Rating Report

Report Date:
November 19, 2009

Previous Report:
October 8, 2008

Insight beyond the rating.

Toronto Hydro Corporation

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The Company

Toronto Hydro Corporation is a holding company with the following subsidiaries: Toronto Hydro-Electric System Ltd., which distributes electricity, and Toronto Hydro Energy Services Inc., which provides street lighting and expressway lighting services, as well as energy-efficient products and services. Toronto Hydro's sole shareholder is the City of Toronto (the City), rated AA by DBRS.

Recent Actions

November 4, 2009

Short-Term Rating Confirmed; Long-Term Rating Upgraded

Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A (high)	Upgraded	Stable

Rating Rationale

DBRS has upgraded the rating on the Senior Unsecured Debentures & MTNs of Toronto Hydro Corporation (Toronto Hydro or the Company) to A (high) from "A"; the trend has been changed to Stable from Positive. Toronto Hydro's Short-Term Issuer Rating has been confirmed at R-1 (low), with a Stable trend. On September 26, 2008, DBRS changed the trend on the Company's Senior Unsecured Debentures & MTNs rating to Positive from Stable. That action reflected a number of factors, including (1) the continued improvement over time of Toronto Hydro's business risk profile, driven by the sale of higher-risk, non-regulated businesses; (2) demonstrated stable financial metrics in the face of declining regulatory-approved return on equity (ROE) levels and a heightened capital expenditure program, which had resulted in consistent free cash flow deficits; and (3) the expectation of near-term rate base growth, which would primarily be funded with cash flow and cash on hand. The trend change also reflected the stable regulatory environment, which provided Toronto Hydro-Electric System Ltd. (THESL or LDC) with a reasonable framework to carry out its future capital and workforce renewal plans while maintaining a stable credit profile.

At the time of its last review, DBRS stated that it would consider an upgrade of the Senior Unsecured Debentures & MTNs rating if Toronto Hydro continued to exhibit strong financial and operating performance and retained a substantial portion of the proceeds (as anticipated) from the sale of Toronto Hydro Telecom Inc. (THTI) and if there were no negative regulatory and/or political actions over the near term. (Continued on page 2.)

Rating Considerations

Strengths

(1) Low business risk profile
(2) Strong franchise area
(3) Solid credit metrics/balance sheet
(4) Strong reliability measures/operational efficiency
(5) Divestiture of non-regulated/non-core businesses

Challenges

(1) Significant capital investment program
(2) Approved ROE sensitive to long-term interest rates
(3) Earnings sensitive to volume of electricity sold
(4) Significant external financing required

Financial Information

	12 mos ended	For the year ended December 31			
	Jun. 2009	2008	2007	2006	2005
Total adjusted debt (CAD millions) (1)	1,240	1,240	1,241	1,216	1,216
Total adj. debt-to-capital (%) (1)	55.6%	55.8%	57.2%	57.7%	59.0%
Cash flow/total debt (%) (1)	18.1%	17.6%	17.9%	17.9%	16.6%
Cash flow/capital expenditures (times)	1.04	1.01	0.74	1.18	1.44
EBITDA gross interest coverage (times) (1)	3.92	3.85	4.08	4.12	3.83
Operating cash flow (CAD millions)	224	218	223	218	202
Core net income (CAD millions)*	41	54	59	77	64
Reported net income (CAD millions)	153	169	83	92	92

*DBRS adjusted to non-recurring one time items

(1) DBRS adjusted debt and interest expense for operating leases.

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Rating Rationale (Continued from page 1.)

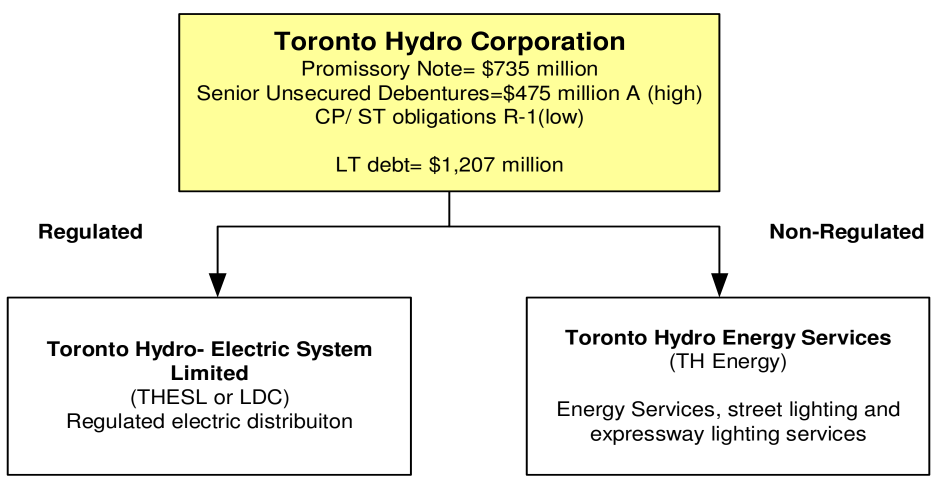
The Company's continued financial and operating performance, coupled with the availability of the proceeds from the sale of THTI (approximately $100 million) to partially fund its ongoing capital expenditure program, and the expectation of no material change in the Company's dividend policy going forward provides DBRS with the comfort necessary to upgrade the rating to A (high). DBRS believes that Toronto Hydro is well positioned to maintain credit metrics commensurate with its new rating category over the medium term as the Company should receive higher base rates to recover significant capital investments, as well as benefit from lower interest expense from refinancing of higher-cost maturing issues. On November 12, 2009, the Company issued $250 million of 4.49% senior unsecured debentures due 2019 (Series 3). Proceeds from the issue will be used primarily for repayment of the second 6.11% $245.1 million installment of the City Note due December 31, 2009.

Toronto Hydro continues to benefit from the Ontario Energy Board's (OEB) decision to approve cost-of-service settlements for the Company, given its expectation of higher capital expenditures. This differs from the originally proposed incentive rate-adjustment mechanism that followed the rebasing of distribution rates in 2006.

Currently, Toronto Hydro is in the third year of its five-year capital plan to modernize the electricity distribution system. DBRS expects capital investment to average approximately $300 million per year through 2011 (although the distribution company has filed a higher capital requirement in its 2010 cost-of-service application with the OEB), which is projected to result in manageable free cash flow deficits over the medium term. However, the *Green Energy Act* could lead the Company to invest more on its current system to, for example, render it capable of two-way power flow in order to accommodate the potential for new renewable generation that comes on line.

While the Company will continue to incur free cash flow deficits (in the expected range, on average, of $100 million to $150 million per year), current cash on hand ($265 million as of June 30, 2009) should be sufficient to internally fund the majority of cash flow deficits through 2010. This will allow for rate base growth, with modest addition of incremental debt. This, in conjunction with higher base rates to recover significant capital investments and the potential for lower interest expense from the refinancing of higher-cost maturing issues, should have a positive impact on the Company's financial metrics through the build-out cycle.

Organizational Chart



As at June 30, 2009

Rating Considerations Details

Strengths

(1) Toronto Hydro is predominantly a regulated electric distribution company that operates in an improved regulatory environment. The Company's regulated business model provides a high degree of stability to earnings and cash flows over the longer term.

(2) Toronto Hydro is one of the largest municipally owned local distribution companies (LDCs) in Canada, serving a large customer base (689,000 customers) in a strong franchise area. Approximately 90% of Toronto Hydro's electricity sales are to residential and general service customers; demand is relatively stable year over year, as these customers are less sensitive to economic cycles.

(3) While Toronto Hydro's earnings have declined modestly from 2006 levels, due to lower regulated approved ROEs and significantly lower contributions from non-regulated businesses, the Company has been able to maintain stable financial metrics with an adjusted debt-to-capital ratio at 55.6%, EBITDA interest coverage at 3.92 times and cash flow-to-debt at 18.1% (12 months ended June 30, 2009). Over the next two years, DBRS expects the Company to fund capital expenditure-related cash flow deficits out of cash on hand, which will underpin Toronto Hydro's credit metrics through the capital program.

(4) THESL continues to exceed OEB service level targets, which should provide a stable platform to maintain a constructive relationship with the regulators.

(5) Toronto Hydro's business risk profile has improved gradually over the years as higher-risk, non-regulated operations have continued to represent a decreasing proportion of consolidated operations.

Challenges

(1) The Company is in the middle of a significant capital expenditure program to replace aging assets and enhance the reliability of the system. DBRS expects capital investment to average approximately $300 million per year through 2011 (although the distribution company has filed a higher capital requirement in its 2010 cost-of-service application with the OEB), which is projected to result in manageable free cash flow deficits over the medium term. However, the *Green Energy Act* could lead the Company to invest more in its current lines to make them two-way flow in order to accommodate the potential of new renewable generation that comes on line.

(2) Regulatory-allowed ROE levels are low and could continue to decline if longer-term interest rates decline. The ROE of 8.01% in 2009 is down from 8.57% in 2008. The impact of the lower ROE on earnings was somewhat offset as the equity component of the capital structure increased to 40% in 2009 from 35% in 2007. However, earlier in 2009, the OEB commenced a proceeding to examine the ROE formula. This proceeding is largely concluded, and a decision is expected from the OEB by mid-December 2009.

(3) Earnings and cash flows for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather variability have a direct impact on the volume of electricity sold and, hence, on revenue earned from electricity sales.

(4) Toronto Hydro is dependent upon the debt markets to refinance the $735 million City promissory note (the City Note) and fund longer-term capital investments in THESL. Over the next six years, Toronto Hydro will have to refinance 80% ($960 million) of its outstanding debt, exposing itself to interest rate risk. However, because much of this debt was incurred for THESL, a market-based interest rate on third-party debt should be fully recoverable from ratepayers. Furthermore, DBRS believes the Company will go to the market with longer-dated debentures and spread out the maturities in an effort to better match debt obligations with its average asset life and lessen the refinancing of a high percentage of outstanding debt during a short period of time. The Company recently sold $250 million of debt to pre-fund the second 6.11% $245.1 million installment of the City Note due December 31, 2009. Maintaining adequate access to the debt markets is critical during this refinancing and build-out cycle.

Regulation

Toronto Hydro's electricity distribution operations are regulated by the Ontario Energy Board (OEB) under the *Electricity Act, 1998* (the Electricity Act), as modified by the following noteworthy amendments:

- The *Electricity Pricing, Conservation and Supply Act, 2002* (Bill 210) – December 9, 2002;
- The *Ontario Energy Board Amendment Act, 2003* (Bill 4) – December 18, 2003; and
- The *Electricity Restructuring Act, 2004* (Bill 100) – December 9, 2004.

Currently, THESL operates under cost-of-service regulation with a deemed ROE of 8.01%.

In February 2009, the OEB provided final approval for 2009 base distribution revenue requirements and rate base of $483 million and $2,035 million, respectively. THESL has filed a cost-of-service rate application for 2010 distribution rates. The Company is seeking a revenue requirement of $529 million and a rate base of $2,162 million.

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, THESL launched its smart meter project in 2006. The project objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. THESL had installed approximately 611,000 smart meters as at June 30, 2009.

On December 15, 2008, THESL applied to the OEB to recover Lost Revenue Adjustment Mechanism (LRAM) and Shared Savings Mechanism (SSM) amounts related to Conservation and Demand Management (CDM) programs undertaken in 2007. The total amount of the recovery sought is $3,700,000. On September 22, 2009, the OEB approved the application in its entirety, and rates to recover the $3.7 million will take effect on May 1, 2010.

Earnings and Outlook

	12 mos ended	For the year ended December 31			
(CAD millions)	Jun. 2009	2008	2007	2006	2005
Net operating revenues *	511	498	498	521	512
Operating expenses	215	205	190	194	191
EBITDA*	296	293	307	326	321
EBIT*	136	136	163	189	189
Gross interest expense	74	75	74	79	83
Payments in lieu of income taxes*	28	20	46	51	56
Core net income*	41	54	59	77	64
Reported net income	153	169	83	92	92
Return on equity	4.3%	5.6%	6.5%	8.9%	7.7%
Operating margin	27%	27%	33%	36%	37%
Reported regulated EBIT	147	149	170	187	194
Reported non-regulated EBIT	(11)	(11)	(5)	23	30
% of EBIT non-regulated	-8%	-8%	-3%	11%	13%

*DBRS adjusted to exclude mark-to-market in revenues, tax recovery settlements and income from discontinued ops.

Summary

Earnings, as measured by EBIT, have trended lower since 2006, driven by lower regulatory-approved ROE levels and significantly lower earnings contribution from non-regulated businesses, which have been divested.

Operating expenses have steadily increased over the years, reflective of investments made by THESL into the hiring of new apprentices in the electrical trades and annual general wage increases, investments in new business activities and, more importantly, the increase in maintenance costs for the Company's aging infrastructure.

Gross interest expense continues to decline as a result of lower interest costs on long-term debt.

The historical variance between DBRS's core net income and reported net income reflects the previous mark-to-market gains on non-regulated energy contracts (2004-2006), discontinued earnings associated with the Company's waterheater business in 2007, and the one-time tax recovery settlement and income from discontinued operations in 2008.

While it appears that the Company has consistently earned below approved ROEs, the difference is largely due to the equity base at Toronto Hydro relative to the THESL rate base.

Outlook
DBRS expects earnings to remain relatively flat over the medium term as the Company should receive higher base rates to recover significant capital investments, as well as benefit from the potential for lower interest expense from the upcoming refinancing of higher-cost maturing issues. Additionally, the Company will benefit from a higher equity component of the capital structure, which increased to 40% in 2009.

DBRS believes gross interest expense should trend lower over the medium term as Toronto Hydro refinances higher-cost maturing issues.

The underlying fundamentals of Toronto Hydro's electricity distribution business remain favourable, and should generate reasonable returns over the longer term.

Financial Profile and Outlook

Cash Flow Statement	12 mos ended	For the year ended December 31			
(CAD millions)	Jun. 2009	2008	2007	2006	2005
Net income (before non-recurring)	41	54	59	77	64
Depreciation and amortization	160	156	152	137	132
Other non-cash adjustments	23	8	12	4	6
Cash Flow From Operations *	**224**	**218**	**223**	**218**	**202**
Dividends paid	(100)	(116)	(46)	(46)	(68)
Capital expenditures	(216)	(215)	(301)	(185)	(140)
Gross Free Cash Flow	**(93)**	**(113)**	**(124)**	**(14)**	**(7)**
Changes in working capital	21	34	(17)	(145)	100
Net Free Cash Flow	**(71)**	**(79)**	**(141)**	**(158)**	**94**
Acquistions	0	0	0	0	(60)
Dispositions	1	1	2	1	5
Change in regulatory assets (increase)/ decrease	(77)	17	64	(4)	21
Non-recurring / Other	14	10	(80)	40	23
Cash Flow before Financing	**(134)**	**(52)**	**(155)**	**(122)**	**82**
Net debt financing	5	5	5	0	0
Customer deposits / repayment of capital lease	6	4	(2)	1	(22)
Net Cash provided by discontinued operations	171	168	38	1	1
Net Change in Cash	**47**	**124**	**(114)**	**(121)**	**62**
Key Financial Ratios					
Total adjusted debt (1)	1,240	1,240	1,241	1,216	1,216
Total adj. debt-to-captial (1)	55.6%	55.8%	57.2%	57.7%	59.0%
Cash flow/total adj. debt (1)	18.1%	17.6%	17.9%	17.9%	16.6%
EBITDA gross interest coverage (times) (1)	3.92	3.85	4.08	4.12	3.83
EBIT gross interest coverage (times) (1)	1.81	1.81	2.18	2.39	2.27
Dividend payout ratio	244%	217%	79%	60%	106%

*Operating cash flow adjusted to exclude mark-to-market in revenues. (1)DBRS adjusted debt and interest expense for operating leases.

Summary
Operating cash flow has remained relatively flat since 2006. However, the heightened capital expenditures over this period combined with dividends continue to result in free cash flow deficits. These deficits have been funded out of cash on hand, with no increases in debt.

While not reflected in the cash flow statement, in July 2008, Toronto Hydro closed the sale of THTI for $200 million in cash. Retained sale proceeds of approximately $100 million were added to the Company's cash balance and will be used to fund future capital investment in the utility.

Cash flow from operations has benefited from higher depreciation and amortization as well as the timing of billing and collection activities and the payment of electricity rebates.

While the Company continues to generate consistent free cash flow deficits, key credit metrics have improved gradually, as debt levels have been constant with a growing equity base and lower interest expense on the City Note and the refinancing of maturing issues.

Outlook
Operating cash flow should trend higher over the medium term, underpinned by growing earnings and higher depreciation commensurate with increases in capital expenditures.

Capital expenditures for THESL are planned to increase through 2011. To this end, THESL is seeking a capital budget of $425 million as part of its 2010 cost-of-service rate application. This, in conjunction with Toronto Hydro's current dividend policy, will increase cash needs through the capital build-out cycle. However, THESL is only expected to ramp up to the higher capital expenditure level once OEB approval is obtained.

While the Company will continue to incur free cash flow deficits (of approximately $150 million per year), current cash on hand ($265 million as of June 30, 2009) should be sufficient to internally fund the majority of cash flow deficits through 2010. This will allow for rate base growth with modest addition of incremental debt. This, in conjunction with higher base rates to recover significant capital investments and the potential for lower interest expense from the refinancing of higher-cost maturing issues, should have a positive impact on the Company's financial metrics through the build-out cycle.

Long-Term Debt Maturities and Bank Lines

As at June 30, 2009

Repayment schedule	%	CDN millions
2009	20%	245
2010	0%	0
2011	20%	245
2012	0%	0
2013	39%	470
2014	0%	0
Thereafter	21%	250
Total		**1,210**

Credit Facility (CAD millions)	Amount	Drawn/LOCs	Available	Expiry
Three year revolving credit facility	500	45	455	5/3/2010

Long-term debt	Int. rate	Jun. 2009	Dec. 2008
Senior unsecured debentures	5.6%	475	475
Promissory note payable to the City	6.1%	735	735
Total debt		**1,210**	**1,210**

Long-Term Debt
As at June 30, 2009, the debt repayment schedule is significant, with approximately 80% of long-term debt refinanced by 2013. Most of these maturities are notes owed to the City, but also include the $225 million in third-party debt issued in 2003. However, we note that on November 12, 2009, the Company issued $250 million of 4.49% senior unsecured debentures due 2019 (Series 3). Proceeds from the issue will be used primarily for repayment of the second $245.1 million installment of the City Note due December 31, 2009.

Refinancing maturing issues should be well within Toronto Hydro's financing capacity as evidenced in its recent issuance, given its low level of business risk and solid financial profile.

In December 2008, Toronto Hydro re-filed an MTN shelf prospectus which is intended to be used to repay outstanding amounts of the City Note and for general corporate purposes, including capital expenditures for THESL.

The debenture indenture includes the following covenants:
- Any additional indebtedness is subject to a 75% capitalization ratio test.
- Negative pledge clause.
- Limitations on designated subsidiary indebtedness.

The $735 million City Note ranks pari passu with the senior unsecured debentures.

Liquidity
As of June 30, 2009, the Company had a $500 million credit line, of which $455 million was available. This facility, in addition to stable operating cash flow and a substantial cash balance of $265 million, gives the Company strong liquidity to support its working capital needs over the medium term.

DBRS notes that Toronto Hydro currently does not have a commercial paper program.

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Toronto Hydro Corporation

Balance Sheet
(CAD millions)

Assets	As of 2009	As at December 31 2008	2007	Liabilities and Equity	As of Jun. 2009	As at December 31 2008	2007
Cash + short-term investments	265	340	216	Short-term debt	245	245	-
A/R + unbilled revenue	396	398	432	A/P + accruals	293	312	309
Inventories/tax receivables	27	29	28	Other current liab.	5	4	11
Prepaids and other	5	3	2	**Current Liabilities**	543	561	320
Current Assets	693	770	678	Customer deposits	30	30	24
Net fixed assets	1,869	1,854	1,845	Long-term debt	962	962	1,206
Investments held to maturity	51	53	75	Employment benefits	156	153	144
Future income tax asset	297	3	15	Other liabilities	351	92	73
Regulatory assets	52	26	19	Shareholders' equity	990	981	929
Intangibles & other assets	70	75	64	**Total**	3,032	2,780	2,696
Total	3,032	2,780	2,696				

Ratio Analysis	12 mos ended	For the year ended December 31			
Liquidity Ratios	Jun. 2009	2008	2007	2006	2005
Current ratio	1.28	1.37	2.12	1.44	1.13
Total debt-to-capital (1)	55.6%	55.8%	57.2%	57.7%	59.0%
Cash flow/total debt (1)	18.1%	17.6%	17.9%	17.9%	16.6%
Cash flow/capital expenditures	1.04	1.01	0.74	1.18	1.44
(Cash flow-dividends)/capital exp.	0.57	0.47	0.59	0.93	0.95
Debt/EBITDA (1)	4.19	4.23	4.04	3.73	3.79
Common dividend payout ratio	244.3%	216.9%	78.6%	60.1%	106.3%
Deemed equity	40%	40%	35%	35%	35%
Coverage Ratios					
EBITDA gross interest coverage (1)	3.92	3.85	4.08	4.12	3.84
EBITDA net interest coverage (1)	4.44	4.69	5.27	5.34	4.65
EBIT gross interest coverage (1)	1.81	1.81	2.18	2.39	2.27
EBIT net interest coverage (1)	2.03	2.19	2.80	3.09	2.75
Profitability/Operating Efficiency					
Operating margin	5.7%	5.8%	7.0%	8.6%	7.4%
Net margin (before extras.)	8.0%	10.8%	11.8%	14.8%	12.5%
Return on average equity (before extras.)	4.2%	5.6%	6.5%	8.9%	7.7%
Electricity Throughputs (million kWh)	%	2008	2007	2006	2005
Residential	21%	5,216	5,332	5,352	5,724
General service	69%	17,415	17,837	17,583	18,085
Large users	10%	2,508	2,591	2,592	2,563
Total (million kWh)		25,139	25,760	25,527	26,372
Growth in electricity throughputs		-2.4%	0.9%	-3.2%	3.4%
Customers	%	2008	2007	2006	2005
Residential	89%	605,509	601,515	599,080	597,469
General service	11%	78,589	78,349	78,978	79,162
Large users	0%	47	49	49	47
Total		684,145	679,913	678,107	676,678
Growth in customer base		0.6%	0.3%	0.2%	0.5%

(1) DBRS adjusted debt and interest expense for operating leases.

Financial results reflect adjustment to exclude mark-to-market in revenues, tax recovery settlement and Discontinued Ops.

Toronto Hydro Corporation

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Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A (high)	Upgraded	Stable

Rating History

	Current	2008	2007	2006	2005
Short-Term Issuer Rating	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Senior Unsecured Debentures & MTNs	A (high)	A	A	A	A

Note:
All figures are in Canadian dollars unless otherwise noted.