



City of Peterborough Holdings Inc.

ANNUAL REPORT 2016

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Our 2016 Annual Report

We are very pleased to bring you the Annual Report for the fiscal year ended December 31, 2016. It provides the highlights of 2016 for the Peterborough Utilities Group (PUG) and showcases the efforts of our employees, who are dedicated to providing best-in-class service in Peterborough and all the communities we serve.

Strengthening Our Past

In fiscal 2016, we reached several important project milestones, including the completion of the expansion and redevelopment of the London Street Generating Station, an asset that has been with this community for more than 100 years. Our expansion and remediation of the water treatment facilities was substantially completed in 2016. These core assets have played a prominent role in our ability to deliver service in the past to our community. The efforts we put forth in 2016 to strengthen these assets will ensure they continue to be of significant value for future generations.

Preparing for the Future

Beyond these core accomplishments, in 2016 we began to transform the organization, with the decision to complete the disposition of the electricity distribution business, operating as Peterborough Distribution Inc. (PDI). This decision was made in light of the shifting landscape of the electricity industry in Ontario. PUG has grown and diversified over the past several years, with the objective of delivering value and high-quality services to our customers, while providing stable, risk-adjusted returns to our shareholder, the City of Peterborough.

Focusing on those core objectives, the journey of transformation will continue in 2017 and thereafter with the Company continuing to expand and diversify its existing core business segments in the water and power generation businesses. This expansion is aimed to provide quality services to the people in our surrounding communities, as well as business growth and a diversification of services to our current and future customers.

We embrace these future transformative steps, safe in the knowledge that the foundation of our past and future lies in the strength of our dedicated team of employees. They continue to work safely in the public, with the communities and our customers as their first priority.

Our Stewardship

Thank you to our Board of Directors for their dedication and stewardship in making fiscal 2016 another strong year for the Peterborough Utilities Group. We offer additional thanks to the Commissioners of the Peterborough Utilities Commission for their oversight of the water operations of our business.

Please enjoy reading this Annual Report. We look forward to a great future for the Peterborough Utilities Group.



John Stephenson
President and CEO
Peterborough Utilities Group



David Bignell
Chair
City of Peterborough Holdings Inc.

Our Performance

In 2016, PUG continued its long-term vision to expand and diversify its business and revenue streams. This is of key importance, given the organizational changes that are on the horizon for 2017. On December 15, 2016, the City of Peterborough (City) provided shareholder authorization to sell the electricity distribution business of Peterborough Distribution Inc. (PDI). It is expected that the purchase commitment will be finalized in 2017, but the completion of the transaction is subject to regulatory approval by the Ontario Energy Board, the timing of which is uncertain and will likely extend beyond 2017. While this was a difficult decision for all stakeholders, the Government of Ontario has for several years been encouraging consolidation within the industry. The timing of this transaction allows PUG to take advantage of numerous financial and tax incentives that may not exist in later years, while the transaction will provide valuable funds to the City and secure employment in the region.

The company's diversification away from the regulated business, notably in the continued expansion of our portfolio of generation assets, has uniquely positioned us to be able to proceed with this transaction without adverse impact on the City or its constituents.

Through the concerted efforts of all our employees and managers, PUG has consistently provided:

- a substantial annual cash distribution to the City for its constituents (2016: \$5.44 million; 2015: \$5.34 million);
- competitive water and electricity distribution rates, comparable to those of our industry peers; and
- safe, high-quality water and reliable electricity to our customers.

PUG's annual cash distribution to the City was \$5.44 million in 2016



Environmental Stewardship – 2016 Highlights

- Installed nine Electric Vehicle (EV) Charging Stations in Peterborough, Lakefield and Norwood, making it possible for EV drivers to travel even further than before. This is part of a larger initiative to install 500 stations across the province with continuous infrastructure, allowing more people to adopt a cleaner mode of transportation.
- PUG staff participated in the ongoing organic waste compost program at PUG offices.
- Promoted energy and water conservation programs at more than 30 community events. Our goal is to reduce nearly 38 million kWh of energy by 2020, a 90% improvement from our last achieved target.
- Upgraded lighting in the Ashburnham Dr. office lobby to LED.
- Made “environment” one of our core values, to promote and support resource conservation and sustainability and to conduct business in an even more environmentally responsible manner.
- Installed solar panels at our Ashburnham Dr. office to generate electricity.
- Reduced the number of customer envelopes required by 67% through the “No Return Envelope” initiative.
- Implemented water meters, which allow us to advise customers about continuous consumption and how to look for leaks around their home.
- Hosted PUG Environment Day during Earth Week. We collected household hazardous waste, like batteries, to ensure it is disposed of responsibly.
- Staff volunteers spent Earth Day 2017 at the Riverview Park and Zoo for litter clean-up around the park, adjacent road and parking lot.



Electric Vehicle Charging Stations

Free and Ready for Use by Public

Nine electric vehicle charging stations have been installed in 2016 at six locations in Peterborough, Norwood and Lakefield.

There is a growing network of electric vehicle stations in cities, along highways and at workplaces and public places across Ontario through the Electric Vehicle Chargers Ontario (EVCO) grant program. The province supported 24 public and private sector partners to create the network.

With this expansion in new charging infrastructure across the province, electric vehicle owners can now plan longer trips with more confidence. In total, about 500 charging stations will be installed across Ontario at more than 250 locations—by far, the largest public network of Level 3 stations in Canada.

Peterborough Utilities was awarded funding to install nine stations at the following six locations:

- Riverview Park & Zoo (1)
- King Street Parking Garage (2)
- Downtown Lakefield (1)
- Lansdowne Place Mall (2)
- Memorial Centre (1)
- Downtown Norwood (2)



The announcement was made by Mayor Daryl Bennett, Hon. Steve Del Duca, MPP (Vaughan), Hon. Jeff Leal, MPP (Peterborough), Peterborough Utilities Group Vice-President Customer and Corporate Services, David Whitehouse, and CEO John Stephenson, at a media conference at Lansdowne Place Centre Court.

Electric Vehicles (EVs) can be plugged into a standard household or workplace outlet to charge, also known as Level 1 (110V, 15amps) charging. It takes eight to 20 hours to fully charge at Level 1. Level 2 charging stations use a 240V system (similar to a clothes dryer plug) and can fully charge a vehicle in four to six hours. Level 3 charging stations (also known as Direct Current Fast Chargers or DCFC) use a 480V system and can charge a vehicle to 80 per cent in about half an hour.

All local locations have a Level 2 charger, while the Lansdowne Place and Norwood locations also have a Level 3 fast-charger.

All charging stations under this program are available for public use. To use the stations, EV drivers must create a FLO (EV charging network) account online. An online app is available, or you can visit flo.ca for more information.



Local charging stations are now energized, in use, and ready to provide free charging throughout 2017.



Energy Conservation

In 2016, we successfully launched new conservation programs under the Conservation First Framework for homes and businesses. With this plan, we're focussing on all of our customers in Peterborough, Lakefield and Norwood, providing them with enhanced incentive programs and hands-on support.

The Independent Electricity System Operator (IESO) presented PUG with the Conservation Champion Award, for being one of just 12 Local Distribution Companies to achieve the targets that will reduce both electricity demand and consumption. The award recognizes tremendous effort and dedication on the part of PUG's conservation team, and our collaboration with the IESO, channel partners and our customers, to achieve electricity savings.

We also want to thank our customers, who have been keen to conserve and to invest in operational improvements. We have been recognizing these customers, and have been striving to motivate and raise the culture of conservation through awards, at events and by sharing case studies and customer experiences.

Through conservation education and information, such as the Weekly Conservation Report, we are helping customers understand how to manage their electricity and water consumption to their best advantage. We are supporting them in their reduction efforts through technology and a number of conservation programs tailored to their specific needs.

The robust and diverse programs we offer have achieved 5,360,108 kWh in energy savings this year alone. This includes the Low-Income Home Assistance Program, which has been a resounding success. That program reached 264% of its savings target, using just 81% of the delivery budget allocated to it.

We also invested in the hiring and training of an embedded energy manager for our largest customers. This has created an internal catalyst for savings by providing those customers with the necessary expertise and putting the emphasis on efficiency. This will help us achieve our aggressive conservation target for 2020—which has been increased 90% over the 2016 Framework target—while improving the economic development of our community as these vital companies learn about, benefit from and expand their conservation efforts.



Terry Young from IESO presents PDI with the "Target Champion Award" for successfully achieving over 80% in both the kW reduction and kWh reduction targets for the 2011–2015 framework.



PDI presents Quaker-Pepsico Foods with an incentive cheque for more than \$634,000 for conservation projects at the Peterborough Plant.

We Start with Safety

PUG is committed to protecting the health and safety of our 170 employees, customers, contractors, suppliers and the communities we serve. We believe that workplace injuries, accidents and occupational diseases are unacceptable and they are preventable. That is why we espouse and promote a culture of continual improvement. The company has experienced one lost-time injury in the past 10 years which, within the industries we perform, is exemplary safety performance.

In 2016, a voluntary audit was completed by a third party to ensure that our Safety Management System is in line with the requirements of the Occupational Health and Safety Assessment Series (OHSAS 18001) standard. The audit results confirmed that PUG's safety management system is in good standing and is ISO-compliant.

Canadian Occupational Safety, a Thomson Reuters publication, recognizes Canadian companies that achieve excellent safety performance. PUG was named Canada's Safest Employer (Utilities and Electrical) in 2012, and was recognized with a Silver Award in 2013, 2014 and again in 2015.

Our exemplary safety record has been recognized nationally.



Business Overview

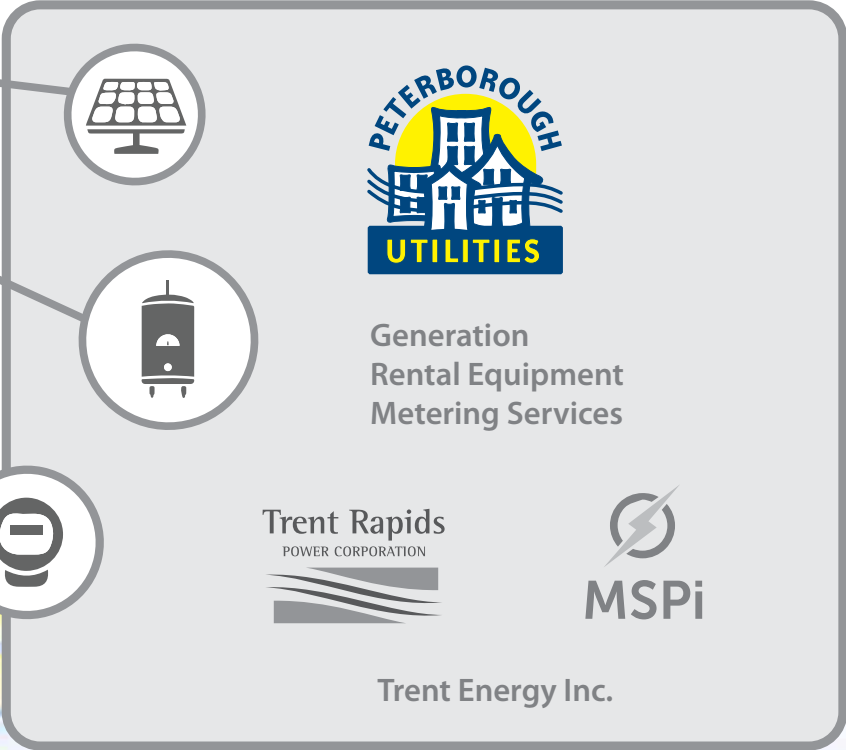
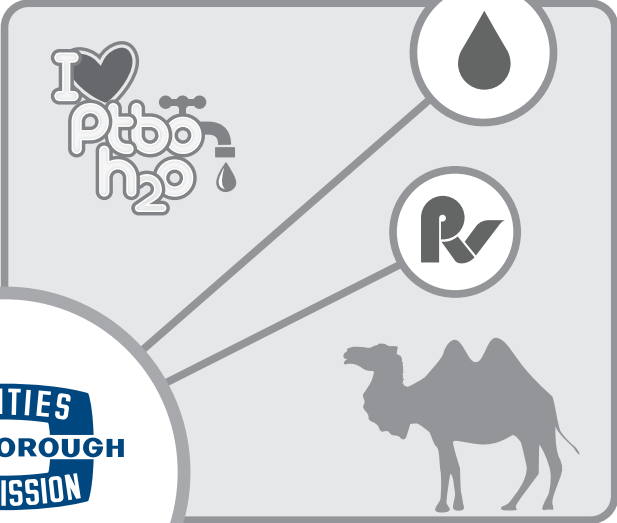
The City of Peterborough Holdings Inc. (CoPHI) and Peterborough Utilities Commission (PUC), operating as the Peterborough Utilities Group, is wholly owned by the Corporation of the City of Peterborough. CoPHI includes three wholly owned subsidiaries: Peterborough Distribution Inc. (PDI), Peterborough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





City of Peterborough

CoPHI



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.



*Karen McLean, 2016 Employee of the Year,
with John Stephenson, President.*

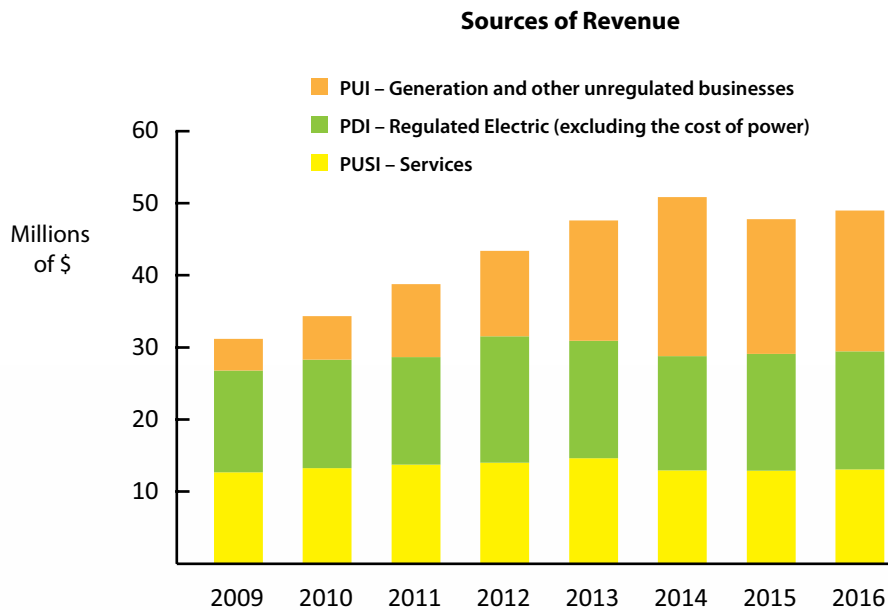
2016 CoPHI Financial Performance

Overview

The 2016 audited financial statements, a condensed summary of which is included in this report, have been prepared on the basis of Peterborough Distribution Inc. (PDI) being treated as a discontinued operation. Given the expectation that the purchase commitment for PDI will be finalized within 2017, all PDI-related accounts have been included in this report, and segregated as activities from discontinued operations on the financial statements.

Revenue

PUG's ongoing commitment to grow its business by increasing its renewable generation business and delivering value-added services to the community has resulted in an 81% growth in revenue since 2009 (excluding PDI). As a result of the continued expansion of the number of renewable generation facilities, as well as efforts to optimize already existing facilities, total revenue (excluding PDI revenues) has increased from \$18 million in 2009 to \$32.6 million. The chart below illustrates the components of revenues since 2009, including PDI, which increased from \$32.1 million in 2009 to \$49 million in 2016.

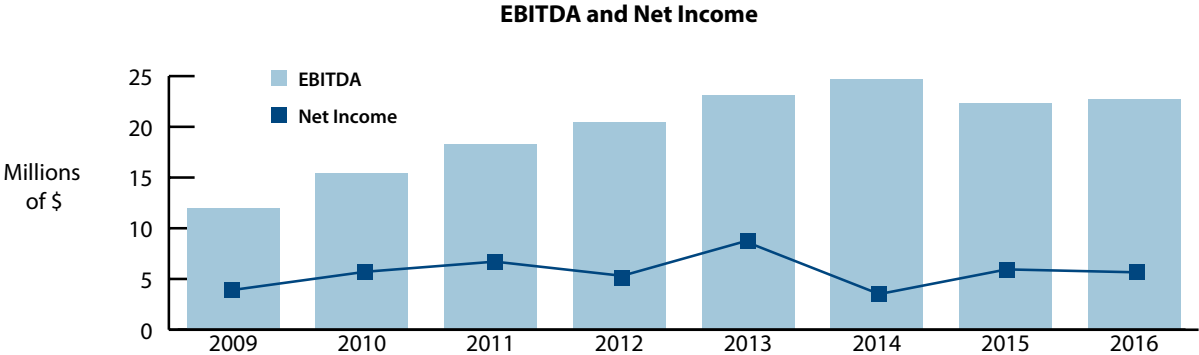


Note: Chart includes PDI, which has been classed as a discontinued operation for financial statement purposes.

Net Earnings and EBITDA

Net income for 2016 was \$4.95 million compared to \$5.50 million in 2015.

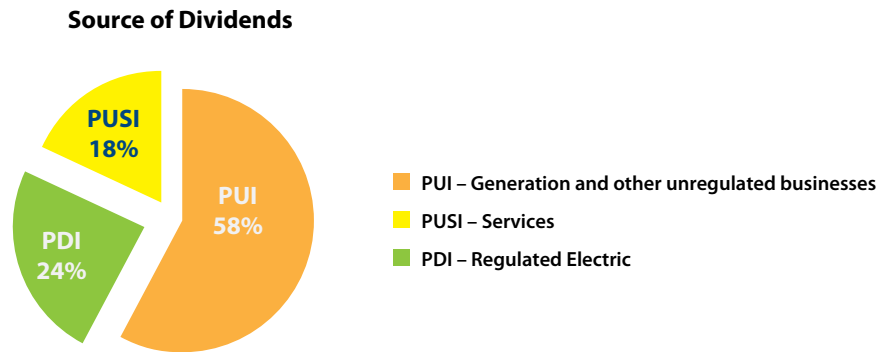
In 2016, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) increased to \$22.54 million compared to \$22.29 million in 2015. The results in 2016 were negatively impacted by drought conditions throughout the latter half of the year, resulting in reduced hydroelectric generation. Over the past eight years, primarily as a result of investment in renewable generation assets, EBITDA has grown 87% from \$12.04 million in 2009, to its current level of \$22.54 million. Management considers EBITDA a strong measure of cash flow performance and our ability to fund future growth and commitments to our capital providers. Total comprehensive income for 2016, which includes comprehensive income from discontinued operations, was \$5.5 million compared to \$5 million in 2015.



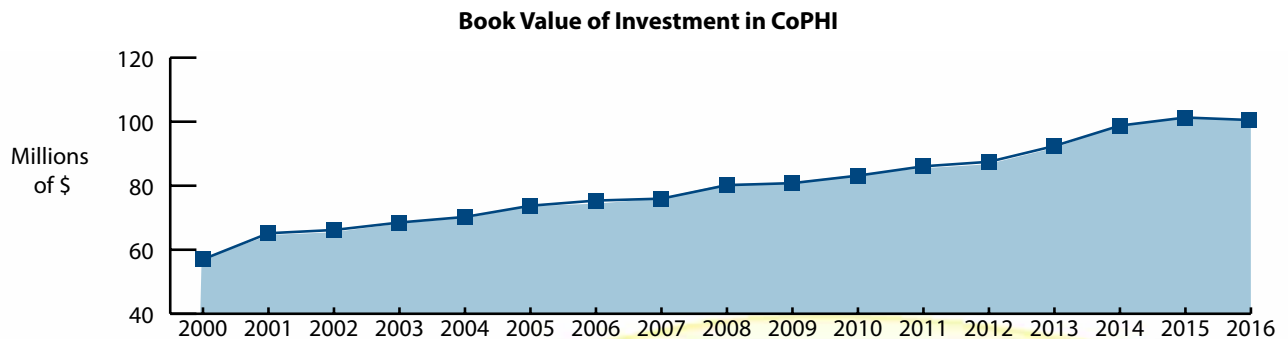
EBITDA, an important metric of our success, has increased 87% since 2009.

Shareholder Returns

During the year, the company paid the City of Peterborough aggregate dividends and interest of \$5.44 million (2015: \$5.35 million), which included a 1.7% increase in dividends over the previous year. Cumulatively, \$73.75 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 impacting cash flow in PDI, the majority of the distribution in 2016 was provided by PUI and the unregulated business, as illustrated in the following chart:

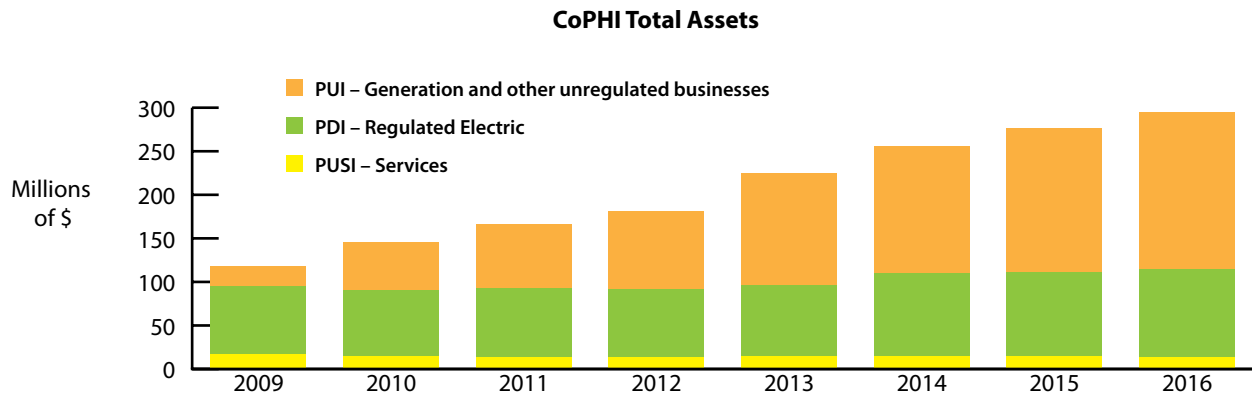


In addition to receiving dividends from CoPHI each year, the City also benefits as the value of its investment in CoPHI increases. Since 2000, the carrying value of the City's total investment in CoPHI has increased from approximately \$57 million in 2000 to over \$100 million presently. This value does not reflect fair market value premiums that may exist if the assets of the company have appreciated beyond their cost.

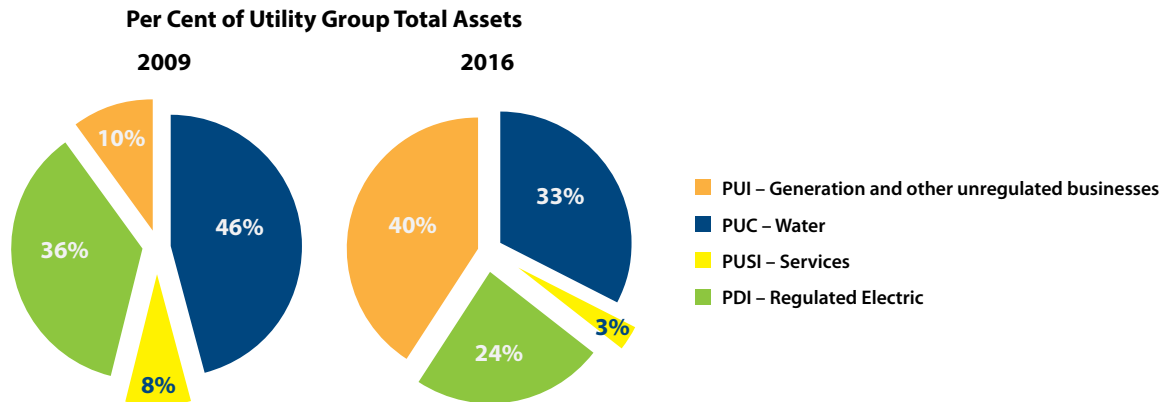


Total Assets

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. Continuing to expand these new assets provides the company with new sources of cash flow and reduces the dependence on the regulated business, which will enable the company to continue to fund distributions to the City following the sale of the regulated business. Total company assets have increased 147% from \$118 million in 2009 to \$291 million in 2016. 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 following chart:



In addition to the direct assets owned by CoPHI, the PUG, 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 \$431 million in 2016. In 2009, the regulated PDI business represented 36% of the total group assets. The development of generation assets, as well as expansions at the PUC's water treatment facility, has resulted in the regulated business now accounting for 24% of the total group assets. The composition of assets under management by the Group is illustrated below:



Revenues

Revenue from continuing operations (excluding PDI) increased by 3.2%, from \$31.60 million to \$32.6 million. Details of the sources of revenue are as follows:

- Total revenues from operations in PUI were \$19.54 million (2015: \$18.70 million) with generation revenue being the largest component. In 2016, drought conditions negatively impacted hydrology, resulting in a \$400,000 decrease in revenue compared to 2015. This loss in hydrology was offset by strong solar results at Lily Lake, which were \$1.05 million above 2015 results.
- Total revenues earned in the services company (PUSI), net of inter-corporate eliminations, were \$13.06 million compared to \$12.90 million in the previous year.

Revenue from discontinued operations (PDI) increased by 7.7% from \$111.3 million to \$119.9 million.

- Total regulated electricity and electrical distribution revenues increased by \$8.89 million, to \$118.17 million in 2016 from \$109.28 million in 2015. This increase is primarily the result of increases in the cost of electricity, transmission and wholesale charges collected on behalf of and remitted to the Independent Electricity System Operator (IESO). Of the total revenue earned in 2016, \$103.57 million relates to the cost of power, while PDI earned \$14.60 million in regulated distribution revenue (2015 \$95.13 million and \$14.15 million respectively).
- Total other non-distribution revenue in PDI in 2016 was \$1.77 million compared to \$2.04 million in 2015.

Operations and Administration Expense

The company's operations and administration expense from continuing operations was \$17.81 million in 2016, a 4.6% increase from \$17.02 million incurred in 2015. The increase is the result of increased wages and benefits, materials costs, and administrative expenses, along with increased costs in relation to the expanding portfolio of assets.

Expenses relating to the discontinued PDI operations of \$109.36 million (2015: \$102.56 million) increased by \$6.8 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 customers. In 2016, the cost of power was \$100.69 million compared to \$94.15 million in 2015, accounting for the majority of the increase.

Amortization Expense

In 2016, the company's amortization expense for continuing operations of \$7.86 million was \$720,000 higher than in the previous year (2015: \$7.14 million). With the exception of one-time items, amortization continues to increase as the value of the company's capital assets increase.

The company's amortization expense for discontinued operations (PDI) of \$3.42 million was \$160,000 higher than in the previous year (2015: \$3.26 million).

Financing Expense

Financing and other costs for continuing operations of \$2.88 million increased \$262,000 from the previous year due to increased borrowings taken during 2016, required in order to finance the growth in assets.

Financing and other costs for discontinued operations of \$1.62 million decreased \$18,000 from the previous year.

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 a 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 that encourages productivity savings.

As a result of this process, an increase in the distribution rate component of our customers’ electricity bills was limited to 1.65% in 2016. In May 2016, PDI was the ninth 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.

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. Since 2014, PDI has issued a Scorecard that tracks these outcomes. PDI’s 2015 Scorecard, published in 2016, is available on the OEB website.

Residential Customer Bill - 800 kWh		
As of May 30, 2017		
1	Newmarket	124.60
2	Brantford Power	126.00
3	Kingston	127.07
4	North Bay	127.56
5	Sudbury	127.60
6	Entegrus (Chatham)	127.75
7	Oshawa	128.64
8	Veridian	128.87
9	Peterborough	129.28
10	Lakefront	129.54
11	Milton Hydro	129.83
12	Welland	132.15
13	Barrie - Alectra	132.27
14	Bluewater Power (Sarnia)	135.59



REGULATORY CHANGES

The OEB introduced many regulatory changes in 2016. For residential customers and General Service Customers under 50 kW and under 250,000 kWh per year, the Ontario Energy Board introduced the Ontario Rebate for Electricity Consumers (OREC), which provided an 8% rebate before taxes on January 1, 2017.

INFRASTRUCTURE INVESTMENT

PDI has continued to invest, with capital expenditures of \$5.8 million in infrastructure, development and operational improvements.

The overhead rehabilitation and conversion project along Dumble Ave. to Aberdeen Ave. resulted in the replacement of 38 poles, 3 kms of conductors, 10 transformers and 64 anchors. The second phase of a three-year rehabilitation project in the Edmison Heights neighbourhood included the replacement of 10 transformers and 6.6 kms of underground cable.

The second phase of infrastructure relocations was completed for the City of Peterborough road improvement project along Parkhill Rd. W. New pole and anchor installations continued during the second year of the \$1.4-million Bell Fibre-to-the-Home project. As well, several rooftop solar projects were connected through the Feed-In-Tariff program to promote renewable energy sources.

36,317 customers

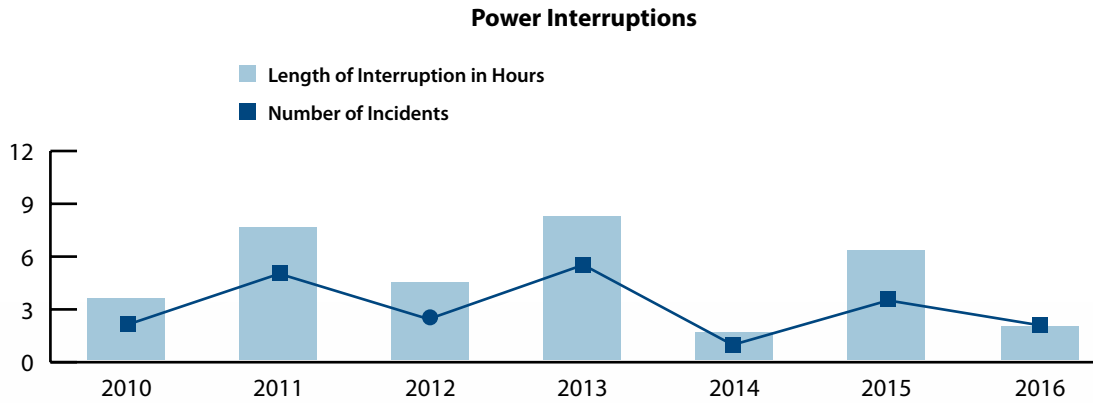
564 kms distribution line

11,178 poles

3,911 transformers

OUTAGE AND EMERGENCY RESPONSE

While extreme weather represents an uncontrollable element that can affect our service, the company works to continually deploy its asset management program, invest in new infrastructure and target initiatives such as our tree trimming program, that can significantly improve system reliability. System reliability remains a top priority. PDI had very few major outages in 2016. The average number of hours that power to a customer was interrupted was 2.01. Power was interrupted, on average, 2.34 times per customer. The hot summer resulted in a peak load of 145 MW, which was 2% higher than the summer peak in 2015.





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

35%
278 GWh
Residential
Service

64%
498 GWh
General Service
and Large Users

83.4 million kWh

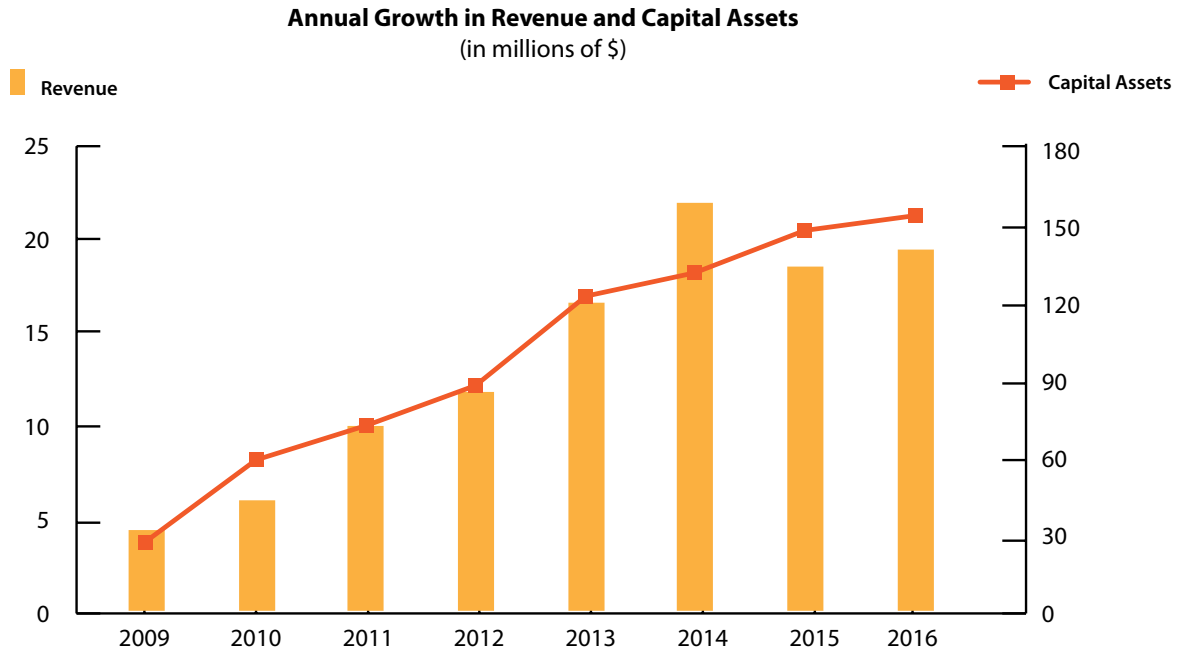
Renewable Energy
Generated

= enough to power
8,689 homes



Peterborough Utilities Inc. (PUI) – Unregulated Operations

The unregulated business is continuing to make investments in new renewable generation projects with long-term power purchase agreements, and by optimizing production from existing generation facilities that will yield substantive revenues for the foreseeable future. The annual growth in revenue and capital assets are reflected in the following chart:



Severe drought conditions from May to December 2016 had an adverse effect on revenues in 2016. However, investment in remedial work at the Lily Lake solar farm in 2015 provided a significant boost to solar production and revenues in 2016 and helped to mitigate this situation.

GENERATION GROWTH

2016 was a year of substantial growth, with the completion of five new renewable energy projects with an aggregate capacity of 7.3 MW and total investment of approximately \$40 million. PUI's fleet of renewable generating facilities now includes four hydroelectric stations, four solar photovoltaic facilities and two biogas generating facilities, with a total operating capacity of 40.8 MW.

LONDON STREET GS EXPANSION

After approximately two years of construction, a new 6.0 MW expansion of the existing 4.0 MW London Street Generating Station, originally constructed circa 1920, commenced commercial operation on July 29, 2016. This facility incorporates two highly efficient, double-regulated Kaplan turbines that will optimize the production of hydroelectric energy from this location for the next 80 to 100 years.

BIOGAS GENERATION

Construction of a new 380 kW biogas generation project at the City of Peterborough's Waste Water Treatment Plant was completed in August 2016. The project will utilize methane gas produced by the plant's anaerobic digesters to generate both electricity and heat.

10 generation facilities in operation
40.8 MW generation capacity
+ 7.5 MW solar projects to be completed
in next two years
+ 5.5 MW under development

ROOFTOP SOLAR PHOTOVOLTAIC FACILITIES

Construction of three rooftop solar PV projects was completed during the summer of 2016. This included the 250 kW PUG Ashburnham Garage, 250 kW Asphodel-Norwood Community Centre and 431 kW Kinsmen Civic Centre projects. These projects were developed under a partnership agreement with the City of Peterborough.

FEED-IN-TARIFF CONTRACTS

In 2016, PUI progressed with the development of a portfolio of approximately 15 500 kW ground-mount solar projects with Feed-In-Tariff (FIT) contracts. These projects are being developed in partnership with the City of Peterborough and are scheduled to proceed to construction in 2017.



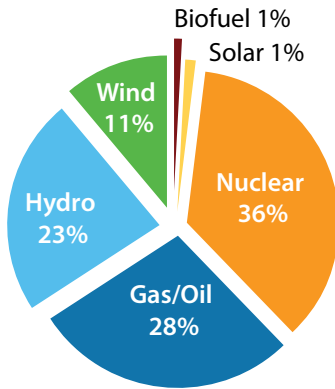
NEW HYDROELECTRIC PROJECTS

Development advanced on two new hydroelectric generation projects with an aggregate capacity of 5.5 MW under the IESO's Large Renewable Procurement (LRP) program. These projects are being developed through limited partnerships with the Curve Lake First Nations' Economic Development Department.

WHOLESALE METER SERVICES

The company's other primary unregulated business provides wholesale meter services to clients throughout Ontario. This business unit had another successful year in 2016.

Ontario Supply Mix



Nuclear	12,978 MW	36%
Gas/Oil	10,277 MW	28%
Hydro	8,451 MW	23%
Wind	3,983 MW	11%
Biofuel	495 MW	1%
Solar	380 MW	1%





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, and water and wastewater services to the Township of Selwyn to operate both the Village of Lakefield and Woodland Acres systems. It also includes the operation, maintenance and capital upgrades for Riverview Park & Zoo. In December 2016, Peterborough Utilities entered into a service agreement with the Township of Cavan Monaghan to operate and maintain the water and wastewater system in the Village of Millbrook, as well as to provide the Township of Asphodel-Norwood with operational assistance for their water and wastewater systems.

With single-family residential water metering having been completed in 2013, work continued on new multi-residential metering and ICI meter replacements in 2016; it was completed partway through the year. The majority of locations in the City are now metered, with the exception of buildings with plumbing in poor condition or locations where it is impractical to install a meter.

The Peterborough, Lakefield and Woodland Acres drinking water systems maintained full accreditation with the Drinking Water Quality Management Standard. An offsite verification audit was conducted in October 2016, as well as an internal audit. The audit report described that the management system is well documented and continues to be effective.

In addition, during 2016 the Ministry of the Environment and Climate Change performed an inspection of the Peterborough and Lakefield water treatment plants, and the Woodland Acres distribution system. All water systems achieved a 100% inspection rating.

A major capital project to rehabilitate the existing 1921-vintage chlorine contact tank and reservoir occurred in 2016. The repairs included the cleaning of affected concrete, and then patching and leveling areas with a suitable mortar, followed by a coat of cementitious waterproofing membrane. The tanks were put in service on December 5, 2016. The roof of the water treatment plant and pumphouse was upgraded to an Inverted Tremco rubber membrane system. This was completed in September. The new roof has a 30-year warranty.



Capital works for the Peterborough water system in 2016 included the replacement of approximately 0.6 km of distribution water mains and approximately 4.4 kms of existing water main rehabilitation, adding a cement-mortar lining and 1.2 kms of structural lining to the existing distribution water mains.

The Peterborough water treatment plant continued its successful partnership with the University of Toronto's Drinking Water Research Group to conduct pilot scale studies. Our research in 2016 focused on ozone as a pre-treatment for enhancing biofiltration, to facilitate the degradation of organics and reduce concentrations of geosmin and 2-Methylisoborneol (MIB). Ozone and biofiltration were shown to be very effective in improving water quality. The findings were presented at the 2017 Ontario Water Works Association (OWWA) conference.

The opportunity to study ozonation (the infusing of ozone into water) in conjunction with conventional treatment, as well as biofiltration, will provide important insight into advanced oxidation and the treatment technology's potential to improve water quality and optimize production costs.

Current studies are examining the effectiveness of advanced oxidation, as well as pH adjustment using sulphuric acid prior to coagulation. Enhanced coagulation through pH adjustment has the potential to reduce organics, ameliorate taste and odour compounds and improve the quality of water under a wide range of water temperature conditions without the need for extensive infrastructure upgrades.

The knowledge gathered over the next several years will provide the foundation for charting the future course of water treatment in Peterborough.

27,659 customers

422 kms of water mains

2,300 water hydrants

12.1 million litres of water processed



RIVERVIEW PARK & ZOO

Regular and emergency veterinary care was provided by consulting veterinarian Dr. John Sallaway throughout 2016. Riverview Park & Zoo (RPZ) animal care staff worked with Dr. Sallaway and Dr. Mike Cranfield to deliver planned annual animal healthcare to numerous animals in our collection. During the extensive round-up, animals were examined and treated, as part of their healthcare program. This included physical exams, surgery, numerous inoculations and treatments, the taking of blood samples, the trimming of many hooves/claws/ beaks/tusks, and dentistry.

In 2016, there were 30 births and 22 deaths of animals. Postmortems were performed on the animals that had died, to determine cause of death. There were no deaths attributed to communicable diseases.

As of December 31, 2016, the Riverview Park and Zoo Animal Collection consisted of 142 specimens representing 52 species of mammals, birds and reptiles. RPZ acquired 21 new animals (including a female river otter and two Crimson-rumped Toucanets). The RPZ recorded 30 births in 2016, most noteworthy being a critically endangered Sulawesi Forest Turtle (the second hatched at RPZ). Three Red-billed Hornbills were hatched as part of the Association of Zoos & Aquariums Species Survival Plan. The hornbills were a first-time hatch for RPZ or any Canadian Accredited Zoo. In 2016, RPZ opened three new reptile exhibits at the Rotary Education Centre featuring West African Dwarf Crocodiles.

The education program continued to grow in 2016, and benefited from 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 and new Zoo Trek half-day curriculum-based sessions for visiting classes, Meet-the-Keeper sessions, our seasonal conservation exhibit and other special and customized sessions for visiting groups.

Riverview Park & Zoo participated in the Association of Zoos & Aquariums' (AZA) studbook program for the Red-necked wallaby, Sichuan takin and bobcat. RPZ also participated in the African red-billed hornbill, meerkat and squirrel monkey AZA Species Survival Plans, and the emu and Brazilian agouti Population Management Plans.

The miniature train railbed and track rehabilitation capital project began in the fall of 2016. This two-year, multi-stage upgrade will ensure the ongoing safe and reliable operation of the train. TSSA (Technical Standards and Safety Authority) approval to operate the train as an amusement device was successfully granted for the locomotive engine. This major visitor attraction continues to be a focal point of Riverview Park & Zoo.



2016 Highlights

- Participated in species survival plans/Association of Zoos and Aquarium animal care programs for the African red-billed hornbill, red-necked wallaby, bobcat, slender-tailed meerkat, squirrel monkey, two-toed sloth, greater rhea, Sichuan takin and Brazilian agouti.
- Riverview Park & Zoo has had great success in breeding the critically endangered Sulawesi forest turtle. It may be the only facility in Canada to do so and is one of only five in North America to do so.
- Provided more than 20 educational programs to visiting schools and groups.
- Held a TD Tree Planting event with ORCA and TD volunteers. We planted 300 trees and shrubs and removed three truckloads of invasive species at the Park and Zoo with the help of volunteers from GE Canada.
- PUG's Conservation and Customer Service departments, in partnership with the Zoo, have invested in two digital signs located at Riverview Park & Zoo, where the public can get information on conservation programs and community events for families. We also provide interesting facts about our animals.

Our Zoo team takes great care of all our 142 animals
– 52 different species.



CUSTOMER SERVICE

Customer Service had an interesting year, due in part to the continual news coverage concerning electricity rates and ongoing political discussions about what can be done to provide relief for electricity customers. This discussion resulted in the introduction and implementation of the Ontario Rebate for Electricity Consumers (OREC) Program. This was implemented across all rate classes except General Service (GS) over 50 kW.

With the political climate around electricity, the requirement for additional reporting has increased significantly. We now report on most transactions we do. This has increased our costs around reporting and functionality in our billing system.

In 2016, we were hit with a postal disruption. This presented many challenges in terms of delivering bills and performing collections. During the disruption, we had our second-best year for e-bill sign-ups. We signed up 2,496 customers, which translates into a savings of approximately \$30,000 a year. We proactively contacted all of our industrial customers to ensure they were aware of the postal disruption and to offer e-billing as an alternative.

Another proactive program we tested this year was the discontinuation of giving return envelopes to customers who had paid their Peterborough Utilities bill electronically for two or more consecutive months. We have gone from ordering return envelopes every year to every four years, which has resulted in a savings of approximately \$7,000 – and all without any customer complaints. We have automated this process and will build on our success in 2017.

We introduced the Energy Consumption Weekly Report to our GS under 50 kW customers in 2016. We have had a huge success with the residential and now the small commercial sector. More than 14,000 customers receive the weekly report and we continue to receive positive feedback from the community about them. We will be introducing the weekly report to our GS over 50 kW customers in 2017. This will provide them with their kW hours used, their peak demand usage, and forecasting tools.

In 2016, we launched the Water Wise Landscape Recognition Program in conjunction with GreenUP. This recognizes customers in our community who have promoted low water usage through sustainable landscaping. Multiple categories ensure everyone is eligible, from beginners to experts; in all, 14 customers were nominated. This was promoted through Facebook, Twitter, newspapers, TV and at events. As a result of the program outreach, there was a significant increase in the number of Peterborough Utilities subsidized rain barrels sold through GreenUP. We will continue to build on the program in 2017 and continue our outstanding partnership with GreenUP.

Our staff fielded 68,322 calls in 2016, answering 84.6% of them within 30 seconds and only 1.3% of calls were abandoned.

68,322 calls in 2016

3,230 Facebook likes



7,426 followers on Twitter



9,259 tweets since 2011

BILLING INTEGRATION AND INFRASTRUCTURE

In 2016, regulatory changes requested by the Ontario Energy Board included the removal of the 8% tax from most rate classes. This required a bill print change to handle the new Ontario Rebate for Electricity Consumers (OREC) Program. At the same time, we moved our HST registrant numbers to the first page of our bill, as requested by our auditors.

The Independent Electric System Operator (IESO) required new Meter Data Management and Repository (MDM/R) elements. These included Distributor Rate Class, Commodity Rate Class, Occupant Change and Postal Code requirements. This was a big undertaking that resulted in a high success rate of only 190 exceptions out of 35,355 accounts.

In 2016, we received our first request for net metering. This required significant set-up work, but we now have our first net metered customer. Net metering allows customers to place renewable generation such as solar, wind, etc. behind the meter allowing the customer to reduce their dependency on energy from the grid.

We upgraded 55 smart meter collectors, including the migration to the most current data transmission technology. We also upgraded MeterSense (our meter data repository) to the newest version and converted to virtual servers. Additionally, over-the-air upgrades were completed on our A3 and REX II smart meter network.

Even amid this year of significant change, we performed with a billing accuracy of 99.8% on 451,013 bills.



Community Involvement

One of PUG's core values is Community Focus. Our employees regularly show the importance of this value by volunteering and giving back to the communities we reside in and which we serve.

Employees continue to show strong support for the United Way in their efforts to provide services to those in need in our community. In 2016, we helped to raise more than \$20,000 for the United Way. That brings our grand total to more than \$165,000 over the past nine years.

Employees again participated in the Heart & Stroke Foundation's Big Bike, for a third year in a row, raising a total of \$4,980.

PUG staff continued the annual tradition in 2016 of shopping early, for the Children's Aid Angel Tree Program, to help add a little magic to a local child's Christmas. Thirty-five children received gifts from a PUG employee sponsor in 2016.

In addition, for the first time, our employees organized "Soup for Kids" to raise money for pediatrics at the Peterborough Regional Health Centre. They raised more than \$1,000 for this great cause.



Our employees value our community and volunteer in many ways.





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INDEPENDENT AUDITOR'S 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, 2016, the summary consolidated statement of income and comprehensive income, the summary consolidated statement of changes in equity and the summary consolidated statement of cashflows 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, 2016. We expressed an unmodified audit opinion on those financial statements in our report dated April 5, 2017. 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 Audit 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, 2016 are a fair summary of those financial statements in accordance with International Financial Reporting Standards.

Collins Barrow Kawarths LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
August 2, 2017

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Consolidated Statement of Financial Position

As at December 31, 2016
(\$s in thousands)

	2016	2015
	\$	\$
ASSETS		
Current assets		
Cash	2,608	6,426
Restricted cash	4,472	3,953
Accounts receivable	2,079	2,607
Unbilled revenue on customer accounts	258	330
Inventories	1,026	648
Prepaid expenses	309	255
Income taxes receivable	170	-
Assets held by discontinued operations	107,486	102,053
	118,408	116,272
Other assets		
Intangible assets	4,214	4,430
Property, plant and equipment	159,424	154,362
Deferred tax assets	8,515	1,846
	172,153	160,638
	290,561	276,910
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	4,407	9,804
Income taxes payable	-	119
Operating loan	2,700	-
Current portion of long-term debt	4,111	4,009
Liabilities held by discontinued operations	75,228	71,063
	86,446	84,995
Long-term liabilities		
Provisions	241	91
Employee future liabilities	5,218	6,038
Deferred tax liabilities	15,029	7,552
Long-term debt	85,207	79,834
	105,695	93,515
Shareholder's equity		
Share capital	60,098	60,098
Accumulated other comprehensive loss	(2,390)	(2,905)
Retained earnings	40,712	41,207
	98,420	98,400
	290,561	276,910

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2016
(\$s in thousands)

	2016	2015
	\$	\$
Revenue	32,601	31,598
Expenses		
Operations and administration	17,809	17,019
Amortization	7,863	7,141
	25,672	24,160
Income from operations	6,929	7,438
Other expense (income)		
Net finance charges	2,881	2,619
Gain on reduction of provisions	-	(363)
Loss on disposal of property plant and equipment	161	634
	3,042	2,890
Income before income taxes and discontinued operations	3,887	4,548
Provision for income taxes		
Current	338	718
Deferred (recovery)	666	463
	1,004	1,181
Income from continuing operations, after tax	2,883	3,367
Income from discontinued operations, after tax	2,065	2,132
Net income for the year	4,948	5,499
Net income for the year	4,948	5,499
Other comprehensive income		
Items that will not be reclassified subsequently to net income		
Employee benefit plan actuarial gains (losses)	-	(62)
Related deferred tax	-	16
Other comprehensive income (loss) from discontinued operations, net of tax	515	(497)
Other comprehensive loss for the year	515	(543)
Total comprehensive income for the year	5,463	4,956

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016
(\$s in thousands)

	Share Capital \$	Retained Earnings \$	Accumulated Other Comprehensive Income (Loss) \$	Total Equity \$
Balance, January 1, 2015	60,098	41,043	(509)	100,632
Net income for the year		5,499	-	5,499
Actuarial loss on accrued employee benefit liabilities, net of tax	-	-	(46)	(46)
Dividends paid	-	(5,335)	-	(5,335)
Other comprehensive loss from discontinued operations, net of tax	-	-	(2,350)	(2,350)
Balance, December 31, 2015	60,098	41,207	(2,905)	98,400
Balance, January 1, 2016	60,098	41,207	(2,905)	98,400
Net income for the year	-	4,948	-	4,948
Dividends paid	-	(5,443)	-	(5,443)
Other comprehensive gain from discontinued operations, net of tax	-	-	515	515
Balance, December 31, 2016	60,098	40,712	(2,390)	98,420

Consolidated Statement of Cash Flows

For the year ended December 31, 2016
(\$s in thousands)

	2016	2015
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Income from continuing operations	2,883	3,367
Charges to operations not requiring a current cash payment		
Amortization	7,863	7,141
Deferred income tax	666	463
Current income tax	338	718
Net finance costs	2,881	2,619
Capitalized asset retirement provisions	145	-
Gain on reduction of provisions	-	(363)
Loss on write-down of property plant and equipment	161	153
	14,937	14,098
Change in non-cash working capital items	(5,205)	3,028
Taxes paid	(631)	(105)
Interest received	104	116
Increase (decrease) in employee future liabilities	(820)	50
Cashflows from operating activities of discontinued operations	9,561	6,209
	17,946	23,396
Investing activities		
Purchase of property, plant and equipment	(12,863)	(26,581)
Transfers to restricted cash account	(519)	(958)
Cashflows used in investing activities of discontinued operations	(2,887)	(6,719)
	(16,269)	(34,258)
Financing activities		
Proceeds from operating loan	2,700	-
Proceeds from long term debt	9,485	21,314
Repayment of long-term debt	(4,009)	(3,912)
Interest paid	(3,390)	(2,985)
Dividends paid	(5,443)	(5,335)
Cashflows used in financing activities of discontinued operations	(1,670)	(158)
	(2,327)	8,924
Net increase (decrease) in cash	(650)	(1,938)
Cash and cash equivalents, beginning of year – continuing operations	6,426	6,496
Cash and cash equivalents, beginning of year – discontinued operations	2,167	4,035
Cash and cash equivalents – beginning of year	8,593	10,531
Cash and cash equivalents, end of year – continuing operations	2,608	6,426
Cash and cash equivalents, end of year – discontinued operations	5,335	2,167
Cash and cash equivalents – end of year	7,943	8,593

Board of Directors

Corporate governance is a key focus for our Board of Directors, with a heightened focus on risk and risk management throughout all aspects of Peterborough Utilities Group businesses. Our Board of Directors continues to provide guidance to PUG, ensuring all actions and business decisions are conducted with the community and the customer front-and-centre, while ensuring the highest possible rate of return for the Shareholder, the City of Peterborough and its citizens.

After nine years of service to PUG, Board member David Nichols retired at the end of 2016. We would like to thank him for his years of service as a Director and as a Chair of CoPHI and of several committees.

CoPHI wishes to welcome two new Directors to the Board for 2017: Arlynn Dupuis and Ross Garland.

We would like to commemorate a member of our Board, Bob Lightbody, who passed away in January 2017. The Board wishes to acknowledge the dedication and hard work he put into serving on the Board. He will be missed.



*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*



*Bill Davie
Chief Financial
Officer*



*Patrick Devlin
Vice-President
Water Services*



*Mike Ploc
Vice-President
Electric Services*



*David Whitehouse
Vice-President
Customer &
Corporate Services*



*John Wynsma
Vice-President
Generation
& Retail Services*



*Carrissa McCaw
Director
Human Resources
& Safety*



*Carrie Rucska
Director
Information
Technology*

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
David Bignell
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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