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March 25, 2011

via RESS e-filing – original to follow by courier

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge St, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: Toronto Hydro-Electric System Limited (THESL)
2011 EDR Application – Settlement Proposal
OEB File No. EB-2010-0142**

A Settlement Conference between the parties in this proceeding took place the week of February 28, 2011. A Settlement Proposal was agreed to by the parties and in accordance with Procedural Order 9 issued by the Board on February 1, 2011, attached is the Settlement Proposal.

Yours truly,

[Original signed by]

Glen A. Winn
Manager, Regulatory Applications & Compliance
regulatoryaffairs@torontohydro.com

cc: Registered Intervenors in EB-2010-0142
J. Mark Rodger, Counsel to THESL

EB-2010-0142

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

SETTLEMENT PROPOSAL

March 25, 2011

Toronto Hydro-Electric System Limited

EB-2010-0142

Settlement Proposal

Filed with OEB: March 25, 2011

This settlement proposal is filed with the Ontario Energy Board (“the Board”) in connection with an application by Toronto Hydro-Electric System Limited (“THESL” or “Toronto Hydro”) for an Order or Orders fixing just and reasonable distribution rates and other charges, effective May 1, 2011 (Board Docket Number EB-2010-0142) (the “Application”).

Further to the Board’s Procedural Order No. 3 dated December 13, 2010, a settlement conference was held commencing on January 25, 2011 in accordance with the Board’s *Rules of Practice and Procedure* (the “Rules”) and the Board’s *Settlement Conference Guidelines* (the “Guidelines”).

On January 26, 2011, THESL filed a letter with the Board which requested an adjournment to the settlement discussions until THESL could file an update to its application to reflect material, late breaking mandatory accounting changes (the “Accounting Update”). The Board approved the adjournment in its Procedural Order No. 8 dated January 27, 2011 and the settlement conference reconvened on February 28, 2011 pursuant to the Board’s Procedural Order No. 9 dated February 1, 2011.

Mr. Ken Rosenberg acted as facilitator for the settlement conference, which continued until March 4, 2011. THESL and the following intervenors (the “intervenors”, and collectively including THESL, the “parties”) participated in the settlement conference:

- Association of Major Power Consumers in Ontario (“AMPCO”)
- Building Owners and Managers Association of the Greater Toronto Area (“BOMA”)
- Consumers Council of Canada (“CCC”)
- Energy Probe Research Foundation (“Energy Probe”)
- Pollution Probe Foundation (“PP”)
- School Energy Coalition (“SEC”)
- Smart Sub-metering Working Group (“SSMWG”)
- Vulnerable Energy Consumers Coalition (“VECC”)

AECON Utilities, the Canadian Union of Public Employees (Local One), Entera Utility Contractors Co. Limited, Horizon Utilities Corporation, Powerline Plus Ltd., and PowerStream Inc. did not participate in the settlement conference and are not parties to this settlement proposal.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the *Guidelines*. The parties understand this to mean that the documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the settlement conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception: the need to resolve a subsequent dispute over the interpretation of any provision of this settlement proposal.

The role adopted by Board staff in the Settlement Conference is set out in page 5 of the *Guidelines*. Although Board staff is not a party to this Agreement, as noted in the *Guidelines*, Board staff who participated in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

For ease of reference, the settlement proposal follows the format of the Approved Final Issues List provided in the Board’s Procedural Order No. 2 dated November 11, 2010 (which is hereto attached as Appendix “A”). The following table describes how the issues have been characterized for the purposes of this settlement proposal and provides a summary of the status of the issues at the outcome of the settlement conference:

<p>Complete Settlement: An issue for which complete settlement was reached by all parties. If this settlement proposal is accepted by the Board, the parties will not adduce any evidence or argument during the oral hearing in respect of these issues.</p>	<p># issues settled: [23]</p>
<p>Partial Settlement: An issue for which there is partial settlement, as THESL and the intervenors who take any position on the issue were able to agree on some, but not all, aspects of the particular issue. If this settlement proposal is accepted by the Board, the parties who take any position on the issue may only adduce evidence and argument during the hearing on those portions of the issues not addressed in this settlement proposal.</p>	<p># issues partially settled: [6]</p>
<p>No Settlement: An issue for which no settlement was reached. THESL and the intervenors who take a position on the issue may adduce evidence and/or argument at the hearing on the issue.</p>	<p># issues not settled: [5]</p>

A party who is noted as taking no position on an issue may or may not have participated in the discussion on that particular issue, but in any event takes no position on the settlement or partial settlement reached or on the sufficiency of the evidence filed to-date.

This settlement proposal provides a brief description of each of the settled and partially settled issues, together with references to the evidence filed to-date. The supporting parties for each settled or partially settled issue agree that the evidence filed to-date in respect of that settled or partially settled issue, as supplemented in some instances by

additional information recorded in this settlement proposal, is sufficient in the context of the overall settlement to support the proposed settlement or partial settlement. There are Appendices to this settlement proposal which provide further support for the proposed settlement.

Pursuant to Procedural Order #4, the Board determined that the \$30 million energy storage project proposed by THESL could not be settled, but would go to a hearing. Contemporaneously with this Settlement Agreement, THESL has written to the Board withdrawing its application for approval of that project. In entering into this Agreement, the parties have assumed that the withdrawal of the energy storage project is accepted by the Board. All calculations of OM&A, capital, rate base, revenue requirement, and other such amounts are based on that assumption.

According to the *Guidelines* (p. 3), the parties must consider whether a settlement proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. The parties consider that no settled issue requires a specific adjustment mechanism. The settlement on each of the issues may, however, be subject to adjustment for the impacts of the Board's determination on the unsettled issues, as further described below.

The parties have settled the issues as a package and none of the parts of this settlement proposal is severable. If the Board does not accept this settlement proposal, in its entirety, then there is no settlement (unless the parties agree in writing that any part(s) of this settlement proposal that the Board does accept may continue as a valid settlement without inclusion of any part(s) that the Board does not accept).

It is also agreed that this Agreement is without prejudice to any of the Parties re-examining these issues in any subsequent proceeding and taking positions inconsistent with the resolution of these issues in this Agreement. However, none of the Parties will in any subsequent proceeding take the position that the resolution therein of any issue settled in this Agreement, if contrary to the terms of this Agreement, should be applicable for all or any part of the 2011 Test Year.

Summary of the Settlement

The central feature of this settlement proposal is an agreed-to decrease in THESL's proposed 2011 Base Revenue Requirement from \$578.4M, as proposed in the Application, to \$524.8M in this settlement proposal, which includes adjustments arising out of the Accounting Update, as discussed below, subject to the Board's determination of the unsettled issues. This settlement is pending updated revenue requirement and rate impacts reflecting the cost of capital parameters defined in the Board's March 3, 2011 letter for distributors that are applying for May 1st 2011 rates which will be provided on Monday, March 28, 2011. The expected impact of the adjustment is approximately \$3M reduction in revenue requirement.

This reduced Revenue Requirement corresponds to the following changes in capital and operational expenditures, which changes are more fully explained in the applicable section of this settlement agreement:

(\$ million)	Application	Settlement Proposal ⁽¹⁾	Settlement Proposal ⁽²⁾	Relevant Issue
2011 Base Revenue Requirement	\$578.4	\$551.0	\$524.8	1.4
2011 Capital Expenditures	\$498.0	\$400.0	\$378.8	4.2
2011 OM&A	\$226.8	\$216.0	\$237.8	3.1
2011 Revenue Offsets	\$19.7	\$26.0	\$26.0	2.2

Notes:

(1) These settlement amounts are calculated prior to taking into account the Accounting Update adjustments. These values are included for ease of comparison only.

(2) These settlement amounts are calculated after taking into account the Accounting Update adjustments. These values form the basis of the settlement in this proposal.

The Parties believe that the Agreement represents a balanced proposal that protects the interests of Toronto Hydro’s customers, employees and shareholder and promotes economic efficiency and cost effectiveness. It also provides the resources which will allow Toronto Hydro to manage its assets so that reasonable standards of performance and the safe, reliable delivery of electricity, at reasonable prices, are achieved.

This Agreement will allow Toronto Hydro to continue to make the necessary maintenance and operation expenditures as well as capital investments to maintain the safety and reliability of the electricity distribution service that it provides. This Agreement will also allow Toronto Hydro to maintain current capital investment levels in infrastructure to ensure a reliable distribution system; to manage current staffing levels, skills and training to ensure regulatory compliance with Codes and Regulations;; and to continue to provide the high level of customer service Toronto Hydro customers have come to expect.

The Accounting Update

On January 26, 2011, THESL filed a letter with the Board asking to adjourn settlement discussions so that THESL could file the Accounting Update.

On February 9, 2011, THESL filed the Accounting Update which, in short, relates to material changes to accounting estimates that THESL proposes to apply prospectively,

effective January 1, 2011, for financial and regulatory reporting purposes. THESL has advised in the Accounting Update that these changes in accounting estimates were determined through the work performed by THESL in preparation for its adoption of IFRS. THESL has also advised that the adoption of IFRS has been deferred until January 1, 2012; notwithstanding the deferral of the adoption of IFRS, THESL has since determined that the changes in accounting estimates determined in preparation for IFRS have triggered certain accounting changes pursuant to Canadian GAAP.

The evidence related to the Accounting Update can be found at Exhibit Q1, Tab 2 and Exhibit R2, Tab 1-5. While this Settlement Proposal includes the Revenue Requirement of this settlement both before and after the Accounting Update, all of the parties agree that this settlement is based on the Revenue Requirement calculations that incorporate the Accounting Update adjustment. Pre-Accounting Update numbers are included for convenience purposes only, to allow for comparisons to prior THESL applications which would not have included the Accounting Update adjustments.

Attached as Appendix B to this Settlement Proposal are schedules comparing Revenue Requirement as reflected in the original Application filed in August and the result of this proposed settlement, both before and after incorporating the Accounting Update adjustment. Appendix B also shows the bill impacts as a result of the proposed settlement, after incorporating the Accounting Update adjustment. The Schedules include revised OM&A and capital budgets reflecting this settlement proposal, and proposed rates and bill impacts on the basis of the settled revenue requirement. The parties agree that the Schedules were prepared by THESL, based on calculations and data that have not been the subject of any external review or testing, and that those Schedules form part of and are an essential component of this settlement proposal. The Intervenor have relied on the accuracy of the Schedules in agreeing to the settlement of the issues set forth herein.

Unsettled Issues

The parties were able to settle all of the issues except for the following contested issues which are not resolved or only partially resolved as part of this settlement proposal:

1. **IRM (Issue. 1.5):** The parties did not reach agreement on Issue 1.5. The issue relates to when it would be appropriate for THESL to commence filing rate applications under incentive regulation.
2. **Emerging Requirements (Issues 4.1, 4.2, 9.1, 9.2 and 9.3):** In Procedural Order No. 4 issued January 12, 2011, the Board determined that the following three proposed expenditures included by THESL as part of its capital budget will not be eligible for settlement: (i) the energy storage project included under emerging requirements(which has today been withdrawn subject to Board approval), (ii) the electric vehicle charging infrastructure program included under smart grid as part of emerging requirements; and (iii) the fleet & equipment services expenditures under the general plant category, due to the inclusion of

vehicle purchases related to the green initiative (“**Emerging Requirements**”). These expenditures relate to Issues 4.1, 4.2, 9.1, 9.2 and 9.3 and are excluded from the proposal to settle the capital budget and the Smart Grid Plan contained herein. If any of these projects are approved, the amount included in the Application will be in addition to the agreed-upon amount of capital expenditures in the Test Year. For greater certainty, the characterization by the parties of these expenditures using the nomenclature “emerging requirements” does not imply that these expenditures, or any of them, are either new or required.

3. **Deferral and Variance Accounts (Issue 6.1).**
4. **Suite Metering (Issues 7.2 and 7.3):** In Procedural Order No. 3 issued December 13, 2010, the Board determined that Issues 7.2 and 7.3 related to THESL’s suite metering are not eligible for settlement (“**Suite Metering**”). The settlement figures are calculated on the assumption that these issues are treated as set forth in the Application, but that assumption is not an indication by any party of an expected outcome.
5. **Cost Allocation and Rate Design (Issues 7.1 and 7.4):** The parties did not reach settlement on revenue-to-cost ratios for each class.

The parties agree that failure to achieve settlement on the above-noted issues should not otherwise displace the settlement described in this settlement proposal. The parties agree that all unsettled issues will be dealt with during the oral phase of this proceeding.

1. GENERAL

1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's evidence that it has responded to all relevant Board directions from previous proceedings.

Evidence: Exhibit A1, Tab 5; Exhibit L1, Tab 3-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Party taking no position: PP and SSMWG

1.2 Are Toronto Hydro's economic and business planning assumptions for 2011 appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's economic and business planning assumptions for 2011 as a reasonable foundation for the settlement herein.

Evidence: Exhibit C1, Tab 4; Exhibit R1, Tab 1, Schedule 4; Exhibit R1, Tab 3, Schedule 2-4; Exhibit R1, Tab 6, Schedule 2; Exhibit R1, Tab 9, Schedule 6-7; Exhibit R1, Tab 11, Schedule 4-5, Exhibit R2, Tab 7, Schedule 6.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Party taking no position: PP and SSMWG

1.3 Is service quality, based on the OEB specified performance indicators, acceptable?

Complete Settlement: For the purpose of settlement of the issues contained herein, the intervenors accept THESL's service quality targets for the Test Year.

Evidence: Exhibit B1, Tab 13-14; Exhibit R1, Tab 1, Schedule 5-6; Exhibit R1, Tab 6, Schedule 8-11, 36-40; Exhibit R1, Tab 11, Schedule 2-3; Exhibit S1, Tab 1, Schedule 4; Exhibit S1, Tab 5, Schedule 2.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

1.4 Is the overall increase in the 2011 revenue requirement reasonable?

Complete Settlement: As part of this settlement agreement, THESL has agreed to reduce its revenue requirement to \$524.8M (after implementation of the Accounting Update adjustments), from \$578.4M originally requested in its pre-filed evidence, subject to adjustment by the Board as a result of its resolution of the unsettled issues. . All parties including THESL are satisfied that THESL can operate the utility in a safe and reliable manner based on this revenue requirement.

Evidence: Exhibit J1, Tab 1-2; Exhibit Q1, Tab 2; Exhibit R1, Tab 4, Schedule 29; Exhibit R2, Tab 1, Schedule 9.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

1.5 When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?

No Settlement: The parties did not reach agreement on this issue.

2. LOAD AND REVENUE FORECAST

2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Complete Settlement: For the purpose of settlement of the issues in this proceeding, the intervenors accept the load forecast and the reflection therein of the impact of CDM initiatives.

Evidence: Exhibit K1, Tab 1-8; Exhibit R1, Tab 1, Schedule 10-13; Exhibit R1, Tab 3, Schedule 3,47-51; Exhibit R1, Tab 11, Schedule 10-14, 29; Exhibit S1, Tab 1, Schedule 5; Exhibit S1, Tab 3, Schedule 1; Exhibit S1, Tab 8, Schedule 4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

2.2 Is the proposed amount for 2011 other revenues appropriate?

Complete Settlement: As part of this settlement agreement, THESL has agreed to increase its revenue offsets to \$26.0M, from \$19.7M originally proposed in its pre-filed evidence. THESL believes it can achieve this level based on current conditions in scrap metals markets, and other potential revenue offsets for 2011.

For the purpose of settlement of the issues in this proceeding, the intervenors accept THESL's new proposal for 2011 other revenues.

Evidence: Exhibit I1, Tab 1; Exhibit R1, Tab 1, Schedule 14-15; Exhibit R1, Tab 3, Schedule 43-45; Exhibit S1, Tab 4, Schedule 1, 15.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3. OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

3.1 Are the overall levels of the 2011 Operation, Maintenance and Administration budgets appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the parties agree that the OM&A component of the revenue requirement should be adjusted to \$237.8M. This is made up of two changes. First, based on the historical accounting method, THESL has agreed to reduce its OM&A budget by \$10.8 million, from \$226.8 million as set forth in the pre-filed evidence, to \$216 million. Second, based on the Accounting Update the OM&A is increased by the amount of \$21.8 million reflecting a reduced capitalization of overheads and other costs. This is offset by an equal reduction in capital expenditures for the year.

Evidence: Exhibits F1, Tab 1-7; Exhibit F2, Tab 1-11; Exhibit Q1, Tab 2; Exhibit R1, Tab 9, Schedule 15, 19; Exhibit R1, Tab 4, Schedule 17; Exhibit R1, Tab 6, Schedule 17-19; Exhibit R1, Tab 11, Schedule 16-17; Exhibit S1, Tab 1, Schedule 9; Exhibit S2, Tab 1, Schedule 1.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.2 Is the proposed level of 2011 Shared Services and Other O&M spending appropriate?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C1, Tab 2- 3; Exhibit, Q1, Tab 2; Exhibit R1, Tab 1, Schedule 38-40; Exhibit R1, Tab 6, Schedule 21; Exhibit R1, Tab 9, Schedule 27-30; Exhibit R1, Tab 11, Schedule 1, 21-22; Exhibit S1, Tab 4, Schedule 3-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.3 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2011 appropriate?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C1, Tab 2- 3; Exhibit, Q1, Tab 2; Exhibit R1, Tab 9, Schedule 28-30; Exhibit R1, Tab 11, Schedule 1, 21-22; Exhibit S1, Tab 4, Schedule 3-4. Exhibit S1, Tab 7, Schedule 8.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.4 Are the 2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Toronto Hydro demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C2, Tab 1; Exhibit R1, Tab 1, Schedule 41,43-50; Exhibit R1, Tab 4, Schedule 12-13; Exhibit R1, Tab 6, Schedule 23-24, 29, 34; Exhibit R1, Tab 9, Schedule 35-36; Exhibit S1, Tab 2, Schedule 1-7; Exhibit S1, Tab 5, Schedule 12-13, 16-21; Exhibit S2, Tab 1, Schedule 2, 7.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.5 Is Toronto Hydro's depreciation expense appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's depreciation expense, as adjusted to reflect the Accounting Update and the reduced 2011 Capital Expenditures discussed under item 4.2 below.

Evidence: Exhibit D1, Tab 12-13; Exhibit Q1, Tab 2; Exhibit R1, Tab 01, Schedule 55; Exhibit R1, Tab 3, Schedule 33.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.6 Are the amounts proposed for capital and property taxes appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed amounts for capital and property taxes, as adjusted to reflect the Accounting Update and this settlement.

Evidence: Exhibit H1, Tab 1; Exhibit R1, Tab 3, Schedule 42.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.7 Is the amount proposed for PILs, including the methodology, appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the amount proposed for PILS, as adjusted to reflect the Accounting Update and this settlement.

Evidence: Exhibit H1, Tab 1; Exhibit Q1, Tab 2; Exhibit R1, Tab 1, Schedule 57-58; Exhibit R1, Tab 3, Schedule 42, 53, 55.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4. CAPITAL EXPENDITURES AND RATE BASE

4.1 Are the amounts proposed for Rate Base appropriate?

Partial Settlement: For the purposes of settlement of the issues in this proceeding, the parties agree to the revised amounts proposed for Rate Base as set forth in Appendix B, subject to the Board's determination with respect to the emerging requirements which were identified in Procedural Order No. 4 as not being eligible for settlement.

Evidence: Exhibits D1, Tab 1-15; Exhibit D2, Tab 1; Exhibit R1, Tab 4, Schedule 16, 28-29; Exhibit R1, Tab 9, Schedule 46.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.2 Are the amounts proposed for 2011 Capital Expenditures appropriate including the specific Operational and Emerging Requirements categories?

Partial Settlement: As part of this settlement proposal, THESL agrees to reduce its 2011 capital budget from \$498M originally requested in the Application to

\$378.8M, which amount reflects the Accounting Update adjustments and excludes the Emerging Requirements which were identified in Procedural Order No. 4 as not eligible for settlement.

THESL agrees that, based on this agreed capital budget, it can continue to operate its system in a safe and reliable manner in the Test Year. All of the parties agree that the scope of this issue can therefore be reduced to:

“Are the amounts proposed for 2011 Capital Expenditures related to (i) the energy storage project included under emerging requirements, (ii) the electric vehicle charging infrastructure program included under smart grid as part of emerging requirements; and (iii) the vehicle purchases related to the green initiative under the general plant category (the “**Emerging Requirements**”) appropriate?”

Evidence: Exhibits D1, Tab 7-9; Exhibit R1, Tab 1, Schedule 18, 61-63, 66-71, 74-81; Exhibit R1, Tab 2, Schedule 21-25; Exhibit R1, Tab 3, Schedule 6-31; Exhibit R1, Tab 04, Schedule 31; Exhibit R1, Tab 6, Schedule 1; Exhibit R1, Tab 9, Schedule 46-47, 49-55; Exhibit S1, Tab 1, Schedule 13-15; Exhibit S1, Tab 3, Schedule 3; Exhibit R2, Tab 1, Schedule 11; Exhibit R2, Tab 5, Schedule 1; Exhibit S2, Tab 1, Schedule 9.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.3 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used appropriate?

Complete Settlement: . See Issue 4.1 above.

Evidence: Exhibit D1, Tab 14; Exhibit R1, Tab 1, Schedule 79; Exhibit S1, Tab 7, Schedule 20.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.4 Does Toronto Hydro’s Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2011?

Complete Settlement: The parties agree that THESL’s Asset Condition Assessment and Investment Planning Process and the other evidence provided by THESL in this proceeding collectively support the net capital budget in the Test Year of \$378.7 million.

Evidence: Exhibit C1, Tab 6, Schedule 1, Exhibit D1, Tab 8, Schedule 11; Exhibit R1, Tab 1, Schedule 64; Exhibit R1, Tab 4, Schedule 25; Exhibit R1, Tab 06, Schedule 44-45; Exhibit R1, Tab 11, Schedule 32.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.1 Is the proposed Capital Structure, Rate of Return on Equity, and Short-Term Debt Rate appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept that THESL will use the Cost of Capital parameters defined in the Board's March 3, 2011 letter for distributors that are applying for May 1st 2011 rates.

Evidence: Exhibit E1, Tab 1-7; Exhibit R1, Tab 3, Schedule 43.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5.2 Is the proposed Long-Term Debt Rate appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed Long-Term Debt Rate.

Evidence: Exhibit E1, Tab 4; Exhibit R1, Tab 1, Schedule 82; Exhibit R1, Tab 3, Schedule 34-35; Exhibit R1, Tab 11, Schedule 36.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5.3 Is the proposed dollar cost of Long-Term Debt appropriate after having regard to the transaction undertaken by the holder of the \$490 million promissory notes in March 2010?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed dollar cost of Long-Term Debt.

Evidence: Exhibit E1, Tab 4; Exhibit R1, Tab 1, Schedule 82.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

6. DEFERRAL AND VARIANCE ACCOUNTS

6.1 Is the proposal for the amounts, disposition and continuance of Toronto Hydro's existing Deferral and Variance Accounts appropriate?

No Settlement: The parties were not able to reach agreement on this issue.

Evidence: Exhibit J1, Tab 1-2; Exhibit R1, Tab 1, Schedule 83-89; Exhibit R1, Tab 11, Schedule 1.

7. COST ALLOCATION AND RATE DESIGN

7.1 Is Toronto Hydro's cost allocation appropriate?

Partial Settlement. For the purposes of settlement of the issues in this proceeding, the parties agree to the cost allocation proposed by Toronto Hydro, with one exception: the Intervenor do not agree with the methodology used by Toronto Hydro to account for the transformer allowance. It is agreed that the transformer allowance methodology should be determined after an oral hearing on that issue.

Evidence: Exhibit L1, Tab 1-4; Exhibit R1, Tab 1, Schedule 90-92; Exhibit R1, Tab 11, Schedule 38-39.

7.2 Is Toronto Hydro's suite metering cost allocation appropriate?

No Settlement: Pursuant to Procedural Order No. 3, this issue was not eligible for settlement.

7.3 Is it appropriate for Toronto Hydro to establish a separate rate class for multi-unit residential customers that are served directly by Toronto Hydro through its suite metering provision?

No Settlement: Pursuant to Procedural Order No. 3, this issue was not eligible for settlement.

7.4 Are the proposed revenue to cost ratios for each class appropriate?

No Settlement: The parties were not able to agree on this issue.

Evidence: Exhibit M1, Tab 1-5; Exhibit R1, Tab 1, Schedule 92; Exhibit R1, Tab 4, Schedule 38; Exhibit R1, Tab 9, Schedule 61; Exhibit R1, Tab 11, Schedule 38.

7.5 Are the fixed-variable splits for each class appropriate?

Complete Settlement: For the purpose of settlement of the issues in this proceeding, THESL agrees to maintain the fixed monthly charge for each of Residential and GS<50 classes at the 2010 levels, and with that change the intervenors accept the fixed-variable splits for each class as filed.

Evidence: Exhibit M1, Tab 1; Exhibit R1, Tab 2, Schedule 27; Exhibit R2, Tab 1, Schedule 10; Exhibit R1, Tab 8, Schedule 4-5, 7; Exhibit S1, Tab 2, Schedule 8.

7.6 Are the proposed Retail Transmission Service rates appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed Retail Transmission Service rates. All parties agree that they will be updated at rate finalization for the recently announced (EB-2010-0002) Uniform Electricity Transmission Rates.

Evidence: Exhibit N1, Tab 2; Exhibit S1, Tab 3, Schedule 12.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

7.7 Are the proposed Total Loss Factors appropriate?

Complete Settlement. Subject to the resolution of issue 6.1 as it relates to variances in line losses, for the purposes of settlement of the issues in this proceeding, the intervenors accept the Total Loss Factors as proposed by Toronto Hydro.

Evidence: Exhibit M1, Tab 5; Exhibit R1, Tab 8, Schedule 2, 6; Exhibit S1, Tab 7, Schedule 24.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

8. SMART METERS

8.1 Is Toronto Hydro's proposal to include its 2011 smart meter costs in rate base as a regular distribution activity appropriate?

- a) **Complete Settlement:** For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposal to include THESL's smart meter costs in rate base as a regular distribution activity, starting in 2011. The smart meter costs forecast for inclusion in 2011 include \$12.6M capital and \$2.4M OM&A.

Evidence: Exhibit D1, Tab 8, Schedule 7; Exhibit R1, Tab 01, Schedule 93;; Exhibit R1, Tab 11, Schedule 43.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

8.2 Are the proposed 2011 smart metering costs appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed 2011 smart metering costs.

Evidence: Exhibit D1, Tab 8, Schedule 7; Exhibit R1, Tab 01, Schedule 93; Exhibit R1, Tab 4, Schedule 40; Exhibit R1, Tab 11, Schedule 43; Exhibit S1, Tab 01, Schedule 23; Exhibit S1, Tab 7, Schedule 23.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9. SMART GRID PLAN

9.1 Does Toronto Hydro's Smart Grid Plan meet the Board's filing guidelines and the objectives set out in the *Green Energy and Green Economy Act, 2009*?

Partial Settlement: See Issue 9.2 below. The parties agree that it is not necessary to approve the Smart Grid Plan in this application.

Evidence: Exhibit G1, Tab 1-2; Exhibit R1, Tab 11, Schedule 45, 47.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9.2 Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and O&M budgets?

Partial Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept Toronto Hydro's 2011 Smart Grid Plan expenditures in the context of the settlement Capital and O&M budgets, except in respect of the electric vehicle charging infrastructure program which the Board identified in Procedural Order No. 4 as not eligible for settlement.

Evidence: Exhibit G1, Tab 1-2; Exhibit R1, Tab 1, Schedule 95-96; Exhibit R1, Tab 4, Schedule 43; Exhibit R1, Tab 5, Schedule 1; Exhibit R1, Tab 1, Schedule 14; Exhibit S1, Tab 7, Schedule 19.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9.3 Is Toronto Hydro's approach to allocating Smart Grid Plan O&M and Capital costs to its distribution customers appropriate?

Partial Settlement. Subject to any allocation issues that arise in the context of the electric vehicle charging infrastructure, which the Board will consider under issue 4.2, for the purposes of settlement of the issues in this proceeding, the intervenors accept Toronto Hydro's proposals for the allocation of Smart Grid Plan O&M and Capital costs.

Evidence: Exhibit G1, Tab 1-2; Exhibit L1, Tab 1-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

APPENDIX “A”

Approved Final Issues List

1. GENERAL

- 1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?
- 1.2 Are Toronto Hydro’s economic and business planning assumptions for 2011 appropriate?
- 1.3 Is service quality, based on the OEB specified performance indicators, acceptable?
- 1.4 Is the overall increase in the 2011 revenue requirement reasonable?
- 1.5 When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?

2. LOAD and REVENUE FORECAST

- 2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?
- 2.2 Is the proposed amount for 2011 other revenues appropriate?

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

- 3.1 Are the overall levels of the 2011 Operation, Maintenance and Administration budgets appropriate?
- 3.2 Is the proposed level of 2011 Shared Services and Other O&M spending appropriate?
- 3.3 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2011 appropriate?
- 3.4 Are the 2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?
- Has Toronto Hydro demonstrated improvements in efficiency and value for dollar associated with its compensation costs?
- 3.5 Is Toronto Hydro’s depreciation expense appropriate?
- 3.6 Are the amounts proposed for capital and property taxes appropriate?
- 3.7 Is the amount proposed for PILs, including the methodology, appropriate?

4. CAPITAL EXPENDITURES and RATE BASE

- 4.1 Are the amounts proposed for Rate Base appropriate?
- 4.2 Are the amounts proposed for 2011 Capital Expenditures appropriate including the specific Operational and Emerging Requirements categories?
- 4.3 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used appropriate?

4.4 Does Toronto Hydro's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2011?

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.1 Is the proposed Capital Structure, Rate of Return on Equity, and Short-Term Debt Rate appropriate?

5.2 Is the proposed Long-Term Debt Rate appropriate?

5.3 Is the proposed dollar cost of Long-Term Debt appropriate after having regard to the transaction undertaken by the holder of the \$490 million promissory notes in March 2010?

6. DEFERRAL and VARIANCE ACCOUNTS

6.1 Is the proposal for the amounts, disposition and continuance of Toronto Hydro's existing Deferral and Variance Accounts appropriate?

7. COST ALLOCATION and RATE DESIGN

7.1 Is Toronto Hydro's cost allocation appropriate?

7.2 Is Toronto Hydro's suite metering cost allocation appropriate?

7.3 Is it appropriate for Toronto Hydro to establish a separate rate class for multi-unit residential customers that are served directly by Toronto Hydro through its suite metering provision?

7.4 Are the proposed revenue to cost ratios for each class appropriate?

7.5 Are the fixed-variable splits for each class appropriate?

7.6 Are the proposed Retail Transmission Service rates appropriate?

7.7 Are the proposed Total Loss Factors appropriate?

8. SMART METERS

8.1 Is Toronto Hydro's proposal to include its 2011 smart meter costs in rate base as a regular distribution activity appropriate?

8.2 Are the proposed 2011 smart metering costs appropriate?

9. SMART GRID PLAN

9.1 Does Toronto Hydro's Smart Grid Plan meet the Board's filing guidelines and the objectives set out in the Green Energy and Green Economy Act, 2009?

9.2 Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and O&M budgets?

9.3 Is Toronto Hydro's approach to allocating Smart Grid Plan O&M and Capital costs to its distribution customers appropriate?

APPENDIX “B”

Revenue Requirements and Bill Impacts

Table 1 - Revenue Requirement Summary (\$ millions)

(Variances due to rounding may exist)

	<i>Historic Accounting Approach</i>	<i>Historic Accounting Approach</i>	<i>Updated Accounting Approach</i>
	2011 EDR Application (Aug 23, 2010)	Proposed Settlement (Mar 4, 2011)	Proposed Settlement (Mar 4, 2011)
Base Revenue Requirement	\$578.4	\$551.0	\$524.8
Revenue Offsets	\$19.7	\$26.0	\$26.0
Service Revenue Requirement	\$598.1	\$577.0	\$550.8
OM&A Expenses	\$226.8	\$216.0	\$237.8
Depreciation Expense	\$178.3	\$174.3	\$138.8
Income Tax Expense	\$28.1	\$26.0	\$12.6
Cost of Capital	\$164.9	\$160.7	\$161.6
Capital Expenditures	\$498.0	\$400.0	\$378.8

Note: These figures do not include the Cost of Capital update.

Table 2 - Bill Impacts Summary - % Change from 2010 Rates

Class	Consumption/ Demand	2011 Application (Aug 23, 2010)			Proposed Settlement (with accounting Update and reflecting THESL's proposed Cost Allocation, which is an issue on which no settlement has been reached)		
		Distribution	Distribution + Rate Riders	Total Bill	Distribution	Distribution + Rate Riders	Total Bill
Residential	800 kWh	15.1%	18.0%	4.6%	3.6%	6.0%	1.2%
General Service < 50 kW	2000 kWh	13.1%	16.2%	2.9%	2.3%	4.9%	0.1%
General Service 50-999 kW	150,000 kWh / 388 kVA	6.2%	4.8%	1.3%	-2.4%	-3.6%	0.2%
General Service 1000-4999 kW	800,000 kWh / 1778 kVA	7.1%	4.9%	-0.4%	0.6%	-2.3%	-1.0%
Large Use	4,500,000 kWh / 9,434 kVA	9.5%	6.7%	0.1%	1.7%	-1.9%	-0.6%
Street Lighting	9,182,083 kWh / 25,506 kVA	24.2%	38.5%	18.5%	8.0%	22.1%	10.3%
USL	365 kWh	19.6%	23.6%	10.1%	4.6%	8.4%	3.1%

Note: These figures do not include the Cost of Capital update.