INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 1:

Reference(s): none

Please confirm that there are 814 publicly-funded schools in the Applicant's franchise area. Please advise how many schools are in the GS<50 and GS>50 rate classes. Please advise how many schools, if any, are separately sentinel lights customers.

RESPONSE:

THESL does not have the information to be able to determine the number of schools operated by publicly-funded school boards in its franchise area. THESL's billing system is not able to identify customers on this basis.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 2:

Reference(s): B1/14/1

a) Please comment on the observation that while SAIFI and SAIDI have generally trended favourably in recent years, CAIDI, particularly over the period 2006-2009, has not trended favourably. Please reconcile the trend in CAIDI results with the comment “Generally, system reliability performance has shown improvement between 2008 and 2009, some of which may be attributed to THESL’s investment programs”.

b) Please comment on whether Customer Interruption (CI) and Customer Hours Interrupted (CHI) performance records interruptions to a household the same as it does to a commercial customer that may have multiple tenants.

RESPONSE:

a) SAIFI improved for defective equipment, adverse environment and human element. This indicates fewer customers interrupted due to each cause as a result of increased robustness of the distribution system. SAIDI improved for tree contacts, adverse environment and human element. SAIDI deteriorated slightly for defective equipment and significantly for loss of supply. CAIDI is a function of SAIDI and SAIFI, specifically SAIDI divided by SAIFI. Since SAIFI is the denominator in the equation, as it improves (gets smaller) then CAIDI will appear to deteriorate unless SAIDI improves drastically as well. Overall, the phrase “generally system reliability performance has shown improvement” is referring to the SAIDI and SAIFI impact of forced outages excluding loss of supply where SAIFI has clearly improved and SAIDI has remained stable.

INTERROGATORIES OF SCHOOL ENERGY COALITION

b) Toronto Hydro follows the guidelines set out in IEEE Standard 1366 “IEEE Guide for Electric Power Distribution Reliability Indices”. In this standard, the term customer is defined as “a metered electrical service point for which an active bill account is established at a specific location”. If a commercial customer with multiple tenants only has one single-metered electrical service point, then any interruption to that customer will be recorded the same as a household with one single-metered electrical service point. If there are multiple-metered electrical service points at a commercial building, then the number of customers which contribute to CI and CHI will be determined by the number of metered electrical service points that had power interrupted.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 3:

Reference(s): F1/1/3

THESL's preventive maintenance costs are proposed to increase by 39.5% in 2011 over 2008 notwithstanding the transfer of wood pole inspection from the preventive maintenance budget in 2010 to the predictive maintenance budget in 2011. Please explain THESL's view as to whether, and if so, when, preventive maintenance should start favourably impacting CAIDI.

RESPONSE:

THESL utilizes Reliability Centered Maintenance (RCM II) for the maintenance program. It is established based on THESL's operating context and reliability history of each asset. The program determines an optimum maintenance frequency and task to maintain the performance of assets as per THESL's operational need. The maintenance program is reviewed and adjustments made on an on-going basis that reflects actual field performance of assets. As THESL refreshes aging assets in the field, it is expected that reliability and performance of the distribution plant will improve over time. The preventive maintenance program will be reviewed and adjusted on regular basis so the improvement in reliability from the capital rebuilt program will be sustainable.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 4:

Reference(s): A1/3/1

Please confirm that the overall distribution rate increase proposed for 2011 is 11.6% (i.e. $60.3 million divided by $518.1 million). Please provide a detailed list of all steps taken by the Applicant in the development of this Application to minimize the overall level of the rate increase. Please provide

a) all presentations and reports to the Board of Directors or senior management, and all internal impact analyses and calculations dealing with steps taken or proposed to be taken to minimize the overall level of the rate increase. Where such steps were proposed and rejected, please describe the rationale for rejecting those proposals.

RESPONSE:

THESL confirms that $60.3 million divided by $518.1 million, both of which are derived from Exhibit A1, Tab 3, Schedule 1, yields 11.6%.

In light of the significant capital modernization program and workforce renewal program currently being undertaken by THESL, the utility has undertaken a thorough examination of all the costs that it expects to incur to continue to provide safe, reliable and excellent customer service in 2011. That is, in fact, the basis for this rates application, and so the entire application represents the sum total of all the steps taken to minimize the overall level of the rate increase in light of the enormous amount of work that needs to be carried out in 2011 and beyond.

THESL submits that, in light of the above-noted capital and workforce renewal initiatives (to name just two significant initiatives) the distribution rates proposed for 2011 and

INTERROGATORIES OF SCHOOL ENERGY COALITION

presented at a summary level in Exhibit M1, Tab 1, Schedule 1 for 2011 represent reasonable rate increases given the cost pressures currently facing the company.

a) A presentation that was given to the THESL Board of Directors prior to the filing of the 2011 application is found in Appendix A to this Schedule.

2011 EDR Application Overview

August, 2010

Application Highlights

- Continue to build on our strategy of modernization and workforce renewal

- 3rd Gen IRM still inappropriate as THESL on a sustained capital expenditure ramp up for the foreseeable future

- Significant capital requirements (Box construction, rear-lot, Bremner, PILC, Transit City, Station Contingency, etc.)

- Impacts of CDM and economic slowdown continuing to drive lower load forecasts

Main Themes

Material increases in planned capital investments

- Long-term capital plan
- Traditional capital expenditure on distribution plant
- New capital expenditure pressures from the Green Energy Act, Contact Voltage, Transit City, and Stations

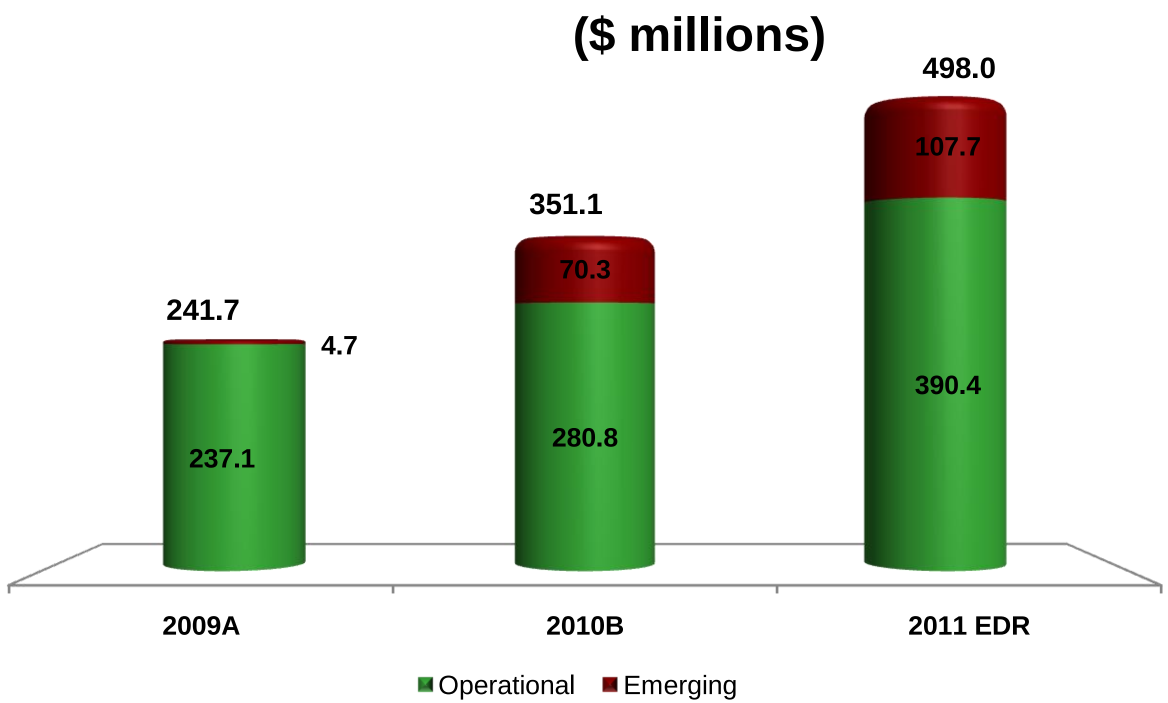
Material decreases in load

- Conservation
- Economic slowdown
- 2010 load forecast is lower than 2010 OEB-approved forecast by 380,000 MWh or over 1.5%
- 2011 load forecast is lower than the 2010 OEB-approved forecast by 470,000 MWh or about 1.5%

OM&A pressures

- Workforce renewal (45% of THESL's current workforce projected to retire by 2018)
- Increased use of contractors
- Trades school
- Optimize work centres; extend leases (Monogram & Milner)

Capital Expenditures



- ➢Operational capex ask is $110 M higher than in 2010
- ➢Operational capex includes Electrical Plant, General Plant, Metering, IT
- ➢Emerging capex includes Standardization, Downtown Contingency, FESI 7/ WPF, Transit City, Bremner TS, Secondary Upgrade, Smart Grid, Energy Storage Project

Cost Summary, $ millions

	2009 OEB-Approved	2009 Historical	2010 Bridge	2011 Proposed	
Capital Expenditures	240.0	241.7	351.1	**498.0**	
Working Capital	259.1	266.8	277.9	**318.4**	
Total Rate Base	2,035.0	2,034.1	2,128.3	**2,346.2**	
Cost of Capital	129.0	111.3	149.7	**164.9**	**A**
Total OM&A Expenses	190.2	189.7	208.9	**226.8**	**B**
Depreciation and Amortization Expense	154.4	155.5	164.5	**178.3**	**C**
PILs	30.7	24.9	28.6	**28.1**	**D**
Service Revenue Requirement	504.2	481.3	551.7	**598.2**	**E = A+B+C+D**
Revenue Offsets	21.7	23.7	24.2	**19.7**	**F**
Base Distribution Revenue Requirement	482.5	457.6	527.5	**578.4**	**= E - F**

- Revenue deficiency primarily from rate base growth and cost of capital
- Overall 9.6% increase in distribution revenue requirement over 2010
    - 8.8% increase in OM&A; 10% increase in Cost of Capital; 1.7% decrease in PILs

2011 Rate Base

Description	2009 Historical	2010 Bridge	2011 Test
Gross Assets	3,836.8	4,055.5	4,404
Accumulated Depreciation	(2,069.5)	(2,205.2)	(2,376)
Net Assets	1,767.3	1,850.3	2,028
Working Capital	266.8	277.4	318
Rate Base	2034.1	2,127.7	2,346

- Capital program results in $218.6 M or 10.3% increase in rate base over 2010

Customer Bill Impacts

Residential 800 kWh/month	• 15.9% increase on distribution bill; 4.5% increase on total bill
General Service <50 kW, 2,000 kWh/month	• 13.9% increase on distribution bill; 3.5% increase on total bill
General Service 50-999 kW, 200,000 kWh/month	• 0.8% increase on total bill
General Service 1000-4999 kW, 1,000,000 kWh/month	• 0.7% increase on total bill
Large Use > 5,000 kW, 2,500,000 kWh/month	• 0.9% increase on total bill
Streetlighting	• 13.5% increase on total bill, due to considerable move toward OEB-prescribed revenue:cost ratios
Unmetered Scattered Loads	• 9.6% increase on total bill

Note: #s do not include impact of 2011 Rate Riders

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 5:

Reference(s): B1/5/1, App. A, p. 15

Please advise where goals of a) maintaining rates as low as possible, and b) maintaining or improving reliability, are included in the "2009 Achievements" or the "2010 Objectives".

RESPONSE:

The goal of maintaining rates as low as possible is addressed in the first bullet point in the 2009 Achievements list — "Among the leading organizations in Ontario in the delivery of CDM programs to help customers conserve energy, save money and help the environment.

The second goal of maintaining or improving reliability is addressed in the fifth bullet in the 2009 Achievements list — Invested $242 million in electricity distribution assets. Additionally, the second bullet point in the 2010 Objectives list — Continue to modernize the distribution system — has the same purpose, which is to modernize the system so that THESL can improve reliability and deliver excellent customer service.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 6:

Reference(s): C1/4/1/ App. A

With respect to business planning:

a) P. 1. Please provide the current approved five year plan and the immediately previous five year plan. If there is a five year plan currently awaiting Board of Directors approval, or to be presented to the Board of Directors before December 31, 2010, please provide that plan when it has been approved.

b) P. 3. Please provide the presentation to the Board of Directors in June dealing with "the underlying goals and objectives of THESL".

c) P. 6. Please provide the presentation to the Board of Directors accompanying the 2011 business plan. Please confirm that the business plan has been approved by the Board of Directors.

RESPONSE:

a) Please refer to the response in Exhibit R1, Tab 4, Schedule 1.

b) Please refer to the response in Exhibit R1, Tab 4, Schedule 1.

c) Please refer to the response in Exhibit R1, Tab 4, Schedule 1.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 7:

Reference(s): **none**

Please provide any benchmarking or productivity studies, analyzing THESL's value for money, productivity, operating cost, capital cost, or other financial performance, conducted over the past 3 years.

RESPONSE:

Please see response to CCC Interrogatory 4 at Exhibit R1, Tab 4, Schedule 4.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 8:

Reference(s): none

The Applicant has indicated in this and other rate proceedings that it is currently catching up after insufficient capital investment in its system in prior years. Please provide an analysis of the impact of this catchup problem on the application of any IRM models to the Applicant in 2012 and beyond.

RESPONSE:

Please refer to the response to Board Staff Interrogatory 9 at Exhibit R1, Tab 1, Schedule 9. The "catch-up" problem is one of the reasons that THESL's recent historical and proposed capital expenditures substantially exceed depreciation.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 9:

Reference(s): **K1/1/1 p. 3**

The following table is taken from the Application and publicly-available information:

	THESL total normalized load (GWh)	THESL total load growth rate	IESO Historical and Forecast Grow Rate (August 2010 18-Month)
2005	26,686.0		
2006	26,732.8	0.2%	-1.90%
2007	26,353.7	-1.4%	-0.5%
2008	26,166.5	-0.7%	-1.8%
2009	25,566.2	-2.3%	-5.7%
2010	25,593.8	0.1%	1.5%
2011	25,285.6	-1.2%	0.3%

Over the period 2005-2009, THESL's relative load decline has proven to be much less than for the Ontario electricity market as a whole. However, for the bridge and test years, THESL is forecasting a reversal of the province-wide pattern as forecast by the IESO in its most recent 18 month outlook.

a) Please comment on why THESL forecasted growth rate for the bridge and test years lags the IESO's forecast for the province. Please provide any studies done by or for the Applicant dealing with the relative load growth of the Applicant's franchise area compared to the rest of the province.
b) Please provide the monthly forecasted total load for 2010 and the YTD normalized monthly loads.

INTERROGATORIES OF SCHOOL ENERGY COALITION

RESPONSE:

a) The drivers of load for the province as a whole vs THESL's territory are very different. THESL's forecast for its own customers incorporates information on each customer class. The IESO forecast includes a significant number of large industrial customers which are impacted by economic conditions very differently than those of THESL's industrials, and would not be reflective of THESL load growth profiles.

THESL has not done any studies comparing its own load growth with the rest of the province, as these are unlikely to yield any additional information which will be helpful in developing THESL's own load forecast.

b) Table 1. Monthly forecasted weather-normalized load for 2010 and corresponding YTD weather-normalized monthly loads in kWh

2010 Bridge	Filed forecast	Weather-normalized actuals	Variance	% Variance
May-10	1,979,524,461	1,967,249,263	- 12,275,198	-0.6%
Jun-10	2,127,969,749	2,135,416,076	7,446,327	0.3%
Jul-10	2,308,412,320	2,358,546,449	50,134,129	2.2%
Aug-10	2,295,018,775	2,302,082,411	7,063,637	0.3%
Sep-10	2,027,404,043	2,015,868,603	- 11,535,440	-0.6%
Oct-10	1,989,775,225	2,003,198,403	13,423,179	0.7%
Nov-10	2,033,995,168	2,033,995,168		
Dec-10	2,234,002,942	2,234,002,942		
Total of May-Oct '10	12,728,104,572	12,782,361,206	54,256,634	0.4%

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 10:

Reference(s): **I1/1/1 p. 3**

THESL indicates that historical data on late payment charges justifies its forecast that the experience for the bridge year will be repeated for 2011.

a) Please provide the supporting data and any analysis performed on this data, and indicate any changes that have occurred over the period with respect to collection practices.

b) Please provide 2010 bridge year YTD results.

RESPONSE:

a) As the 2011 budget is built on a three-year rolling average ($4.8M for 2008 Actual, $5.1M for 2009 Actual and $5.0M for 2010 Forecast), the historical data justifies the 2011 budget of $4.9M. The late payment charge and collection activities are separate and independent.

b) As of September 2010 YTD, Late Payment Charge revenue is approximately $3.9 M.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 11:

Reference(s): F1/1/1

O&M is forecast for 2011 to be 24% above 2008 actual and 7.6% above 2010 bridge. For 2008 through 2011, please indicate the average annual staff complement in FTEs associated with the O&M activities in the respective years.

RESPONSE:

	2008	2009	2010	2011
Average O&M FTEs	156	191	168	166

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 12:

Reference(s): F1/1/3

THESL's preventive maintenance costs are proposed to increase by 39.5% in 2011 over 2008 notwithstanding the transfer of wood pole inspection from the preventive maintenance budget in 2010 to the predictive maintenance budget in 2011. Over this same period THESL's capital program has rapidly expanded, apparently targeted at replacing increasing amounts of high maintenance, worn out equipment.

a) Please explain the rapid rate of increase of preventive maintenance spending in light of aggressive capital spending.
b) Please indicate whether, and if so, when, THESL anticipates that preventive maintenance spending will stabilize or go down as the rebuilding of THESL's system proceeds.

RESPONSE:

a) THESL has intensified preventive maintenance activities, in conjunction with sustaining capital programs to improve system reliability due to defective equipment as shown in Exhibit B1, Tab 14, Schedule 1, page 8. This has resulted in increased preventive maintenance activities such as tree trimming, CO_2 washing, new tasks as identified through RCM analysis as well as increased focus on preventive maintenance of Worst Performing Feeders.

   Since 2009, in addition to program increases, THESL has incorporated the production inefficiencies associated with apprentice development into capital and maintenance programs. These inefficiencies reflect the labour expended to provide on-the-job

INTERROGATORIES OF SCHOOL ENERGY COALITION

training and monitoring to our successor trades employees.

b) THESL utilizes Reliability Centered Maintenance (RCM II) for our maintenance program. It is established based on THESL's operating context and reliability history of each asset. The program determines an optimum maintenance frequency and task to maintain the performance of assets as per THESL's operational need. The maintenance program is reviewed and adjustments made on an on-going basis that reflects actual field performance of assets. As THESL refreshes aging assets in the field, the maintenance program is expected to gradually level off to a steady level.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 13:

Reference(s): **F1/1/6**

THESL supports its request to increase its emergency maintenance spending from $6.6 million in 2010 to $7.5 million in 2011 based on "an overall increasing trend in emergency spending in recent years due to the nature of changing weather patterns". Please provide the daily SAIDI Major Event Days data for 2003-2009, and 2010 YTD.

RESPONSE:

The following table illustrates those dates on which THESL experienced abnormally large outages attributed to changing weather patterns. In the column titled "MED" a "Yes" value indicates that this event constituted a Major Event Day.

MED	Outage Date	Type
No	September 24, 2010	Adverse Weather
No	September 22, 2010	Adverse Weather
No	August 15, 2010	Adverse Weather
No	June 24, 2010	Adverse Weather
No	May 8, 2010	Adverse Weather
No	March 14, 2010	Adverse Weather
Yes	August 20, 2009	Adverse Weather
No	August 9, 2009	Adverse Weather
No	August 4, 2009	Adverse Weather
No	July 26, 2009	Adverse Weather
No	July 11, 2009	Adverse Weather
Yes	April 25, 2009	Adverse Weather
No	April 4, 2009	Adverse Weather
No	December 30, 2008	Adverse Weather

INTERROGATORIES OF SCHOOL ENERGY COALITION

MED	Outage Date	Type
No	December 28, 2008	Adverse Weather
No	December 24, 2008	Adverse Weather
No	September 14, 2008	Adverse Weather
No	July 9, 2008	Adverse Weather
No	June 8, 2008	Adverse Weather
No	June 23, 2008	Adverse Weather
No	June 22, 2008	Adverse Weather
No	June 15, 2008	Adverse Weather
No	June 13, 2008	Adverse Weather
No	June 5, 2008	Adverse Weather
No	April 1, 2008	Adverse Weather
No	December 16, 2007	Adverse Weather
No	June 19, 2007	Adverse Weather
Yes	June 8, 2007	Adverse Weather
Yes	March 2, 2007	Adverse Weather
No	February 22, 2007	Adverse Weather
No	October 29, 2006	Adverse Weather
Yes	July 17, 2006	Adverse Weather
No	June 29, 2006	Adverse Weather
No	May 31, 2006	Adverse Weather
No	May 18, 2006	Adverse Weather
Yes	August 20, 2005	Adverse Weather
Yes	August 19, 2005	Adverse Weather
No	June 28, 2005	Adverse Weather
No	June 13, 2005	Adverse Weather
No	December 23, 2004	Adverse Weather
No	July 4, 2004	Adverse Weather
No	May 23, 2004	Adverse Weather
No	April 19, 2004	Adverse Weather
No	February 3, 2004	Adverse Weather

INTERROGATORIES OF SCHOOL ENERGY COALITION

MED	Outage Date	Type
No	November 13, 2003	Adverse Weather
No	October 15, 2003	Adverse Weather
Yes	September 19, 2003	Adverse Weather
Yes	September 19, 2003	Adverse Weather
No	August 21, 2003	Adverse Weather
No	June 29, 2003	Adverse Weather
No	June 25, 2003	Adverse Weather
No	May 5, 2003	Adverse Weather
No	February 4, 2003	Adverse Weather
No	February 3, 2003	Adverse Weather

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 14:

Reference(s): C2/4/2 p. 1

THESL self supplies one full-service garage to support THESL's fleet. Please provide any benchmarking analysis THESL has to determine how efficiently this service is provided. Please indicate what considerations would apply to contracting out fleet service and indicate the history of any tenders over the last 5 years intended to achieve this in whole or in part.

RESPONSE:

Currently, only internal year-over-year benchmarking is performed. Examples of metrics currently analyzed include:

- Fleet vehicle availability
- Preventative maintenance attainment
- OPEX year-over-year analysis of contracted services
- Internal customer surveys

Considerations:

- Distance to contracted service centers. Vehicle transportation will incur additional cost due to wear and tear, fuel usage, and hours required. Distance travelled and fuel used may also adversely increase Toronto Hydro Green House Gas Emissions.
- Hours of service for contracted service centers. There are currently no service providers in proximity to Toronto Hydro service centers providing hours of service that would ensure maximum vehicle availability. Vehicles are currently

INTERROGATORIES OF SCHOOL ENERGY COALITION

primarily serviced in the afternoon-evening to maintain 98.5% vehicle availability during core work hours, and reduce the need for spare vehicles.

- Cost. Cost of contracted service must be competitive against costs required to provide service internally. Vehicle Washing, tendered in 2010, is estimated to reduce vehicle wash costs through balance of 2010 by 51%.
- Service capacity. Approximately 3360 scheduled service actions must be performed on all vehicles/equipment in the fleet per year. All actions must be performed at regular intervals within the month planned.
- Significant number of specialized vehicles/equipment. A significant proportion of the Toronto Hydro fleet is, or is equipped with, specialized equipment. Toronto Hydro mechanics are both trained and experienced in maintaining and repairing this equipment.

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INTERROGATORY 15:

Reference(s): F2/10/1 Table 1

Organizational Effectiveness and Environmental Health and Safety division costs are proposed to increase from $9.7 million in 2008 to $15.2 million in 2011. Please provide comparable spending data for 2006 and 2007.

INTERROGATORIES OF SCHOOL ENERGY COALITION

RESPONSE:

Table 1: OEEHS Division Costs ($ millions)

Line of Business	2006 Historical	2007 Historical	2008 Historical	2009 Historical	2010 Bridge	2011 Test
OE Administration[1]					0.6	0.7
HR Planning, Benefits and Compensation	0.5	0.9	0.8	0.9		
HR Services	1.2	1.1	1.9	3.3		
Organizational Development & Performance (includes Trades Training Staff)	1.2	2.0	2.8	2.8	3.1	4.8
Environment, Health & Safety			3.8	5.2	3.5	3.9
Project Support Office[2]	0.4	0.4	0.5	0.0		
Talent Management					2.1	2.7
Employee/Labour Relations					1.5	1.8
Compensation, Benefits & HRIS					1.1	1.3
OEEHS Total	**3.3**	**4.4**	**9.7**	**12.2**	**11.9**	**15.2**

[1] In 2010, the costs of OE Administration were transferred from Toronto Hydro Corporation to THESL.
[2] In 2009, Project Support Office responsibilities were re-distributed to Organizational Development and Performance, HR Planning, Benefits and Compensation within OEEHS and to Strategic Management (another business unit within THESL).

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 16:

Reference(s): C2/3/3, p. 4

Please advise the extent, if any, to which the Applicant's "reliability-based tree trimming program" has been made available to, or adopted by, other Ontario LDCs. Please advise the average tree trimming cycle that has resulted from this program at THESL, i.e. the percentage of line length trimmed per year for each year since this has been implemented, and compare that to the cycle/percentage in each of 2005, 2006 and 2007.

RESPONSE:

No, THESL is not aware of other LDCs in Ontario that utilizes the reliability-based tree trimming program.

Prior to 2008, THESL's vegetation management program was based on a fixed three-year cycle by geographical area. On average, THESL trimmed 300 feeders per year before 2008.

In 2008, Toronto Hydro adopted and implemented a reliability-based tree trimming program. It is a departure from the traditional fixed area and three-year cycle approach. The result of the reliability tree trimming study has yielded trimming cycles for feeders that range from two to four years based on its reliability performance. Since implementation of the reliability-based vegetation management program THESL has been trimming 280 to 300 feeders per year.

Although THESL is currently trimming relatively similar number of feeders per year as prior to the implementation of the reliability-based tree trimming program, efficiency of

INTERROGATORIES OF SCHOOL ENERGY COALITION

the vegetation management program is maintained by trimming only those feeders that need trimming. This may result in more frequently trimming of mature areas where tree growth is dense and cost of trimming is higher.

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INTERROGATORY 17:

Reference(s): D1/8/3-2, p. 2

Please provide the calculations underlying the numbers in Table 1.

RESPONSE:

The cost per kVA numbers in Table 1 are calculated by using actual and forecasted values from Total O&M costs and consumption values. Please see the associated numbers and the calculation used in the table below.

	(In $ Millions)				
	2009 Actual		**2010 Bridge**		**2011 Test**
Total O&M	195.5		210.1		226.8

		2009 Actual		**2010 Bridge**		**2011 Test**	
			% of total kVA		**% of total kVA**		**% of total kVA**
GS 50-999 kW	kWh	9,799,596,447		10,134,340,212		10,116,374,153	
	kVA	25,556,467	0.609820738	26,511,577	0.62	26,935,191	0.6287
GS 1000-4999 kW	kWh	4,764,487,735		4,880,642,723		4,626,928,262	
	kVA	10,901,820	0.260135958	11,142,188	0.259426222	10,587,119	0.2471
Large Use	kWh	2,446,577,934		2,378,122,313		2,376,778,323	
	kVA	5,128,776	0.122381318	4,974,405	0.115820245	4,993,733	0.1165
Other	kWh	7,340,937,156		7,472,217,237		7,292,483,349	
	kVA	321,100		321,183		322,023	

Total	kWh	24,351,599,272		24,865,322,485		24,412,564,088	
Total	**kVA**	41,908,163		42,949,353		42,838,067	

INTERROGATORIES OF SCHOOL ENERGY COALITION

Note:

$/kVA in Table 1 = % of Total kVA x [(Total O&M / Total kVA) x 1.037]

2010 Board approved Loss Factor = 1.037

Please see the example calculation below for the 2009 cost/kVA in Table 1 (GS 50-999kW) category:

Cost = 0.609820738 x [($195,500,000 / 41,908,163 kVA) x 1.037]
= $2.95/kVA

In THESL's pre-filed evidence, the O&M costs used to determine the numbers underlying the calculations in Table 1, in Exhibit D1, Tab 8, Schedule 3-2, page 2, were erroneously lower by $2 million. The correct numbers using an O&M estimate for the 2011 Test Year of $226.8 million are:

	2011 Test
GS 50 – 999 kW	$3.45
GS 1000 – 4999 kW	$1.36
Large Use	$0.64

THESL regrets the error.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 18:

Reference(s): F1/1/1, p. 3

Please restate Table 2, adding columns for Board-approved for each year where there is an applicable Board-approved budget.

RESPONSE:

Board-approved levels are not available since the Board does not approve THESL's budget at this level of detail. Please refer to Exhibit R1, Tab 4, Schedule 15.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 19:

Reference(s): F1/1/3

Please identify which of the activities in the Preventive Maintenance budget are new activities in 2010 or 2011, and advise the dollar amount of each.

RESPONSE:

In 2010, THESL included $2.3 million for work on distribution circuits supporting street lighting. In 2011, THESL is proposing to change the function testing of the existing network protectors to overhaul to more effectively maintain the network protectors for an additional $0.3 million.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 20:

Reference(s): F1/6/3, pp. 6 and 7

Please advise the proportion of the additional labour costs associated with meter data management for TOU billing in each of 2009, 2010, and 2011 are expected to be transitional costs, and for those transitional costs when it is expected that they will no longer be required.

RESPONSE:

There are no labour costs in 2009, 2010, or 2011 that are expected to be transitional.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 21:

Reference(s): F1/6/4, p.3

Please advise the reason why the new CIS does not currently have at least equivalent "automated delinquency" functionality to the old one, and quantify the dollar impact of this limitation in the test year.

RESPONSE:

The new CIS does have at least equivalent "automated delinquency" functionality as the current CIS. This statement refers specifically to the conversion period between the old and the new CIS.

The issue arises when converting customer history and data from the old CIS to the new CIS. The new CIS is unable to apply delinquency rules to customer balances that have been converted from the old system. Delinquency rules can only be applied to customers billed in the new CIS. Any customer who has a delinquent balance at the time of conversion will appear to be "current" in the new CIS. Therefore, a manual process will be used during this period to collect from customers who became delinquent in the old system. The dollar impact of this issue is unknown.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 22:

Reference(s): F1/6/5, p. 1

Please advise the amount of Customer Services costs borne by OPA programs related to CDM, rather than by distribution ratepayers in rates, and explain how those costs are excluded from revenue requirement.

RESPONSE:

Costs related to OPA CDM programs are not included in the Customer Services budget. Any costs expected due to OPA CDM programs are removed from the Customer Services budget and THESL's rate application. When actual costs are incurred for OPA programs, they are recovered though internal cost transfers which are charged to the OPA.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 23:

Reference(s): F2/1/1, p. 2

Please restate Table 1 excluding capital tax.

RESPONSE:

Please see attached restated Table 1 excluding capital taxes.

	2008 Actual	2009 Actual	2010 Bridge	2011 Test
Governance	6.9	6.4	3.0	1.9
Charitable Contributions	0.1	0.2	0.3	0.1
Finance	4.3	4.5	10.5	15.3
Treasury, Rates and Regulatory	9.9	12.2	13.2	14.9
Legal	3.1	2.9	4.5	5.0
Communications	4.3	3.6	3.9	4.3
Information Technology	21.4	22.8	23.7	24.9
Organizational Effectiveness & Environmental Health and Safety	9.7	12.2	11.9	15.2
Strategic Management	0.1	1.4	2.3	1.7
Total	**60.9**	**66.2**	**73.4**	**83.3**

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 24:

Reference(s): F2/6/1, p. 3

Please confirm that the Applicant does not currently propose to include any interest relating to customer deposits in revenue offsets for the test year. Please confirm that customer deposits are used to reduce actual interest expense in the test year. Please explain how that the reduction of actual interest expense is reflected in the revenue requirement.

RESPONSE:

Please also see the response to BOMA Interrogatory 43 at Exhibit R1, Tab 3, Schedule 43. In THESL's revised cash forecast, the Company is now forecasting positive cash balances throughout 2011. To this end, it anticipates earning $300,000 in interest income, which will be applied as a revenue offset. By definition, since cash from customer deposits is co-mingled with all other cash, the $300,000 in interest income includes interest earned on cash from customer deposits.

THESL's interest expense stems from two distinct debt streams: first, as interest expense on long-term debt, and second from interest expense on short-term debt. The interest expense incurred on outstanding long-term debt does not vary with the amount of cash on hand, and so cash from customer deposits has no bearing on the quantum of this expense.

To the extent that the company anticipates not having to borrow on its short-term lines to fund working capital, no *variable* interest expense is paid. However, THESL is required to pay interest expense on its short-term liquidity lines just to have the borrowing capacity available. This interest expense does not depend on the amount of cash on hand

INTERROGATORIES OF SCHOOL ENERGY COALITION

at any given time, as the costs for this feature of the liquidity lines is fixed for the duration of the liquidity lines.

Therefore, since THESL is now forecasting positive cash balances throughout 2011, and for the reasons explained above, customer deposits are not expected to have any impact on reducing interest expense in the 2011 test year.

THESL will reduce its Base Revenue Requirement by $300,000 to reflect interest income from cash balances for rate finalization.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 25:

Reference(s): B1/4/1, p. 2

With respect to 1798594 Ontario Inc:

a) Please provide the most recent financial statements (whether or not audited or published). Please provide partial year financials if a full year is not available.

b) Please provide details on all transactions between that company and the Applicant.

c) Please provide details on all expenses of the Applicant that relate to assets of that affiliate.

RESPONSE:

a) There are no recent financial statements for 1798594 Ontario Inc., due to the fact this company was incorporated with a share capital of $1,000 for the sole purpose of facilitating the transfer of the Streetlighting System from THESI.

b) There are currently no transactions between 1798594 Ontario Inc. and the Applicant.

c) There are currently no expenses of the Applicant that relate to the assets of that affiliate.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 26:

Reference(s): B1/10/1? – exhibit not numbered

With respect to the parent company's MD&A:

a) P. 17. Please provide complete details, including a copy of the primary agreement with all schedules, with respect to the transfer of the affiliate's "energy management services and generation activities and all employees" to the Applicant. Please identify and quantify any liabilities or obligations of the affiliate that were assumed by the Applicant as part of, or as a result of, or in anticipation of, the transaction.

b) P. 17. Please provide a detailed identification of all areas of the Application in which the operating costs or capital assets of those transferred business activities have an impact for the test year, including but not limited to OM&A, rate base, taxes, and PILs.

RESPONSE:

At this time, no liabilities or other obligations of the affiliate were assumed by the LDC other than Post-Employement Benefits related to the employees that have been transferred from the affiliate to the LDC.

However, actual costs related to these employees are being paid under distinct and separate bank accounts in the unregulated business within LDC. Costs related to the unregulated business are not included in the Rate Application.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 27:

Reference(s): **C1/2/2**

Please reproduce this table with three additional columns:

a) Amount paid or allocated in 2009 – actual.

b) Amount expected to be paid or allocated in 2010 – preferably actual plus forecast.

c) Amount expected to be paid or allocated in 2011.

RESPONSE:

a) Please see Appendix A. Revised from Exhibit C1, Tab 2, Schedule 2.

b) Please see Appendix A. Revised from Exhibit C1, Tab 2, Schedule 2.

c) Please see Appendix A. Revised from Exhibit C1, Tab 2, Schedule 2.

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
Road Cut Repairs	Repair of roads and sidewalks after contruction projects are complete.	City of Toronto	THESL	N/A	N/A	N/A
Stewardship & Leadership - CEO	Provide strategic direction, leadership and communication to the organization.	THC	THESL	$845,370	$1,580,897	$1,074,596
Stewardship & Leadership - CEO	Provide strategic direction, leadership and communication to the organization.	THC	THESI	$93,722	$0	$106,667
Governance - Board of Directors	Provide strategic direction, leadership and communication to the organization.	THC	THESL	$74,875	$80,000	$106,667
Governance - Board of Directors	Provide strategic direction, leadership and communication to the organization.	THC	THESI	$70,875	$75,000	$0
Accounts payable and related services.	> Process and pay (by cheque, wire payment, EFT): - supplier invoices - cheque requisitions - customer refunds - employee expense reimbursements > Maintain (including testing) Ellipse modules and business processes related to AP > Manage the recording of accruals (THESL, THESU and THC only) > Audit/review and summary of expense claims, executive expenditures > Maintain internal controls on physical supplies (cheques, keys etc.) and periodic review of risks > Monthly account reconciliations of AP accounts (THESL, THESU and THC only) > Interface and assist Tax and Treasury with AP related matters > General client support including assisting with requisitioning and payment-related issues and fielding supplier calls	THESL	THESI	$55,696	$32,385	$15,534
CDM Incentives	Incentives to complete customer CDM programs that result in kW savings.	THESL	THESI	N/A	N/A	N/A
Real Property	Initiation, drafting and review of legal documents (Offer to Connect, Supply Agreement, Alternative Bid Proposal, Easement) related to real property development and supply arrangements thereto; Advice on and preparation of legal documents for execution for TH real property transactions; Investigate and respond to easement inquiry letters from purchasers of property.	THESL	THC	$259	$0	$0
Claims Administration	Administration of Claims against third parties; Assist in defense efforts of claims and legal proceedings against TH and Affiliates.	THESL	THESI	$41,335	$41,768	$37,026
Comm. & Public Affairs - Strategic Projects	The strategic planning, development and execution of public affairs management programs in support of corporate business plans, strategic thrusts, brand identity and corporate reputation management.	THESL	THESI	$96,351	$0	$0
Finance - Stewardship	Provide strategic direction, leadership and communication to the Finance group and the organization.	THC	THESL	$1,045,165	$742,137	$790,154
Finance - Stewardship	Provide strategic direction, leadership and communication to the Finance group and the organization.	THC	THESI	$29,379	$0	$0
Community Involvement	The strategic planning, development and execution of community involvement, corporate sponsorship and corporate responsibility.	THESL	THESI	$0	$0	$0
Corp. Controllership & Policy	Ensure compliance with control-oriented policies, obligations, and the independent auditors. Manages consolidated month-end, quarter-end and annual close processes and oversees functions related to Financial Reporting, General Ledger. Responsible for all OSC (including MD&A) , OEB, and other finance-related external reporting. Manages consolidated budget process and all other corporate planning related reporting.	THESL	THESI	N/A	$155,000	$218,494

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
Corporate Tax	Provide professional corporate tax planning, consulting services on compliance on tax matters including tax research and preparation of tax filings.	THESL	THESI	N/A	$73,352	$39,050
Distribution Grid Management	Overhead & Underground street light equipment installation, removal, and/or transfer as part of emergency corrective maintenance requirements.	THESL	THESI	N/A	N/A	N/A
Distribution Services	Overhead & Underground street light equipment installation, removal and/or transfer as part of planned projects. Civil streelight infrastructure installations as part of planned projects.	THESL	THESI	N/A	N/A	N/A
Distribution Services	Installation of streetlighting GIS data into new GEAR system.	THESL	THESI	N/A	N/A	N/A
EHS - Environmental	Provide recommendations and advice on scope and content of environmental issues, coordinate and conduct environmental related training.	THESL	THESI	-$231	$0	$0
EHS - Occupational Health	Health Services will co-ordinate the disability management process for absences of an occupational and non-occupational illness or injury.	THESL	THESI	$893	$295	$0
EHS - Safety	Provide recommendations and advice on EHS issues. Conduct and co-ordinate health & safety educations and trainings, maintain health and safety records. Accident/incident investigations.	THESL	THESI	$81,381	$49,639	$33,866
EHS - WSIB	Occupational and non-occupational claims management services.	THESL	THESI	-$930	$67	$0
Consolidated Billing	THESI prepares a consolidated bill of all THESL's bills for the City of Toronto.	THESI	City of Toronto	N/A	N/A	N/A
ESCO Services	Value Added Solutions provided to the City with respect to energy efficiency, representing 30% to 40% of the City's Requirements.	THESI	City of Toronto	N/A	N/A	N/A
Street Light Capital & Operating	Provides Street Light capital & maintenance services.	THESI	City of Toronto	N/A	N/A	N/A
Street Lighting Other	BIA - City Economic Development Division.	THESI	City of Toronto	N/A	N/A	N/A
Emergency Services/System Response	Notification of critical impact on street lighting plant. Resources sent to provide emergency support/response.	THESL	THESI	N/A	N/A	N/A
Treasury, Rates & Regulatory	Daily cash management (investments, wires, electronic payments, etc)	THESL	14 Co	$16,896	$12,365	$11,495
Facilities	Occupancy charges for various types of space.	THESL	THESI	$42,125	$0	$0
Financial Planning Admin	Facilitating and documenting the strategic and business planning processes. Support rating agencies requirements. Financial modelling of business initiatives. Coordinating consolidation of pro-forma financial statement projections. Business Plan preparation and process management. Management reporting from ERP system. Budget application design and maintenance.	THESL	THESI	N/A	$4,423	$1,656
Fleet Services	Usage and maintenance of vehicles and trucks.	THESL	THESI	$427,087	$441,475	$404,553
GEAR Access	Access to THESL's geo-electric records system.	THESL	THESI	N/A	N/A	N/A
Hold-offs	Block circuit reclosures when requested by work crews.	THESL	THESI	N/A	N/A	N/A
Project Support Office	Provides support on Project Management and Project Risk Management, assists in Process Improvement methods, and co-ordinates Key Performance Indicators (KPI) and scorecard reporting within Management Control and Reporting Systems.	THESL	THC	$0	$0	$0

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
HR - Planning, Benefits and Compensation	Primarliy responsible for: providing support for organizational staff planning; the design and administration of active and retiree benefits programs; design and administration of compensation systems; salary administration; job evaluation; and the management of the Human Resources Information System and reporting requirements. Services also include: supporting the design and implementation of HR strategic initiatives; the design, assessment and audit of internal HR policies, programs and processes; providing data to financial/regulatory reporting and rate filing.	THESL	THESI	$0	$16,501	$13,311
HR - Services	Supports employees and leaders in the following primary areas: labour & employee relations; recruitment, selection & on-boarding; job analysis & design; employee performance and attendance management; legislative compliance; supporting corporate initiatives; providing data to financial/regulatory reporting and rate filing; and the development of HR policies and procedures.	THESL	THESI	$0	$33,499	$32,142
IT-Management Services	Maintain and implement "Ellipse", "Hyperion", "EMRT", "SAP", "BI" etc. based IT infrastructure, such as enterprise systems, enterprise database and enterprise storage needs and that they are separated and yet incorporated as part of of Enterprise IT Infrastructure.	THESL	THC	$273,931	$29,460	$27,155
FIN - Financial System Support	Provide functional support for the Finance applications (Ellipse, SAP, BI, Hyperion ,EMRT etc.) and act as a primary point of contact for IT when dealing with any financial system issues.	THESL	THESI	N/A	$0	$70,000
Internal audits, securities regulation compliance, and advisory services	> Internal audits and related reports to management and the Board of Directors of THC > Bill 198/CSA instrument 52-109 (securities regulation related to disclosure and internal controls) compliance activities and reports to management and the Board of Directors of THC > Business advisory services related to operational efficiencies and effectiveness of internal controls > Advisory Services for management special projects (new CIS implementation, Smart meters) > Audits and reviews will cover the following areas: - Business/operational controls (including manual and automated controls) - IT general controls - Entity controls - Fraud controls	THESL	THESI	N/A	$0	$0
Investment Planning Design Mark Ups	Upon request from street lighting (operated by THESI), mark ups are completed by Investment Planning staff on planned construction work proposed by City or Developers.	THESL	THESI	N/A	N/A	N/A
IT Stewardship	Provide leadership to ensure that "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. related IT investments are aligned and delivered in accordance with enterprise strategies and objectives and that Affiliate Relationship Codes are observed.	THESL	THESI	$231,939	$250,000	$62,200
IT Strategy & Governance	Provide Governance and Strategic Leadership to ensure that "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. related IT investments are aligned and delivered in accordance with enterprise strategies and objectives and to ensure that ARC is enforced.	THESL	THESI	N/A	N/A	N/A
Facilities	Occupancy charges for various types of space.	THESL	THC	$549,087	$77,879	$64,076

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
IT-Application Support	Maintain and support "Ellipse" Enterprise application, including L2 and L3 support.	THESL	THESI	N/A	N/A	N/A
CDM Incentives	Incentives to complete CDM programs that result in kW savings.	THESL	City of Toronto	N/A	N/A	N/A
CDM Incentives	Incentives to complete CDM programs that result in kW savings.	THESL	City-Enwave	N/A	N/A	N/A
CDM Incentives	Incentives to complete CDM programs that result in kW savings.	THESL	City-TCHC (Toronto Community Housing Corporation	N/A	N/A	N/A
IT-Client Services	Provide one-stop help desk for "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. related services. Maintain and support administration services related to "Ellipse" and "Hyperion", such as user id's, password resets, network file sharing and network printers.	THESL	THESI	N/A	N/A	N/A
IT-Management Services	Maintain and implement "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. based IT infrastructure, such as enterprise systems, enterprise database and enterprise storage needs and that they are separated and yet incorporated as part of of Enterprise IT Infrastructure.	THESL	THESI	$334,783	$196,813	$0
IT-Operations	Maintain data centre operations including data centre facility management. Support "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. production services such as daily production, batch operations and network data backup.	THESL	THESI	N/A	N/A	N/A
Lab Services	Equipment Testing Services (Streetlighting division of THESI).	THESL	THESI	N/A	N/A	N/A
Legal commercial	Legal advice on commercial contracts; general corporate policies, procedures, including drafting and legal review of documents for execution.	THESL	THESI	$6,479	$33,428	$12,750
Hold-offs	Block circuit reclosures when requested by work crews.	THESL	City of Toronto	N/A	N/A	N/A
Legal stewardship	Provide strategic direction, leadership and communication to Legal Services and the organization.	THESL	THESI	$0	$8,657	$0
Litigation	Initiation and defense of legal proceedings for and against TH & Affiliates; legal advice on revenue recovery processes (Claims & Collections).	THESL	THESI	$15,351	$15,365	$13,802
Investment Planning Design Mark Ups	Upon request from City, mark ups are completed by Investment Planning staff on planned construction work proposed by City or Developers.	THESL	City of Toronto	N/A	N/A	N/A
Locates Services	Upon requests from THSLI, Locates Dept. will complete locate services related to third party locate requests.	THESL	THESI	N/A	N/A	N/A
Lab Services	Glove testing for Fire and Forestry departments.	THESL	City of Toronto	N/A	N/A	N/A
Network/Telephony	Maintain and support data network connectivity between THESL and Affiliate in order to access "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. applications.	THESL	THESI	N/A	N/A	N/A
Plant relocation	Remove and re-install distribution plant to accommodate road reconstruction or other projects.	THESL	City of Toronto	N/A	N/A	N/A
TPUCC Mark-ups	Mark-up drawings provided by the City or other utilities.	THESL	City of Toronto	N/A	N/A	N/A
Two-Way Radio	Use of THC radio network by City.	THESL	City of Toronto	N/A	N/A	N/A

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
Payroll processing and related activities	> Process payroll > Prepare T4's, T4A's > Prepare and submit payroll related remittances to government and other external agencies > Maintain (including testing) Ellipse modules, ADP applications, and business processes related to payroll > Maintain internal controls and periodic review of risks > Monthly account reconciliations related to payroll accounts > Interface and assist HR payroll related matters and general client support	THESL	THESI	$21,317	$20,653	$14,071
Permits and Attachments	Inspection charges for third party requests for attachments to Street Lighting poles.	THESL	THESI	N/A	N/A	N/A
Procurement Charge	Charge used to recover department's expenses in processing purchase orders. RFPs/bulk purchasing.	THESL	THESI	$79,345	$150,000	$157,539
Real Property	Initiation, drafting and review of legal documents (Offer to Connect, Supply Agreement, Alternative Bid Proposal, Easement) related to real property development and supply arrangements thereto; Advice on and preparation of legal documents for execution for TH real property transactions; Investigate and respond to easement inquiry letters from purchasers of property.	THESL	THESI	$795	$783	$729
Reporting, Policy	Preparation of financial statements, preparation of quarterly and annual OSC filings in accordance with Accounting Standards. Develop Internal Accounting Policies in accordance with GAAP Standards & OEB requirements, ensure reporting is in compliance with Policies and Standards.	THESL	THESI	N/A	$14,187	$10,909
Street light Transfers	To relocate street light assets embedded in our plant to accommodate planned capital projects	THESL	THESI	N/A	N/A	N/A
Transfer of SL Attachments and Conductors	As part of LDC Conversion program, LDC will transfer or install SL fixtures and/or conductors to LDC transferred pole.	THESL	THESI	N/A	N/A	N/A
Treasury, Rates & Regulatory	> Cash management: Daily cash management (investments, wires, electronic payments, etc) > Credit management: Management of letters of credit, parental guarantees, prudential requirements > Debt management: Short-Term and Long-Term debt management (coupon payments, note management, LOC management, etc) > Financing Strategy: Strategic financial planning (project analysis, capital structure analysis, financing plans, etc) > Insurance management: Management of Insurance services (property, casualty, vehicle, etc) > Investor Relations: Providing investor relations (credit rating agencies, creditors, public) > Monthly accounting/reporting: Financial reporting and record keeping (banking, investments, Shareholder report, MD&A, etc)	THESL	THESI	$411,480	$50,000	$55,886
Warehouse storage and material issuance	Maintain stock supplies in warehouse and issue materials.	THESL	THESI	N/A	N/A	N/A
Wireless	Centralized handling of cellular phone charges distributed to affiliates.	THESL	THESI	N/A	N/A	N/A
Finance - Unregulated	Provide financial management and support services.	THESL	THESI	N/A	N/A	$108,709
Consolidated Billing	Processing and clerical work involved in the consolidated billing to the City of Toronto	THESL	THESI	N/A	N/A	$273,543

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
Accounts payable and related services.	> Process and pay (by cheque, wire payment, EFT): - supplier invoices - cheque requisitions - customer refunds - employee expense reimbursements > Maintain (including testing) Ellipse modules and business processes related to AP > Manage the recording of accruals (THESL, THESU and THC only) > Audit/review and summary of expense claims, executive expenditures > Maintain internal controls on physical supplies (cheques, keys etc.) and periodic review of risks > Monthly account reconciliations of AP accounts (THESL, THESU and THC only) > Interface and assist Tax and Treasury with AP related matters > General client support including assisting with requisitioning and payment-related issues and fielding supplier calls	THESL	THESU	N/A	N/A	$16,058
Payroll processing and related activities	> Process payroll > Prepare T4's, T4A's > Prepare and submit payroll related remittances to government and other external agencies > Maintain (including testing) Ellipse modules, ADP applications, and business processes related to payroll > Maintain internal controls and periodic review of risks > Monthly account reconciliations related to payroll accounts > Interface and assist HR payroll related matters and general client support	THESL	THESU	N/A	N/A	$10,660
Reporting, Policy	Preparation of financial statements, preparation of quarterly and annual OSC filings in accordance with Accounting Standards. Develop Internal Accounting Policies in accordance with GAAP Standards & OEB requirements, ensure reporting is in compliance with Policies and Standards.	THESL	THESU	N/A	N/A	$10,909
Corporate Tax	Provide professional corporate tax planning, consulting services on compliance on tax matters including tax research and preparation of tax filings.	THESL	THESU	N/A	N/A	$39,050
Financial Planning Admin	Facilitating and documenting the strategic and business planning processes. Support rating agencies requirements. Financial modelling of business initiatives. Coordinating consolidation of pro-forma financial statement projections. Business Plan preparation and process management. Management reporting from ERP system. Budget application design and maintenance.	THESL	THESU	N/A	N/A	$1,656
FIN - Financial System Support	Provide functional support for the Finance applications.	THESL	THESU	N/A	N/A	$70,000
Finance - Unregulated	Provide financial management and support services.	THESL	THESU	N/A	N/A	$326,128
IT Stewardship	Provide leadership to ensure that "Ellipse", "Hyperion", "EMRT", "SAP", "BI", etc. related IT investments are aligned and delivered in accordance with enterprise strategies and objectives and that Affiliate Relationship Codes are observed.	THESL	THESU	N/A	N/A	$121,990
Legal commercial	Legal advice on commercial contracts; general corporate policies, procedures, including drafting and legal review of documents for execution.	THESL	THESU	N/A	N/A	$1,417

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
Litigation	Initiation and defense of legal proceedings for and against TH & Affiliates; legal advice on revenue recovery processes (Claims & Collections).	THESL	THESU	N/A	N/A	$1,534
Real Property	Initiation, drafting and review of legal documents (Offer to Connect, Supply Agreement, Alternative Bid Proposal, Easement) related to real property development and supply arrangements thereto; Advice on and preparation of legal documents for execution for TH real property transactions; Investigate and respond to easement inquiry letters from purchasers of property.	THESL	THESU	N/A	N/A	$81
Claims Administration	Administration of Claims against third parties; Assist in defense efforts of claims and legal proceedings against TH and Affiliates.	THESL	THESU	N/A	N/A	$4,114
HR - Services	Supports employees and leaders in the following primary areas: labour & employee relations; recruitment, selection & on-boarding; job analysis & design; employee performance and attendance management; legislative compliance; supporting corporate initiatives; providing data to financial/regulatory reporting and rate filing; and the development of HR policies and procedures.	THESL	THESU	N/A	N/A	$3,592
Procurement Charge	Charge used to recover department's expenses in processing purchase orders. RFPs/bulk purchasing.	THESL	THESU	N/A	N/A	$8,292
Consolidated Billing	Processing and clerical work involved in the consolidated billing to the City of Toronto	THESL	THESU	N/A	N/A	$2,763
Strategic Management	Strategic Management, Project Management Services, Policy Administration, Enterprise Project Management, Strategy & Enterprise Risk Management.	THESL	THC	N/A	N/A	N/A
Strategic Management	Strategic Management, Project Management Services, Policy Administration, Enterprise Project Management, Strategy & Enterprise Risk Management.	THESL	THESU	N/A	N/A	N/A
Strategic Management	Strategic Management, Project Management Services, Policy Administration, Enterprise Project Management, Strategy & Enterprise Risk Management.	THESL	THESI	N/A	N/A	N/A

Shared Services Inventory

Service	Service Definition	Service Provider Company	Service Receiver Company	2009	2010	2011
		Reconciliation	THESL total	$3,759,913	$2,450,129	$3,086,894
			THESL Model	$4,017,750	$1,707,992	$2,296,740
			Diff	-$257,837	$742,137	$790,154
		Diff due to:	THC:			
			Finance	28,376		
			Comm	247,194		
			IT - Hyp/Ellipse	205,652		
			Legal	16,441		
			OE/HR	197,192		
			Treasury	621,839		
			Procurement	15,688		
				1,332,381		
			Check	1,074,544.00		

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 28:

Reference(s): C1/2/3-1 to 3-4

Please provide the current service agreements that are being replaced by these exhibits. Please provide an explanation of all material changes from the existing service agreements to the new service agreements. Please provide an estimate of the dollar impact of each change, and explain how historical and bridge year information relating to affiliate transactions should be adjusted to ensure that it is comparable to test year forecasts.

RESPONSE:

Service Level Agreements ("SLAs") for the 2010 (bridge year) are attached as Appendices A through C.

As explained in the evidence (Exhibit C1, Tab 2, Schedule 1), THESL's organization changed effective January 1, 2010. As a result, the bridge and test year SLAs are based on the same organizational structure and any changes in the SLAs are due solely to the cost and volume of services; the services themselves remain unchanged.

Due to the fact that the historical information is prior to the re-organization, the requested comparison would require reallocating the costs of functions and activities within departments to replicate the current organization in the historical data. As a result, this task would require substantial judgment and time to perform of which THESL declines to undertake it at this time.

SERVICE AGREEMENT

THIS MEMORANDUM OF AGREEMENT made as of January 1, 2010

BETWEEN:

Toronto Hydro Corporation ("THC")

and

Toronto Hydro Energy Services Inc. ("Affiliate")

WHEREAS Affiliate desires THC to provide the Shared Services to it and THC wishes to provide the Shared Services, all upon the terms and conditions set forth herein.

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, THC and Affiliate (together, the "Parties") agree as follows:

1. PURPOSE

1.1 The purpose of this Agreement is to describe the Shared Services to be provided by THC to Affiliate, the charges to be made to Affiliate for such Shared Services, and the working relationship between THC and Affiliate relating to such Shared Services.

2. DEFINITIONS AND INTERPRETATION

2.1 As used in this Agreement, the following terms shall have the following meanings:

(a) "Affiliate Relationships Code" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board on April 1, 1999, including any and all amendments or revisions thereto;

(b) "Agreement" means this Service Level Agreement for Shared Services and all instruments supplemental to it or in amendment or confirmation of it;

(c) "Term" shall have the meaning prescribed to it in Section 3.1 of this Agreement;

(d) "Parties" means THC and Affiliate collectively, and "Party" means any one of them;

(e) "Representatives" means any employee, agent, or subcontractor, of the Party in question, including without limitation any third party retained to perform any or all of the Shared Services pursuant to Section 4 of this Agreement;

(f) "Transfer Price(s)" shall have the meaning prescribed to it in Section 5 of this Agreement;

(g) "Shared Services" shall have the meaning prescribed to it in Section 4.1 of this Agreement.

2.2 Unless the context of this Agreement requires otherwise, the singular number shall include the plural and vice versa and any gender includes any other gender.

2.3 The following Schedules are attached to and form an integral part of this Agreement:

Schedule 1 Governance and Leadership

3. TERM AND TERMINATION

3.1 The parties agree that, notwithstanding any provision contained therein, the Service Agreement made between them as of January 1, 2009 is terminated effective December 31, 2009.

3.2 This Agreement shall commence as of January 1, 2010 and will remain in effect until terminated by either Party, in whole or in part, upon no less than sixty (60) days' written notice to the other Party ("Term"); provided that in the event of default in performance of any material covenant in this Agreement, including Section 13.2, the non-defaulting Party shall be entitled to terminate the Agreement on no less than fourteen (14) days written notice to the defaulting Party. Any partial termination of the Agreement shall be evidenced by a written agreement as between the Parties specifying the specific Shared Services to be terminated, and the adjustment in Transfer Price pursuant to such partial termination; provided that the Parties shall make any adjustments required to insure that the Transfer Prices remain consistent with the Affiliate Relationships Code.

4. SHARED SERVICES

4.1 Subject to Section 4.5 of this Agreement, THC shall provide Affiliate with the services listed in Schedule 1 hereto and any additional services required by Affiliate from time to time (collectively, the "Shared Services"). Any additional Shared Services required by Affiliate shall be provided by THC at mutually agreed upon terms, conditions and Transfer Prices, provided however that such terms, conditions and Transfer Prices shall be consistent with the requirements of the Affiliate Relationships Code.

4.2 THC shall provide the Shared Services at quality levels which are mutually acceptable to the parties. These levels shall be reviewed from time to time.

4.3 Subject to Sections 4.4 and 4.5 hereof, THC shall have the right, in its sole discretion, to contract with a third party to deliver all or part of the Shared Services, provided however that such third party shall be capable of providing such Shared Services to the same or better quality levels than those set forth in Section 4.2. The parties agree that THC shall be acting as the agent of Affiliate in procuring the delivery of such Shared Services of the Affiliates.

4.4 Where THC has contracted with a third party to provide part or all of the Shared Services pursuant to Section 4.3 above, Affiliate shall pay the amount charged by such third party for the portion of the Shared Services delivered.

4.5 This Agreement shall be deemed to be an exclusive service agreement as between THC and Affiliate, and Affiliate shall not have the right to provide itself, or retain a third party to provide, any of the Shared Services unless agreed to by THC.

4.6 No employee shall be shared between THC and the Affiliate; provided that an employee may be transferred or seconded from THC to the Affiliate or from the Affiliate to THC with the prior written approval of the Manager or Vice President of the relevant departments of THC and the Affiliate. Such approval shall set forth the terms and conditions of such transfer including all appropriate measures required to preserve the confidentiality of customer information. When on a secondment or transfer, the employee will not provide any services whatsoever to the original company during the period of secondment or transfer.

4.7 THC shall bear all costs incurred, and all risk involved, in delivering the Shared Services to the Affiliate.

5. TRANSFER PRICING

5.1 All Shared Services provided by THC or its Representatives will be charged to Affiliate at the transfer prices determined in accordance with the Affiliate Relationships Code and set out in the attached Schedules (the "Transfer Price" or "Transfer Prices", collectively). The Transfer Prices do not include GST or any other taxes payable in respect of the Transfer Price, which the Affiliate shall also pay to THC.

5.2 The Parties hereby agree and acknowledge that they shall renegotiate the Shared Services and Transfer Prices described in Schedules hereto at such times as necessary in order to ensure that the Transfer Prices remain consistent with the requirements of the Affiliate Relationships Code.

5.3 THC shall render to Affiliate on or before the 15^{th} day of each month (or such other time as may be agreed), an invoice setting forth the total amount due to THC in respect of each of the Shared Services provided during the previous calendar month and the amount of any taxes which Affiliate has an obligation to pay.

5.4 Affiliate shall, no later than forty-five days after receipt of a THC invoice, or if such day is not a business day, the immediately preceding business day, render to THC, by any acceptable method agreed to by the Parties, the amount due THC as set forth in the invoice. This Section 5.4 shall survive any termination of this Agreement or the expiry of the Term for a period of twelve (12) months from the date on which the last invoice is rendered to Affiliate pursuant to this Agreement.

6. NOTICES AND CONTACTS

6.1 Any notice or communication required as between the Parties pursuant to this Agreement shall be delivered to the following individuals, or to such other individual as either Party may stipulate by notice to the other:

For THC: Anthony Haines
Telephone: 416.542.3339
Fax: 416.542.2602

For Affiliate: Lawrence Wilde
Telephone: 416.542.2635
Fax: 416.542.2540

7. AMENDMENTS

7.1 If at any time during the term of this Agreement the Parties deem it necessary or expedient to make any alteration or addition to this Agreement, they may do so by means of a written agreement between them which shall be supplemental and form part of this Agreement.

8. FURTHER ASSURANCES

8.1 The Parties agree that each of them shall, upon reasonable request of the other, do or cause to be done all further lawful acts, deeds and assurances whatever for the better performance of the terms and conditions of this Agreement.

9. SUCCESSORS AND ASSIGNS

9.1 This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the Parties, provided however that neither Party may assign this Agreement without the prior written consent of the other Party, such consent not to be unreasonably withheld.

10. SEVERABILITY

10.1 If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision and everything else in this Agreement shall continue in full force and effect.

11. COUNTERPARTS

11.1 This Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

12. DISPUTE RESOLUTION

12.1 The Parties will use their best efforts to resolve, at an operational level, any disputes which may arise concerning this Agreement. Any issues which remain unresolved for more than fifteen (15) days will be referred to the respective Presidents of each of the Parties. The parties agree to use their best efforts to resolve all disputes in a timely and professional manner utilizing a process appropriate to the issues involved.

13. CONFIDENTIALITY

13.1 Each party agrees not to disclose any Confidential Information to any person except those of its Representatives who have a need to know such Confidential Information in connection with this Agreement and who are informed of the confidential nature of the Confidential Information and who agree to be bound by the terms of this Section 13.1. The Recipient will not use any Confidential Information relating to the Disclosing Party for any purpose other than in connection with the performance of its obligations, or exercise of its rights, under this Agreement, and will exercise the same security measures normally exercised with respect to its own Confidential Information, and at a minimum a reasonable degree of care, to safeguard the Confidential Information from disclosure to anyone other than as permitted hereby. The provisions of this Section 13.1 shall survive termination of this Agreement. **"Confidential Information"** means all information, whether disclosed orally, in writing, or otherwise, designated as being confidential, which is disclosed by one party (the "Disclosing Party") to the other party (the "Recipient") relating to the business of the Disclosing Party or in connection with the subject matter of this Agreement and includes, but is not limited to, business, financial, and marketing information, plans and strategies, contractual, customer and supplier information, technical information related to hardware, software and firmware, and know-how, trade secrets and any other intellectual property rights, and the terms of this Agreement. Notwithstanding the foregoing, Confidential Information shall not include information which (i) now is, or hereafter properly becomes, generally available to the public other than as a result of disclosure in breach of this Agreement; (ii) is required to be disclosed in compliance with any applicable law, under order of a court of competent jurisdiction or other similar requirement of a governmental agency, so long as the Recipient provides the Disclosing Party with prior written notice of any required disclosure pursuant to such law, order or requirement and cooperates, to the extent permitted by law with the Disclosing Party in seeking an order eliminating or restricting the disclosure or a protective order or otherwise ensuring the confidential treatment of the Confidential Information; (iii) is disclosed with the prior written approval of an authorized officer of the Disclosing Party; (iv) is previously known to the Recipient at the time of disclosure; (v) is discovered by the Recipient without reference to the Confidential Information of the Disclosing Party; or (vi) is lawfully obtained from a third party which was not bound by a confidentiality agreement respecting the disclosure.

13.2 THC shall comply at all time with the data management and data access protocols implemented by the Affiliate to protect access to Confidential Information.

IN WITNESS WHEREOF, the Parties have executed this agreement effective as of the date first above written as attested by the hands of their respective officers duly authorized in that behalf:

TORONTO HYDRO CORPORATION

Per: ______________________________

Anthony Haines
President and Chief Executive Officer

TORONTO HYDRO ENERGY SERVICES INC.

Per: Lawrence Wilde

Lawrence Wilde
Vice President, General Counsel, Corporate Secretary

SCHEDULES FOR SERVICE LEVEL AGREEMENT BETWEEN

Toronto Hydro Corporation
and
Toronto Hydro Energy Services Inc.

SCHEDULE 1

SERVICE AREA: **Governance and Leadership (GOV)**

REF.	SECTION	COST
GOV1.0, GOV2.0	Governance and Leadership	$75,000

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SERVICE AGREEMENT

THIS MEMORANDUM OF AGREEMENT made as of January 1, 2010.

BETWEEN:

Toronto Hydro Corporation ("THC")

and

Toronto Hydro-Electric System Limited ("Affiliate")

WHEREAS Affiliate desires THC to provide the Shared Services to it and THC wishes to provide the Shared Services, all upon the terms and conditions set forth herein.

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, THC and Affiliate (together, the "Parties") agree as follows:

1. PURPOSE

1.1 The purpose of this Agreement is to describe the Shared Services to be provided by THC to Affiliate, the charges to be made to Affiliate for such Shared Services, and the working relationship between THC and Affiliate relating to such Shared Services.

2. DEFINITIONS AND INTERPRETATION

2.1 As used in this Agreement, the following terms shall have the following meanings:

(a) "Affiliate Relationships Code" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board on April 1, 1999, including any and all amendments or revisions thereto;

(b) "Agreement" means this Service Level Agreement for Shared Services and all instruments supplemental to it or in amendment or confirmation of it;

(c) "Term" shall have the meaning prescribed to it in Section 3.1 of this Agreement;

(d) "Parties" means THC and Affiliate collectively, and "Party" means any one of them;

(e) "Representatives" means any employee, agent, or subcontractor, of the Party in question, including without limitation any third party retained to perform any or all of the Shared Services pursuant to Section 4 of this Agreement;

(f) "Transfer Price(s)" shall have the meaning prescribed to it in Section 5 of this Agreement;

(g) "Shared Services" shall have the meaning prescribed to it in Section 4.1 of this Agreement.

2.2 Unless the context of this Agreement requires otherwise, the singular number shall include the plural and vice versa and any gender includes any other gender.

2.3 The following Schedules are attached to and form an integral part of this Agreement:

Schedule 1	Governance and Leadership
Schedule 2	Finance

3. TERM AND TERMINATION

3.1 The parties agree that, notwithstanding any provision contained therein, the Service Agreement made between them as of January 1, 2009 is terminated effective December 31, 2009.

3.2 This Agreement shall commence as of January 1, 2010 and will remain in effect until terminated by either Party, in whole or in part, upon no less than sixty (60) days' written notice to the other Party ("Term"); provided that in the event of default in performance of any material covenant in this Agreement, including Section 13.2, the non-defaulting Party shall be entitled to terminate the Agreement on no less than fourteen (14) days written notice to the defaulting Party. Any partial termination of the Agreement shall be evidenced by a written agreement as between the Parties specifying the specific Shared Services to be terminated, and the adjustment in Transfer Price pursuant to such partial termination; provided that the Parties shall make any adjustments required to insure that the Transfer Prices remain consistent with the Affiliate Relationships Code.

4. SHARED SERVICES

4.1 Subject to Section 4.5 of this Agreement, THC shall provide Affiliate with the services listed in Schedules "1" through "2" hereto and any additional services required by Affiliate from time to time (collectively, the "Shared Services"). Any additional Shared Services required by Affiliate shall be provided by THC at mutually agreed upon terms, conditions and Transfer Prices, provided however that such terms, conditions and Transfer Prices shall be consistent with the requirements of the Affiliate Relationships Code.

4.2 THC shall provide the Shared Services at quality levels which are mutually acceptable to the parties. These levels shall be reviewed from time to time.

4.3 Subject to Sections 4.4 and 4.5 hereof, THC shall have the right, in its sole discretion, to contract with a third party to deliver all or part of the Shared Services, provided however that such third party shall be capable of providing such Shared Services to the same or better quality levels than those set forth in Section 4.2. The parties agree that THC shall be acting as the agent of Affiliate in procuring the delivery of such Shared Services of the Affiliates.

4.4 Where THC has contracted with a third party to provide part or all of the Shared Services pursuant to Section 4.3 above, Affiliate shall pay the amount charged by such third party for the portion of the Shared Services delivered.

4.5 This Agreement shall be deemed to be an exclusive service agreement as between THC and Affiliate, and Affiliate shall not have the right to provide itself, or retain a third party to provide, any of the Shared Services unless agreed to by THC.

4.6 No employee shall be shared between THC and the Affiliate; provided that an employee may be transferred or seconded from THC to the Affiliate or from the Affiliate to THC with the prior written approval of the Manager or Vice President of the relevant departments of THC and the Affiliate. Such approval shall set forth the terms and conditions of such transfer including all appropriate measures required to preserve the confidentiality of customer information. When on a secondment or transfer, the employee will not provide any services whatsoever to the original company during the period of secondment or transfer.

4.7 THC shall bear all costs incurred, and all risk involved, in delivering the Shared Services to the Affiliate.

5. TRANSFER PRICING

5.1 All Shared Services provided by THC or its Representatives will be charged to Affiliate at the transfer prices determined in accordance with the Affiliate Relationships Code and set out in the attached Schedules (the "Transfer Price" or "Transfer Prices", collectively). The Transfer Prices do not include GST or any other taxes payable in respect of the Transfer Price, which the Affiliate shall also pay to THC.

5.2 The Parties hereby agree and acknowledge that they shall renegotiate the Shared Services and Transfer Prices described in Schedules hereto at such times as necessary in order to ensure that the Transfer Prices remain consistent with the requirements of the Affiliate Relationships Code.

5.3 THC shall render to Affiliate on or before the 15th day of each month (or such other time as may be agreed), an invoice setting forth the total amount due to THC in respect of each of the Shared Services provided during the previous calendar month and the amount of any taxes which Affiliate has an obligation to pay.

5.4 Affiliate shall, no later than forty-five days after receipt of a THC invoice, or if such day is not a business day, the immediately preceding business day, render to THC, by any acceptable method agreed to by the Parties, the amount due THC as set forth in the invoice. This Section 5.4 shall survive any termination of this Agreement or the expiry of the Term for a period of twelve (12) months from the date on which the last invoice is rendered to Affiliate pursuant to this Agreement.

6. NOTICES AND CONTACTS

6.1 Any notice or communication required as between the Parties pursuant to this Agreement shall be delivered to the following individuals, or to such other individual as either Party may stipulate by notice to the other:

For THC: Anthony Haines
Telephone: 416.542.3339
Fax: 416.542.2602

For Affiliate: Jean Sebastian Couillard
Telephone: 416.542.3166
Fax: 416.542.2662

7. AMENDMENTS

7.1 If at any time during the term of this Agreement the Parties deem it necessary or expedient to make any alteration or addition to this Agreement, they may do so by means of a written agreement between them which shall be supplemental and form part of this Agreement.

8. FURTHER ASSURANCES

8.1 The Parties agree that each of them shall, upon reasonable request of the other, do or cause to be done all further lawful acts, deeds and assurances whatever for the better performance of the terms and conditions of this Agreement.

9. SUCCESSORS AND ASSIGNS

9.1 This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the Parties, provided however that neither Party may assign this Agreement without the prior written consent of the other Party, such consent not to be unreasonably withheld.

10. SEVERABILITY

10.1 If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision and everything else in this Agreement shall continue in full force and effect.

11. COUNTERPARTS

11.1 This Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

12. DISPUTE RESOLUTION

12.1 The Parties will use their best efforts to resolve, at an operational level, any disputes which may arise concerning this Agreement. Any issues which remain unresolved for more than fifteen (15) days will be referred to the respective Presidents of each of the Parties. The parties agree to use their best efforts to resolve all disputes in a timely and professional manner utilizing a process appropriate to the issues involved.

13. CONFIDENTIALITY

13.1 Each party agrees not to disclose any Confidential Information to any person except those of its Representatives who have a need to know such Confidential Information in connection with this Agreement and who are informed of the confidential nature of the Confidential Information and who agree to be bound by the terms of this Section 13.1. The Recipient will not use any Confidential Information relating to the Disclosing Party for any purpose other than in connection with the performance of its obligations, or exercise of its rights, under this Agreement, and will exercise the same security measures normally exercised with respect to its own Confidential Information, and at a minimum a reasonable degree of care, to safeguard the Confidential Information from disclosure to anyone other than as permitted hereby. The provisions of this Section 13.1 shall survive termination of this Agreement. **"Confidential Information"** means all information, whether disclosed orally, in writing, or otherwise, designated as being confidential, which is disclosed by one party (the "Disclosing Party") to the other party (the "Recipient") relating to the business of the Disclosing Party or in connection with the subject matter of this Agreement and includes, but is not limited to, business, financial, and marketing information, plans and strategies, contractual, customer and supplier information, technical information related to hardware, software and firmware, and know-how, trade secrets and any other intellectual property rights, and the terms of this Agreement. Notwithstanding the foregoing, Confidential Information shall not include information which (i) now is, or hereafter properly becomes, generally available to the public other than as a result of disclosure in breach of this Agreement; (ii) is required to be disclosed in compliance with any applicable law, under order of a court of competent jurisdiction or other similar requirement of a governmental agency, so long as the Recipient provides the Disclosing Party with prior written notice of any required disclosure pursuant to such law, order or requirement and cooperates, to the extent permitted by law with the Disclosing Party in seeking an order eliminating or restricting the disclosure or a protective order or otherwise ensuring the confidential treatment of the Confidential Information; (iii) is disclosed with the prior written approval of an authorized officer of the Disclosing Party; (iv) is previously known to the Recipient at the time of disclosure; (v) is discovered by the Recipient without reference to the Confidential Information of the Disclosing Party; or (vi) is lawfully obtained from a third party which was not bound by a confidentiality agreement respecting the disclosure.

13.2 THC shall comply at all time with the data management and data access protocols implemented by the Affiliate to protect access to Confidential Information.

IN WITNESS WHEREOF, the Parties have executed this agreement effective as of the date first above written as attested by the hands of their respective officers duly authorized in that behalf:

TORONTO HYDRO CORPORATION

Per: ________________________

Anthony Haines
President & Chief Executive Officer

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Per: ________________________

Jean Sebastian Couillard
Chief Financial Officer

SCHEDULES FOR SERVICE LEVEL AGREEMENT BETWEEN

Toronto Hydro Corporation

and

Toronto Hydro-Electric System Ltd.

SCHEDULE 1

SERVICE AREA: **Governance and Leadership (GOV)**

REF.	SECTION	COST
GOV1.0	Governance and Leadership	$1,580,897
GOV2.0	Strategic Direction	$80,000

SCHEDULE 2

SERVICE AREA: **Finance (FIN)**

REF.	SECTION	COST
FIN14.0	Finance Stewardship	$742,137

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SERVICE AGREEMENT

THIS MEMORANDUM OF AGREEMENT made as of January 1, 2010.

BETWEEN:

Toronto Hydro-Electric System Limited ("THESL")

and

Toronto Hydro Corporation ("Affiliate")

WHEREAS Affiliate desires THESL to provide the Shared Services to it and THESL wishes to provide the Shared Services, all upon the terms and conditions set forth herein.

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, THESL and Affiliate (together, the "Parties") agree as follows:

1. PURPOSE

1.1 The purpose of this Agreement is to describe the Shared Services to be provided by THESL to Affiliate, the charges to be made to Affiliate for such Shared Services, and the working relationship between THESL and Affiliate relating to such Shared Services.

2. DEFINITIONS AND INTERPRETATION

2.1 As used in this Agreement, the following terms shall have the following meanings:

(a) "Affiliate Relationships Code" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board on April 1, 1999, including any and all amendments or revisions thereto;

(b) "Agreement" means this Service Level Agreement for Shared Services and all instruments supplemental to it or in amendment or confirmation of it;

(c) "Term" shall have the meaning prescribed to it in Section 3.1 of this Agreement;

(d) "Parties" means THESL and Affiliate collectively, and "Party" means any one of them;

(e) "Representatives" means any employee, agent, or subcontractor, of the Party in question, including without limitation any third party retained to perform any or all of the Shared Services pursuant to Section 4 of this Agreement;

(f) "Transfer Price(s)" shall have the meaning prescribed to it in Section 5 of this Agreement;

(g) "Shared Services" shall have the meaning prescribed to it in Section 4.1 of this Agreement.

2.2 Unless the context of this Agreement requires otherwise, the singular number shall include the plural and vice versa and any gender includes any other gender.

2.3 The following Schedules are attached to and form an integral part of this Agreement:

Schedule 1	Information Technology & Services
Schedule 2	Facilities and Asset Management

3. TERM AND TERMINATION

3.1 The parties agree that, notwithstanding any provision contained therein, the Service Agreement made between them as of January 1, 2009 is terminated effective December 31, 2009.

3.2 This Agreement shall commence as of January 1, 2010 and will remain in effect until terminated by either Party, in whole or in part, upon no less than sixty (60) days' written notice to the other Party ("Term"); provided that in the event of default in performance of any material covenant in this Agreement, including Section 13.2, the non-defaulting Party shall be entitled to terminate the Agreement on no less than fourteen (14) days written notice to the defaulting Party. Any partial termination of the Agreement shall be evidenced by a written agreement as between the Parties specifying the specific Shared Services to be terminated, and the adjustment in Transfer Price pursuant to such partial termination; provided that the Parties shall make any adjustments required to insure that the Transfer Prices remain consistent with the Affiliate Relationships Code.

4. SHARED SERVICES

4.1 Subject to Section 4.5 of this Agreement, THESL shall provide Affiliate with the services listed in Schedules "1" through "2" hereto and any additional services required by Affiliate from time to time (collectively, the "Shared Services"). Any additional Shared Services required by Affiliate shall be provided by THESL at mutually agreed upon terms, conditions and Transfer Prices, provided however that such terms, conditions and Transfer Prices shall be consistent with the requirements of the Affiliate Relationships Code.

4.2 THESL shall provide the Shared Services at quality levels which are mutually acceptable to the parties. These levels shall be reviewed from time to time.

4.3 Subject to Sections 4.4 and 4.5 hereof, THESL shall have the right, in its sole discretion, to contract with a third party to deliver all or part of the Shared Services, provided however that such third party shall be capable of providing such Shared Services to the same or better quality levels than those set forth in Section 4.2. The parties agree that THESL shall be acting as the agent of Affiliate in procuring the delivery of such Shared Services of the Affiliates.

4.4 Where THESL has contracted with a third party to provide part or all of the Shared Services pursuant to Section 4.3 above, Affiliate shall pay the amount charged by such third party for the portion of the Shared Services delivered.

4.5 This Agreement shall be deemed to be an exclusive service agreement as between THESL and Affiliate, and Affiliate shall not have the right to provide itself, or retain a third party to provide, any of the Shared Services unless agreed to by THESL.

4.6 No employee shall be shared between THESL and the Affiliate; provided that an employee may be transferred or seconded from THESL to the Affiliate or from the Affiliate to THESL with the prior written approval of the Manager or Vice President of the relevant departments of THESL and the Affiliate. Such approval shall set forth the terms and conditions of such transfer including all appropriate measures required to preserve the confidentiality of customer information. When on a secondment or transfer, the employee will not provide any services whatsoever to the original company during the period of secondment or transfer.

4.7 THESL shall bear all costs incurred, and all risk involved, in delivering the Shared Services to the Affiliate.

5. TRANSFER PRICING

5.1 All Shared Services provided by THESL or its Representatives will be charged to Affiliate at the transfer prices determined in accordance with the Affiliate Relationships Code and set out in the attached Schedules (the "Transfer Price" or "Transfer Prices", collectively). The Transfer Prices do not include GST or any other taxes payable in respect of the Transfer Price, which the Affiliate shall also pay to THESL.

5.2 The Parties hereby agree and acknowledge that they shall renegotiate the Shared Services and Transfer Prices described in Schedules hereto at such times as necessary in order to ensure that the Transfer Prices remain consistent with the requirements of the Affiliate Relationships Code.

5.3 THESL shall render to Affiliate on or before the 15th day of each month (or such other time as may be agreed), an invoice setting forth the total amount due to THESL in respect of each of the Shared Services provided during the previous calendar month and the amount of any taxes which Affiliate has an obligation to pay.

5.4 Affiliate shall, no later than forty-five days after receipt of a THESL invoice, or if such day is not a business day, the immediately preceding business day, render to THESL, by any acceptable method agreed to by the Parties, the amount due THESL as set forth in the invoice. This Section 5.4 shall survive any termination of this Agreement or the expiry of the Term for a period of twelve (12) months from the date on which the last invoice is rendered to Affiliate pursuant to this Agreement.

6. NOTICES AND CONTACTS

6.1 Any notice or communication required as between the Parties pursuant to this Agreement shall be delivered to the following individuals, or to such other individual as either Party may stipulate by notice to the other:

For THESL: Jean-Sebastian Couillard
Telephone: 416.542.3166
Fax: 416.542.2663

For Affiliate: Anthony Haines
Telephone: 416.542.3339
Fax: 416.542.2602

7. AMENDMENTS

7.1 If at any time during the term of this Agreement the Parties deem it necessary or expedient to make any alteration or addition to this Agreement, they may do so by means of a written agreement between them which shall be supplemental and form part of this Agreement.

8. FURTHER ASSURANCES

8.1 The Parties agree that each of them shall, upon reasonable request of the other, do or cause to be done all further lawful acts, deeds and assurances whatever for the better performance of the terms and conditions of this Agreement.

9. SUCCESSORS AND ASSIGNS

9.1 This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the Parties, provided however that neither Party may assign this Agreement without the prior written consent of the other Party, such consent not to be unreasonably withheld.

10. SEVERABILITY

10.1 If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision and everything else in this Agreement shall continue in full force and effect.

11. COUNTERPARTS

11.1 This Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

12. DISPUTE RESOLUTION

12.1 The Parties will use their best efforts to resolve, at an operational level, any disputes which may arise concerning this Agreement. Any issues which remain unresolved for more than fifteen (15) days will be referred to the respective Presidents of each of the Parties. The parties agree to use their best efforts to resolve all disputes in a timely and professional manner utilizing a process appropriate to the issues involved.

13. CONFIDENTIALITY

13.1 Each party agrees not to disclose any Confidential Information to any person except those of its Representatives who have a need to know such Confidential Information in connection with this Agreement and who are informed of the confidential nature of the Confidential Information and who agree to be bound by the terms of this Section 13.1. The Recipient will not use any Confidential Information relating to the Disclosing Party for any purpose other than in connection with the performance of its obligations, or exercise of its rights, under this Agreement, and will exercise the same security measures normally exercised with respect to its own Confidential Information, and at a minimum a reasonable degree of care, to safeguard the Confidential Information from disclosure to anyone other than as permitted hereby. The provisions of this Section 13.1 shall survive termination of this Agreement. **"Confidential Information"** means all information, whether disclosed orally, in writing, or otherwise, designated as being confidential, which is disclosed by one party (the "Disclosing Party") to the other party (the "Recipient") relating to the business of the Disclosing Party or in connection with the subject matter of this Agreement and includes, but is not limited to, business, financial, and marketing information, plans and strategies, contractual, customer and supplier information, technical information related to hardware, software and firmware, and know-how, trade secrets and any other intellectual property rights, and the terms of this Agreement. Notwithstanding the foregoing, Confidential Information shall not include information which (i) now is, or hereafter properly becomes, generally available to the public other than as a result of disclosure in breach of this Agreement; (ii) is required to be disclosed in compliance with any applicable law, under order of a court of competent jurisdiction or other similar requirement of a governmental agency, so long as the Recipient provides the Disclosing Party with prior written notice of any required disclosure pursuant to such law, order or requirement and cooperates, to the extent permitted by law with the Disclosing Party in seeking an order eliminating or restricting the disclosure or a protective order or otherwise ensuring the confidential treatment of the Confidential Information; (iii) is disclosed with the prior written approval of an authorized officer of the Disclosing Party; (iv) is previously known to the Recipient at the time of disclosure; (v) is discovered by the Recipient without reference to the Confidential Information of the Disclosing Party; or (vi) is lawfully obtained from a third party which was not bound by a confidentiality agreement respecting the disclosure.

13.2 THC shall comply at all time with the data management and data access protocols implemented by the Affiliate to protect access to Confidential Information.

IN WITNESS WHEREOF, the Parties have executed this agreement effective as of the date first above written as attested by the hands of their respective officers duly authorized in that behalf:

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Per: ______________________________

Jean-Sebastian Couillard
Chief Financial Officer

TORONTO HYDRO CORPORATION

Per: ______________________________

Anthony Haines
President & Chief Executive Officer

SCHEDULES FOR SERVICE SERVICE LEVEL AGREEMENT BETWEEN

Toronto Hydro-Electric System Ltd.

and

Toronto Hydro Corporation

SCHEDULE 1

SERVICE AREA: **Information Technology & Services (ITS)**

REF.	SECTION	COST
ITS2.0	IT Management Services	$29,460

SCHEDULE 2

SERVICE AREA: **Facilities and Asset Management (FAM)**

REF.	SECTION	COST
FAM1.0 - FAM7.0	Operation & Maintenance; Real Estate; Human & Environmental Factors; Planning and Project Management; Manage Facility Function; Quality Assessment & Innovation; Investment Recovery	$77,879

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 29:

Reference(s): none

Please provide all invoices (or documents used in lieu of invoices) detailing charges from any affiliate to the Applicant in the last six months. Please provide all invoices (or documents used in lieu of invoices) detailing charges to any affiliate from the Applicant in the last six months.

RESPONSE:

Please see Appendix A for the services provided during the last six months as of October 31, 2010. For items referring to the Service Level Agreement ("SLAs"), please see the current SLAs provided in Exhibit R1, Tab 9, Schedule 28, Appendices A-C.

Appendix A - In Lieu of Invoices
(in thousands of dollars)

Service Provided to	Service Provided From	Service Provided	April	May	June	July	August	September	October	Total
TH Energy	THESL	Shared Services Provided by THESL	0.00	0.00	475.00	79.17	79.17	79.17	79.17	791.67
TH Energy	THESL	Allocate IT Service Charges to RC's	0.00	0.00	26.84	4.47	4.47	4.47	4.47	44.74
TH Energy	THESL	Fleet leases	23.84	23.84	38.44	38.53	38.53	38.53	38.53	240.26
TH Energy	THESL	Fleet lease chgs corr - Jan-May10	0.00	0.00	73.91	0.00	0.00	0.00	0.00	73.91
TH Energy	THESL	Fuel Expense	2.54	11.67	6.31	7.02	5.97	6.75	7.23	47.49
TH Energy	THESL	System response charges	8.99	6.32	13.60	12.10	11.14	8.35	9.85	70.34
TH Energy	THESL	To accrue system response charges	(5.00)	0.00	5.00	(3.00)	(1.00)	(1.00)	0.00	(5.00)
TH Energy	THESL	Glove lab service charges	1.80	1.58	1.69	1.69	1.40	1.73	1.40	11.30
TH Energy	THESL	UG Plant loc & Maintenance	18.55	15.25	17.18	16.93	17.64	19.26	19.40	124.21
TH Energy	THESL	Record billing and settlement services	0.00	0.00	68.71	0.00	0.00	27.92	0.00	96.62
THESL	THC	Shared Services- Services provided by THC	(220.60)	(220.60)	(220.60)	(220.60)	(220.60)	(220.60)	(220.60)	(1,544.18)
THC	THESL	Allocate Occupancy Costs	4.35	4.35	4.35	4.35	4.35	4.35	4.35	30.48
THC	THESL	Allocate IT Service Charges	3.65	3.65	3.65	3.65	3.65	3.65	3.65	25.53
THESL	THC	THESL MGMT Fee For 2010	0.00	0.00	0.00	0.00	0.00	(1,000.00)	0.00	(1,000.00)
THESL	14 Co.	Shared services provided by THESL	1.03	1.03	1.03	1.03	1.03	1.03	1.03	7.24

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 30:

Reference(s): **C1/2/3-1, s. 4.5**

Please explain the rationale behind limiting the ability of the Applicant to obtain services from third parties if that would be in the best interests of the Applicant. Please describe the circumstances in which the parent company would exercise its right to refuse to allow provision of services by someone other than the parent company, or to refuse to allow the Applicant to provide services internally rather than obtaining them from the parent company.

RESPONSE:

In this Agreement, Section 4.5 limits the ability of the affiliate (THESI), not the applicant (THESL) to obtain services from third parties. However, a similar provision appears in Section 4.5 of Schedule 3-3, the Service Level Agreement between THC and THESL. The services provided by THC to THESL consist solely of "strategic leadership, stewardship and governance, and overall finance leadership to the organization. These services will be performed by the Board of Directors, and the offices of the Chief Executive Office and the Chief Financial Officer." (Exhibit C1, Tab 3, Schedule 1, page 2). As a result, these services cannot be provided by a third party.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 31:

Reference(s): C2/1/5 App. A p. 7

a) Please explain, with a worked example of results from 2009, the calculation of the Distribution Plan Capital per Unit KPI.

b) Please indicate whether THESL has considered applying the following productivity measures to performance incentives and if not why not: improvements in O&M/customer, improvements in customers served/employee, improvements in energy distributed/employee.

c) Please provide any labour productivity benchmarking related to the utility that is three years old or younger that THESL has conducted or commissioned or otherwise has in its possession or control.

RESPONSE:

a) The Distribution Plan Capital per Unit KPI is calculated by taking the total forecasted distribution plan capital program spending and dividing it by the total work units required to complete the program. Each year's program is different, having different expenditure levels in its work portfolios; new or different portfolios with differing mixes of work units making up the program; and differing costs for work units due to job-specific conditions. Consequently, the KPI target value can vary significantly year-over-year independent of the forecasted spending, and is only useful within the year of the program to track and manage the successful delivery of the work. As an example from 2009, the KPI for the Underground Direct Buried portfolio was $31.9 million capital spend divided by 37.3 thousand units, resulting in a value of 855.

INTERROGATORIES OF SCHOOL ENERGY COALITION

b) THESL has considered a number of different productivity-type measures including the ones suggested in this interrogatory and concluded that they are not useful measures for THESL. O&M, number of customers, number of employees, and energy distributed are all affected by numerous factors that are not consistent from year to year; THESL has not found a meaningful way to use such measures.

For example, O&M will increase during periods of workforce renewal where the capitalization of labour declines as a result of training. In addition, specific work tasks take longer and are more costly because the transfer of knowledge on the job, getting the work done, and making sure it is done safely requires extra time. It is not until that process is complete, which can take up to two years, that task times return to more historic levels, all other things considered equal. O&M is of course affected by more than just workforce renewal too; it is influenced by the mix of capital and maintenance programs and many other factors which do not necessarily move in the same direction or magnitude from year to year.

c) THESL has not benchmarked labour productivity because the effects of its distribution system, work mix, workforce renewal program, and operating environment is not comparable to other utilities in the electricity sector.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 32:

Reference(s): B1/10/1

With respect to incentive objectives:

a) P. 34. Please provide the 2010 and 2011 "objectives for the CEO", as well as details on the 2009 CEO objectives and the Compensation Committee's assessment of the CEO's performance against those objectives. Please show the resulting calculation of the CEO's 2009 incentive compensation.

b) P. 39. Please explain each of the "corporate performance objectives" listed, and described how they are calculated. For example, and without limiting the generality of the question, Call Centre is listed at a "70%" target. What is the percentage of, and what are the inputs into the percentage calculation?

RESPONSE:

a) The Compensation Committee's assessment of the CEO's performance against the outlined objectives is confidential and will not be provided. The corporate objectives for the CEO are outlined in our annual corporate scorecards.

INTERROGATORIES OF SCHOOL ENERGY COALITION

1 **2011 Corporate Scorecard:**

Objective	Weight	Target
Safety – My Goal is Zero	5%	4.5
Safety Leadership	5%	95%
Attendance (# days)	5%	7.75
Consolidated Operating Expense ($M)	15%	$237.9
Consolidated Net Income ($M)	15%	$69.6
Distribution Plan Capital per Unit ($K)	30%	$1,180K
System Average Interruption Duration Index (SAIDI)	5%	82.0 min
System Average Interruption Frequency Index (SAIFI)	5%	1.66
Feeder Performance (FESI-7)	5%	37
Call Centre Service Index	10%	83%

2 **2010 Corporate Scorecard:**

Objective	Weight	Target
Safety – My Goal is Zero	5%	95%
Safety Leadership	5%	90%
Attendance (# days)	5%	9.0
Consolidated Operating Expense ($M)	15%	$231.5
Consolidated Net Income ($M)	15%	$50.6
Distribution Plan Capital per Unit ($K)	30%	$1,150K
System Average Interruption Duration Index (SAIDI)	5%	80.0 min
System Average Interruption Frequency Index (SAIFI)	5%	1.62
Feeder Performance (FESI-7)	5%	41
Call Centre Service Index	10%	70%

INTERROGATORIES OF SCHOOL ENERGY COALITION

2009 Corporate Scorecard:

Objective	Weight	Target
Safety – My Goal is Zero	5%	94%
Safety Leadership	5%	80%
Attendance (# days)	5%	9.25
Consolidated Operating Expense ($M)	20%	$215.3
Consolidated Net Income ($M)	20%	$52.1
Distribution Plan Capital per Unit ($K)	30%	$0.975K
System Average Interruption Duration Index (SAIDI)	5%	84.0 min
System Average Interruption Frequency Index (SAIFI)	5%	2.1
Call Centre Service Index	5%	70%

b) Scorecard Definitions:

Objective	Definition	YTD
Safety – My Goal is Zero (2011)	(Total number of WSIB claims X 200,000) /Total hours worked	Average of monthly results YTD
Safety – My Goal is Zero (2009 & 2010)	(Total number of employees - number of WSIB claims) x 100 / Total number of employees Note WSIB claims include Lost Time + Medical Aids, not First Aid	Cumulative YTD
Safety Leadership	Leaders to complete planned inspections	Cumulative YTD
Attendance (# days)	Total days of absence divided by number of employees	Cumulative YTD
Consolidated Operating Expense ($M)	Opex per THC Income Statement excluding CDM Opex	Cumulative YTD

INTERROGATORIES OF SCHOOL ENERGY COALITION

Objective	Definition	YTD
Consolidated Net Income ($M)	Net Income per THC Income Statement	Cumulative YTD
Distribution Plan Capital per Unit ($K)	Total Electricity Distribution Capital Spent in period (including Planned and Unplanned Refurbishment, Customer Growth net of Contribution) / (related units completed in period)	Cumulative YTD
System Average Interruption Duration Index (SAIDI)	Industry standard definition using existing data collection.	Cumulative YTD
System Average Interruption Frequency Index (SAIFI)	Average annual number of customer interruptions / year	Cumulative YTD
Feeder Performance (FESI-7)	Total Number of Feeders experiencing more than 7 sustained outages in a year (outages defined as interruptions greater than one minute)	12 Month Rolling
Call Centre Service Index	Average of Call Centre response within 30 seconds and call quality	Cumulative YTD

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 33:

Reference(s): C1/4/1, App. B, p. 3

With respect to projections of payroll costs:

a) Please advise the impact, if any, of using the 2010 "long term THESL operational staffing plan" as the starting point in preparing the Application. Please advise whether the 2011 "long term THESL operational staffing plan" has material changes and, if so, provide details.

b) Please provide the communication from OE dealing with the "market rates as projected by OE" for non-union salary increases

RESPONSE:

a) THESL's application is based on staffing projections for 2011 made in Q3 2010. These projections have not been updated.

b) The market rate projected by OE for non-union salaries was 3.15 percent.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 34:

Reference(s): C1/4/1, App. C, p. 2

Please provide the full calculation of the figures “30.09%” and “32.33%” on Table 5.

RESPONSE:

Table 1: Burden Rate Calculation ($ millions)

	2010 Bridge	2011 Test
Total Benefits [A] (Excluding Taxes)	46.3	54.4
Payroll Cost for Benefit Allocation [B] (Base Pay and Premiums)	153.9	168.4
Benefit Burden Rate [C=A÷B]	30.09%	32.33%

Rounding variances may exist.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 35:

Reference(s): C2/1/1

With respect to the Compensation Policy:

a) P. 3. Please provide the most recent "compensation benchmarking study".

b) P. 3. Please provide details of all reviews of "competitiveness of selected positions" carried out in the last two years, including the results of those reviews.

c) P. 4. Please advise the number of employees currently being "paid outside of the approved salary range for the position".

d) P. 5. Please advise the number of newly hired management employees in the last twenty-four months whose initial base salary was "at or above the job rate".

RESPONSE:

a) No formal benchmarking study has been completed since 2007.

b) An informal review has been conducted internally to review market competitiveness to support our recommendations for base salary policy movement and base salary spend budget.

c) There are no employees currently being paid outside of the approved salary range for the position.

d) There are two management employees at job rate in the last 24 months and none above job rate.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 36:

Reference(s): C2/1/2

With respect to the Compensation exhibit:

a) P. 1. Please provide any cost-benefit analysis, business case, or similar study or analysis done with respect to the Trades School, whether before it was established, or at any subsequent time.

b) P. 3. Please provide, for each of the last five years including 2010, the "projected base salary budget increases and base salary policy increases for the coming year…obtained from external market sources".

c) P. 4. Please provide [redacted versions] of the scorecards, weightings, and individual performance contracts for each of the ten individuals included in the Executive category. Please remove all identifying information from the documents before filing.

d) App. A. Please explain why the FTEs for Management/Non-Union are proposed to increase by 204, or 74.2%, over three years from 2008 to 2011, while the total FTEs are proposed to increase by 398, or 25.7%, for the same period.

e) App. A. Please explain the 16.0% increase in average total compensation for the ten executives. Please provide details of all market information showing comparable increases for executives in other companies.

f) App. A. Please explain why the average yearly base wages for Executive and Managerial employees are proposed to each increase by 11.5% over three years, while the increases for Management/Non-Union at 5.6% and Union and 8.2% are significantly lower.

INTERROGATORIES OF SCHOOL ENERGY COALITION

RESPONSE:

a) No business case was required as it was established that there were no training facilities/organizations to meet our unique training requirements. Based on workforce renewal strategy, THESL needed to ramp up trades training program to deal with its unique and complex environment. The diverse skill set that is required has lead to the creation of THESL's own trades school.

b) Base salary policy increase and base salary budget increase:

Union:

	2006	2007	2008	2009	2010
Base Salary Policy	3.5%	3.25%	3.25%	3%	3%
Base Salary Budget	3.5%	3.25%	3.25%	3.75%	3.0%

Management:

	2006	2007	2008	2009	2010
Base Salary Policy	3.5%	1.75%	2.6%	3%	2.5%
Base Salary Budget	3.5%	3.68%	4%	4%	3.0%

c) The individual performance contracts for the Executives are confidential and contain business unit specific goals. Below are the 2010 and 2011 Corporate Scorecards.

INTERROGATORIES OF SCHOOL ENERGY COALITION

2011 Corporate Scorecard:

Objective	Weight	Target
Safety – My Goal is Zero	5%	4.5
Safety Leadership	5%	95%
Attendance (# days)	5%	7.75
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System Average Interruption Frequency Index (SAIFI)	5%	1.66
Feeder Performance (FESI-7)	5%	37
Call Centre Service Index	10%	83%

2010 Corporate Scorecard:

Objective	Weight	Target
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Safety Leadership	5%	90%
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Consolidated Net Income ($M)	15%	$50.6
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System Average Interruption Frequency Index (SAIFI)	5%	1.62
Feeder Performance (FESI-7)	5%	41
Call Centre Service Index	10%	70%

INTERROGATORIES OF SCHOOL ENERGY COALITION

d) The impact is due to the transferring from THC to THESL in 2010 in the management/non-union group who primarily support THESL operations and new hires.

e) There was a reorganization of 3 Executives from THC to THESL, which increased the total compensation for 2010. However, the year-over-year total compensation spend has been decreasing as executives retire and are not being replaced. The scope of responsibility for the executives continues to expand as the company reduces the number of executives. Increases to base salaries are higher to compensate for this expanded scope. THESL's executive positions were benchmarked in 2007 to both within the utility sector and general industry for non-industry specific roles and found these positions to be below the targeted philosophical positioning for THESL's executive level positions. In an attempt to reduce this gap, these positions have been given slightly higher than market base salary increases.

f) The three-year base salary increase for the executive positions continues to be higher than all other positions within the company in an effort to continue to close the gap with market positioning for these jobs.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 37:

Reference(s): **C2/1/5**

With respect to Workforce Staffing:

a) P. 2. Please provide the percentage of THESL's January 1, 2007 total workforce that has actually retired since that date. Please exclude all voluntary or involuntary terminations, and cessation of employment due to death or disability. If that retirement percentage is less than 17.3% (i.e. 60% of the 28.8% referenced six year forecast), please explain the difference.

b) P. 3. Please extend Table 1 backwards to 2003 and include actuals from 2003 through 2009.

c) P. 3. The 2010 figure in Table 1 includes 2009 retirements that did not occur and were "rolled forward". Please calculate a similar figure for each of 2003 through 2009, i.e. retirements for those years forecast on the same basis.

d) P. 3. Please provide all presentations or reports to the Board of Directors or any Board committee dealing with the aging workforce and/or policies or strategies to address increasing retirements over time.

e) P. 4. Please advise what percentage of the THESL workforce is in "supervisory, engineering, trades and technical positions".

f) P. 6. Please provide the referenced contracts with Power Line Plus, Entera, and AECON.

g) P. 7. Please provide the most recent information in the possession of the Applicant on the average age of the Ontario or Canadian work force.

h) P. 9. Please add a row to Table 4, setting out the total payroll and other costs for the referenced apprentices.

INTERROGATORIES OF SCHOOL ENERGY COALITION

RESPONSE:

a) Approximately 8% of the January 2007 workforce has retired over the 2007 to 2010 period. The figure of 28.8% is taken from the 2008 Labour Market Information Study undertaken by the Electricity Sector Council. This report was referenced to provide context for THESL's expected retirements and to indicate that extraordinary turnover is an issue for the electricity industry in general; THESL did not assert that its rate of retirements would necessarily equal the projected industry rate or that the annual rate would be equal for each year in that period. The rate of retirement is expected to accelerate with each coming year.

b) Forecast Retirements (Extended Table 1)

Year	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual
Number of retirements	25	33	13	10	19	16	30

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of retirements	64	37	50	55	79	68	97	103	89	112

c) "Rolled forward" data were not tracked from 2003 through 2007. There were 30 retirements that did not occur and were rolled forward from 2008 to 2009.

d) There have been no presentations or reports to the Board of Directors dealing with the aging workforce or strategies dealing with retirements. The THC Business Plan that was filed in confidence does reference workforce renewal, recruitment, training and other matters on page 43 to 48.

INTERROGATORIES OF SCHOOL ENERGY COALITION

e) Fifty-five percent of THESL workforce is in “supervisory, engineering, trades and technical positions”.

f) The requested documents contain confidential information. It was not possible for THESL to redact the documents within the allowed period for responding to interrogatories. THESL will file such documents on a confidential basis provided that undertakings of confidentiality pursuant to the Board’s Rules of Practice and Procedure are executed by the parties eligible to receive the documents in question. THESL reserves the right to challenge any party's eligibility to receive any particular documents on the grounds that despite any undertaking of confidentiality the revelation of the documents to that party would intrinsically and irreparably violate the confidentiality intended to be protected.

The contract is a unit price contract with an expected value of $130 Million per year, across all contract firms. There is no guaranteed minimum or maximum amount of work to any/all contractors. The contract is structured as a two year contract with three one-year options for extension if THESL decides to exercise these options. THESL has sole discretion to exercise the options.

g) 2006 Statistics Canada Census indicates the median age for Canada’s workforce is 41.5.

INTERROGATORIES OF SCHOOL ENERGY COALITION

h)

Table 4: Apprenticeship Program Headcount and Costs

Year	2009 Historical	2010 Bridge	2011 Test
Total Headcount Year End	70	87	99
Cost ($ millions)	0.3	1.1	1.0
Total Payroll and Other Costs	1.5	3.1	4.6

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 38:

Reference(s): **F2/10/1, p. 4**

Please restate Table 1 on a comparable year over year basis, i.e. the costs in 2008 and 2009 for Talent Management, Employee/Labour Relations, and Compensation, Benefits and HRIS, are included under those categories rather than under the first six categories.

RESPONSE:

We are not able to restate Table 1 to display the costs on a comparable year-over-year basis for Talent Management, Employee/Labour Relations, and Compensation, Benefits and HRIS since it would not be an equivalent comparison. The aggregate sum shows a more accurate year comparison.

In 2008 and 2009, 2 divisions were combined to form the OE EHS division, which impacted our budget figures. In 2009, we created the Talent Management department to provide focus on the volume of hiring from our workforce plan.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 39:

Reference(s): D1/12/1

The 2006 Electricity Distribution Rates Handbook Appendix B provides amortization rates used by THESL in the EB-2010-0142 application. Please compare the average age of the assets removed from service under the proposed capital plan with the amortization rates found in the 2006 EDR.

RESPONSE:

THESL has not been in the practice of collecting information on the age of assets removed from service. Such information collection was not necessary in the past for regulatory or other reporting requirements, and as such THESL is not currently able to estimate the average age of assets to be removed from service under the proposed capital plan.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 40:

Reference(s): F1/6/1, p. 4

Please provide a calculation showing all revenue requirement impacts in the test year of the new CIS, including cost of capital, depreciation, tax shield, and incremental operating costs or savings.

RESPONSE:

The 2010 revenue requirement was based on a planned implementation date of August 2010, for the new CIS project. At implementation, the total capital cost was expected to be $26.9 million. There is no incremental OM&A.

The 2011 revenue requirement impact is approximately $7.3 million. This is comprised of $5.4 million of depreciation, $1.5 million return on rate base (average NBV of $22.0 million at 7.03%), and 0.4 million grossed-up PILs (NBV of $22.0 million times 40% equity times 9.85% ROE times 28.25% tax rate, grossed-up).

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 41:

Reference(s): H1/1/1, p. 3

Please define "FTY" and describe how it impacts the calculation of CCA. Please confirm that CCA has been calculated in the Application based on the calendar test year 2011.

RESPONSE:

"FTY" is defined as Forward Test Year. As indicated in Exhibit H1, Tab 1, Schedule 1, THESL is filing the application on an FTY basis. Projected capital additions for 2010 and 2011 are used. A separate Schedule 8 is prepared to compute the projected CCA for 2010 and to derive the projected undepreciated capital cost ("UCC") balances at January 1, 2011 (see Exhibit P1, Tab 2, Schedule 1). The opening UCC balances in 2010 Schedule 8 (see Exhibit P1, Tab 1, Schedule 1) reflect the actual ending UCC balances reported on the 2009 tax return. Projected CCA is calculated on a calendar year basis and maximum CCA is claimed in both 2010 and 2011 PILs tax model. As well, any additions projected for 2010 and 2011 are subject to the half-year rule.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 42:

Reference(s): D1/1/1, p. 2
D1/2/1, pp. 3 and 4

Please confirm that rate base for the bridge year is expected to be less than 2010 Board-approved. Please explain the reasons for the shortfall, including variances in the opening and closing rate bases from Board-approved, variations in working capital and amortization, and any other material inputs.

RESPONSE:

The rate base for the bridge year is expected to be less than board approved by $13M. The decrease is driven by lower energization in 2009 of $16.1M resulting in a reduced opening balance in 2010, lower energization in 2010 of $0.7M which is offset by $3.8M increase in working capital allowance due to the increase in cost of power and operating expenses.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 43:

Reference(s): none

Please provide all communications since July 1, 2009 to or from members of the ten-person executive group dealing in whole or in part with potential future limitations on capital spending, or dealing in whole or in part with any need to accelerate spending due to future uncertainty about budget availability for capital projects.

RESPONSE:

There was no specific communication to or from the executive group related to limitations on capital spending or acceleration of capital spending due to budget availability.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 44:

Reference(s): C2/2/1, p. 3

Please confirm that the "optimizing benefits" of sites selected are formally quantified to determine whether a higher cost site is justified. Please provide the most recent example of such a calculation (i.e. the actual internal document calculating the optimizing benefits) for a site that was selected despite a higher cost.

RESPONSE:

The question is premised on the incorrect assumption that optimizing benefits are considered only when necessary to justify the selection of "higher cost" alternatives. That is not the case. Optimizing benefits are included and quantified as part of THESL's evaluation of various alternative sites to meet an identified business need.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 45:

Reference(s): C2/2/2, p. 3

Please provide a table listing all projects "advanced" to 2010, and for each identify the dollar amount of the project and the year it would otherwise have been completed had it not been advanced. Please provide a similar table listing all projects "advanced" to 2011.

RESPONSE:

Project Advanced to 2010	Dollar Amount	Planned Completion Year
500 Commissioners - Building Fire Protection System	$1.1M	2014
500 Commissioners - Replacement of Office Furniture	$1.1M	2012
500 Commissioners - Masonry Repair to curtain Wall	$0.5M	2011
14 Carlton – Replacement of Passenger Elevators	$1.1M	2013
5800 Yonge – Roof Replacement	$0.8M	Not applicable
Monogram & 601 Milner – Space reconfiguration and new Office Furniture	$0.6M	Not applicable

No decision has been made to advance projects to 2011.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 46:

Reference(s): D1/7/1

With respect to the Summary of the Capital Budget:

a) Please provide two listings, each of proposed projects that would not be included in the capital expenditures budget for the test year, if the approved budget were set by the Board at:
   i. $400 million;
   ii. $350 million.

b) P. 3. Please reconcile the "expected increase in failures" with the increase in the capital and maintenance budgets in the last three years. Please identify the point in the future at which the Applicant expects that increasing capital and operating expenses will result in failures decreasing.

c) P. 16. Please restate this table so that, for each of the "Emerging Requirements", the amounts included in 2008, 2009 or 2010 in any "Operational Investments" category are instead included on the appropriate line of Emerging Requirements, so that the past and forecast figures are on a comparable basis.

INTERROGATORIES OF SCHOOL ENERGY COALITION

RESPONSE:

a) If the Board were to reduce THESL's requested capital for the test year, available funds would be allocated to the highest priority capital work. There are potential impacts on labour and vehicle allocations, external contracts, OM&A and other impacts that must be evaluated. Different scenarios would be considered that result in an appropriate mix of capital and OM&A for the test year considering the risks that must be managed.

b) The "expected increase in failures" refers not only to the increase in asset failures covered by reactive capital (actual asset failures have been increasing over the last few years as described in Exhibit D1, Tab 8, Schedule 2, pages 2-3) but also the increase in corrective repairs needed which will be identified through increased asset maintenance in order to improve reliability. This trend is expected to continue until the increased capital program causes a turning point in asset deterioration.

Based on current SAIDI and SAIFI performance, as well as historical failure trends, it is expected that the CI and CMO will show slight to moderate improvements beyond 2013. This is contingent upon continuing capital and maintenance investments in the system in accordance with the ten-year plan. This is also dependent on the expected performance and future failure patterns.

a) The following table includes past emerging requirements that were included previously in the "operational investments" category:

INTERROGATORIES OF SCHOOL ENERGY COALITION

Emerging Requirements	2008 Actual	2009 Actual	2010 Bridge	2011 Test
Standardization	-	5.7	25.9	4.7
Downtown Contingency	-	-	13.1	5.4
FESI7/WPF	0.4*	2.3*	5.5	10.9
Smart Grid	-	-	3.0	1.3
Externally Initiated Plant Relocations	18.0**	6.9**	4.2**	12.2
Stations System Enhancements	-	-1.0	15.2	33.1
Secondary Upgrade	-	-	6.5	10.0
Energy Storage Project	-	-	-	30.0
Total Emerging Requirements	18.4	13.9	73.4	107.6

* The FESI work was originally under Reactive work.
** The Externally Initiated Plant Relocations work was originally under Customer Connections.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 47:

Reference(s): D1/8/1

With respect to Operational Investments:

a) P. 14. Please provide all studies or other evidence in the Applicant's possession that "rear lot services in suburbs are deteriorating".

b) P. 15. Please define "CMO" and "CI".

c) P. 19. Please estimate the annual added cost of using "tree-proof cable".

d) P. 20. Please confirm that the "box design construction" assets being removed are not all at end of life. Please estimate the average age, and the percentage, of assets being removed that are not at end of life.

e) P. 25. Please advise the number of stations in which switchgear was replaced in each of 2005 through 2010.

RESPONSE:

a) General field inspections and crew feedback from outage restorations have confirmed the ongoing deterioration of the plant, which was installed in the 1950s and 60s. The condition of the rear lot plant is a factor in determining the optimal timing of rear lot replacement projects but it is not the primary justification for THESL's rear lot program. The main drivers for rear lot to front lot conversion are safety, operational and reliability, as stated in 2010-2019 Electrical Distribution Capital Plan. The plant is assumed to be deteriorating toward end-of-life conditions at a rate similar to front lot overhead plant of the same vintage, and due to the intensive nature of rear lot to front lot conversion, THESL determined that a manageable, long-term proactive conversion program with investments in 2011 and beyond is the best solution for mitigating the reliability and safety challenges experienced.

INTERROGATORIES OF SCHOOL ENERGY COALITION

b) CI is the acronym for Customers Interrupted. CMO is the acronym for Customer Minutes Out. IEEE Standard 1366-2003 "IEEE Guide for Electric Power Distribution Reliability Indices" defines customer as a metered electrical service point for which an active bill account is established at a specific location. The same standard defines interruption as the loss of service to one or more customers connected to the distribution portion of the system.

c) Tree-proof cable can be used in heavily treed areas across the City for overhead capital projects as per Standard Design Practice #001. The costs vary from project to project and area to area. The estimated annual added cost using "tree-proof cable" would be approximately $1 million dollars annually.

d) Toronto Hydro stopped building box design in the mid 1970s, so the newest box construction is about 35 years old. The estimate of average useful life for this type of asset is 45 years.

Box constructions being removed year by year are not all at end of life as age is not the only factor in determining removal and subsequent conversion; the need to increase capacity due to load growth and improving system reliability are also other important considerations. We estimate that roughly 10% of box constructions are not at end of life when being removed, with those constructions averaging 40 years of age at the time of their removal.

e) Table 1 identifies the number of stations in which switchgear replacements occurred from 2005-2010.

INTERROGATORIES OF SCHOOL ENERGY COALITION

Table 1 Number of Stations in which Switchgear was replaced 2005-2010

	2005	2006	2007	2008	2009	2010
Transformer Stations	0	0	3	1	1	2
Municipal Stations	2	1	3	3	1	0
Total	2	1	6	4	2	0

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 48:

Reference(s): D1/8/8-2

Please provide the cost-benefit analysis showing cost savings or other quantified benefits for each of the major projects included in this exhibit.

RESPONSE:

CORPORATE APPLICATIONS

Portfolio Overview

The Corporate Application Portfolio is made up of programs that enhance the overall productivity of THESL's corporate business units. The portfolio includes two programs: Enterprise Information Management and Support Services Applications.

Table 1: Portfolio Cost ($ millions)

Program Name	2008 Actual	2009 Actual	2010 Bridge	2011 Test
Enterprise Information Management	3.9	4.5	3.1	2.1
Support Services Applications	2.1	1.8	2.7	3.3
Total	**6.1**	**6.3**	**5.8**	**5.4**

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Enterprise Information Management Program

Financial Benefits ($ millions):

Financial Benefits			Year 1	Year 2	Year 3	Year 4	Year 5
Revenue Loss Avoidance	$		-	0.1	0.1	0.1	0.1
Cost Avoidance	$		-	0.5	0.5	0.5	0.5
Cost Savings	$		-	0.5	0.5	0.5	0.5
Annual Financial Benefits	$		-	1.1	1.1	1.1	1.1

Costs/Benefits Summary ($ millions):

Investment Total		
Net Capital Invested	$	(2.1)
Financial Benefits		
Net Present Value (not including non-fin. benefits)	$	1.1
Total Benefits		
Comprehensive Net Present Value	$	1.1
Other Prioritization Criteria		
Internal Rate of Return	57.91%	
Payback Period	3.29 years	

Assumptions:

Duration of project execution and benefits realization of five years.

INTERROGATORIES OF SCHOOL ENERGY COALITION

Support Service Applications Program

Financial Benefits ($ millions):

Financial Benefits			Year 1	Year 2	Year 3	Year 4	Year 5
Cost Avoidance	$		-	0.7	0.7	0.7	07
Cost Savings	$		-	0.8	0.8	0.8	0.8
Annual Financial Benefits	**$**		-	1.5	1.5	1.5	1.5

Costs/Benefits Summary ($ millions):

Investment Total		
Net Capital Invested	$	(3.3)
Financial Benefits		
Net Present Value (not including non-fin. benefits)	$	1.1
Total Benefits		
Comprehensive Net Present Value	$	1.1
Other Prioritization Criteria		
Internal Rate of Return	22.39%	
Payback Period	3.65 years	

Assumptions:

Duration of project execution and benefits realization of five years.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 49:

Reference(s): D1/8/10

With respect to the ten year Capital Plan:

a) App. A. The Capital Plan proposes over $4 billion of capital spending in the next ten years. Please confirm that no explicit or implicit approvals are being sought from the Board with respect to any capital expenditures proposed, expected or forecast beyond the test year.

b) P. 5. Please provide a side-by-side comparison of the 2011 capital plan in this document with the figures of $397.1 million of capital additions in the test year in D1/2/1, p.5, and $498.0 of capital expenditures in the test year in D1/7/1, p. 16. Please reconcile any differences.

c) P. 6. Figure 1 provides a graphical comparison of the 2009 and 2010 10-yr plans over time. Please add to this figure lines for the 10-yr capital plans for 2005-2008, in addition to the lines for 2009 and 2010.

d) P. 12. Please define the term “spending shock”.

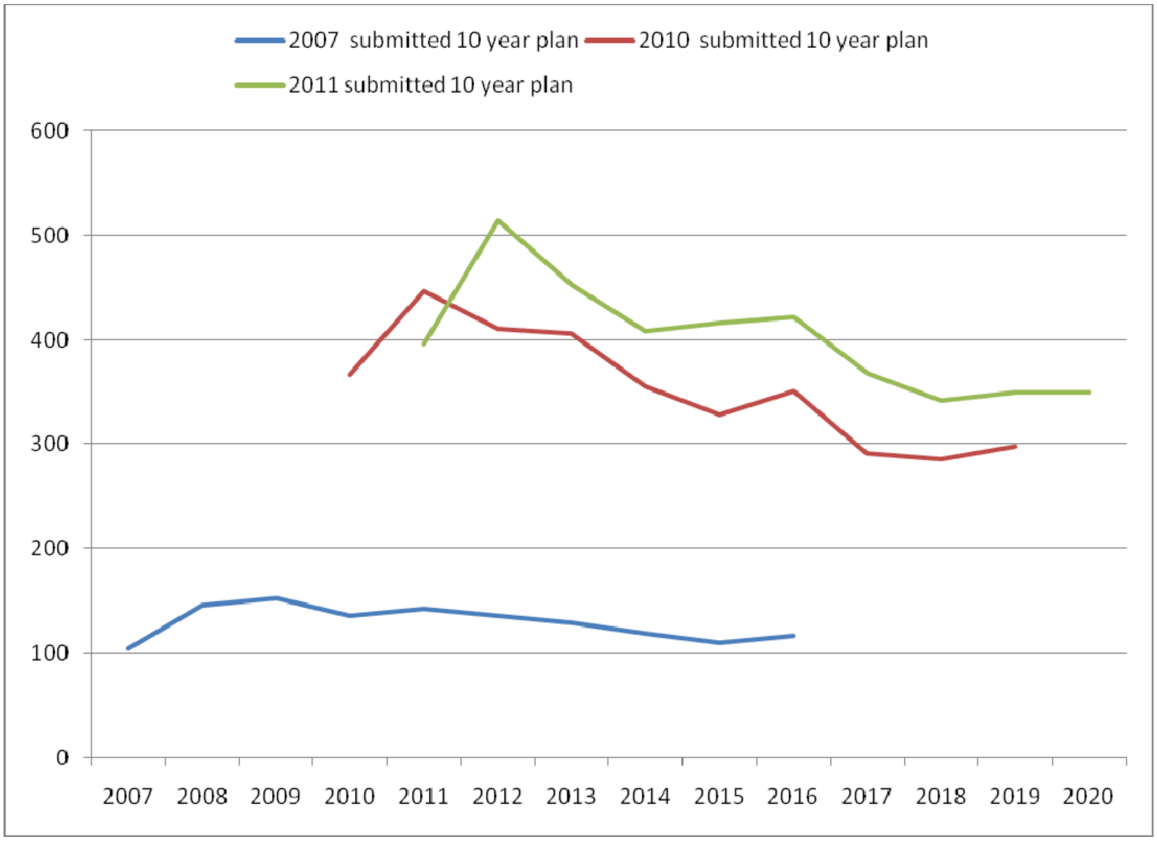
RESPONSE:

a) THESL confirms that no explicit or implicit revenue requirement approvals are being sought from the Board with respect to the capital expenditures proposed beyond the test year.

b) See response to Board Staff interrogatory 80.

c) The attached graph provides all three submitted ten-year plans. Please note no ten-year plan existed for the years 2005 to 2006.

INTERROGATORIES OF SCHOOL ENERGY COALITION



1 d) Spending Shock refers to the impact on distribution rates should THESL embark on
2 replacement of all deteriorating assets immediately that are at their end-of-life.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 50:

Reference(s): D1/9/7

Please quantify and provide details of all spending on Secondary Upgrades in the bridge or test year relating to assets acquired by the Applicant from an affiliate after 2008.

RESPONSE:

There is no spending on secondary upgrades in the bridge or test years related to assets acquired from an affiliate.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 51:

Reference(s): D2/1/1, p. 2

Please confirm that payments to HONI will not be recoverable from ratepayers until the project in respect of which the payments are made is "used and useful", i.e. 2013. If this is not the case, please provide the reference in the Accounting Procedures Handbook that stipulates a different timing for recovery of such payments.

RESPONSE:

THESL proposes that capital contributions to Hydro One enter ratebase in the year they are made, which may be prior to the year of project energization. This is in accordance with the provisions of the 2006 EDR Rate Handbook, which states at pages 25-26 that "2004 net fixed assets [i.e., ratebase], with the adjustments outlined in Chapter 3, will include the following items:

- amounts paid to other distributors or transmitters for capital projects, including contributions made to Hydro One for transmission upgrades…"

Capital contributions made by THESL to Hydro One are made pursuant to the provisions of the Transmission System Code and associated documents and are not discretionary for THESL. They are therefore "used and useful" from the date they are made.

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INTERROGATORY 52:

Reference(s): C1/6/1

a) Please comment on how value for money is considered in THESL's asset management policy.

b) THESL is rolling out new asset management strategies: PAS 55 and Reliability Centered Maintenance (RCM) originally developed for aviation. In the past two years, THESL has also developed FIM and AIS for asset management purposes. What deficiencies associated with the previous asset management strategies and systems necessitated this change?

c) Please indicate the impact of past utility amalgamation on the capital budget that THESL is requesting. When does THESL anticipate that the amalgamation impacts will be substantially completed?

RESPONSE:

a) Within THESL's Feeder Investment Model (FIM), which is described on Page 11 within the "2011-2020 Electrical Distribution Capital Plan" (Exhibit D1, Tab 8, Schedule 10, page 11), reliability impacts are converted into implicit dollar values via the application of Customer Interruption Costs.

Customer Interruption Costs are defined as a measure of the monetary losses for customers due to an interruption of electric service. The inconvenience and damage encountered by customers involves three periods.

i) The first period is immediately after power interruption. Customers need to take the necessary action to prevent any possible damage and all activities, such as production, work and normal life, are immediately to be terminated.

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ii) The second period follows, during which no production, sales, office. work and entertainment are carried out. In this period the customer interruption cost is proportional to the duration of power failure.

iii) The third period is after the restoration of power when customers take action to resume normal production.

Based upon the principles presented above, a final customer interruption cost can be estimated.

The Feeder Investment Model (FIM) was utilized as part of the Capital Plan (Exhibit D1, Tab 8, Schedule 10) development process, alongside other resources and processes.

b) From internal reviews of the asset management system, THESL identified the need for a better risk methodology and linkages with corporate strategies as opportunities for improvement, when developing projects and asset plans. FIM and AIS thereby represent the progress THESL has taken to better address these gaps, as FIM speaks to quantifying risk and AIS provides priority scores of projects, as they best align with key strategic areas. However, THESL recognizes that asset management practices are constantly evolving, and has committed resources to assess and refine the existing asset management approach, where applicable. As a result, RCM analyses are revisited on a continuous basis, to ensure that information on failure modes and reliability data is current and adequately captured within existing maintenance practices. Similarly, recent efforts have been made to investigate the application and value of PAS 55, an international asset management specification that

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outlines a framework for sound decision-making, and would comprise these three tools as part of a joined-up asset management system.

c) As construction standards evolve, legacy in-service assets that were installed prior to the development and adoption of current standards become an unnecessary burden as special and/or obsolete components and equipment must be stocked to support these systems. The most problematic legacy installations are those installed prior to the amalgamation of the former. Therefore, the Standardization Portfolio may best reflect the impact of past utility amalgamation on THESL's requested capital budget.

THESL's costs and when it anticipates that the Standardization Portfolio will be substantially completed by can be found in Exhibit D1, Tab 8, Schedule 10.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 53:

Reference(s): D1/7/1

a) In EB-2009-0139 THESL's capital budget request was negotiated from $423.6 million originally requested in the application to $350M, excluding any capital expenditures on its proposed Transit City program. Please detail what spending programs originally proposed in that prior application were reduced. During the stakeholder consultation session on July 15th, this reduction was described by THESL as having created a "snowplow effect" on the 2010 capital plan. Please identify where each of those previous reductions are now found in the test year budget within the current Application. Please explain THESL's justification for employing this approach to capital planning.

b) Many aspects of THESL's application are influenced by the scale of the proposed long term capital budget plan including but not limited to facilities, fleet services, contract management, human resource management, and training. Please provide a summary of how these other components should be adjusted based on changes to the capital budget. For example, if the capital budget is reduced by $100 million, what is the impact on each other area, and to what extent is that impact linear given various levels of capital budget reduction?

RESPONSE:

a) The following table identifies the spending programs originally proposed in the prior application (EB-2009-0139) that were reduced:

INTERROGATORIES OF SCHOOL ENERGY COALITION

Portfolio	2010 Test	2010 Rebase	Reduction
Underground Direct Buried	70.3	65.2	5.1
Underground Rehabilitation	36.3	32.1	4.2
Network	5.7	5.5	0.2
Transformer Station	15.9	11.9	4
Reactive Work	22.5	19.4	3.1
Engineering Capital	31.2	30.9	0.3
Fleet &Equipment Services	11.4	9.9	1.5
Facilities	12.6	11.9	0.7
Other	4.4	3.1	1.3
Wholesale Metering	10.9	6.9	4
Total Information Technology	33.3	28.8	4.5
Standardization	32.7	25.9	6.8
Downtown Contingency	31.3	13.1	18.2

For the most part, the reductions from previous applications form part of the current application. Reductions caused our current investment backlog to further snowplow into future years beyond the 2011 Test Year as can be seen the 2010-2019 Electrical Distribution Plan, filed at Exhibit D1, Tab 8, Schedule 10, pages 12 and 14.

The snowplow effect is applicable in situations whereby significant reductions or insufficient investments were applied for a given portfolio in the previous years. As a result, significant increases are required in the current application and/or in later years over and above the original requirements. These deferred projects have to compete with other urgent initiatives that may not have been identified in previous years. Again, this may cause a further snowplow effect where more projects are delayed into

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future years as it may not be possible to execute all at once. This is due to logistical reasons as explained in Exhibit D1, Tab 8, Schedule 10, pages 12 and 14.

b) There is no formula or linear correlation between the long-term capital plan and other support and execution business unit components. During the course of annual planning, efforts are made to align business unit initiatives and activities to take advantage of any synergies that may be available and this also alters the relationship between various work activities and costs. The true effect of a dollar amount reduction in the capital budget in areas such as facilities, fleet services, contract management, human resource management, and training can only be determined if specific projects and assets are removed from the budget, and an assessment is made to determine what other areas are affected by the change. Comments on the effects of a dollar amount reduction in the capital budget would be speculative at best.

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INTERROGATORY 54:

Reference(s): D1/7/1 p3-4 and D1/8/3-2

The installed cost per customer connection is budgeted to rise by about 25% between the bridge and test years. A change in the treatment of "Enhancement Cost" is associated with this increase. Please explain with a worked calculation based on the forecast numbers for the bridge and test years the change in treatment.

RESPONSE:

a) The increase between the 2010 Bridge year and the 2011 Test year amount is 100 percent directly related to the projected increase in residential construction activities. The removal of the Enhancement Cost from THESL's economic model does not affect the gross capital cost.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 55:

Reference(s): **C1/6/1 p. 5**

a) Please comment on whether THESL's Asset Condition Assessment has been used to extend service lives of equipment. If so, provide examples.

b) The Feeder Investment Model presented indicates that asset age is a dominant driver for risk cost. Please provide any quantitative analysis THESL has supporting that approach.

RESPONSE:

a) THESL's Asset Condition Assessment has been used to extend service lives of equipment. The following examples illustrate how this has been accomplished:
   - THESL has extended the life of power transformers. Specifically, in 2010 THESL retained contractors to perform treatment on 13 power transformers to stabilize the deterioration of insulation medium.
   - THESL has extended the life of Civil Infrastructures. For example, identifying critical roof refurbishment to Network Vaults that extends the life of the vaults and reduces risk to equipment located in them.

b) Please note that asset age is not a dominant driver for risk cost. As noted within the "Asset Management Approach" document (Exhibit C1, Tab 6, Schedule 1), the Feeder Investment Model (FIM) applies both Asset Condition Assessment results (Health Indices) as well as the asset's age to determine the probability of failure, which is used to compute the final risk cost.

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INTERROGATORY 56:

Reference(s): D1/7/1 p. 5, 13

With respect to the capital contribution to HONI:

a) Please explain in detail all measures THESL has taken and is taking to ensure that the capital contributions required by HONI for the Leaside-Birch reinforcement, Windsor/John TS and Bremner TS are optimized and that the required improvements could not be achieved at lower cost through alternative procurement approaches, whether self-supply by THESL or contracting out.

b) Please comment on the design decision at Bremner TS and John TS to rely on 13.8 kV secondary side voltage including the impact on line losses over the long term of not employing a higher voltage.

RESPONSE:

a) For the Leaside-Birch reinforcement project, THESL concluded that the most cost effective solution was to address the transmission line constraint through a transmission rather than a distribution solution. The transmission reinforcement is being performed in concert with HONI's sustainment work for the affected cable. As a result, HONI and THESL are sharing the costs in proportions which are prescribed by the Transmission System Code. This is an optimal solution for THESL and is a lower cost solution when coordinated with HONI's sustainment work.

For the Bremner project, please see the reply in Exhibit R1, Tab1, Schedule 77 b). Further, a capital contribution to HONI will depend upon the extent to which HONI

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is involved. A final decision has not yet been made as to the level of involvement. THESL will ensure that an optimal procurement approach will be taken.

b) All of downtown Toronto is at the 13.8 kV voltage level. One of Bremner TS's benefits is to relieve pressure at Windsor TS and provide capacity benefits to a number of surrounding stations. This capacity relief can only occur if load can be transferred from Windsor TS to Bremner TS, and between the neighbouring stations and Bremner TS. As the customers involved are currently supplied at 13.8 kV, a voltage change for Bremner would diminish some of the benefits of the station.

Note that in the downtown core, 13.8 kV feeders are quite short as compared to the rest of the system and would therefore have lower losses. A voltage change would necessitate a larger plan that would need to be applied to a broad group of stations and customers' equipment and not just to Bremner TS. This is out of scope for the Bremner project.

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INTERROGATORY 57:

Reference(s): **D1/3/1**

With respect to the variance analysis presented comparing year over year changes in distribution expenses, please quantify impact of the cost drivers itemized under tables 1 through 4.

RESPONSE:

Please refer to Table 2 of Exhibit R1, Tab 1, Schedule 19.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 58:

Reference(s): B1/10/1, p. 20

With respect to dividends from the Applicant to its parent company:

a) Please indicate the dividend payments made from THESL over the last 6 years, an estimate for the bridge year and forecast for the test year. For each year, indicate the ratio of dividends to post PILS net income.

b) Please advise why the dividend in 2009 was nil.

c) Please provide THESL's dividend policy.

d) In light of the capital demands on the utility, please provide THESL's view as to what dividend-to-net income ratio, and resulting drain on retained earnings, would cause an impact on borrowing rates.

RESPONSE:

a) Dividends paid by THESL to THC from 2004 and (on a forecast basis) to 2011, have averaged 47% of net income. This ratio is largely in line with the dividend policy set by Toronto Hydro Corporation's shareholder, the City of Toronto, for Toronto Hydro Corporation, which directs the Corporation's Board of Directors to use its best efforts to pay an annual dividend that is the greater of $25 million or 50% of consolidated net income. The table below provides the details as requested.

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	Dividends Paid by THESL to THC Amount $ millions	Net Income $ millions	Ratio of Dividends to Net Income
2004	$49.2	$60.1	0.82
2005	114.5	65.4	1.75
2006	47.8	76.0	0.63
2007	25.0	65.6	0.38
2008	25.0	76.1	0.33
2009	0.0	51.0	0.0
2010 – Bridge Year	0.0	66.3	0.0
2011	25.0	73.2	0.34
Total/Average	286.5		0.47

b) The THESL Board of Directors determined not to approve a dividend payment to THC in 2009.

c) THESL currently does not have a dividend policy with THC. Dividends from THESL to THC are declared by the THESL Board of Directors as necessary, after taking into consideration Management’s recommendations.

d) THESL submits that its borrowing rates will not be impacted by the dividend-to-net income ratio (or more aptly, the dividend payout ratio) *per se*. Instead, borrowing rates for the company will likely be affected by the following factors:

- General economic conditions.
- An overall (and on-going) picture of the company’s financial health as evidenced by numerous financial ratios such as Debt-to-Capitalization, Funds From Operations-to-Debt, Times Interest Coverage, Earnings Margin, Return on Equity, etc.

INTERROGATORIES OF SCHOOL ENERGY COALITION

- The debt capital markets' "views" on regulated utilities in general, and THESL in particular.
- The expected size and duration of the Company's capital investment cycle, and the comfort that credit rating agencies have with the overall regulatory framework within which annual revenue requirements are approved.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 59:

Reference(s): E1/1/1, p. 3

Please provide the most recent S&P ratings report on the Company, together with all updates of that report.

RESPONSE:

Please see Appendix A for latest S&P report dated August 18, 2010. There have been no further updates.

Toronto Hydro-Electric System Limited
EB-2010-0142
Exhibit R1, Tab 9, Schedule 59
Appendix A
Filed: 2010 Dec 6
(11 pages)

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RatingsDirect®

August 18, 2010

Toronto Hydro Corp.

Primary Credit Analyst:
Greg Pau, Toronto (1) 416-507-2518; greg_pau@standardandpoors.com

Secondary Credit Analyst:
Faye Lee, Toronto (1) 416-507-2568; faye_lee@standardandpoors.com

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Toronto Hydro Corp.

Major Rating Factors

Corporate Credit Rating
A/Stable/--

Strengths:

- Monopoly position
- Stable cash flows supported by cost-of-service regulation
- Low-risk electricity distribution assets
- Favorable service territory

Weaknesses:

- Intermediate financial risk profile
- Significant capital expenditures pressure related to aging infrastructure

Rationale

The ratings on Toronto Hydro Corp., an Ontario-based utility holding company, largely reflect Standard & Poor's Ratings Services' view of the credit risk profile of its key subsidiary, Toronto Hydro-Electric System Ltd. (THESL; generating 97% of net revenue). We believe THESL's excellent business risk profile reflects its monopoly, low-risk, regulated electricity distribution business and solid customer base. Offsetting these strengths are our view of Toronto Hydro's intermediate financial risk profile and significant capital expenditure pressure related to aging infrastructure. Total debt outstanding as of June 30, 2010, was about C$1.4 billion. All debt outstanding is external, because the company refinanced the promissory notes owed to its 100% shareholder, the City of Toronto (AA/Stable/A-1+) with external mirroring debt early this year. Our ratings assume that the company will focus on its core regulated local electricity distribution company (LDC) business without any material investment in nonregulated renewable generation in the medium term.

In our view, THESL's monopoly position and the asset-intensive nature of electricity distribution limit competitive risk. The electricity distribution business carries relatively low operating risk. Operational efficiency and reliability are within provincial industry norms, avoiding regulatory risk linked to poor performance. Toronto Hydro is a utility holding company incorporated in 1999 as a result of a change in Ontario law. It is one of Ontario's largest LDCs, with about C$1.9 billion in capital assets and delivering almost 20% of the electricity used in the province.

We believe the Ontario Energy Board's (OEB) regulatory framework supports THESL's cash-flow stability. The framework allows for the recovery of prudent costs and the opportunity to earn a modest return. In our view, OEB's regulatory cost-recovery decisions are generally predictable and independent. Electricity market design and a regulated commodity cost pass-through mechanism limit exposure to commodity risk. The LDC bills electricity customers for electricity delivered, but has no obligation to ensure an adequate supply. Therefore, we believe THESL is not burdened with the risks associated with procurement or obligations of long-term power purchase agreements. Although we cannot preclude them, we have no near-term expectation of energy policy initiatives that would affect the regulatory environment or LDC credit quality.

What we view as THESL's solid customer base and electricity's essential nature to daily life also contribute to cash flow stability. In our opinion, the Greater Toronto Area's economy is deep and well-diversified, although not immune to economic downturns. Finance, manufacturing, and business and professional services are the foundations of the city's economy. Exposure to large users, with a peak demand of 5 megawatts (MW) or more, represents less than 10% of gross revenue. Further protecting its customer base is the provision of an essential service and that the cost to residential customers of producing their own power through investments in individual solar or wind installations remains economically inaccessible to most. Toronto is Canada's largest city and our long-term view is that it will weather occasional and temporary economic slowdowns. New time-of-use rates facilitated by recently installed smart meters encourage customers to shift the time of consumption to reduce their commodity costs, but we don't expect these to materially affect THESL's net distribution revenues.

In our view, stability and predictability characterize Toronto Hydro's intermediate financial risk profile. Debt maturities are well-spread and the company experienced favorable access to debt capital markets with its issuances in 2003, 2007, 2009, and 2010. We expect Toronto Hydro to have significant capital spending related to its aging asset base in the next five-to-seven years, which would lead to negative free cash flow. However, we believe that company will manage to maintain stable financial credit metrics given its strategy to pursue resetting its revenue requirement and rate base every year which would allow it to earn additional cash flow and flexibility in the timing of the capital spending. Toronto Hydro's key financial metrics in 2009 was very similar to its historical ranges and remained adequate for the ratings. Rolling 12-month adjusted funds from operations (AFFO) interest coverage and AFFO-to-total debt were steady at 3.4x and 17%, respectively, as of March 31, 2010. Total debt-to-total capital was 57.5%. We believe that management will maintain its balance sheet at or below 60% to be consistent with the regulatory deemed capital structure.

We base our 'A' rating on Toronto Hydro's stand-alone credit risk profile and our opinion that there is "low" likelihood that its owner, the city, would provide timely and sufficient extraordinary support in the event of financial distress. We assess the company's stand-alone credit profile at 'A'. We view its role to the city as of "limited importance" and the link between the utility and its owner as "limited".

Short-term credit factors

Toronto Hydro's liquidity is adequate for the ratings. For the upcoming 12 months, our estimated FFO of about C$250 million is insufficient to fund the utility's forecast capital expenditure of about C$400 million and typical dividend payments of 50% of net income (or about C$25 million). However, the company has access to C$400 million two-year revolving facility, which is fully available and sufficient cash on hand as of June 30, 2010. We expect Toronto Hydro to maintain C$160 million-C$200 million to satisfy working capital needs. The company has a separate bilateral facility for C$50 million to support THESL's prudential requirement with the Independent Electricity System Operator (IESO). There is no upcoming debt maturity until December 2011. The utility is well within the financial covenants applicable to its major banking facility.

Outlook

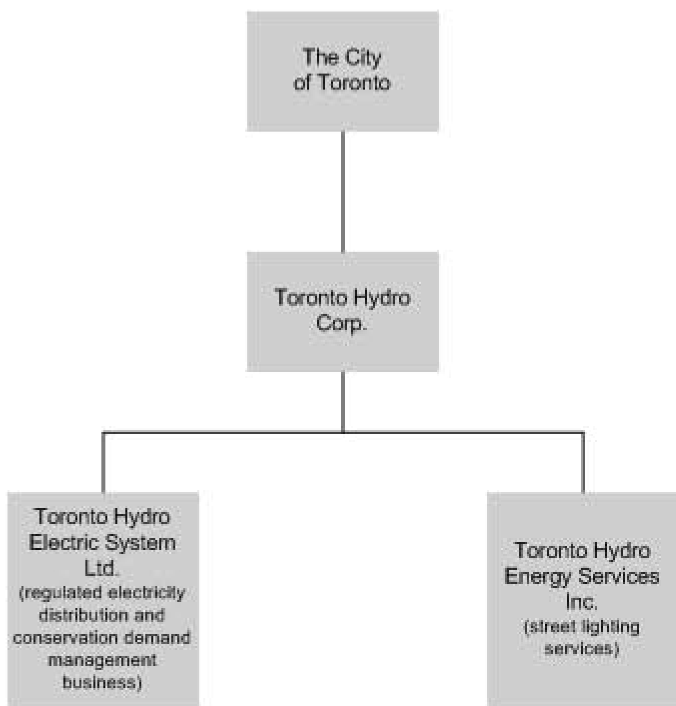
The stable outlook reflects our expectation that Toronto Hydro will manage its capital structure in line with regulatory deemed capital structure even under the significant capital spending pressures related to its aging regulated infrastructure. An adverse regulatory ruling or energy policy change, or a material investment in nonregulated renewable generation, could lead to a negative rating action. An upgrade is unlikely without a demonstrated, long-term commitment to a much stronger balance sheet and deeper cash flow interest and debt coverage.

Business Description

Toronto Hydro is a utility holding company (see chart) incorporated in 1999 as a result of a change in Ontario law. The company's primary operation is THESL's monopoly electricity distribution business. Toronto Hydro is one of Ontario's largest local electricity distribution companies, with about C$1.8 billion in capital assets and delivering almost 20% of the electricity used in the province. The electricity distribution business delivers electricity throughout Toronto and had a maximum peak demand of about 5,000 MW in 2009.

Although there are no known commitments, we believe management is open to participating in contracted renewable electricity generation (such as the Ashbridge's Bay and Green Lane projects) aligned with Green Energy Act. Our rating assumes that Toronto Hydro's investment in nonregulated renewable generation, if it happens, will be immaterial, at less than 10% of its consolidated FFO or EBITDA or total asset value in the foreseeable future.

Toronto Hydro Corp.—Organizational Structure



Rating Methodology

Government support and government-related entities methodology: No impact on ratings

We base our 'A' rating on Toronto Hydro on the company's stand-alone credit risk profile and our view that there is "low" likelihood that Toronto would provide timely and sufficient extraordinary support to Toronto Hydro in the event of financial distress. We assess the stand-alone credit of Toronto Hydro at 'A' using our corporate rating criteria and considering the key credit factors affecting regulated utilities.

In accordance with our criteria for government-related entities (GREs), we base our view of a "low" likelihood of extraordinary government support on the following assessment:

- Within the context of our GRE methodology and scale for assessing the importance of a GRE's role to its government owner, we view Toronto Hydro's role of "limited importance" to the city. The utility provides an essential and monopolistic service, so we believe a default is not likely to pose a material risk to its own continuing physical operations or to the city's economy or government processes.
- Within the context of our GRE methodology and scale for assessing strength and durability, we view the link between Toronto Hydro and the city as "limited". We revised the link between the utility and its owner to "limited" from "strong" to reflect the city's accelerated selling of utility promissory notes due to its sustained budget problems earlier this year, which might indicate less likelihood of its financial support and capacity to Toronto Hydro. Furthermore, there is clear corporate governance and a shareholder direction agreement, and the independent utility management makes autonomous business decisions. We do not believe the city is contemplating privatization, although it would be practically feasible given the business' nature.

As a result, we revised the likelihood of the city's timely and sufficient extraordinary support to "low" from "moderate". The revision does not affect our ratings on Toronto Hydro.

Excellent Business Risk Profile

Regulatory framework supports stable and predictable cash flow

THESL's regulated distribution revenues provide cash flow stability to Toronto Hydro. Regulated rates are based on an OEB-approved revenue requirement and the company's load forecast. The revenue requirement is based on cost-of-service and rate-of-return methodology that generally allows THESL to recover all prudent costs and to earn a return on capital invested. The regulator assumes a deemed capital structure of 60% debt and 40% equity. The allowed economic return is based on a formula linked to long-term Government of Canada (AAA/Stable/A 1+) bonds plus an equity risk premium.

Commodity is a pass-through. THESL bills its customers for the entire cost of electricity delivered, including related transmission, system operation, distribution, and commodity costs. Timely settlements protect the LDC's financial health from exposure to commodity price volatility, allowing it to pass through the cost to customers. Removing the current commodity pass-through mechanisms or assigning an obligation to ensure adequate supply of electricity for THESL's end-use customers would negatively influence the ratings.

We believe the Ontario regulatory framework governing the LDC's electricity distribution pricing is relatively independent and consistent. Political intervention in rate-setting marred the regime throughout 2002 and 2003.The government has since taken steps to restore sector stability, including greater independence and better resourcing for the OEB. Although we view the sector as stable, we cannot preclude long-term future political involvement.

We expect that THESL will pursue resetting its revenue requirement and rate base every year, given its heavy capital expenditure plan related to aging infrastructure. The application addresses the LDC's need to ramp up its capital spending and adjust its load forecast given current economic conditions. We believe that the company's earnings will increase modestly and gradually as THESL's rate base increases through infrastructure renewal in the next several years.

Mature and primarily residential customer base adds to credit stability

Supporting Toronto Hydro's excellent business risk profile is the stable service franchise of its regulated electricity distribution business. The company distributes electricity in Toronto, a mature market with low growth. Although the number of customers has increased modestly, Toronto Hydro's customer profile has not changed meaningfully in the past five years. Yearly growth in distribution customers typically ranges from 0.2%-0.9%. Fluctuations in energy delivered from year to year are primarily weather-related and do not significantly affect our long-term view of profitability. We believe the impact of reduced consumption (due to cumulative conservation efforts and economic fluctuations) will not have a long-term impact on profitability, given the LDC's ability to update its load forecast in cost-of-service applications.

The LDC's customer base is predominantly residential and not heavily influenced by cyclical energy consumers. The company provides electricity to about 690,000 customers, of which about 611,400 are residential, in a small geographic area. Toronto Hydro's large users (monthly peak demand greater than 5 MW) segment accounts for less than 10% of gross revenues. It does not face significant customer concentration risk, with its 10 largest customers accounting for about 3% of net revenue. Furthermore, no single customer represents more than 1% of gross revenue.

Aging assets and workforce test operations

The operational performance of Toronto Hydro's electricity distribution assets remains relatively steady and exceeds the composite index for Canadian utilities. Although the overall distribution system continues to perform well, we expect that the company's annual capital spending will be significantly higher than average for the next five-to-seven years, given that about one third of its assets is nearing the end of its serviceable life.

The number of full-time employees has increased marginally in each of the past three years. This trend is likely to continue for the next three years, as Toronto Hydro hires staff to replace its aging workforce. About 40% of workers will be eligible to retire in the next nine years. Because of the training required (about 4.5 years) to fully qualify electric line maintainers for all job duties, we will not see a reduction in staff levels for several years. The company signed a five-year labor agreement with its largest union in 2009.

Minimal competitive risk exposure

Toronto Hydro's natural monopoly electricity distribution business largely shields it from direct competition. The company's cost-competitive network pricing mitigates the incentive for bypass of the distribution network. Competitive risk is minimal, in our opinion, given the large capital cost involved in duplicating the asset-intensive distribution system.

Other activities are not material to the ratings

Toronto Hydro's other activities include the nonregulated provision of street lighting and energy engineering solutions primarily to its government shareholder and account for 5% or less of cash flow. The company sold its small telecommunications business in 2008.

We expect management to manage its growth strategy conservatively, with Toronto Hydro or THESL to undertake any relatively minor investments in renewable energy with the benefit of long-term feed-in-tariff contracts with a government counterparty or regulation, thus limiting business and financial risk. We expect that THESL's regulated operations and rate base growth will continue to dominate operations and cash flow.

Intermediate Financial Risk Profile

Accounting

Toronto Hydro prepared its Dec. 31, 2009, audited, consolidated financial statements in accordance with Canadian generally accepted accounting principles. The company has no risk exposure to manage with derivatives. Pension obligations fall to a third party and Toronto Hydro recovers the cost through its regulated revenue. We have adjusted the balance sheet related to postretirement benefit obligations, which accounts for approximately 9% of total adjusted debt. In its analysis, Standard & Poor's had treated the company's city-held promissory note as debt (i.e., no equity credit) until it refinanced city-held promissory notes with external mirroring debt early 2010.

Financial policies and corporate governance comparable to those of peers

Toronto Hydro has operated with a city-appointed, commercially oriented independent board of directors since 1999. There are three city representatives on the 11-member board.

Regulatory directives including a 40% deemed equity component for THESL, in line with all other Ontario LDCs, guide the level of leverage at the key subsidiary. The holding company has typically maintained a marginally stronger consolidated balance sheet. Toronto Hydro's dividend policy, adopted in 2004, is to distribute the larger of 50% of its consolidated net income or C$25 million. The city relies on Toronto Hydro's board of directors to assess the company's ability to pay dividends, including assessing how any dividend payment might affect its financial risk profile and our ratings. The shareholder direction indicates that management should target a rating of 'A-' or better.

Cash flow will be insufficient to fully fund capital plans

FFO will likely remain at C$200 million-C$250 million in 2010 and 2011. THESL's regulated operations dominate Toronto Hydro's cash flow, given the holding company's withdrawal from several nonregulated interests since 2006.

Based on the most recent OEB rate decision, we expect total capital expenditures of approximate C$360 million in 2010. We expect Toronto Hydro to apply for more in 2011. FFO will support some of the company's annual capital expenditure program, the vast majority of which will increase the regulated distribution rate base and future cash flows. Toronto Hydro's internal funding ratio, as measured by net cash flow-to-capital expenditure, will likely be about 60%.

The regulated nature of the company's earnings ensures an element of security and predictability of cash flows. Underlying cash flows from the business should generate average adjusted FFO interest and minimum debt coverage of about 3.5x and 16%, respectively. Volatility in actual results, which is fairly limited, is generally related to regulatory lag, manageable weather-related variability in revenue, and smooth execution of the capital program. Population growth and real-estate development contributes to the number of customers, somewhat offsetting lower consumption due to economic reasons and conservation. The rate-setting process considers lost revenue from conservation efforts.

Capital structure is unlikely to change

We expect leverage to remain high, but in line with the regulatory deemed capital structure of a 40% equity layer on a consolidated basis. In its tariff determinations for THESL, the OEB imputes an equity layer of 40%. There is little financial incentive for Toronto Hydro to materially vary from this level, because any additional equity at the subsidiary level would generate a lower return (equal to the cost of debt) than the allowed return on equity. Furthermore, covenants in the utility's trust indenture and revolving credit facility limit consolidated leverage to 75%. Previously, regulatory rate determinations were based on a 35% deemed common equity component.

THESL recovers annual payments to OMERS Administration Corp., its pension provider, through regulated cost-of-service determinations. Toronto Hydro had C$119 million accrued obligations as of Dec. 31, 2009, under its unfunded defined benefit plan for postretirement benefits. It also recovers these costs through regulated rates.

No interest rate or foreign exchange exposure

The nature of Toronto Hydro's debt and its long-lived assets limit the company's financial risk exposure. All long-term debt is at a fixed interest rate and we believe upcoming maturities should be manageable. Although the company will partially debt-finance upcoming capital expenditures, any movement in interest rates does not present a material long-term risk to the company. The OEB will generally allow THESL to recoup the market cost of debt. Furthermore, as all issues are in domestic currency, the company faces no meaningful foreign exchange exposure.

Financial flexibility comes from access to debt markets and modest discretionary spending

Toronto Hydro has adequate financial flexibility, in our view. The company's financial flexibility stems mainly from its ability to access the debt capital markets, reduce or defer dividends, and defer discretionary capital expenditures. We believe discretionary capital is in the C$30 million-C$40 million range in any one year. Potential cash from reduced dividend payments and deferred capital expenditure together represent about 60% of annual cash interest payments. Furthermore, Toronto Hydro generally has about C$100 million of sustainable cash on hand that would more than cover a year's interest expense if necessary.

The demand for utility debt in the Canadian market remains strong, in our view, and the utility has not encountered any difficulty accessing this market to date as demonstrated by recent successful debenture issuances to refinance the city-held promissory notes. The company renewed its capital market shelf program of C$1 billion that will now expire in January 2011. Nevertheless, it does not have access to the equity capital market. Furthermore, we view material equity funding from its shareholder as highly unlikely.

Table 1

Toronto Hydro Corp.--Peer Comparison*

Industry Sector: Electric Utility

	--Average of past three fiscal years--				
(Mil. C$)	**Toronto Hydro Corp.**	**Hydro Ottawa Holding Inc.**	**Powerstream Inc.¶**	**Hamilton Utilities Corp.**	**Enersource Corp.§**
Rating as of Aug. 18, 2010	A/Stable/--	A/Stable/--	A	A/Stable/--	A
Revenues	2,411.1	712.7	666.3	519.4	647.7
Net income from continuing operations	49.2	26.2	20.0	10.8	16.6
Funds from operations (FFO)	225.7	65.7	57.4	38.1	50.5
Capital expenditures	225.0	66.0	58.0	43.0	45.7
Cash and short-term investments	256.0	8.3	41.0	28.9	55.7

Table 1

Toronto Hydro Corp.--Peer Comparison* (cont.)					
Debt	1,331.4	265.8	329.2	115.1	292.0
Equity	966.7	314.5	229.5	222.5	222.1
Debt and equity	2,298.1	580.2	558.7	337.7	514.1
Adjusted ratios					
EBIT interest coverage (x)	1.9	4.1	2.3	3.4	2.3
FFO interest coverage (x)	3.4	6.0	3.2	4.9	3.4
FFO/debt (%)	17.0	24.7	17.4	33.1	17.3
Discretionary cash flow/debt (%)	(5.0)	(8.6)	(7.5)	(14.1)	(1.2)
Net cash flow/capex (%)	72.5	70.5	73.6	59.9	87.0
Total debt/debt plus equity (%)	57.9	45.8	58.9	34.1	56.8
Return on common equity (%)	4.9	8.4	8.6	5.9	7.2
Common dividend payout ratio (unadjusted; %)	127.1	73.2	73.9	114.1	62.0

*Fully adjusted (including postretirement obligations). ¶'A' debt rating on the senior unsecured debt of Electricity Distributors Finance Corp. §'A' debt rating on Borealis-Enersource series bonds issued by Borealis Infrastructure Trust (Enersource Mississauga tranche).

Table 2

Toronto Hydro Corp.--Financial Summary*					
Industry Sector: Electric Utility					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2009**	**2008**	**2007**	**2006**	**2005**
Rating history	A/Stable/--	A/Stable/--	A-/Positive/--	A-/Stable/--	A-/Stable/--
Revenues	2,461.7	2,382.5	2,389.2	2,247.0	2,612.6
Net income from continuing operations	42.8	46.3	58.6	90.2	92.4
Funds from operations (FFO)	218.7	229.5	229.0	253.7	226.0
Capital expenditures	215.4	186.8	272.7	188.4	197.2
Cash and short-term investments	211.4	340.5	216.0	327.5	448.4
Debt	1,344.3	1,311.4	1,338.6	1,344.2	1,325.5
Equity	987.7	997.2	915.1	871.1	819.3
Debt and equity	2,332.0	2,308.6	2,253.7	2,215.4	2,144.8
Adjusted ratios					
EBIT interest coverage (x)	1.6	1.8	2.2	2.6	2.7
FFO interest coverage (x)	3.3	3.4	3.4	3.7	3.3
FFO/debt (%)	16.3	17.5	17.1	18.9	17.0
Discretionary cash flow/debt (%)	(3.9)	(3.0)	(8.0)	(9.3)	4.6
Net cash flow/capex (%)	89.8	60.6	67.0	110.1	80.1
Debt/debt and equity (%)	57.6	56.8	59.4	60.7	61.8
Return on common equity (%)	4.0	4.6	6.1	10.4	11.1
Common dividend payout ratio (unadjusted; %)	58.8	251.5	78.8	51.2	73.6

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Toronto Hydro Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

	--Fiscal year ended Dec. 31, 2009--								
Toronto Hydro Corp. reported amounts	**Debt**	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,211.3	998.3	297.1	297.1	134.2	73.8	192.5	192.5	218.1
Standard & Poor's adjustments									
Operating leases	9.3	N/A	4.9	0.7	0.7	0.7	4.1	4.1	N/A
Postretirement benefit obligations	118.7	(10.6)	3.6	3.6	3.6	10.2	(5.5)	(5.5)	N/A
Capitalized interest	N/A	N/A	N/A	N/A	N/A	2.8	(2.8)	(2.8)	(2.8)
Asset retirement obligations	5.1	N/A	0.3	0.3	0.3	0.3	(0.2)	(0.2)	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	3.2	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	30.5	N/A
Total adjustments	133.1	(10.6)	8.8	4.7	7.9	14.0	(4.3)	26.2	(2.8)
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Capital expenditures**
Adjusted	1,344.3	987.7	305.9	301.8	142.0	87.8	188.2	218.7	215.4

*Toronto Hydro Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

Ratings Detail (As Of August 18, 2010)*

Toronto Hydro Corp.	
Corporate Credit Rating	A/Stable/--
Senior Unsecured (6 Issues)	A
Corporate Credit Ratings History	
03-Jun-2008	A/Stable/--
26-Mar-2007	A-/Positive/--
20-Apr-2004	A-/Stable/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 60:

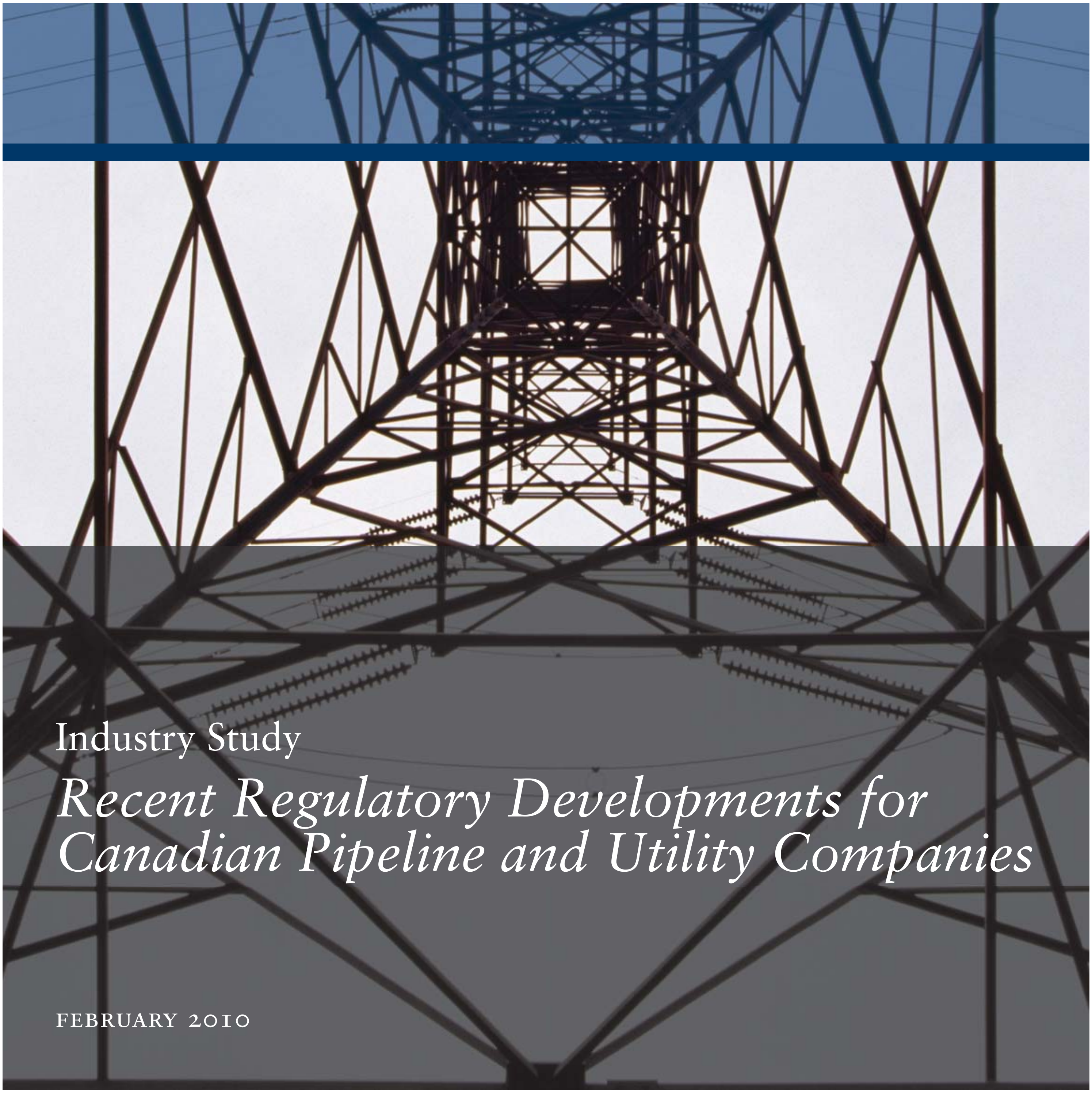
Reference(s): E1/6/1

This exhibit provides a DBRS report issued November 19, 2009. Please provide all new issue, updates, press releases and other documents related to THESL or its parent issued by DBRS since November 19, 2009.

RESPONSE:

Please see the attached releases by DBRS since November 19, 2009, related to Toronto Hydro Corporation (Appendices A-C).

Toronto Hydro-Electric System Limited
EB-2010-0142, Exhibit R1, Tab 9, Schedule 60, Appendix A
Filed: 2010 Dec 6 (13 pages)



Industry Study

Recent Regulatory Developments for Canadian Pipeline and Utility Companies

FEBRUARY 2010

DBRS

Insight beyond the rating.

CONTACT INFORMATION

Esther Mui, MBA, CMA
Senior Vice President
Tel. +1 416 597 7595
emui@dbrs.com

Michael R. Rao, CFA
Senior Vice President
Tel. +1 416 597 7541
mrao@dbrs.com

Robert Filippazzo
Vice President
+1 416 597 7340
rfilippazzo@dbrs.com

Adeola Adebayo
Vice President
+1 416 597 7421
aadebayo@dbrs.com

Darryl Brown
Senior Financial Analyst
Tel. +1 416 597 7459
dbrown@dbrs.com

Michael Caranci
Managing Director – Energy
+1 416 597 7304
mcaranci@dbrs.com

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Summary and Credit Implications of Recent Decisions

During the fourth quarter of 2009, several provincial and federal regulatory decisions were announced that affect how allowed levels of both return on equity (ROE) and the equity component in the capital structure for Canadian pipeline and utility entities are determined. These two critical factors are used in a regulated entity's cost of service calculation and, therefore, have a direct impact on its financial results and credit metrics.

From the mid-1990s to early 2009, regulated ROE levels were directly linked to government of Canada long bond yields. In recent years as long-term interest rates dropped significantly, allowed ROEs followed suit, resulting in weakening credit ratios and lower returns on equity capital compared with other investment alternatives. Additionally, with the increase in corporate credit spreads, which peaked in early 2009, the long-term cost of debt for regulated entities was fast approaching approved ROE levels, implying that the ROE levels were too low to justify incremental equity investment in the entity. Although this pressure has recently subsided somewhat, it was another signal that the adjustment mechanisms for determining allowed ROE needed to be reviewed within the context of an evolving financial market.

In terms of magnitude of change, the six decisions handed down in Q4 2009 can generally be divided into three groups, with DBRS viewing the decisions by the National Energy Board (NEB) and the British Columbia Utilities Commission (BCUC) as the most material, followed by the Alberta Utilities Commission (AUC) and Ontario Energy Board (OEB) rulings. The decisions by Québec's Régie de l'energie (Régie) and Newfoundland and Labrador's Board of Commissioners of Public Utilities (PUB) deviate the least from the status quo.

The NEB discontinued its March 1995 Multi-Pipeline Cost of Capital Decision (RH-2-94) in October 2009, indicating that "there have been considerable changes in financial and economic circumstances." DBRS believes that the NEB's decision to abandon RH-2-94 without replacing it with another generic formula could lead to increased rate case activity (at least in the short term) until a new playing field is established, noting, however, that multi-year negotiated agreements have largely been the preferred route in the past. DBRS expects that the NEB will take into account each pipeline's specific business risk profile when deriving allowed ROEs and equity components, and that the end results will likely be dispersed over a range that exceeds the baseline created by RH-2-94.

The five provincial regulatory decisions all resulted in higher approved ROEs than their respective formulas would otherwise have produced, with two also increasing the equity component in the capital structure. Common themes in the provincial decisions were the acknowledgement that the formulas were either not providing a fair return or had not kept up with changing financial conditions and the acknowledgement of the impact of increased credit spreads on the relative attractiveness of incremental equity investment in regulated entities. The five provincial decisions rendered in Q4 2009 produced a range of outcomes, from an elimination of the ROE adjustment formula (e.g., BCUC) to more modest one-time ROE adjustments with the adjustment formula being retained (e.g., PUB), as well as differing adjustments to capital structures.

These recent decisions are viewed as a positive for the credit metrics of the affected pipeline and utility entities, although transparency has in certain instances been diminished. An improvement in a regulated entity's ROE and/or equity thickness would be viewed positively in the context of its financial risk profile. On the other hand, deteriorating ROE levels have not had a direct negative effect on DBRS ratings of pure pipeline and utility companies. Therefore, recent increases in approved ROE levels or equity thickness should not, in themselves, result in positive rating actions unless the improvement is significant enough to be viewed as a material reduction in financial risk. None of the decisions rendered in Q4 2009 are viewed (by themselves) as materially changing any one entity's financial risk profile; rather, the improvements are viewed as supportive of current ratings and would improve flexibility within the rating category.

Recent Decisions by Jurisdiction

FEDERAL

In October 2009, the NEB discontinued the application of RH-2-94, indicating that "there have been considerable changes in financial and economic circumstances" since 1994 and that, based on these considerations, the NEB "is of the view that there is a doubt as to the ongoing correctness of the RH-2-94 Decision." Finally, the NEB concluded that "it is neither necessary nor appropriate to replace the RH-2-94 Decision with another multi-pipeline cost of capital decision at this time. Accordingly, the RH-2-94 Decision will not continue to be in effect."

The decision to discontinue RH-2-94 was not a complete surprise. In late March 2009, the NEB deviated significantly from RH-2-94 when it released its decision (RH-1-2008) on the 2007 and 2008 cost of capital application submitted by Trans Québec & Maritimes Pipeline Inc. (TQM, rated A (low)). RH-1-2008, which DBRS views positively for TQM from a credit perspective, provides TQM with a 6.4% after-tax weighted-average cost of capital (ATWACC) return (with no explicit deemed capital structure) for each of 2007 and 2008, compared with the 5.5% ATWACC return that would have resulted if the NEB had applied RH-2-94. The application of RH-1-2008 strengthens TQM's financial profile, which was relatively weak under RH-2-94 because of the low deemed equity component (30%) and low allowed ROE (8.46% in 2007 and 8.71% in 2008). The 6.4% ATWACC return is comparable to (1) allowed ROEs of 9.85% in 2007 and 9.75% in 2008 on a 40.00% deemed equity component or (2) allowed ROEs of 8.46% and 8.71% on deemed equity components of 50.50% and 49.00% in 2007 and 2008, respectively, both of which represent significant improvements from the RH-2-94 results.

In recent years, with allowed ROE levels falling under RH-2-94, some regulated pipeline entities (under both the NEB and its provincial counterparts) negotiated various forms of incentive agreements with their customers whereby the parties share in generated cost savings, allowing the regulated entities to partly mitigate the negative impact of declining allowed ROEs. In addition, newly constructed pipelines (e.g., Alliance Pipeline L.P. (Alliance) and Maritimes & Northeast Pipeline Limited Partnership (MNP)) circumvented RH-2-94 by reaching negotiated long-term contractual agreements to secure construction financing.

DBRS believes that the NEB's decision to abandon RH-2-94 may lead to more rate cases, especially in the natural gas pipelines industry, where tolls affect producer netbacks more than in the crude oil pipelines sector. Although pipeline companies likely view RH-1-2008 as a validation of their opinion that the cost of capital has been set too low, their customers have not accepted that position and are likely to continue to make the same arguments in private negotiations that they do in NEB hearings. While multi-year negotiated agreements have been used extensively in the past, the NEB may have to decide the cost of capital argument on a case-by-case basis in formal hearings until a new playing field is established.

Based on the principles articulated in RH-1-2008 and the abandonment of RH-2-94, DBRS expects that the NEB will take into account each pipeline's specific business risk profile when deriving allowed ROEs and equity components and that the end results will likely be dispersed over a range that exceeds the baseline created by RH-2-94. One scenario would involve the framework of RH-1-2008 being widely applied to other NEB-regulated entities. In that event, DBRS would not necessarily view the lack of an explicit deemed capital structure as negative (in that it could allow for higher-leveraged balance sheets) as the move to the RH-1-2008 methodology was presented to the NEB as a means of improving financial returns while offsetting potentially rising business risk. Another scenario could involve customized financial criteria, which could lead to substantial dispersion of credit metrics. In any event, DBRS would likely consider any move to reduce equity thickness or allowed ROE from current levels as a negative factor in its ratings.

In the event that new principles based on RH-1-2008 are applied broadly to the pipeline sector, DBRS would expect the impact to be positive from a credit perspective, with the degree of materiality and timing depending on several factors, including the following:

(1) Some pipeline companies would have to wait for the expiry of current multi-year negotiated agreements before any new principles could be applied. For example, settlements for TransCanada Corporation's (TCC) Alberta System and the Enbridge Pipelines Inc. (Enbridge) Mainline expired at the end of 2009; Westcoast Energy Inc.'s B.C. Pipeline System settlement expires at the end of 2010; and TCC's Canadian Mainline settlement expires at the end of 2011. In each case, the pipelines have higher equity thickness measures than TQM's 30% level prior to RH-1-2008 and would therefore likely receive a lower marginal improvement in ROE and credit metrics. In the case of Enbridge's Mainline, the potential for improvement is relatively limited as the RH-2-94 allowed formula is relevant to only a portion of that pipeline's operations.

(2) Some pipelines have long-term contractual agreements in place and are not likely to be materially affected by RH-1-2008 (e.g., Alliance and MNP).

(3) Tolls on intra-provincial feeder crude oil pipelines (e.g., Inter Pipeline Fund's Bow River and Cold Lake systems) are not affected by RH-2-94 and are unlikely to be affected by broad implementation of the principles of the RH-1-2008 decision.

BRITISH COLUMBIA

In December 2009, BCUC set the ROE for Terasen Gas Inc. (TGI; rated "A" and R-1 (low)) at 9.50% (retroactive to July 1, 2009), an increase from the 8.43% that the automatic adjustment mechanism would have otherwise produced for 2010. TGI's common equity component in the capital structure also increased, to 40.00% from 35.01%, effective January 1, 2010.

The BCUC decision was a response to an application made by TGI, Terasen Gas (Vancouver Island) Inc. (TGVI) and Terasen Gas (Whistler) Inc. (TGWI) regarding ROE and capital structure. In the decision, the BCUC stated that it took into consideration its jurisdiction, the fair return standard and TGI's business risk, credit ratings and metrics. The BCUC determined that the automatic adjustment mechanism used to determine the ROE for TGI will no longer apply as it would not have provided TGI with an ROE for 2010 that would meet the fair return standard. The ROE level as determined in the decision will apply until further review by the BCUC, with the BCUC also directing TGI to complete its study of alternative mechanisms and report back by the end of 2010.

The BCUC decision is one of the more constructive of the 2009 provincial decisions in terms of the absolute increase in ROE (up 107 bps) and the common equity component (up 4.99% for TGI) and is viewed as supportive of TGI's current ratings. However, while the decision is expected to result in an improvement in TGI's credit metrics, DBRS notes that a large portion of the positive ROE benefit will effectively be negated with the December 2009 expiry of TGI's performance-based rate-setting agreement (PBR). Unlike the PBR, the negotiated settlement agreement under which TGI will operate for 2010 and 2011 does not include a provision for earning (and sharing) incentive earnings. In 2007 and 2008, TGI's achieved ROEs (post-sharing) were 111 bps and 101 bps in excess of the allowed ROEs, respectively, and in nominal terms were greater than 9.50% in both years. Therefore, improvement in TGI's credit metrics will more likely be driven by the increased common equity component.

TGI remains the benchmark utility on which other similarly regulated utilities in British Columbia base their ROEs. With a benchmark of 9.50%, the ROEs of TGVI, TGWI and FortisBC Inc. (rated BBB (high)) will be 10.0%, 10.0% and 9.9%, respectively. This incorporates the reduction of TGVI's premium over the benchmark ROE to 50 bps from 70 bps. All three will continue with a 40% common equity component.

Pacific Northern Gas Ltd. (rated BBB (low)) filed its own ROE and capital structure application in July 2009, requesting an increase in its ROE premiums over the benchmark and an increase in its common equity ratios; the BCUC has not rendered its decision yet.

ALBERTA

In November 2009, the AUC released its 2009 Generic Cost of Capital decision (2009-GCC), which was the outcome of a process that began in 2008 with a review of its 2004 Generic Cost of Capital decision (2004-GCC). The 2004-GCC had adopted a formulaic approach to determining generic levels of ROE, but with common equity ratios set specifically for each utility. The 2009-GCC maintains the concept of a single generic ROE for all utilities, with differences in utility- or sector-specific risk to be recognized through the adjustments of individual equity ratios. However, while the ROE remains generic, the formulaic adjustment mechanism has been set aside in favour of an AUC-determined ROE value, at least for 2009 and 2010.

The 2009-GCC sets the generic ROE for 2009 and 2010 at 9.0%, a modest 39 bps improvement over the 8.61% that would have been applied in 2009 had the 2004-GCC been left in place. The 9.0% ROE will also be used on an interim basis for 2011, although the AUC will initiate a proceeding in 2011 to consider the final 2011 ROE, possibly returning to a formulaic adjustment approach. The AUC noted that the recent financial crisis has made it necessary to “make certain adjustments” in how it arrives at a “fair ROE.”

Although the reset ROE is an improvement, the AUC’s decision to increase utility equity ratios (the base increase is 2%, with additional upward or downward adjustments possible to reflect sector- and company-specific factors) would be expected to provide more of a benefit for credit metrics than the 39 bps ROE increase. All affected utilities received the standard 2% increase, with the following exceptions:

(1) The electric transmission businesses of AltaLink, L.P. (AltLink) and CU Inc. each received an extra 1% (total increase 3%) given their large expected future capital expenditures.

(2) ATCO Gas received a total increase of 1% to reflect the AUC’s positive view of ATCO Gas’s weather-deferral account.

(3) FortisAlberta Inc. received an extra 2% (total increase 4%) to reflect its current tax status.

The AUC stated it had taken a number of factors into consideration in revising the equity ratios, including the impact of the financial crisis, the ranking of utility segments based on business risk and the levels of credit metrics and equity ratios that are associated with credit ratings. DBRS notes that although the 2004-GCC stated that the AUC did not have target credit ratings for Alberta utilities, the 2009-GCC states AUC “believes that its awarded equity ratios will allow Alberta utilities on a stand-alone basis to target credit ratings in the lower ‘A’ range.”

DBRS views the 2009-GCC as modestly positive in that it provides a small ROE increase (0.39%) over what would have been the case under the previous formula and varying increases to individual equity ratios. A second positive regulatory development in Alberta was the AUC’s decision on AltaLink’s 2009–2010 General Tariff Application, in which the AUC made a number of statements in support of AltaLink’s credit profile and maintenance of credit ratings. While this decision is specific only to AltaLink, it does show the AUC’s willingness to address the concerns of a regulated entity regarding its financial condition and credit profile. (See the DBRS press release dated October 8, 2009, for additional details on the AUC’s AltaLink decision.)

ONTARIO

In December 2009, the OEB released its cost of capital decision (the OEB Decision), which will begin to affect Ontario-based regulated utilities in the 2010 rate year. The OEB Decision maintains a formulaic approach to setting ROE levels; however, the existing formula will be reset to address relatively low current ROE levels and refined to reduce its sensitivity to changes in government of Canada long bond yields. The OEB stated that these measures were taken "to ensure that on an ongoing basis changing economic and financial conditions are adequately and appropriately accommodated in the [OEB's] formulaic approach."

The old formula, which would have produced an estimated ROE of 8.39% for use in 2010 cost of service applications, will be reset to the forecast government of Canada long bond yield plus a 5.50% equity risk premium. Using a forecast government of Canada long bond yield of 4.25%, this would provide an initial estimated ROE of 9.75%, an estimated 135 bps improvement over what the old formula would have produced, to be incorporated in 2010 cost of service applications for rates effective January 2010. While the initial ROE will be adjusted annually, the adjustment parameters are being refined to reduce the sensitivity to changes in government bond yields. As such, the government bond adjustment factor is being reduced to 0.50 from the current 0.75 and a corporate bond yield variable is being introduced into the formula. Thus, ROE levels will be adjusted annually by 50% of the change in the applicable forecast government bond yield and 50% of the change in the spread of an "A"-rated bond index over the 30-year Canada bond yield (see the formula below). DBRS notes that the reset ROE level will be incorporated into 2010 cost of service applications; therefore, if a utility does not file in 2010, the reset ROE would not be applicable. Actual reset ROE levels will depend on when a utility's rates come into effect. In early January 2010, Hydro One Inc. filed a motion with the OEB to (among other items) use the 9.75% ROE in its 2010 transmission revenue requirement, which had previously been set by the OEB using an ROE of 8.39%.

DBRS notes that for gas distributors that operate under a multi-year incentive regulation (IR) framework (e.g., Enbridge Gas Distribution Inc. and Union Gas Limited), the increased ROE level is not expected to be used to adjust annual rates until the end of the IR terms (through 2012 for both). However, DBRS expects these companies will have the ability to benefit from the higher ROE level through their respective IR mechanisms and earnings-sharing formulas as it is expected that under the IR framework, the ROE used in determining any earnings-sharing threshold would be calculated using the new ROE.

To incorporate the utility credit spread measure, a utility bond spread based on the difference between the Bloomberg Fair Value Canada 30-year A-rated Utility Bond index yield and the Canada long bond yield will be used, subject to a 0.50 adjustment factor. Including this factor introduces an additional area of potential volatility; however, the revised adjustment mechanism is viewed as favourable, given the following: (1) decreasing the government bond adjustment factor from 0.75 to 0.50 reduces sensitivity to a single factor and (2) on a long-term basis, the magnitude of absolute changes in the value of the utility bond spread factor will likely be considerably less than changes in the government bond yield. These two adjustment factors will serve to dampen the negative impact on ROEs of market swings such as what occurred in 2009 when government yields declined and corporate spreads increased materially.

The OEB also made various changes in the way the cost of long-term and short-term debt is determined. Notably, it stated its intention to eventually align the method used to determine the long-term cost of debt for electricity distributors with that used for natural gas distributors. Electricity distributors currently use an OEB-deemed long-term cost of debt regardless of a distributor's actual cost of debt, while natural gas distributors use a weighted cost of embedded debt.

The OEB Decision deals only with ROE and cost of debt, stating that the current policies on capital structures are appropriate. The OEB will review its cost of capital methodology every five years or earlier if the methods are viewed to be producing results that do not meet the OEB's fair return standard. DBRS notes that when considering a specific utility's rate application, the OEB can deviate from the parameters outlined in the OEB Decision when justified by specific circumstances.

The OEB Decision is viewed as positive for the credit profile of Ontario utilities as the reset ROE level is expected to be approximately 135 bps higher than the status quo. Furthermore, volatility on ROE levels caused by fluctuating government yields should be reduced through both the lower adjustment factor and the inclusion of the corporate bond spread adjustment factor.

OEB ROE Adjustment Formula

BASIC FORMULA

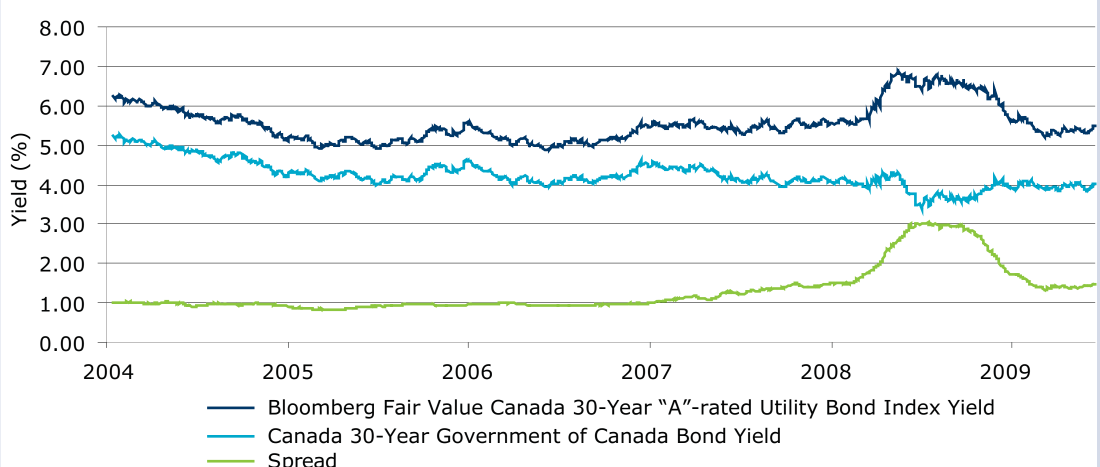
$ROE_t = BaseROE + 0.5 \times (LCBF_t - BaseLCBF) + 0.5 \times (UtilBondSpread_t - BaseUtilBondSpread)$

Based on September 2009 data, the BaseROE is set at 9.75%, the corresponding BaseLCBF is 4.25%, and the BaseUtilBondSpread is 1.415%. Thus, the ROE adjustment formula is specified as

$ROE_t = 9.75\% + 0.5 \times (LCBF_t - 4.25\%) + 0.5 \times (UtilBondSpread_t - 1.415\%)$

ROE_t = ROE for prospective test year.
$LCBF_t$ = the Long Canada Bond Forecast for the test year.
$UtilBondSpread_t$ = the average spread of 30-year "A"-rated Canadian utility bond yields over 30-year government of Canada bond yields over all business days in the month three months in advance of the implementation date for rates.

Canada 30-Year "A"-Rated Utility Bond Index Yield versus Canada 30-Year Bond Yield



Source: Bloomberg.

QUÉBEC

The Régie employs an automatic adjustment formula to determine the rate of return on common equity for Gaz Metro L.P.'s (Gaz Metro) Quebec Distribution Function. Gaz Metro had requested to employ a methodology based on the after-tax weighted-average cost of capital (ATWACC) but was denied by the Régie in the December 2009 decision. The Régie, however, chose to modify certain parameters of the formula presently used to establish the rate of return allowed on Partners' deemed common equity, fixing it at 9.20% for the 2010 fiscal year (beginning October 1, 2009), a 56 bps increase over the 8.64% rate of return that the formula would have produced (using an August 2009 consensus forecast). The 9.20% was set by the Régie from a range of 8.03% to 9.46%, which includes an explicit adjustment for the effects of the financial crisis of 0.25% to 0.55%. The Régie also renewed, effective in the 2011 rate year, the automatic rate of return adjustment formula, although the 2011 rate year ROE will also include an adder for the financial crisis. The increase in ROE is viewed as modestly supportive of Gaz Metro inc.'s ratings.

NEWFOUNDLAND AND LABRADOR

In a general rate application for 2010, Newfoundland Power Inc. (NP) proposed a target 2010 ROE of 11% and the elimination of the current automatic adjustment formula used to set ROE levels. In December 2009, the PUB ruled that NP's capital structure should be set at a maximum of 45% common equity (no change from 2009), with an allowed ROE of 9.0% for 2010 (8.95% in 2009 and 2008). The 9.0% for 2010 was set at a level higher than the formula would have produced (8.48%), providing NP a modest 52 bps improvement over what would have been in place. The PUB stated that it believes the 9.0% "provides NP the opportunity to earn a just and reasonable return on rate base that is consistent with the fair return principle and the provision of least-cost reliable power."

The automatic adjustment formula will be used again in 2011 and 2012 to determine NP's ROE; however, NP has the ability to propose changes to the formula until March 31, 2010. DBRS views this decision as modestly supportive of NP's current ratings.

Appendix: Generic Impact of Changes in Allowed ROE and Equity Component on Credit Metrics

DBRS estimates that for a generic utility, a 100 bps increase in allowed ROE (Table A below, holding all else equal) would result in EBITDA-to-interest increasing by approximately 0.15 times (x) and cash flow-to-debt increasing by approximately 65 bps. Furthermore, a 100 bps increase in equity thickness (Table B, holding all else equal) would result in EBITDA-to-interest increasing by approximately 0.075x and cash flow-to-debt increasing by approximately 35 bps. Combining the improvement in the two variables (Table C, holding all else equal) produces an additive gain, with EBITDA-to-interest increasing by approximately 0.22x and cash flow-to-debt increasing by 100 bps.

Table A: Credit Metric Impact of a Change in Approved ROE*

Rate Base ($MM)	1,000	1,000	1,000
Debt Component	60.0%	60.0%	60.0%
Cost of Debt	6.5%	6.5%	6.5%
Equity Component	40.0%	40.0%	40.0%
Approved ROE	8.0%	9.0%	10.0%
Depreciation Rate	4.0%	4.0%	4.0%
Tax Rate	35.0%	35.0%	35.0%
EBITDA	128	134	141
EBIT	88	94	101
Interest	39	39	39
Cash Flow	72	76	80
EBITDA/Interest	3.29x	3.45x	3.60x
EBIT/Interest	2.26x	2.42x	2.58x
Cash Flow/Debt	12.0%	12.7%	13.3%

* Simplified example. The only variable is approved ROE; all else remains the same

Table B: Credit Metric Impact of a Change in Equity Component*

Rate Base ($MM)	1,000	1,000	1000
Debt Component	60.0%	59.0%	58.0%
Cost of Debt	6.5%	6.5%	6.5%
Equity Component	40.0%	41.0%	42.0%
Approved ROE	8.0%	8.0%	8.0%
Depreciation Rate	4.0%	4.0%	4.0%
Tax Rate	35.0%	35.0%	35.0%
EBITDA	128	129	129
EBIT	88	89	89
Interest	39	38	38
Cash Flow	72	73	74
EBITDA/Interest	3.29x	3.36x	3.43x
EBIT/Interest	2.26x	2.32x	2.37x
Cash Flow/Debt	12.0%	12.3%	12.7%

* Simplified example. The only variable is the equity component; all else remains the same.

Table C: Credit Metric Impact of a Change in ROE and Equity Component*

Rate Base ($MM)	1,000	1,000	1,000
Debt Component	60.0%	59.0%	58.0%
Cost of Debt	6.5%	6.5%	6.5%
Equity Component	40.0%	41.0%	42.0%
Approved ROE	8.0%	9.0%	10.0%
Depreciation Rate	4.0%	4.0%	4.0%
Tax Rate	35.0%	35.0%	35.0%
EBITDA	128	135	142
EBIT	88	95	102
Interest	39	38	38
Cash Flow	72	77	82
EBITDA/Interest	3.29x	3.52x	3.77x
EBIT/Interest	2.26x	2.48x	2.71x
Cash Flow/Debt	12.0%	13.0%	14.1%

* Simplified example. The only variables are approved ROE and the capital structure components; all else remains the same.

Insight beyond the rating.

www.dbrs.com

Corporate Headquarters

DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
TEL +1 416 593 5577

Toronto Hydro-Electric System Limited
EB-2010-0142
Exhibit R1
Tab 9
Schedule 60
Appendix B
Filed: 2010 Dec 6
(2 pages)

Date of Release: **2010-03-26**

Toronto Hydro Corporation

DBRS Rates Toronto Hydro Issue of $490.1 Million, 6.11% Senior Unsecured Debentures A (high)

DBRS has today assigned a rating of A (high), with a Stable trend, to the following new debt issues of Toronto Hydro Corporation (Toronto Hydro or the Corporation):
(1) Proposed $245.057 million of 6.11% senior unsecured Series 4 debentures (Series 4 Debentures) maturing December 30, 2011.
(2) Proposed $245.057 million of 6.11% senior unsecured Series 5 debentures (Series 5 Debentures) maturing May 6, 2013.

The new debt issues are expected to settle on April 1, 2010.
The Series 4 and Series 5 Debentures will rank pari passu with all of Toronto Hydro's other senior unsecured and unsubordinated indebtedness and will be issued pursuant to a short-form prospectus dated March 22, 2010.
Toronto Hydro currently has approximately $490.1 million of indebtedness outstanding to the City of Toronto under the City Note. Concurrent with the closing of the offering of the Series 4 and Series 5 Debentures, the City Note will be converted, in accordance with its terms, into the Series 4 and Series 5 Debentures which will be offered for sale by the underwriters. The Corporation will not receive any proceeds from the offering. Following the completion of the offering, the Corporation will have no further indebtedness outstanding to the City of Toronto under the City Note and the City of Toronto will continue to be the sole shareholder of Toronto Hydro.

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

The applicable methodology is Rating Utilities (Electric, Pipelines & Gas Distribution), which can be found on the DBRS website under Methodologies.

This is a Corporate rating.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Related Research

- Rating Utilities (Electric, Pipelines & Gas Distribution) (Archived)

Related Issuers

- Toronto Hydro Corporation

Contacts

- **Robert Filippazzo**
  Vice President
  +1 416 597 7340
  rfilippazzo@dbrs.com
- **Michael Caranci**
  Managing Director - Energy
  +1 416 597 7304
  mcaranci@dbrs.com

Toronto Hydro-Electric System Limited
EB-2010-0142
Exhibit R1
Tab 9
Schedule 60
Appendix C
Filed: 2010 Dec 6
(2 pages)

Date of Release: **2010-05-18**

Toronto Hydro Corporation

DBRS Rates Toronto Hydro Issue of $200 Million, 5.54% Senior Unsecured Debentures at A (high)

DBRS has today assigned a rating of A (high), with a Stable trend, to the $200 million of 5.54% senior unsecured debentures (Series 6) (the Debentures) of Toronto Hydro Corporation (Toronto Hydro), which are expected to settle May 20, 2010, and will mature on May 21, 2040. The Debentures will rank pari passu with all of Toronto Hydro's other senior, unsecured and unsubordinated indebtedness and will be issued pursuant to its Pricing Supplement No.2 dated May 17, 2010, to the short-form base shelf prospectus dated December 12, 2008, as amended by Amendment No.1 dated November 4, 2009.

Proceeds from the issue will be used to fund the ongoing modernization of the electricity distribution system of Toronto Hydro-Electric System Limited and for general corporate purposes.

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

The applicable methodology is Rating Utilities (Electric, Pipelines & Gas Distribution), which can be found on the DBRS website under Methodologies.

This is a Corporate rating.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Related Research

- Rating Utilities (Electric, Pipelines & Gas Distribution) (Archived)

Related Issuers

- Toronto Hydro Corporation

Contacts

- **Robert Filippazzo**
  Vice President
  +1 416 597 7340

rfilippazzo@dbrs.com

- **Michael Caranci**
  Managing Director - Energy
  +1 416 597 7304
  mcaranci@dbrs.com

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INTERROGATORIES OF SCHOOL ENERGY COALITION

INTERROGATORY 61:

Reference(s): L1/1/1

Please recalculate rates on the basis that the revenue to cost ratio for Large Use remains at 108.1, and the revenue to cost ratio for each of GS>50 and Intermediate are the same, and all other revenue to cost ratios are as proposed in the Application.

RESPONSE:

The revenue to cost ratios proposed by THESL for 2011 reflect fair treatment and a continued move to unity for all classes. As indicated Exhibit M1, Tab 1, Schedule 1, page 4, THESL has adjusted all rate classes equally. The resulting revenue to cost ratios for all classes remain within the Board-Approved ranges.

The question asks THESL to arbitrarily "benefit" two rate classes at the expense of another. THESL declines to recalculate the rates on this basis.