297	20,173
Income taxes payable	196	–
Customer deposits refundable within one year	1,093	807
Current portion of long-term debt	5,455	5,290
Current portion of provisions	–	166
	27,041	26,436
Long-term liabilities		
Customer deposits	1,254	1,245
Provisions	91	759
Deferred contributions	14,230	12,409
Employee future liabilities	6,082	6,024
Deferred tax liabilities	7,552	7,217
Derivative financial instruments	3,210	2,534
Long-term debt	118,933	100,074
	151,352	130,262
Shareholder's equity		
Share capital	60,098	60,098
Accumulated other comprehensive loss	(2,905)	(2,362)
Retained earnings	41,207	41,043
	98,400	98,779
Regulatory liabilities	117	318
	276,910	255,795

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2015
(\$s in thousands)

	2015	2014
	\$	\$
Revenue	142,917	139,417
Expenses		
Operations and administration	119,577	118,360
Amortization	10,398	14,693
	129,975	133,053
Income from operations	12,942	6,364
Other expense (income)		
Net finance charges	4,221	5,967
Gain on reduction of provisions	(363)	-
Loss on disposal of property plant and equipment	634	-
	4,492	5,967
Income before income taxes and regulatory items	8,450	397
Net movement on regulatory deferral accounts	(975)	3,382
Income before income taxes	7,475	3,779
Provision for income taxes		
Current	1,210	902
Deferred (recovery)	766	(234)
	1,976	668
Net income for the year	5,499	3,111
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to net income		
Employee benefit plan actuarial gains (losses)	(62)	342
Related deferred tax	16	(90)
Items that will be reclassified subsequently to net income		
Change in fair value of derivative instruments	(676)	(1,553)
Related deferred tax	179	412
Other comprehensive loss for the year	(543)	(889)
Total comprehensive income for the year	4,956	2,222

Consolidated Statement of Changes in Equity

For the year ended December 31, 2015
(\$s in thousands)

	Share Capital \$	Retained Earnings \$	Accumulated Other Comprehensive Income (Loss) \$	Total Equity \$
Balance, January 1, 2014	28,399	41,414	(1,473)	68,340
Net income for the year		3,111	–	3,111
Actuarial loss on accrued employee benefit liabilities, net of tax		–	252	252
Change in fair value of hedging instruments, net of tax			(1,141)	(1,141)
Issuance of common shares	31,699			31,699
Dividends paid		(3,482)	–	(3,482)
Balance, December 31, 2014	60,098	41,043	(2,362)	98,779
Balance, January 1, 2015	60,098	41,043	(2,362)	98,779
Net income for the year		5,499	–	5,499
Actuarial gain on accrued employee benefit liabilities, net of tax			(46)	(46)
Change in fair value of hedging instruments, net of tax			(497)	(497)
Dividends paid		(5,335)	–	(5,335)
Balance, December 31, 2015	60,098	41,207	(2,905)	98,400

Consolidated Statement of Cash Flows

For the year ended December 31, 2015
(\$s in thousands)

	2015 \$	2014 \$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	5,499	3,111
Charges to operations not requiring a current cash payment		
Amortization	10,398	14,693
Deferred income tax (recovery)	766	(234)
Recognition of contributed capital	(382)	(340)
Current income tax	1,210	902
Net finance costs	4,392	5,968
Gain on reduction of provisions	(363)	-
Loss on write-down of property plant and equipment	153	-
	21,673	24,100
Change in non-cash working capital items	(579)	8,786
Taxes paid	(288)	(1,037)
Interest received	260	337
Change in customer deposits	295	207
Receipt of deferred contributions	2,203	1,313
Increase (decrease) in employee future liabilities	(4)	171
	23,560	33,877
Investing activities		
Purchase of property, plant and equipment	(34,271)	(22,708)
Decrease (increase) in regulatory assets and liabilities	975	(3,382)
Transfers to restricted cash account	(958)	(893)
	(34,254)	(26,983)
Financing activities		
Proceeds of construction loan	-	1,840
Repayment of construction loan	-	(17,500)
Proceeds from long term debt	24,314	21,000
Repayment of long-term debt	(5,290)	(4,831)
Repayment of shareholder debt	-	(31,699)
Issuance of share capital	-	31,699
Interest paid	(4,933)	(6,474)
Dividends paid	(5,335)	(3,482)
	8,756	(9,447)
Net decrease in cash	(1,938)	(2,553)
Cash and cash equivalents - beginning of year	10,531	13,084
Cash and cash equivalents - end of year	8,593	10,531

Board of Directors

The Board of Directors is committed to maintaining the highest corporate governance standards. Leaders from business and government, board members are dedicated individuals who are actively engaged in the strategic direction of City of Peterborough Holdings Inc.

In 2015, a Risk Committee was formed to examine potential risks in all of our business units. Management, along with this Committee, has been working to identify and analyze potential risks as well as develop processes to mitigate identified risks.



*David Bignell,
Chair*



*Scott Baker,
Vice-Chair*



*Mayor
Daryl Bennett*



*Nancy
Brown Andison*



David Clark



Louise Lalonde



Bob Lightbody



Dan McWilliams



David Nichols



David Paterson



Bryan Weir

Executive Team



*John Stephenson
President &
Chief Executive Officer*



*Byron Thompson
Chief Financial Officer*



*Mike Ploc
Vice-President
Electric Services*



*Patrick Devlin
Vice-President
Water Services*



*John Wynsma
Vice-President
Generation
& Retail Services*



*Carrissa McCaw
Director
Human Resources
& Safety*



*Carrie Rucska
Director
Information
Technology*



*David Whitehouse
Director
Customer &
Corporate Services*

Companies and Committees

CITY OF PETERBOROUGH HOLDINGS INC.

David Bignell, Chair
Scott Baker, Vice-Chair
David Nichols, Past Chair
Louise Lalonde
Nancy Brown Andison
Mayor Daryl Bennett
Bob Lightbody
Councillor Dan McWilliams
David Paterson

PETERBOROUGH DISTRIBUTION INC.

David Paterson, Chair
Bryan Weir, Vice-Chair and
Independent Director for OEB requirements
Councillor Dan McWilliams
David Clark,
Independent Director for OEB requirements

PETERBOROUGH UTILITIES INC.

Scott Baker, Chair
David Bignell, Vice-Chair
Mayor Daryl Bennett

PETERBOROUGH UTILITIES SERVICES INC.

Scott Baker, Chair
David Bignell, Vice-Chair
Mayor Daryl Bennett

PETERBOROUGH UTILITIES COMMISSION

Peterborough Utilities Commission
is represented by members of City Council:
Mayor Daryl Bennett, Chair
Lesley Parnell, Vice-Chair
Gary Baldwin
Dave Haake
Don Vassiliadis

AUDIT COMMITTEE

Louise Lalonde, Chair
David Nichols, Committee Vice-Chair
Bob Lightbody
David Bignell
Nancy Brown Andison

GOVERNANCE & NOMINATING COMMITTEE

Scott Baker, Committee Chair
David Bignell
David Nichols
Mayor Daryl Bennett

HUMAN RESOURCES COMPENSATION COMMITTEE

David Paterson, Committee Chair, PDI Representative
David Bignell, PUSI Representative
Scott Baker, PUI Representative
Mayor Daryl Bennett
David Nichols

RISK COMMITTEE

Nancy Brown Andison, Chair
Louise Lalonde
David Bignell
Scott Baker



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**Account Information
and Customer Service**

705-748-6900

peterboroughutilities.ca