Management's Discussion and Analysis

Alectra Inc.

Year ended December 31, 2020

GLOSSARY

The following acronyms and abbreviations are used in this document.

AES	Alectra Energy Solutions Inc.
AESI	Alectra Energy Services Inc.
AFFO	Adjusted Funds from Operations
Alectra Utilities	Alectra Utilities Corporation
AMSP	Alectra Microgrid Services Project (Georgian) Limited Partnership
APSI	Alectra Power Services Inc.
CC	Customer Contributions
CEAP	COVID-19 Energy Assistance Program
COVID-19	Coronavirus Disease 2019
CP	Commercial Paper
DBRS	Dominion Bond Rating Service
DER	Distributed Energy Resource
DSP	Distribution System Plan
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECL	Expected Credit Losses
ERM	Enterprise Risk Management
FFO	Funds from Operations
GA	Global Adjustment
GHG	Greenhouse Gas
GP	General Plant
GRE&T	Green Energy and Technology Centre
HPSI	Holland Power Services Inc.
IASB	International Accounting Standards Board
ICI	Industrial Conservation Initiative
ICM	Incremental Capital Module
IESO	Independent Electricity System Operator
IFRS	International Financial Reporting Standards
IR	Incentive Rate
kWh	Kilowatt-hour
LED	Light Emitting Diode
LDC	Local Distribution Company
MD&A	Management Discussion and Analysis
MIFRS	Modified International Financial Reporting Standards
OEB	Ontario Energy Board
OEBA	Ontario Energy Board Act
OEFC	Ontario Electricity Finance Corporation
PP&E	Property, Plant, and Equipment
RPP	Regulated Price Plan
RRF	Renewed Regulatory Framework for Electricity Distributors
SA	System Access
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SR	System Renewal
SS	System Service
TOU	Time-of-Use
UA	Util-Assist Inc.
WMS	Wholesale Market Service

FORWARD LOOKING STATEMENTS AND INFORMATION

The oral and written public communications of Alectra Inc. ("the Corporation"), including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the business and the industry in which the Corporation operates, and include beliefs and assumptions made by the management of the Corporation. Such statements include, but are not limited to:

- Statements about strategy, including strategic objectives;
- Statements related to economic conditions;
- Statements related to the impact of the Coronavirus Disease 2019 pandemic ("the COVID-19 pandemic");
- Statements regarding liquidity and capital resources and operational requirements;
- Statements regarding credit facilities and other sources of corporate liquidity;
- Statements regarding ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives and their completion dates;
- Statements regarding expected future capital and development expenditures, the timing of these expenditures and investment plans;
- Statements regarding contractual obligations and other commercial commitments;
- Statements related to the Ontario Energy Board ("OEB");
- Statements regarding future post-retirement benefit contributions, and actuarial valuations;
- Statements related to the outlook and approach of the Corporation to distribution sector rationalization;
- The estimated impact of changes in the forecasted long-term Government of Canada bond yield (used in determining the regulated rate of return) on the results of operations;
- Expectations regarding financing activities; and
- Expectations regarding the recoverability of large capital expenditures.

Words such as “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, “goal”, “aim”, “target”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. The Corporation does not intend, and disclaims any obligation, to update any forward-looking statements, except as required by law. These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following:

- Unforeseen changes in the legislative and operating framework for Ontario’s electricity market;
- Decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications;
- Delays in obtaining required approvals;
- Unforeseen changes in rate orders or rate structures;
- A stable regulatory environment;
- Impact of the evolving COVID-19 pandemic on the Corporation's business;
- The ability of the Corporation to successfully implement its business continuity with respect to the COVID-19 pandemic;
- Unexpected changes in environmental regulation; and
- Unforeseen significant events occurring outside the ordinary course of business.

FORWARD LOOKING STATEMENTS AND INFORMATION (continued)

These assumptions are based on information currently available to the Corporation, including information obtained from third-party sources. Actual results may significantly differ from those predicted by such forward-looking statements.

Readers are cautioned that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section “Risk Factors” in this Management Discussion and Analysis ("MD&A"). In addition, the Corporation cautions the reader that information provided in this MD&A regarding the Corporation’s outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of the Corporation’s future plans and may not be appropriate for other purposes.

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INTRODUCTION

The following discussion and analysis of the consolidated financial condition and results of operations of the Corporation should be read together with its Consolidated Financial Statements and accompanying notes for the year ended December 31, 2020 (the "Consolidated Financial Statements").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2020. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW

Alectra Inc. is indirectly owned through holding companies by eight shareholders: the City of Barrie; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; the City of Guelph; and BPC Energy Corporation. Alectra Inc. was created in 2017 by ("Merger Transaction"): i) the amalgamation of the former entities: PowerStream Holdings Inc.; Enersource Holdings Inc.; and Horizon Holdings Inc.; ii) the acquisition of Hydro One Brampton Networks Inc. and its subsequent amalgamation with Alectra Utilities Corporation ("Alectra Utilities"), a subsidiary of the Corporation. In 2019, Guelph Hydro Electric System Inc. was acquired and subsequently amalgamated with Alectra Utilities.

Alectra Inc. is an investment holding company that owns 100% of the common shares of each of: Alectra Utilities; Alectra Energy Solutions Inc. ("AES"); and Horizon Solar Corporation ("Horizon Solar"). The Corporation also indirectly wholly owns Alectra Energy Services Inc. ("AESI") and Alectra Power Services Inc. ("APSI"). AESI, in turn, has wholly owned subsidiaries Util-Assist Inc. ("UA") and Alectra Microgrid Services Project (Georgian) Limited Partnership ("AMSP").

Alectra Utilities Corporation

Alectra Utilities provides electricity distribution to approximately one million customers and is the second largest municipally-owned local distribution company ("LDC") in North America by customers. In addition to its electricity distribution business, Alectra Utilities also has a competitive commercial rooftop solar photovoltaic generation business ("Solar PV Business") under which it develops, constructs, owns, finances and operates rooftop photovoltaic generation equipment ("Solar PV Property"). The electricity generated by the Solar PV Business is sold to the Independent Electricity System Operator ("IESO") under its Feed-In-Tariff long term power purchase agreements.

Alectra Energy Solutions Inc.

AES is an Ontario-based company that provides customers with competitive business energy solutions through the use of innovative technologies. AES owns 100% of the common equity of each of AESI and APSI.

AESI provides wholesale metering and sub-metering services for condominium and commercial properties. AESI owns 100% of the shares of UA. UA provides consulting services with respect to Advanced Metering Infrastructure integration, customer information systems implementation, sync operation services, conservation initiatives, an outage management call centre under the name PowerAssist, and other smart grid applications.

APSI provides street lighting services including design, construction, and maintenance.

AMSP provides energy management services partnership which installs, owns and operates an industrial energy storage battery with Georgian College.

in millions of Canadian dollars

Credit Rating

The Corporation's credit ratings are as follows:

	DBRS Morningstar			S&P Global Ratings		
	Date Confirmed	Credit Rating	Trend	Date Confirmed	Credit Rating	Outlook
Issuer rating	June 29, 2020	A	Stable	April 30, 2020	A	Stable
Senior unsecured debentures	June 29, 2020	A	Stable	April 30, 2020	A	Stable
Short term (Commercial Paper)	June 29, 2020	R1(low)	Stable			

Vision and Strategic Intent

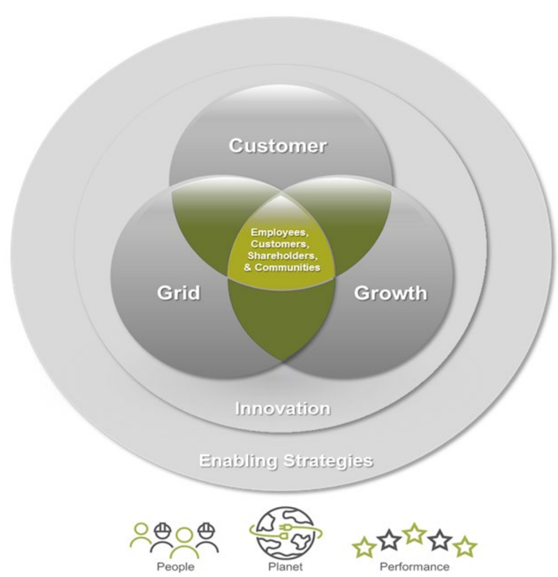
The Corporation's goal is to be Canada's leading distribution and integrated energy solutions provider, creating a future where people, businesses and communities will benefit from the full potential of energy.

The Corporation's initial Strategic Plan focused on the four key themes: (i) Managing the Transition; (ii) Optimizing operations and enhancing the Customer Experience; (iii) Growing the Business; and (iv) Building Corporate Resilience. In the first three-years following the Merger Transaction, the Corporation's efforts were heavily focused on managing the transition. This mainly consisted of systems, process and cultural integration in order to achieve the synergies identified in the merger business case and, ultimately, delivering the associated customer and shareholder benefits. The strategic objectives of the merger associated with the transition are substantially complete.

In 2020, the Corporation evolved its strategy to move beyond the merger transaction ("Strategy 2.0"), which is designed to be a natural evolution from the initial strategy focusing on three core strategic pillars:

- Customer (Experience);
- Grid (Modernization); and
- Growth (Regulated and Competitive).

Strategy 2.0 builds upon the Corporation's integration and synergy successes achieved to date. It ensures that the enterprise, as a whole, evolves into an integrated energy solutions corporation.



Vision and Strategic Intent (continued)

The electricity sector is experiencing major change and transformation due, in part, to several global megatrends, such as: decarbonization: decentralization; democratization; and digitalization. The ability to prepare for and adapt to changing conditions as well as adapt to the transformation is essential to achieving the objectives of Strategy 2.0.

The strategy provides a roadmap for the Corporation's ongoing activities and sets its priorities in conjunction with foundational priorities of safety and sustainability. For further details on the values and the mission of the Corporation, please review the 2020 Annual Sustainability Report on the Corporation's website at: https://www.alectra.com/annual-sustainability-report

INDUSTRY REGULATION

The Corporation, through Alectra Utilities, is regulated by the Ontario Energy Board ("OEB"). In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of the OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS.

The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") conferred on the OEB powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include: approving or fixing rates for the transmission and distribution of electricity; providing continued rate protection for rural and remote residential electricity consumers; and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to LDCs, such as Alectra Utilities, which may include, among other things: record keeping; regulatory accounting principles; separation of accounts for distinct business; and filing and process requirements for rate setting purposes.

Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders of the Corporation with opportunity to earn a regulated Maximum Allowable Return on Equity on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation.

The rate-making policies of the OEB are guided by its statutory objectives under the OEBA that include, among other matters, to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

Rate Setting (continued)

The OEB regulates the electricity distribution rates charged by LDCs, such as Alectra Utilities, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its *Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* (“RRF”). The three rate-setting methods available to LDCs under the RRF are: Price Cap Incentive Rate-setting (“Price Cap IR”); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR"). These methods are described in more detail in the Consolidated Financial Statements.

The Incremental Capital Module ("ICM") is available to distributors under the Price Cap IR method. It is intended to address capital investment needs that arise during the rate-setting plan that are incremental to an OEB prescribed materiality threshold. The requested amount for an ICM claim must be: incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates; and satisfy the eligibility criteria of materiality, need, and prudence. The OEB requires that a distributor requesting relief for incremental capital during the Price Cap IR plan term include comprehensive evidence to support the need. This includes the calculation of a rate rider to recover the incremental revenue from each applicable customer class. The incremental revenue is recognized in the year when the actual ICM related expenditures are expected to be in-service. This approach is consistent with the timing of the actual capital investment benefit to customers, which aligns with the expected timing of the OEB approval of ICM rate adjustments.

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

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

Rate Applications

2020 Rates Application

On May 28, 2019, Alectra Utilities filed an application for all four predecessor utilities (rate zones) for the approval of 2020 electricity distribution rates, effective January 1, 2020 to December 31, 2020. As part of the application, Alectra Utilities filed its first integrated five-year Distribution System Plan ("DSP") for its entire service area. Alectra Utilities requested approval for incremental capital funding for each of the five years related to the DSP, based on a rate-adjustment mechanism that reconciles the capital needs set out in the DSP with the capital-related revenue in rates. On December 12, 2019, the OEB issued its Partial Decision and Interim Rate Order on the Price Cap IR elements of the application, approving distribution rates on an interim basis effective January 1, 2020. On January 30, 2020, the OEB issued its Partial Decision and Order on Alectra Utilities' request for incremental capital funding. The OEB denied Alectra Utilities' multi-year incremental capital funding proposal but offered options for Alectra Utilities to refile under its ICM rate setting mechanism on a single or multi-year basis. On April 14, 2020, Alectra Utilities filed a letter with the OEB stating that it would not be seeking incremental funding for 2020 and requested that its 2020 rate order be made final. On April 23, 2020, the OEB issued its Final Rate Order on the 2020 application.

The following rate changes were effective as of the implementation dates:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone is an increase of approximately 9 cents or 0.35%;
- Brampton Hydro Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 43 cents or 1.75%;
- PowerStream Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 35 cents or 1.21%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 46 cents or 1.80%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 20 cents or 0.68%.

Rate Applications (continued)

2021 Rates Application

On August 17, 2020, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2021 electricity distribution rates, effective January 1, 2021 to December 31, 2021. As part of the application, Alectra Utilities requested approval of 2021 incremental capital funding for the Brampton Hydro and PowerStream Rate Zones. On December 17, 2020, the OEB issued its Decision and Order, approving distribution rates and incremental capital funding, effective January 1, 2021, as follows:

- Horizon Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month in the Horizon Rate Zone will be an increase of approximately 75 cents or 2.77%;
- Brampton Hydro Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 61 cents or 2.44%;
- PowerStream Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 57 cents or 1.95%;
- Enersource Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 39 cents or 1.53%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month will be an increase of approximately 71 cents or 2.40%.

Please refer to https://www.alectrautilities.com/regulatory-affairs/ for the status of the Corporation's rate applications.

Select Energy Policies and Regulation Affecting the Corporation

The COVID-19 Pandemic Response

On March 17, 2020, the Government of Ontario declared a province-wide state of emergency ("State of Emergency"), to protect the public and to help contain the spread of the COVID-19 pandemic. Both the provincial government and the OEB introduced certain measures throughout the year to assist electricity consumers in dealing with the financial impact of the COVID-19 pandemic. The measures include the following:

Government of Ontario Initiatives and Programs:

- Changes to Pricing for Time of Use ("TOU") Customers – At the time of the issuance of the State of Emergency the Ontario government suspended TOU rates and introduced a single rate of electricity fixed at 10.1 cents per kWh, from March 24, 2020 until May 31, 2020. Subsequently, the government announced the replacement of that rate with a new fixed COVID-19 Recovery Rate of 12.8 cents per kWh for residential and small business customers. This rate was applicable from June 1 until October 31, 2020. As of November 1, 2020, the Province suspended their fixed rate pricing and the OEB reinstituted TOU billing rates of: 10.5 cents per kWh for off peak consumption; 15.0 cents per kWh for mid-peak consumption; and 21.7 cents per kWh for on peak consumption.

  As of January 1, 2021, the government reintroduced a temporary rate of electricity fixed at 8.5 cents per kWh, 24 hours a day from January 1 to January 28, 2021. On January 27, 2021, the government announced the rate of 8.5 cents would be extended until February 9, 2021.

- Changes to the Industrial Conservation Initiative ("ICI") Program - On May 29, 2020, the government amended its GA Regulation to introduce flexibility for large commercial and industrial customers to qualify for the ICI Program. Consumers or market participants that did not qualify based on their average monthly peak demand during the May 1, 2019 to April 30, 2020 base period nevertheless qualified for Class A for the adjustment period commencing July 1, 2020 if they would have otherwise met the applicable threshold. Class A customers will also maintain their peak demand factor from the 2019-2020 period to determine their GA charges for the 2021-22 program.

- COVID-19 Energy Assistance Program ("CEAP") and CEAP for Small Business ("CEAP-SB") – The CEAP is an initiative by the Ontario government to make $9 in funding available to support residential customers struggling to pay their energy bills as a result of the COVID-19 pandemic. On June 16, 2020, the OEB issued a Decision and Order to amend the licenses of distributors to implement the CEAP requirements. The allocation of funding was based on customer count for utilities across the province, resulting in approximately $1 in funding available for Alectra Utilities' customers. A similar program targeted at small businesses allocated $8 in funding to utilities in proportion to the number of small businesses within their service area, resulting in approximately $1 allocated for Alectra's small business customers. The program targets GS<50 kW customers that use less than 150,000 kWh, annually. The programs are expected to continue until March 31, 2021.

Select Energy Policies and Regulation Affecting the Corporation (continued)

Ontario Energy Board Initiatives and Consultation:

- Disconnections Moratorium – The OEB extended the disconnections moratorium for residential customers and expanded the moratorium to also include other low-volume consumers (defined as customers with annual consumption below 150,000 kWh) to include GS<50kW or small commercial customers. The disconnection ban, which generally commences on November 15 in each year and ends on April 30 in the following year, was extended until July 31, 2020.
- Customer Assistance – The OEB declared that distributors may waive or lower late payment or 'non-sufficient fund' charges and seek recovery for these items separately through future OEB rate applications. Alectra Utilities waived late payment charges for its residential and small commercial (GS<50kW) customers from April 15, 2020 to August 31, 2020.
- Consultation on the Deferral Account – Impacts Arising from the COVID-19 Pandemic – In March 2020, the OEB acknowledged that electricity distributors may incur incremental costs as a result of the ongoing COVID-19 pandemic. The OEB ordered the establishment of a deferral account for electricity distributors to use to track incremental costs and lost revenues. The OEB initiated a consultation to assist in developing guidance related to the deferral account including, where appropriate, the review and disposition of the accounts. The OEB did not release advance policy direction on potential for recovery of incremental costs. Consultants are supporting the OEB on the assessment of the COVID-19 pandemic impact. Following stakeholder consultations, the OEB anticipates finalizing COVID-19 pandemic recovery-related guidance in spring 2021.

Amendments to the Standard Supply Service Code

On June 1, 2020, the Government of Ontario announced it would introduce customer choice for Regulated Price Plan ("RPP") consumers that pay TOU prices. The Code amendments allow RPP customers to elect the pricing structure that best suits their needs. As such, these customers can now select whether their commodity charges will reflect TOU consumption and pricing or blocked tiered consumption and pricing. The OEB also approved the establishment of a generic deferral account for distributors to track the costs associated with implementing the customer choice initiative. The amendments were issued on October 13, 2020 with effect for customers as of November 1, 2020.

in millions of Canadian dollars

KEY BUSINESS STATISTICS

	2020	2019	2019 OEB Benchmark[1]
System average interruption duration index ("SAIDI") (2)	0.95	1.07	0.91
System average interruption frequency index ("SAIFI") (3)	1.18	1.26	1.26

(1) The 2019 OEB benchmark is based on the average SAIDI and SAIFI index (excluding Hydro One Networks and rural distribution utilities) from the 2019 yearbook of Ontario electricity distributors.

(2) SAIDI equals the average duration of a sustained interruption per customer during a predefined period. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIDI, the better the reliability. SAIDI figures presented in the table above are in hours and have been adjusted to exclude loss of supply customer interruptions and major events.

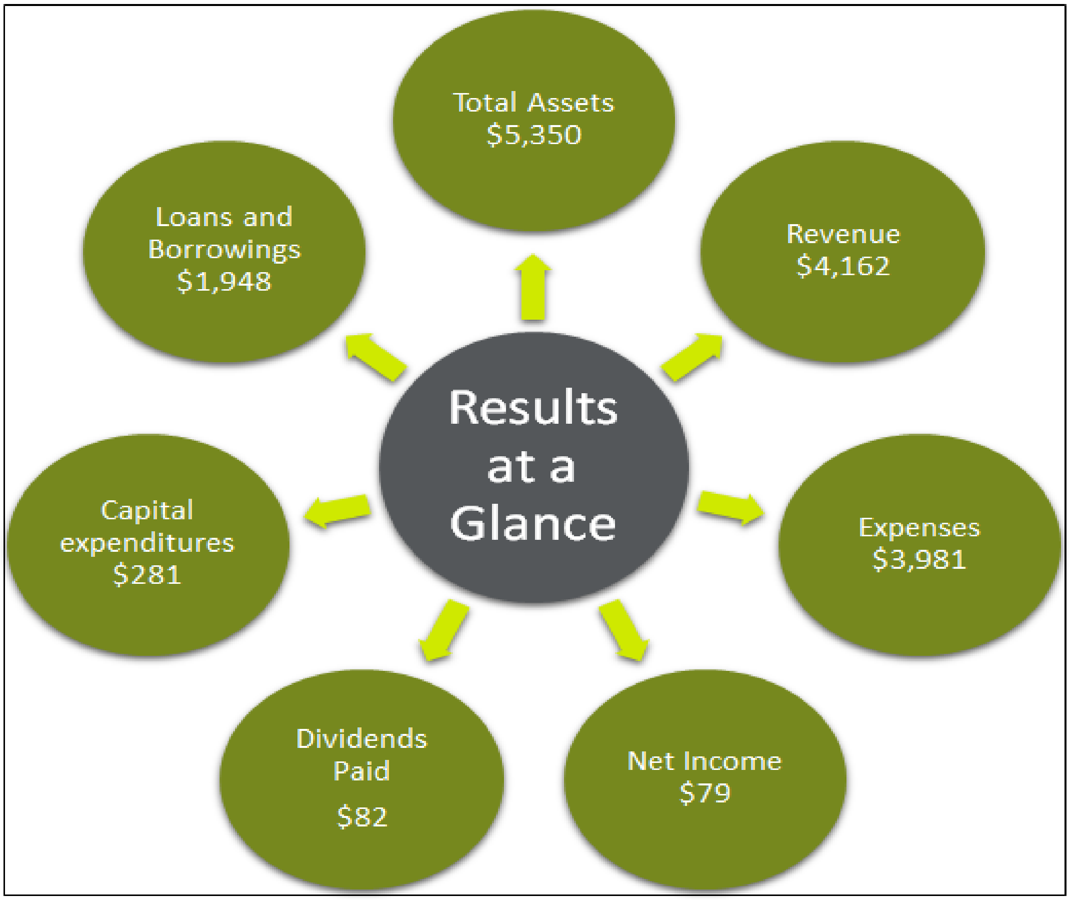
(3) SAIFI equals the average number of times a customer experiences a sustained interruption over a predefined period of time. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIFI, the better the reliability. Alectra Utilities' SAIFI results have been adjusted to exclude loss of supply customer interruptions and major events.

Loss of Supply customer interruptions are due to problems associated with assets owned and/or operated by another party that supplies power to Alectra Utilities and as such are beyond Alectra's control.

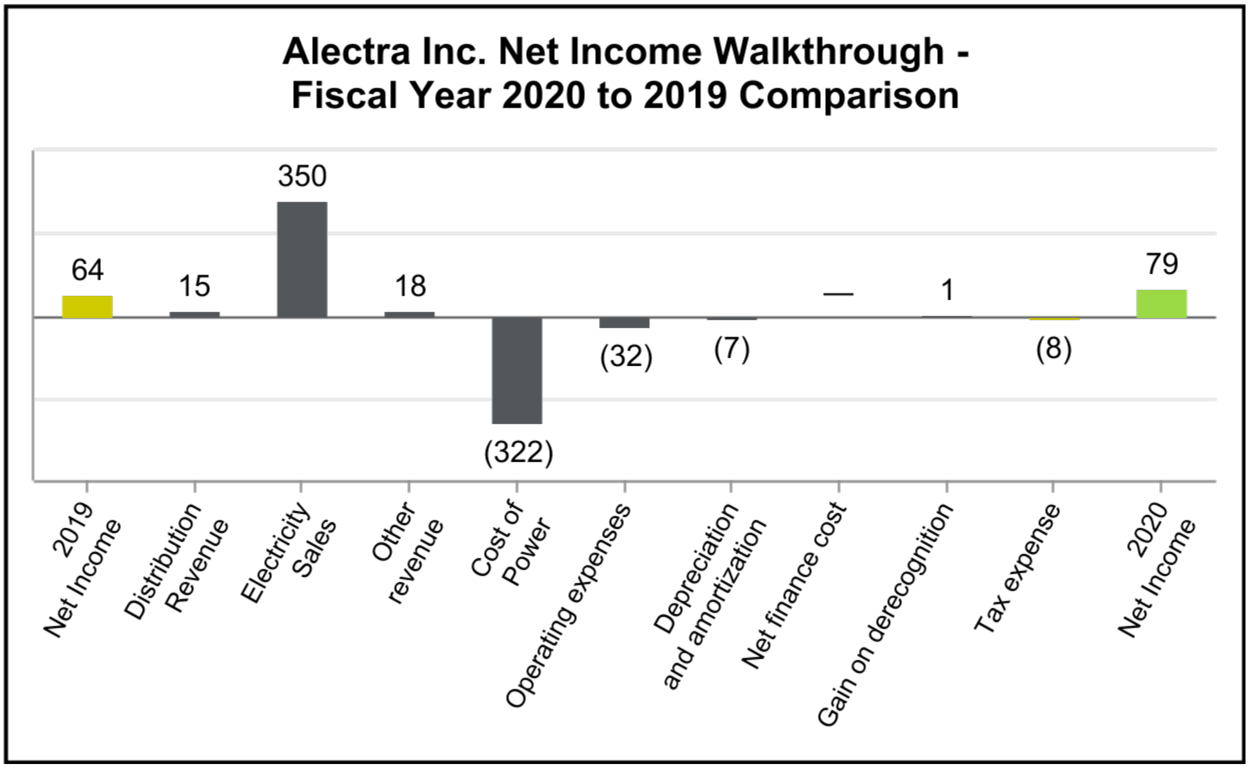
A Major Event is defined as an event that is beyond the control of the distributor and is: a) unforeseeable; b) unpreventable; c) unavoidable and causes exceptional and/or extensive damage to assets, takes significantly longer to repair and affects a substantial number of customers.

In 2020, Alectra Utilities' SAIDI was 0.95 in 2020, compared to 1.07 in 2019 and SAIFI was 1.18, compared to 1.26 in 2019. This decrease is primarily attributed to: (i) fewer adverse weather-related events; (ii) fewer tree contact events; partially offset by (iii) a higher number of defective equipment failures. Underground cable and accessories related equipment failure continues to be a leading cause of outages, accounting for more than 40% of all defective equipment outages. Underground cable replacement and rehabilitation investment will continue to be a high priority for Alectra Utilities in 2021 and onward.

2020 Financial Results at a Glance:



RESULTS OF OPERATIONS

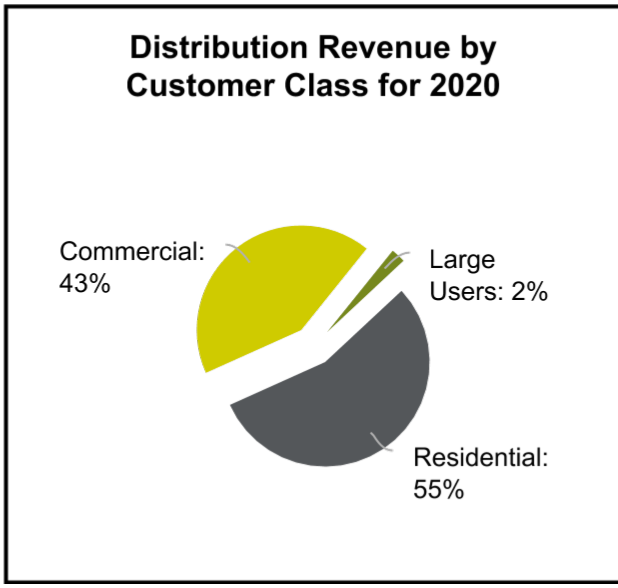


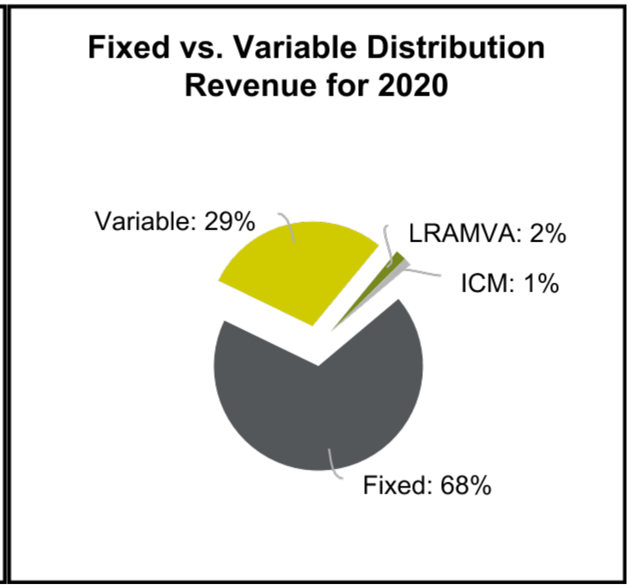
Net income for the year ended December 31, 2020 was $79 which is $15 higher than 2019 net income of $64. The increase in net income is principally attributable to: (i) an increase in electricity sales driven by higher electricity prices ($350); (ii) higher other revenue of ($18) from LED projects and increased consulting revenue; and (iii) higher distribution revenue of ($15) as a result of higher distribution rates; partially offset by (iv) an increase in cost of power of ($322) as a result of higher wholesale electricity prices; (v) higher operating expenses ($32) mainly due to increases in expected credit losses ("ECL") attributed to the COVID-19 pandemic; (vi) higher income taxes ($8) due to higher net income in 2020; and (vii) higher depreciation and amortization costs ($7) due to new in-service additions in 2020.

RESULTS OF OPERATIONS (continued)

	2020	2019	Change
Distribution Revenue	559	544	15

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers. The increase in distribution revenue is mainly attributable to: (i) higher distribution rates ($9); (ii) lower refunds to customers through OEB approved rate riders ($8); and (iii) an increase in customer growth in the residential and small commercial classes ($3); partially offset by (iv) lower consumption and demand ($5).





Alectra Utilities' customer classes are as follows:

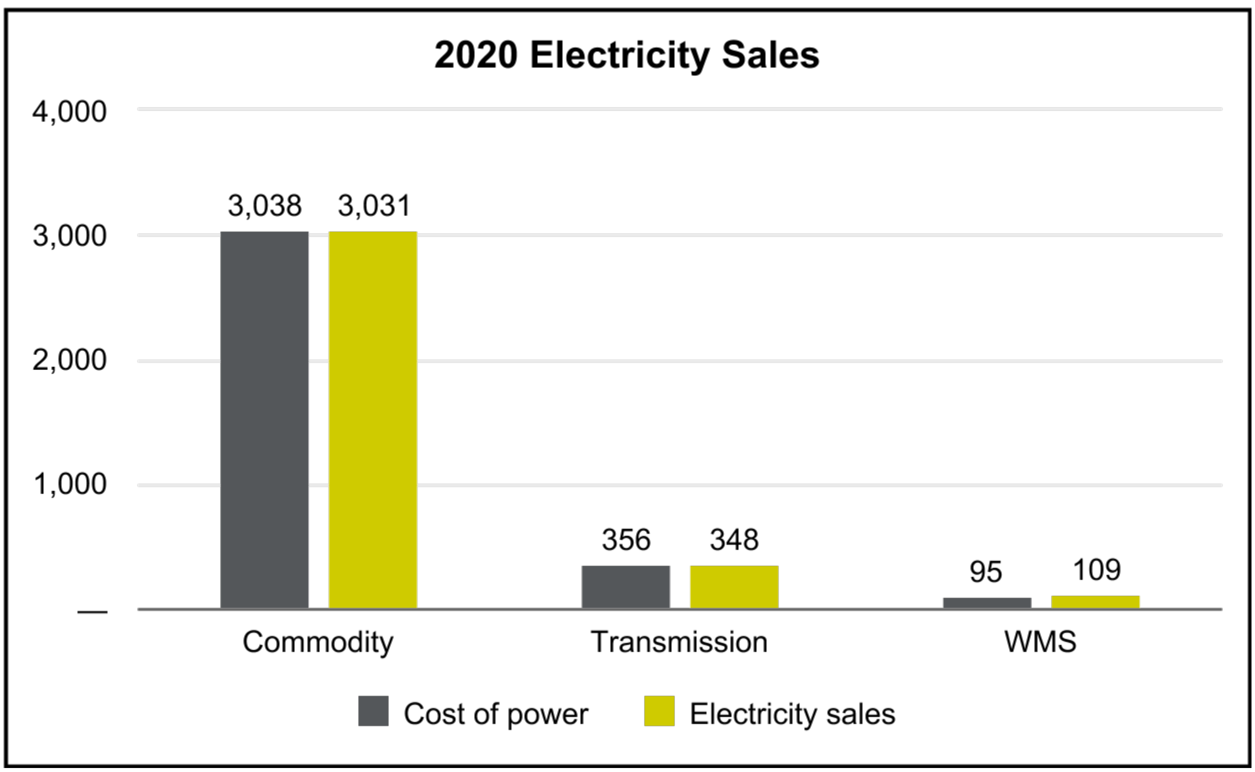
- Commercial - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period;
- Residential - the residential class includes single family or individually metered multi-family units and seasonal occupancy; and
- Large users - customers in the large users class have a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

RESULTS OF OPERATIONS (continued)

	2020	2019	Change
Electricity Sales	3,488	3,138	350

Electricity sales arise from the responsibility of the Corporation for billing customers for electricity generated by third parties and the related costs of providing electricity service, as shown in the chart below. The amounts billed to the Corporation for electricity generation by the IESO and Hydro One Networks often differ from the amount that the Corporation recovers from its customers. The difference between sales of energy and the corresponding cost of power is a timing difference ultimately recoverable from or repayable to ratepayers prospectively through annual applications to the OEB to adjust the rates of the Corporation to settle such timing differences. Such differences as at the end of the prior fiscal year are generally settled over a twelve month period as of the effective date of such annual applications; or more generally, the thirteenth to twenty-fourth month following the end of the prior fiscal year.

The increase in electricity sales by $350 is mainly driven by higher electricity prices in the current year results.



RESULTS OF OPERATIONS (continued)

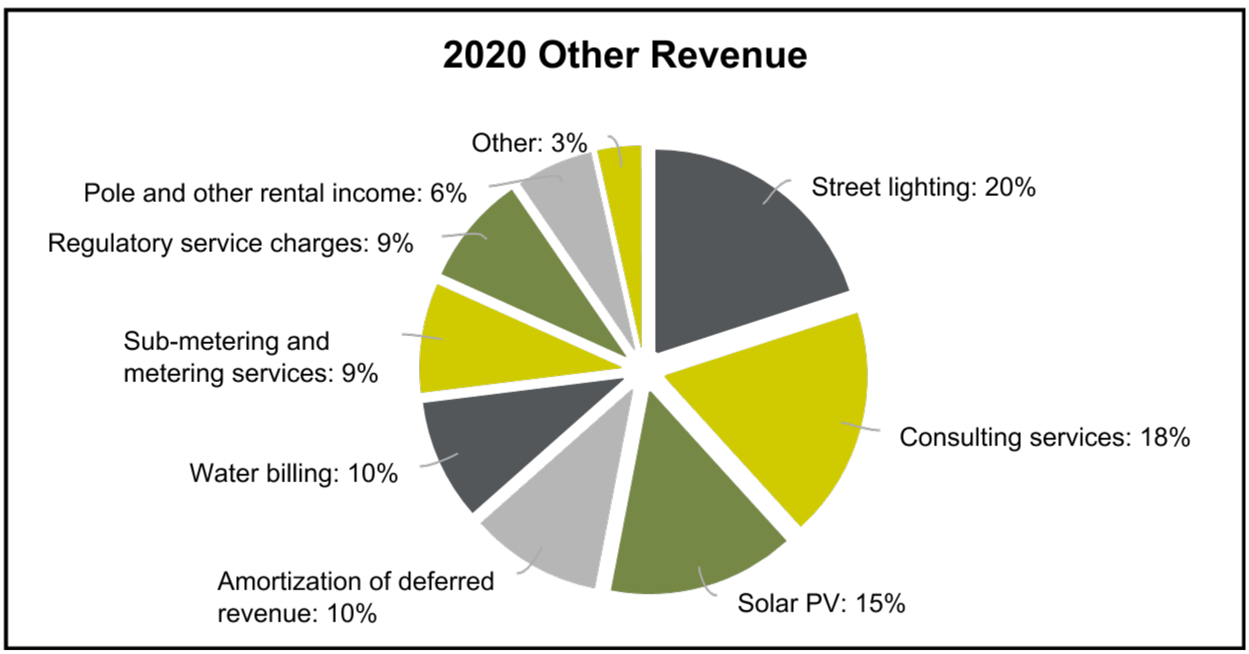
	2020	2019	Change
Other Revenue	115	97	18

Other revenue is earned from regulated electricity distribution activities as well as competitive activities. Other revenue from regulated activities includes:

- the amortization of deferred revenue related to capital contributions from developers;
- rates charged to customers for connections, reconnections, late payments, ancillary services, customer contributions;
- pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and
- Conservation & Demand Management incentives and gains on sale of investments.

Competitive activities include: generation revenue from the Solar Photovoltaic projects; consulting services; water billing services; street lighting services; and sub-metering and metering services.

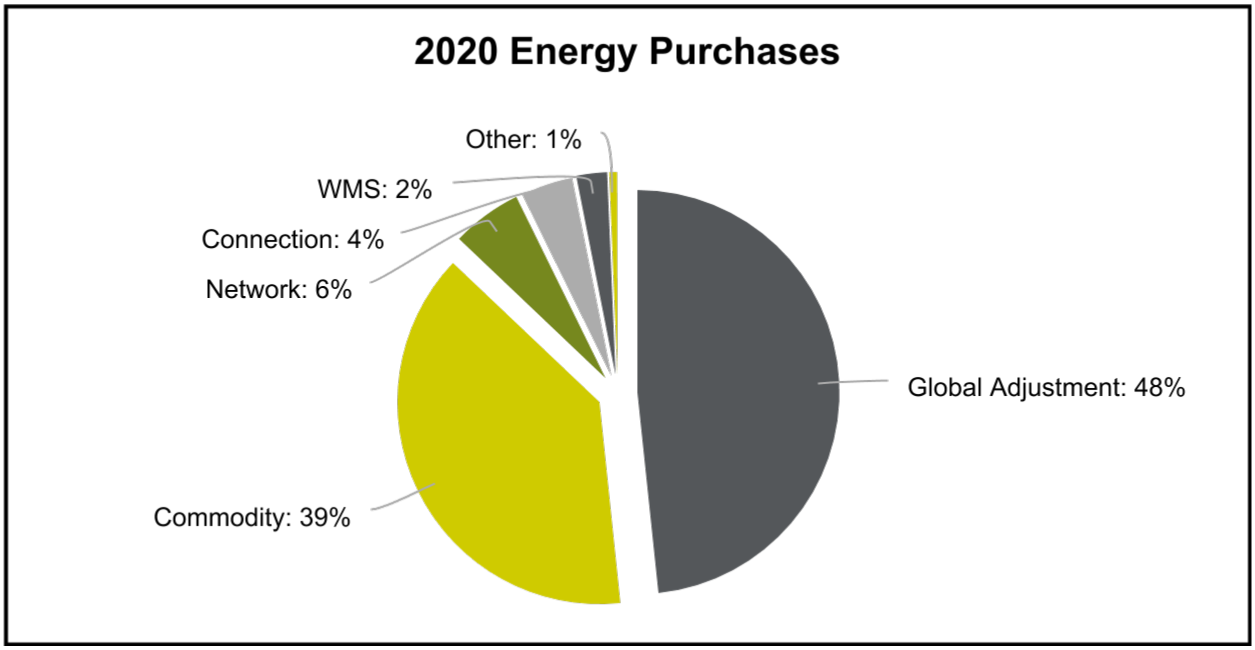
The increase in other revenue of $18 primarily relates to: (i) higher streetlighting revenue from LED projects ($14); and (ii) higher consulting revenue ($7); partially offset by (iii) lower revenue from the IESO for an energy pilot project ($4).



RESULTS OF OPERATIONS (continued)

	2020	2019	Change
Cost of Power	3,489	3,167	(322)

Cost of Power represents actual charges for electricity generated by third parties, which are delivered by Alectra Utilities and passed through to customers in the form of energy sales. The increase in cost of power by $322 is primarily due to higher cost of power as a result of higher wholesale electricity prices.



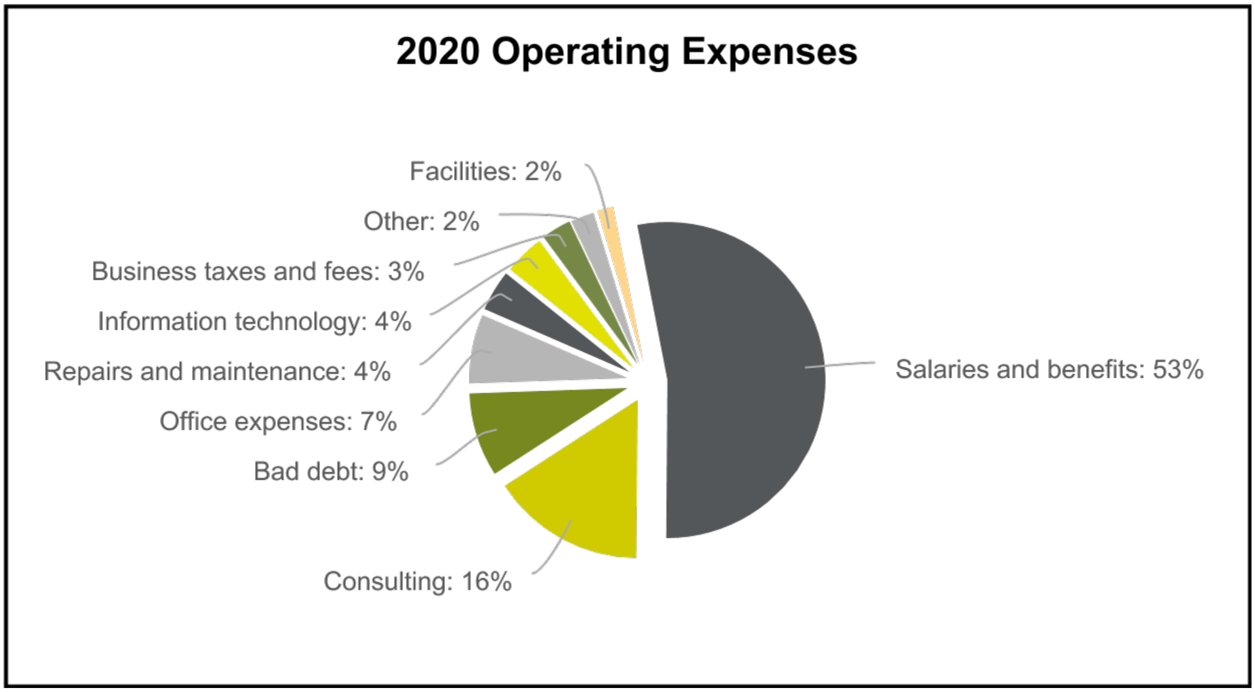
in millions of Canadian dollars

RESULTS OF OPERATIONS (continued)

	2020	2019	Change
Operating Expenses	328	296	(32)

Operating expenses primarily include salaries and benefits, materials, ECL and other third party service costs in support of the activities underlying the business of the Corporation including: (i) operation and maintenance of the distribution system; (ii) billing and collection; (iii) general administration costs; and (iv) costs in support of the competitive business activities.

The increase in operating expense of $32 is principally due to: (i) higher net increase in ECLs largely due to the COVID-19 pandemic ($19); (ii) higher material expenditures related to streetlighting LED projects ($7); and (iii) higher repairs and maintenance expenditures due to extensive cleaning of offices and fleet vehicles due to the COVID-19 pandemic and roofing maintenance under solar panel installations ($4).



	2020	2019	Change
Depreciation and Amortization	165	158	(7)

The increase in depreciation and amortization expense ($7) is primarily due to new in-service asset additions in 2020.

	2020	2019	Change
Derecognition of property, plant, and equipment	(1)	—	1

The increase in derecognition of PP&E of $1 is primarily due to (i) gain on sale and lease back of an operation centre and sale of land ($6); partially offset by (ii) loss on derecognitions and dispositions of distribution assets ($5).

	2020	2019	Change
Income Taxes	28	20	(8)

The Corporation and its subsidiaries, other than AESI and UA, are currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively the "Tax Acts"). As a consequence of this exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes to the Ontario Electricity Finance Corporation ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC. AESI and UA are subject to the payment of tax under the Tax Acts.

The increase in income taxes by $8 primarily relates to higher net income before tax in 2020 relative to 2019.

in millions of Canadian dollars

FINANCIAL POSITION

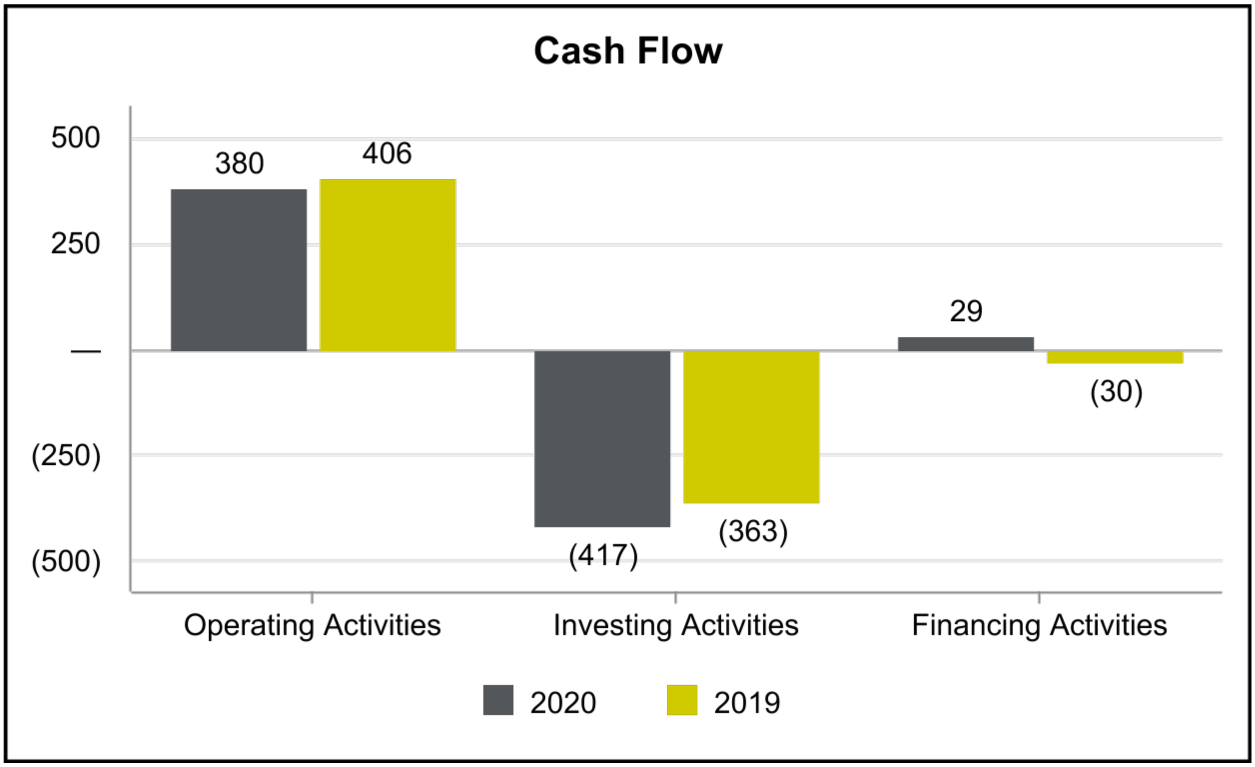
Significant changes in the Corporation's Financial Condition:

	2020	2019	$ Change	% Change	Explanation
Assets					
Restricted cash	80	1	79	7900%	The increase is primarily driven by funds held in an escrow account relating to the purchase of HPSI for settlement of the initial share consideration and the working capital adjustment. Refer to the subsequent events note on page 34.
Accounts receivable	579	535	44	8%	The increase is principally attributable to: (i) higher energy bills resulting from higher energy prices; and (ii) increase in total arrears due to lower customer payments resulting from the COVID-19 pandemic; partially offset by (iii) an increase in ECLs as a result of the COVID-19 pandemic.
Property, plant, and equipment	3,571	3,402	169	5%	The increase is primarily due to capital investments in distribution assets partially offset by higher accumulated depreciation.
Investment in associate	6	—	6	NA	The increase is due to a competitive subsidiary equity investment in a business providing predictive insights for energy providers.
Liabilities					
Short term debt	415	180	235	131%	The increase is due to higher short-term borrowings required to fund working capital and general corporate requirements.
Loans and borrowings	1,948	1,987	(39)	(2%)	The decrease is primarily driven by a senior unsecured debenture maturing in the current year.
Deferred revenue	494	421	73	17%	The increase in deferred revenue is primarily driven by higher customer contributions to fund current new connections and transit programs.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The principal sources of liquidity and capital resources comprise funds generated from operations and the financing and investing activities of the Corporation.



Operating Activities

The decrease in net cash provided in operating activities was principally due to (i) timing differences in relation to the settlement of receivables (refer to *Note 26* in the Consolidated Financial Statements); partially offset by (iii) higher customer contributions.

Investing Activities

The increase in cash used for investing activities was primarily due to: (i) an increase in restricted cash related to the purchase of HPSI; and (ii) due to a competitive subsidiary equity investment in a business; partially offset by (iii) higher proceeds from disposal of property, plant, and equipment due to the sale and leaseback of an operations centre and sale of land.

Financing Activities

The increase in cash from financing activities was primarily due to: (i) higher short-term borrowings required to fund working capital and general corporate requirements; partially offset by (ii) issuance of a new debenture in 2019; and (iii) repayment of a maturing debenture in 2020.

The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- $800 in aggregate revolving unsecured credit facilities: (i) $700 committed facility with four banks maturing October 5, 2022; and (ii) $100 uncommitted facility with a bank which is callable by the bank. The committed facility is also used to support outstanding commitments under the commercial paper ("CP") program by way of same day prime rate advances; and
- Issuance of senior unsecured debentures with various maturity dates under established trust indentures.

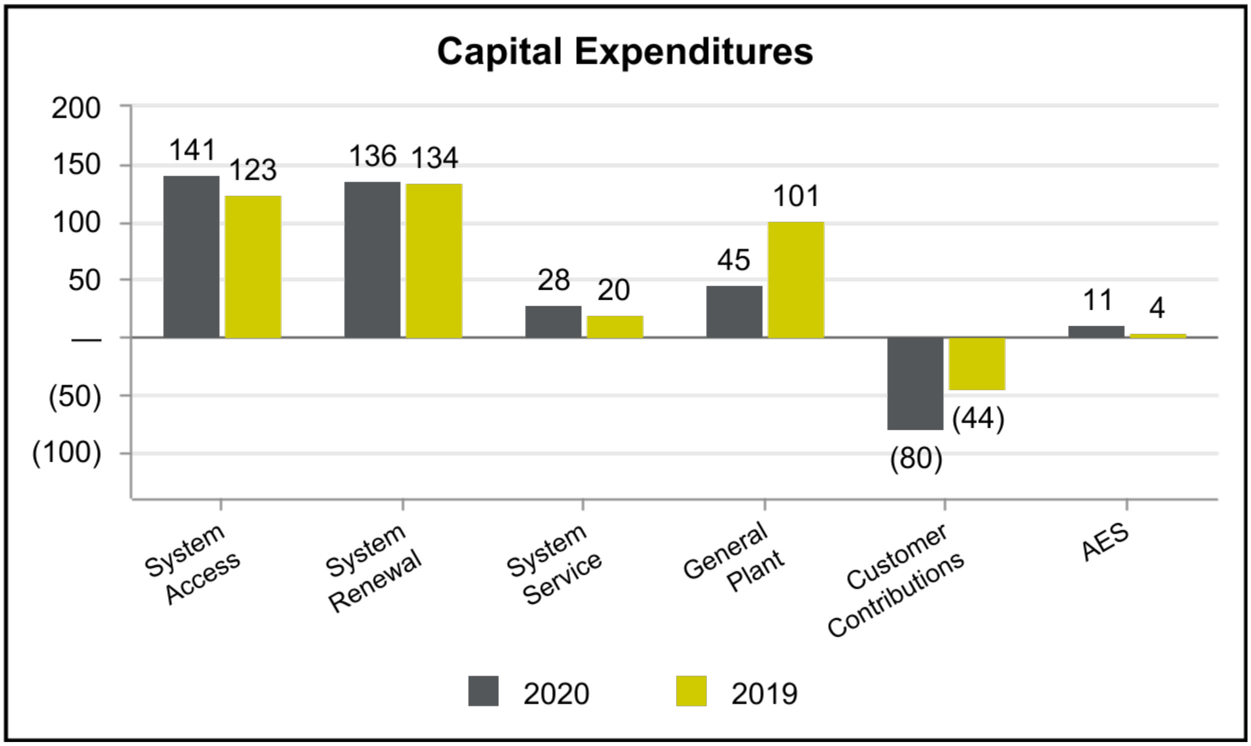
In response to possible liquidity constraints resulting from the COVID-19 pandemic, the Corporation implemented the following measures: (i) increased the committed credit facilities from $500 to $700 with an option for an additional $100 subject to mutual agreement; (ii) addition of two banks to the committed facility syndicate; (iii) extended the committed facility for a period of two years to October 2022; and (iv) increased the CP program from a maximum of $300 to $500. The Corporation believes that these measures result in sufficient liquidity and short-term debt at market-based rates.

Short-term loans at December 31, 2020 and 2019 consist of CP issued under the Corporation's CP program. These short-term loans are denominated in Canadian dollars and are issued with varying maturities of no more than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2020 aggregated $415 (2019 - $180).

Long-term liquidity is available through the Corporation’s ability to issue senior unsecured debentures under an established trust indenture. The rates of interest on such debentures comprise: government of Canada bond yields with terms of maturity corresponding to the terms of issued debentures; market-based credit spreads determined with reference to comparably rated entities; and costs of issuance. Details of the Corporation’s long-term borrowings are provided in the Consolidated Financial Statements (refer to *Note 16*).

Capital Expenditures

The Corporation's gross capital investments are presented by activity in the table below:



System Access ("SA") expenditures relate to projects required to meet customer service obligations in accordance with the DSC of the OEB and corporate Conditions of Service. Projects in this category include: connecting new customers; building distribution infrastructure for new subdivisions; and relocating system plant for roadway reconstruction and major transit initiatives. Capital expenditures in this category have increased by $18 relative to 2019, principally as a result of: (i) investments in distribution assets to support transit projects ($25); (ii) increased metering expenditures ($5); and (iii) increased new connections activity for subdivision development ($4); partially offset by lower expenditures on (iv) distribution system expansion for new customers ($10); and (v) municipal road widening projects ($6).

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures in this category have increased by $2 relative to 2019, principally as a result of: (i) increased investments in underground renewal projects to address aging assets and areas with reliability concerns ($14); partially offset by (ii) lower overhead expenditures largely due to the completion of significant voltage conversion projects in 2019 ($12).

System Service ("SS") expenditures relate to projects required to support the expansion, automation and reliability of the distribution system. SS expenditures have increased by $8 relative to 2019, principally explained by investments in feeder projects to expand system capacity to support growth in residential, commercial and industrial customers.

Capital Expenditures (continued)

General Plant ("GP") and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures have decreased by $56 relative to 2019, principally due to: (i) the 2019 purchase of land for a new operations centre that will result in the decommissioning, sale and consolidation of two existing operations centres ($44); (ii) 2019 merger integration costs primarily related to the consolidation of major IT systems ($20); partially offset by (iii) an increase in IT and facilities expenditures to enable safe work practices during the COVID-19 pandemic ($4).

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have increased over the previous year by $36 primarily due higher contributions for transit, new customer connections and road widening projects.

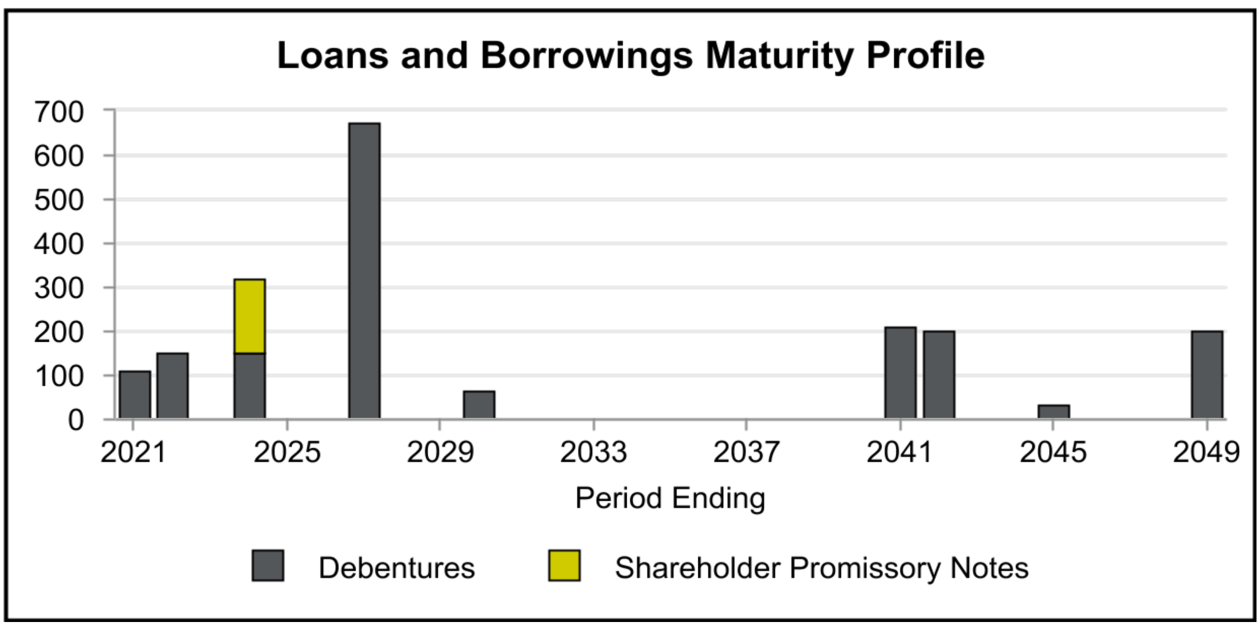
AES capital expenditures have increased mainly due to: (i) the construction and commissioning of a battery storage asset ($4); and (ii) the purchase of sub-metering assets ($3).

Requirements for liquidity and capital resources

The Corporation has sufficient liquidity to meet the needs of its ongoing commitment to maintain, improve and expand its distribution system and competitive businesses, and invest in other infrastructure assets on a sustainable basis.

Summary of loans and borrowings

The following table presents a summary of the Corporation's loans and borrowings:



in millions of Canadian dollars

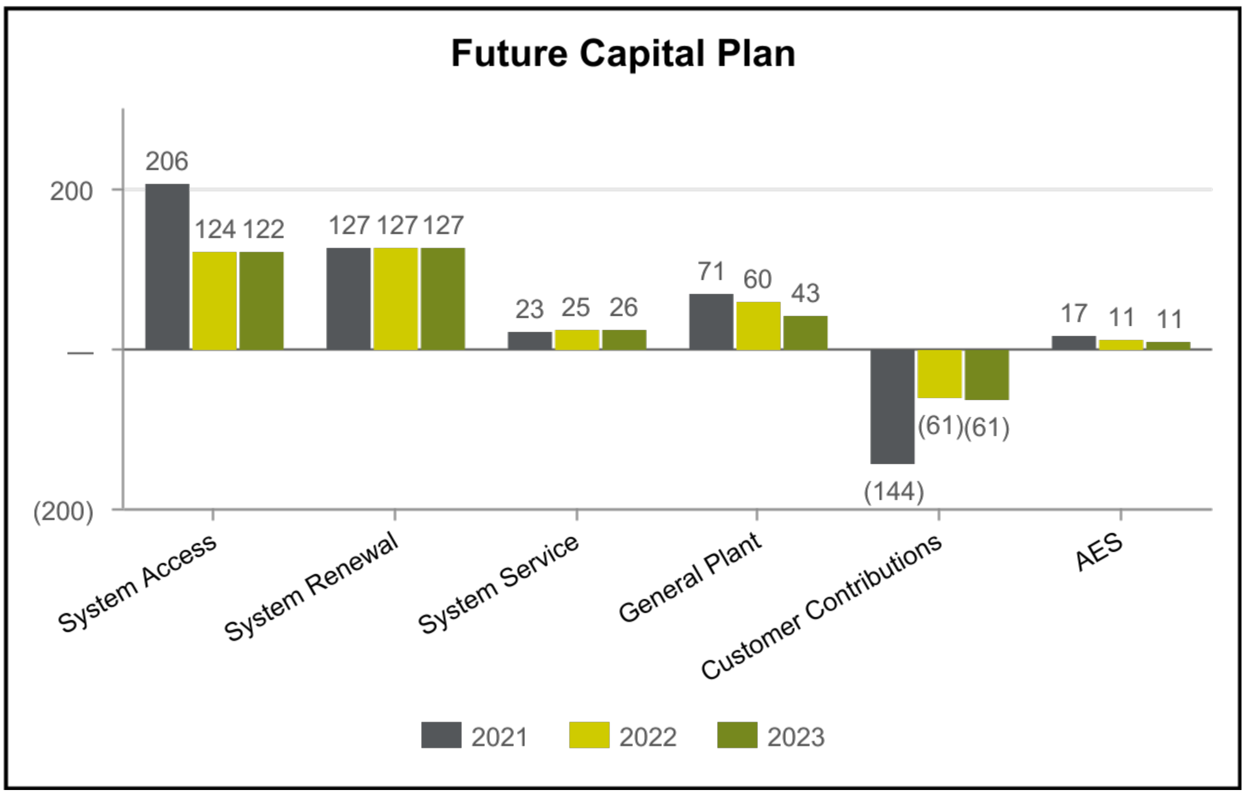
Summary of contractual obligations and other commitments

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

	2021	2022	2023	2024	After 2024	Total
Commercial Paper	415	—	—	—	—	415
Debentures - principal repayment	110	150	—	150	1,380	1,790
Debentures - interest payments	60	57	52	52	584	805
Promissory notes - principal repayment	—	—	—	166	—	166
Promissory notes - interest repayments	7	7	7	5	—	26
Leases	5	5	4	3	30	47
Total contractual obligations and other commitments	597	219	63	376	1,994	3,249

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors. The total net capital expenditure plan is $854 over the 2021-2023 period as outlined in the table below:



Future Capital Plan (continued)

The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers which account for approximately 44% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support road widening and transit infrastructure projects including the Hurontario Light Rail Transit and the GO Transit Electrification projects. Transit projects are predominantly funded by customer contributions from transit agencies such as Metrolinx.

Approximately one-third of the capital to be invested in SR projects is focused on underground asset renewal, which is the primary contributor to declining reliability performance on the distribution system. Another third of the SR capital program will be invested in the renewal of overhead assets to address the impact of weather outages which have increased in both duration and severity.

The three-year expenditure plan for SS is primarily driven by the need to expand system capacity to support residential growth and expansion in Alectra Utilities' service areas. Over the next three years, 43% of the investment in SS will be for system expansion to support growth of residential, commercial and industrial customers. In order to further increase utilization of its assets, Alectra Utilities plans to invest in automation equipment associated with controlling, monitoring and protecting core system assets. In aggregate, 44% of the investment over the three-year plan is in automation, system control and DER integration.

The three-year expenditure plan for GP is primarily driven by the need to enhance information systems to improve efficiency, implement innovative technology and renew aged and obsolete computing assets. This investment accounts for 40% of the total GP expenditures. In addition, 14% of total GP will be invested in updating transportation equipment to allow Alectra Utilities' crews to respond distribution system needs in an efficient and safe manner. Lastly, a significant portion of GP expenditures in 2021 and 2022 correspond to the construction of a new operations centre, consolidating two former operations centres to be decommissioned and sold, and transition expenditures in relation to prior merger activities.

The three-year expenditure plan for AES is primarily driven by competitive business capital investments required to support the growth and strategic goals of the business. These investments will support initiatives such as software development, acquisition of equipment, vehicles, and construction of infrastructure.

in millions of Canadian dollars

SHARE CAPITAL

The Corporation's authorized share capital is comprised of an unlimited number of Class A through G voting common shares, and an unlimited number of Class S non-voting shares, all of which are without nominal or par value as follows:

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding				
Total common shares	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	43	99,999	47
Total share capital	10,584,999	996	10,584,999	1,000

An unlimited number of Class A through C special shares have been authorized but not issued.

During the year ended December 31, 2020, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $80 or $7.60 per share (2019 - $79 or $7.55 per share); and
- Class S share dividends aggregating $2 or $25.32 per share (2019 - $6 or $56.59 per share).

In addition, a return of capital of $4 (2019 - $4) was declared and paid by the Corporation on Class S shares during the year.

The Class S dividends, other than return on capital, are subject to Part VI.1 tax under the Income Tax Act (Canada) at a rate of 25% based on the amount of dividend paid. The Corporation is also eligible for a corresponding deduction equal to a specified multiple of the dividend. The deduction does not fully offset the Part VI.1 tax, resulting in a net effective tax rate of 1.8% on the Class S share dividends.

Refer to *Note 18* in the Consolidated Financial Statements for details.

in millions of Canadian dollars

RELATED PARTIES BALANCES AND TRANSACTIONS

Significant related party transactions and balances with related parties are as follows:

	2020	2019
Transactions		
Revenue	98	87
Expenses	7	5
Dividends declared and paid	82	85
Balances		
Due from related parties	15	16
Due to related parties	44	39
Loans and borrowings	166	166

Services provided to related parties include electricity distribution, street lighting, road projects, payroll, and water and sewage billing. Expenses incurred include municipal taxes and facilities rental (refer to *Note 13*).

The amount due to/from related parties is comprised of amounts payable to/receivable from: the City of Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties (refer to *Note 13*).

Loans and borrowings comprise shareholder promissory notes owing to the City of Barrie, the City of Markham, and the City of Vaughan (refer to *Note 16*).

The annual compensation of key management personnel that is directly attributable to the Corporation was $16 (2019 - $16) (refer to *Note 13*).

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The Corporation's critical accounting policies have been reviewed and approved by the Audit, Finance and Risk Management Committee and are outlined in *Note 5* of the Consolidated Financial Statements. Certain judgements, estimates and assumptions arising from these policies are inherently complex and subjective, changes to which could significantly impact the financial results especially considering the uncertainty surrounding the future impacts of the COVID-19 pandemic. The Corporation continues to monitor and assess the impacts of the COVID-19 pandemic and other potential impacts on critical accounting judgments, estimates, and assumptions.

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; ECL; provisions and contingencies and goodwill in cash generating units. Refer to the relevant section within the basis of preparation note (*Note 2(c)*) and the significant accounting policies note (*Note 5*) for details on estimates and judgments.

CHANGES IN ACCOUNTING POLICIES

The following accounting standard updates were issued by the IASB effective December 31, 2020. These updates do not have a significant impact on the Corporation's Consolidated Financial Statements.

- Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material;
- Reference to Conceptual Framework (Amendments to IFRS 3 - Business Combinations); and
- Amendments to IFRS 3 - Business Combinations: Definition of Business.

Refer to *Note 4* of the Consolidated Financial Statements for further details.

FUTURE ACCOUNTING CHANGES

Certain new accounting standards and interpretations that have been published but are not mandatory for implementation as at December 31, 2020 have not been early adopted in these financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements:

- COVID-19 related rent concessions (Amendment to IFRS 16, *Leases*);
- Proceeds before intended use (Amendments to IAS 16, *Property, Plant, & Equipment*);
- Onerous contracts, cost of fulfilling a contract (Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10, IAS 28);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1); and
- Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

SUBSEQUENT EVENTS

The following significant non- adjusting events occurred after the reporting period:

i. *Acquisition of Holland Power Services Inc.*

On January 4, 2021 (the “Closing Date”), the Corporation acquired 100% of the shares of Holland Power Services Inc. (“HPSI”) through its subsidiary, a privately-held company specializing in providing storm restoration services in Eastern Canada and the United States. This acquisition supports the strategic growth objective of the Corporation through logical extensions and diversification of its utility services.

The total consideration for the acquired shares of HPSI comprises: i) an initial payment of $52 to the vendor on the Closing Date (“Initial Share Consideration”); and ii) additional contingent share consideration, if any, payable based on the annual financial performance of HPSI in 2021 and 2022. The Corporation also paid $28 to the vendor on the Closing Date in consideration of actual working capital as at that date in excess of an assumed level of working capital underlying the purchase price consideration for the shares (“Working Capital Adjustment”).

As a result of the recency and complexity of the transaction, the accounting and valuation for the purchase is still being finalized. Consequently, the estimated fair value of assets acquired and liabilities assumed at the date of acquisition have not been disclosed.

ii. *Bond issuance*

On February 11, 2021, the Corporation issued $300 of 1.751% 10-year senior unsecured debentures due in 2031. The net proceeds of this offering was used to repay the Corporation’s outstanding commercial paper and for general corporate purposes.

in millions of Canadian dollars

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses earnings before interest, taxes, depreciation and amortization ("EBITDA"), comparable net earnings, and funds from operations ("FFO") as financial performance measures under Modified International Financial Reporting Standards ("MIFRS"). MIFRS adjusts IFRS results for the effect of rate regulation. These measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The purpose of these financial measures and their reconciliation to IFRS financial measures are provided below. These non-IFRS measures are consistently applied in the previous period, except where otherwise noted.

	2020	2019
EBITDA (MIFRS)	349	356
Add adjustments to remove regulatory accounting:		
Revenue	2	(41)
Operating expenses	(5)	1
EBITDA (IFRS)	346	316

Management believes that a measure of operating performance is more meaningful when including regulatory accounting in the results of operations as this better reflects the Corporation's normal operations.

AFFO

Adjusted funds from Operations ("AFFO") is used as an additional metric of cash flow without regard to changes in the Corporation’s non-cash working capital and adjusted for contributions in aid of construction. The table below summarizes the Corporation's AFFO as at December 31, 2020 and 2019.

	2020	2019
IFRS Net income	79	64
Adjustment for regulatory activities	44	69
MIFRS Net income	123	133
Depreciation	165	158
Gain on derecognition of property, plant, and equipment	(1)	—
Amortization of deferred revenue	(12)	(11)
Net change in non-cash operating working capital	(50)	52
Net change in non-current assets and liabilities	(48)	(50)
Net change in deferred revenue	126	46
Net change in taxes	—	3
Total changes	180	198
AFFO	303	331

The decrease in AFFO is mainly attributable to: (i) timing differences in relation to the settlement of receivables; partially offset by (ii) an increase in deferred revenue due to higher customer contributions.

RISK MANAGEMENT AND RISK FACTORS

The Corporation has established ongoing activities and processes to identify, monitor and communicate changes in enterprise risks ("ERM Framework"). These activities and processes enable the Corporation to proactively assess risk and develop strategies to minimize risk exposure.

The Corporation's ERM Framework provides for an annual review of risks and opportunities. This review includes the assessment of risk, the identification of risk owners, and documenting appropriate mitigation strategies. The most significant risks identified are discussed below.

Climate and Change

The Corporation serves a large service territory in South Central and Western Ontario and its energy-related infrastructure and other facilities are exposed to a wide variety of climatic conditions. It is the Corporation's intention to design, operate and maintain its assets to be resilient to the climatic conditions within the service territories served by the Corporation.

The effects of climate change and the changes predicted by climate models will require the Corporation to adapt its affected infrastructure investments and operations. An increase in the frequency and severity of weather events as a result of climate change may increase costs or losses for the Corporation and impact the resiliency of its infrastructure resulting in increased frequency or duration of outages and other related customer disruptions.

Compliance

The Corporation, like all organizations, must comply with all applicable laws and regulations and other requirements to which it subscribes or is subject to. These requirements may be as a result of Federal, Provincial or municipal laws, regulations, by-laws or other instruments. Other requirements or obligations may also include IESO Market Rules, OEB license terms and conditions as well as other industry codes to which the corporations must abide.

It is the intention of the Corporation to be in compliance with all requirements and as such, it develops policies, programs and practices to ensure compliance with relevant requirements. Although this is the intent of the Corporation, there is no guarantee that these measures will ensure compliance and a noncompliance situation may result in a material impact on the organization.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit Risk (continued)

The principal source of credit risk for the Corporation corresponds to the realization of its customer receivables. The legislation governing the operation of Ontario's electricity industry exposes the Corporation, through its electricity distribution operations, to credit risk of several multiples of its means to generate revenue. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. Consequently, electricity distribution companies are exposed to losses for entire amounts billed to customers. Electricity distribution companies are not compensated for assuming this level of risk nor is there a clear and mechanistic regulatory means to recover losses for non-distribution charges.

Management has implemented credit and collection policies in compliance with OEB regulation to mitigate the exposure of the Corporation to credit risk, although such regulation is inadequate to effectively mitigate such risk. OEB regulation continues to impose certain restrictions on credit policy that exposes electricity distribution Corporations to unmitigated and uncompensated credit risk of several multiples of their means to generate revenue.

Management actively monitors and manages its exposure to credit risk, within regulatory constraints, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful.

Management has incorporated additional estimates and judgments in the preparation of the ECL on its accounts receivable balances, which are subject to a higher degree of estimation uncertainty than would have existed prior to the COVID-19 pandemic. This includes analyzing customers by class (residential, small commercial, large commercial, etc.) and applying provision rates based on recent and evolving trends for customer collections and current and forecasted economic and other conditions. The Corporation has further segmented customers that are at a higher risk of payment default and have applied higher provision rates to longer aged balances. The Corporation has recorded an incremental provision of $28 to its allowance for ECLs which includes the impact of the COVID-19 pandemic. As at year end, approximately $43 (2019 - $39) of outstanding customer receivable balances are considered over 60 days past due.

Culture and Organizational Change

The Corporation continues to develop and define a unified corporate culture to support the achievement of its strategies and organizational sustainability. Cultural initiatives are designed to support and align with the Corporation's values (Customer Service, Respect, Innovation, Excellence and Safety) and ensure that the resulting behaviors are consistent with these values. Potential risks associated with resistance to cultural change and conformance include impairment in employee engagement, productivity, and/or satisfaction. The Corporation has developed a culture transformation roadmap that identifies initiatives and actions towards the achievement of a unified corporate culture. These initiatives and actions include: building awareness and developing capabilities of leaders and employees to live and lead cultural and behavioral; enhancing employee engagement through increased internal communications; supporting wellness, equity, diversity and inclusion programs; and anchoring the cultural and behavioral commitments to the Corporation's values.

Cyber Security

All businesses are at risk of cyber-attacks and may be vulnerable to unauthorized access due to malicious causes such as: computer viruses; hacking; nation state attacks; or other criminal activity. A cyber-attack has the potential to cause: service organizational disruptions; system failures; or disclosure of confidential customer or business information. These outcomes may result in adverse financial, operational and/or reputational impact on Alectra. Due to rapid changes in technology and infrastructure security requirements of operating systems, the Corporation uses specialized internal resources and outside cybersecurity services to mitigate the potential for cybersecurity events and continuously improve its security posture. Policies, procedures, technologies and employee cybersecurity education programs are in place to reduce the risk of security breach.

Operational

As a result of the COVID-19 pandemic, the Corporation may have greater difficulty undertaking its planned and reactive work as well as responding to and recovering from a business interruption incident beyond normal operations. Additionally, the Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, terrorism, and pandemics.

Operational changes associated with COVID-19 may make the Corporation's responses to business interruption events less effective and more costly than under business-as-usual conditions. The Corporation has implemented various initiatives aimed at improving its operational resiliency through the pandemic. Since March, an executive led Emergency Response Committee has been implemented and currently meets weekly to manage the COVID-19 incident and minimize interruptions to the Corporation's enterprise critical functions. Physical and procedural controls have been put in place to manage and mitigate the impact of the COVID-19 pandemic in the workplace. The effectiveness of these controls are continually reviewed and improvements and corrections are being introduced as required.

Operational (continued)

The Corporation has also undertaken significant health and safety actions including investing in support measures, supplies and critical inventory to address potential challenges to its operations arising from the COVID-19 pandemic.

Pandemic Risk

The Corporation proactively prepares for emergency situations such as a Pandemic through its emergency preparedness and business continuity programs. These programs enable the organization to quickly identify and respond to emergency situations to ensure the safety of staff, public, and assets, as well as to ensure the continuity of operations. The current COVID-19 pandemic is one such event. The Corporation began to plan in advance of the Provincially declared emergency and as such, was able to quickly adjust to maintain operational capability, protect the health, safety and wellness of employees, and support the communities served by the Corporation.

The key levers under Management's control to mitigate the impacts of the Pandemic on net income and cash flow include: (i) collections management processes to mitigate exposure to credit losses; (ii) labour and productivity management to reduce labour costs; iii) reduction of discretionary costs due to work from home protocols and (iv) improve labour productivity and operating costs through the capital program.

Additionally, there is considerable discussion and advocacy with government, the OEB and through industry associations regarding supporting customer payment flexibility through the COVID-19 pandemic and providing electricity distributors with enabling financial mechanisms to do so, including direct government support and regulatory deferral accounts to recover costs associated with the COVID-19 pandemic. (Refer to the Operational Risk, Credit Risk and Risk Associated with Debt Financing sections for further details on measures taken by the Corporation to address the impact of the COVID-19 pandemic).

Regulatory/Political Risk

The electricity distribution business in Ontario is strictly regulated, which poses risks to the financial and operational aspects of the Corporation's rate regulated business. All requests for changes in electricity distribution charges require the approval of the OEB. The Province and/or the OEB could implement a regulatory framework or issue directives or decisions that restrict the electricity distribution business from achieving an allowable rate of return that permits the financial sustainability of its operations.

The Corporation files applications to the OEB on an ongoing basis for rate adjustments in support of the sustainment and growth of its electricity distribution system. OEB decisions on current and future applications could have a significant impact on the distribution revenue of the Corporation. The Corporation has an experienced management team dealing with these regulatory matters and continues to mitigate regulatory and political risk through participation in stakeholder groups, industry associations and other affiliations that are designed to inform the development of the legislative and regulatory environment.

Risk Associated with Debt Financing

The Corporation relies on debt financing or the availability of credit facilities to repay existing indebtedness and to finance its ongoing business operations including capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including: (i) financial market conditions; (ii) the regulatory environment in Ontario; (iii) the Corporation's results of operations and financial condition; (iv) the ratings assigned to the Corporation and its debt securities by credit rating agencies; (v) the current timing of debt maturities and (vi); the impact of the COVID-19 pandemic; and (vii) other general economic conditions. These factors may lead to changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future.

Management has taken proactive measures to ensure adequate access to financial liquidity through its credit facilities and ability to issue long-term debt under established trust indentures.

Safety and Wellness

The Corporation is engaged in the construction, operation and maintenance of high voltage electrical infrastructure throughout the communities it serves and, as such, is exposed to significant safety risks associated with this work. These risks include the potential for a major impact on the health and safety of the Corporation's staff or a member of the public. The failure to keep members of the public and employees safe could have a material adverse effect on the Corporation. The Corporation's safety program is based on a continuous improvement principal through on-going review and audit. The Corporation is focused on the continuous improvement its safety culture and program to support safety performance and minimize associated risks.