RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 81:

Reference(s): **Exhibit 5, Tab 1, Schedule 1, p. 4 and**
Exhibit 5, Tab 1, Schedule 3

At the first reference, Table 3 Long-Term Debt shows two outstanding debt issues with significantly smaller principal amounts than the remaining debt issues. These are a $15 million promissory note maturing January 1, 2022 with a rate of 3.32% and a $45 million promissory note due on demand with a rate of 6.16%.

The second reference, which is OEB Appendix 2-OB Debt Instruments shows the lender of both of these issues as being THC and that are both expected to remain outstanding in 2015:

a) Please explain why THESL issued these debt instruments given that the principal amounts are significantly smaller than its other outstanding issues;
b) Please state why the interest rate on the $45 million promissory note is 6.16% versus 3.32% on the $15 million promissory note when both are shown as issued on January 1, 2012.

RESPONSE:

a) These debt instruments were issued pursuant to THESL's internal cash and liquidity management policies. The primary purpose for the issuance of these debt instruments was to incrementally complement and mirror the parent company's external debt, which was issued to finance THESL.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

b) The $15 million promissory note was issued with a term of ten years and therefore the interest rate was determined using the benchmark Government of Canada ten-year bond yield at the time of issuance, plus a corporate spread. The $45 million promissory note does not have a maturity date and is payable on demand. The interest rate on the note was set based on prevailing market conditions and on the rate for a similar instrument that the parent company had outstanding at the time of issuance.

RESPONSES TO CONSUMERS COUNCIL OF CANADA INTERROGATORIES

INTERROGATORY 45:

Reference(s): Exhibit 5, Tab 1, Schedule 1

Please provide the Board approved and actual ROE for the years 2005-2014(forecast). For the years in which Toronto Hydro did not have rates approved through a cost of service proceeding, please include the ROE embedded in rates.

RESPONSE:

Year	Basis for Rates	OEB-Allowed ROE in Rates	THESL Actual ROE
2005	CoS	9.88%	9.63%
2006	CoS	9.00%	13.44%
2007	IRM	9.00%	10.64%
2008	CoS	8.57%	10.90%
2009	CoS	8.01%	7.23%
2010	CoS	9.85%	8.14%
2011	CoS	9.58%	9.73%
2012	IRM	9.58%	7.62%
2013	IRM	9.58%	7.07%
2014	IRM	9.58%	7.31%

Notes:

1. 2005 ROE was granted on condition it be re-invested in CDM intiatives

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES

INTERROGATORY 49:

Reference(s): **Exhibit 5**
Exhibit 1C, Tab 4, Schedule 7, Appendix A

a) Please provide the adjusted funds from operations (AFFO)-to-debt ratios for 2012, 2013 and the forecast for 2014.

b) Under the 5 year plan please provide THESL's projection for the AFFO/debt ratio for each year of the plan. Please show your assumptions.

RESPONSE:

a) Adjusted funds from operations (AFFO)-to-debt ratios are as follows: 15.3% (2012), 15.4% (2013), and 12.3% (2014 forecast). In calculating these ratios, Toronto Hydro made standard adjustments to financial statement data that management believes better reflect the underlying economics of certain transactions. See supporting schedules for adjustments made and detailed calculations provided as Appendix A to this Schedule.

b) The projected AFFO/debt ratio for 2015 is 12.3%.

Toronto Hydro has not calculated the AFFO/debt ratio for 2016-2019 as detailed plans for those years are not available.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES

As noted in the response to part a), Toronto Hydro made certain standard adjustments to financial statement data in calculating these ratios. See supporting schedules for adjustments made and detailed calculations provided as Appendix A to this Schedule.

Calculation of FFO for THESL Regulated Operations

Year ended December 31 *in thousands of Canadian dollars*	**Historical 2012 $**	**Historical 2013 $**	**Bridge 2014 $**	**Test 2015 $**
Revenue	2,834,404	3,181,497	3,295,530	3,428,278
Cost of purchased power	(2,275,209)	(2,567,512)	(2,691,734)	(2,751,934)
Operating expenses	(231,949)	(258,416)	(256,627)	(278,084)
EBITDA	**327,246**	**355,569**	**347,169**	**398,260**
Interest expense:				
Interest Income	(734)	(2,065)	(1,360)	(1,010)
Interest expense	76,672	70,796	66,502	79,551
Net financing charges	**75,938**	**68,731**	**65,142**	**78,541**
Current tax	**6,011**	**5,265**	**16,644**	**13,708**
FFO - Regulated Operations	**245,297**	**281,572**	**265,383**	**306,011**
Operating Leases	15,055	5,990	5,128	5,291
Post-retirement benefits	(1,088)	(3,244)	(4,441)	(4,561)
Capitalized Interest	(994)	(1,306)	(2,651)	(2,576)
Asset Retirement Obligations	65	(114)	-	-
Adjusted FFO - Regulated Operations	**258,335**	**282,898**	**263,418**	**304,165**
Notes Payable	1,470,249	1,493,199	1,692,507	1,931,505
Other Financing	-	150,000	263,344	338,180
Total Debt	1,470,249	1,643,199	1,955,851	2,269,685
Post-retirement benefits	253,890	238,792	243,040	251,561
Tax adjustment	(67,281)	(63,280)	(64,406)	(66,664)
Net Post-retirement benefits	186,609	175,512	178,634	184,897
Operating Leases	29,435	17,515	12,566	7,260
Asset Retirement Obligations	3,678	4,592	1,088	1,056
Adjusted Debt	**1,689,971**	**1,840,818**	**2,148,140**	**2,462,898**
FFO/Debt Ratio	16.7%	17.1%	13.6%	13.5%
A-FFO/Adjusted Debt Ratio	15.3%	15.4%	12.3%	12.3%