

## Rating Report

**Report Date:**  
November 19, 2009  
**Previous Report:**  
October 8, 2008

Toronto Hydro-Electric System Limited  
EB-2009-0139  
Exhibit E1, Tab 6, Schedule 1 /C  
Updated: 2009 Nov 30  
(9 pages)



*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.