EB-2014-0116

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Toronto Hydro-System Electric Limited for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2015.

CROSS-EXAMINATION COMPENDIUM OF THE SCHOOL ENERGY COALITION (Panel 4)

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FINANCIAL PLANNING PROCESS

1. OVERVIEW

Currently, financial planning at Toronto Hydro is conducted annually and results in a three-year Plan – a detailed plan for the first year and a directional plan for the next two years. Given the requirements of the five-year Custom Incentive Rate ("CIR") application, the term of the planning activities for the period beginning 2015 was extended to five years (the "planning activity").

2. APPROACH

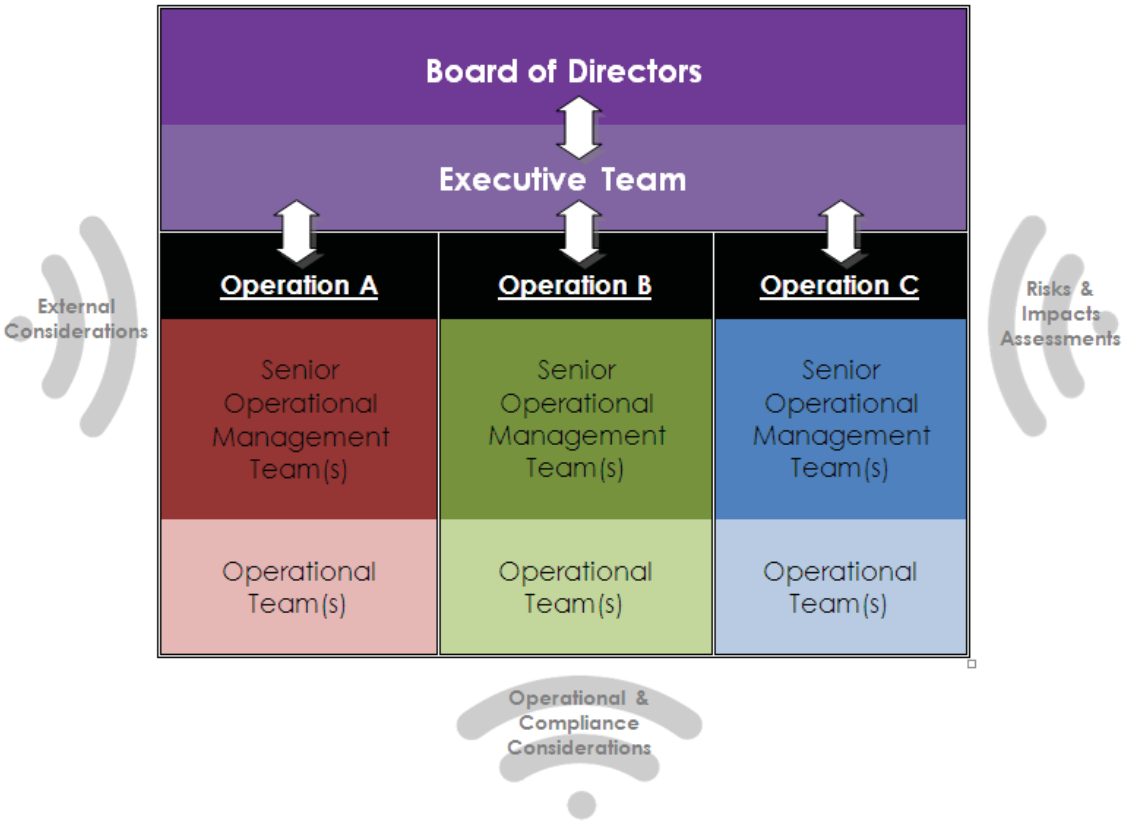
Toronto Hydro's corporate plans are informed by a number of operational needs such as asset investment requirements, maintenance requirements, staffing requirements and legislative and regulatory obligations. The plans are also informed by other important considerations such as customer needs and preferences (including service levels and consumption-management tools), rate impacts, value-for-money, productivity, and maintaining the financial health and viability of the utility.

In other words, the utility considers a number of input considerations and objectives in order to generate its plans. No one of these considerations is determinative of the utility's ultimate plan, but they all inform it. For example, while Toronto Hydro views that a capital investment approach well above $500 million per year over the 2015-2019 period is optimal from an assets-needs perspective, in light of rate impacts and execution constraints, it has constrained its actual plan (and corresponding funding request to the OEB) to approximately $500 million per year over the 2015-2019 period.

Toronto Hydro synthesizes these input considerations into a strategic planning philosophy called its four pillars, which are:

Toronto Hydro`s planning activity is guided by its Strategic Pillars and compliance requirements.

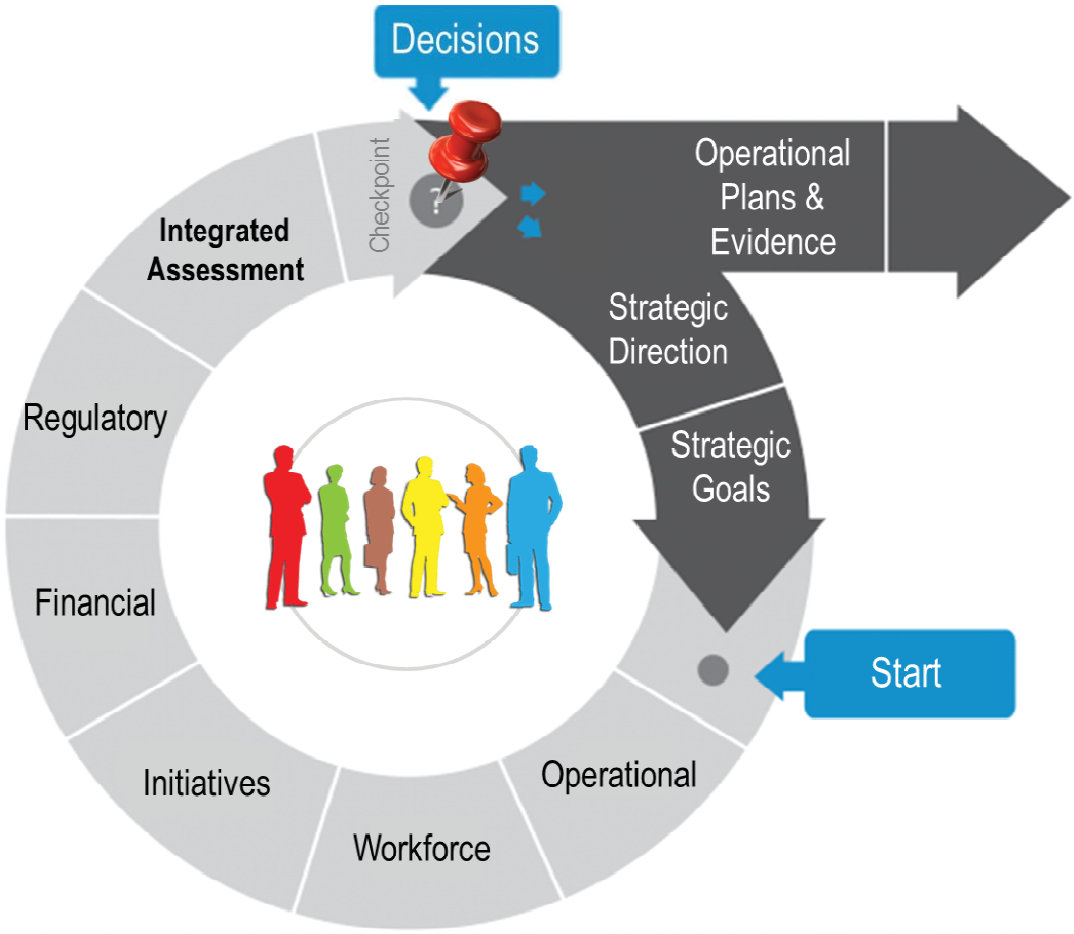
In executing its planning activities, the utility employs a combination of 'top-down' and 'bottom-up' planning models with an iterative planning process. That is, the overall business strategy outlining the general direction of the organization is communicated from the 'top' (senior management) 'down' to the operational teams. Subject matter experts then incorporate this direction into their different functional areas and operational realities, needs and strategies.



Finally, as operational plans incorporating the strategic direction are formed, they are proposed to the senior leadership at Toronto Hydro for review, impact assessments and approval.

In general, the planning process consists of four stages: 1. Corporate strategy establishment; 2. Operational plan proposals; 3. Proposal reviews and selection; and 4. Detailed development of projects and programs.

During the process, multiple planning activities are being concurrently conducted, and inputs and outcome considerations are being formed. An iterative planning approach is used in order to facilitate robust decision-making and prudent planning.



47 The results of the planning activity are reflected in this CIR application and include:

48 • A detailed OM&A plan for 2015; and

49 • Detailed annual capital investment plans for 2015 to 2019.

50

51 Further details of these results are in Exhibit 2B (DSP) and 4A (OM&A).

The Finance program also delivers traditional finance functions such as Payroll services, Accounts Payable, Treasury and Internal Audit that allow Toronto Hydro to meet its regular and long-term financial and other obligations to its employees, external suppliers and service providers, Toronto Hydro's debt holders, government agencies and the external auditors. In addition, this program oversees a number of operational processes (i.e., capital services, financial planning and budgeting, financial reporting and analysis, and regulatory and revenue management) that monitor the utility's financial performance and support management's ability to make informed, strategic decisions.

The Finance function is the backbone of the utility's operational effectiveness and financial sustainability. Absent the requested level of funding to execute the Finance Program as described, Toronto Hydro could be exposed to a number of risks, including:

- reporting errors and material misstatements for financial reporting purposes;
- reduced oversight and management functions that can impact operational decisions and compromise the achievement of strategic objectives;
- inability to satisfy financial obligations to third party suppliers, employees and the government;
- a compromised ability to secure funding to finance the capital programs and/or risk of violation of the covenants contained in the existing debt issuances.

The Finance program at Toronto Hydro utilizes a centralized business model where all the resources are part of one group. Such resources are at times allocated to various business units to provide on-going support for the day-to-day operations. This program is comprised of three segments:

1) **Controllership** which leverages knowledge of operational processes and internal controls to verify the accuracy, completeness and relevance of financial information, and facilitates corporate and operational planning by providing appropriate financial business unit support and senior management.

RESPONSES TO CONSUMERS COUNCIL OF CANADA INTERROGATORIES

INTERROGATORY 29:

Reference(s): Exhibit 4A, Tab 1, Schedule 1

Please provide all correspondence provided to internal staff regarding the development of the 2015 OM A budget and budgeting beyond 2015. Toronto Hydro has presented the OM&A evidence by Program. Are certain Directors/Managers responsible for each program or does the Company operate in according to another structure? If it does please provide that structure and indicate how the "programs" are managed within that structure. If possible please provide an organizational chart that describes who is responsible for each "program".

RESPONSE:

Toronto Hydro developed the OM&A plan on the basis of both a top-down and bottom-up approach as described in Exhibit 1C, Tab 3, Schedule 2. During the process, multiple planning activities were concurrently conducted, and inputs and outcome considerations were being formed. An iterative planning approach was used in order to facilitate robust decision-making and prudent planning.

Over a three-week period commencing in 2014Q1, a series of Finance-initiated meetings were held with departmental senior management regarding their respective OM&A. These meetings covered planning structure, approach and timing for the development of the 2015 OM&A budget. Departments were asked to identify their anticipated current and sustained needs for the five-year period in light of the multi-year constrained funding mechanism. Refer to Appendix A for the related material.

RESPONSES TO CONSUMERS COUNCIL OF CANADA INTERROGATORIES

The organizational chart that describes Toronto Hydro's senior management team and their respective responsibility for each program is attached as Appendix B.

Toronto Hydro-Electric System Limited
EB-2014-0116
Interrogatory Responses
4A-CCC-29
Appendix A
Filed: 2014 Nov 5
(12 pages)

FINANCIAL PLANNING PROCESS UPDATE

February 2014

Index

Background

Structure

Approach

Timing

Current State

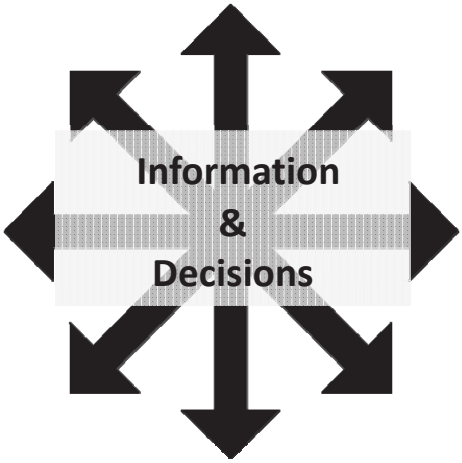
Parallel Activities

- Numerous activities impacting corporate plan are underway
  - Regulatory strategy and considerations
  - Workforce strategy
  - Financial considerations
  - Productivity activities
  - Capital planning
  - Other operational requirements
- Strategy and inputs not necessarily finalized
  - Different stages of completion
- Unsynchronized and overlapping activities

Current State – Information Flow

Finance Working Groups with Ops representation

Central Planning Team



Executive

Operational Teams with Exec representation

Consequences

- Different direction
  - Missing or late inputs
  - Expectation gap
- Delayed or late decisions
  - Re-work
  - Weak evidence
- Improper assessments
  - Poor decisions
  - Increased risk

- Delays
- Inefficiencies
- Frustration
- Organizational Risk

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Enhancements

Objective

- Improve the consolidated financial planning process

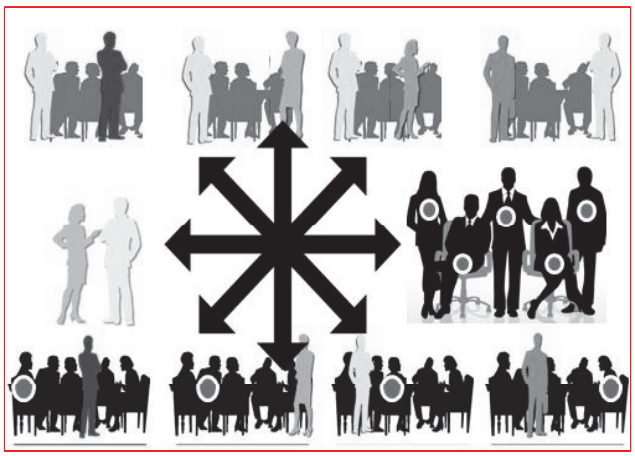
Focus

- **Alignment**
  - Integrated inputs, assessments and outputs
- **Decisions**
  - Enable timely (early) and firm decisions
- **Pace**
  - Timely inputs and timely deliverables

Scope

- Matters impacting financial assessments and decisions
  - Operational, Regulatory, Finance

Proposed State



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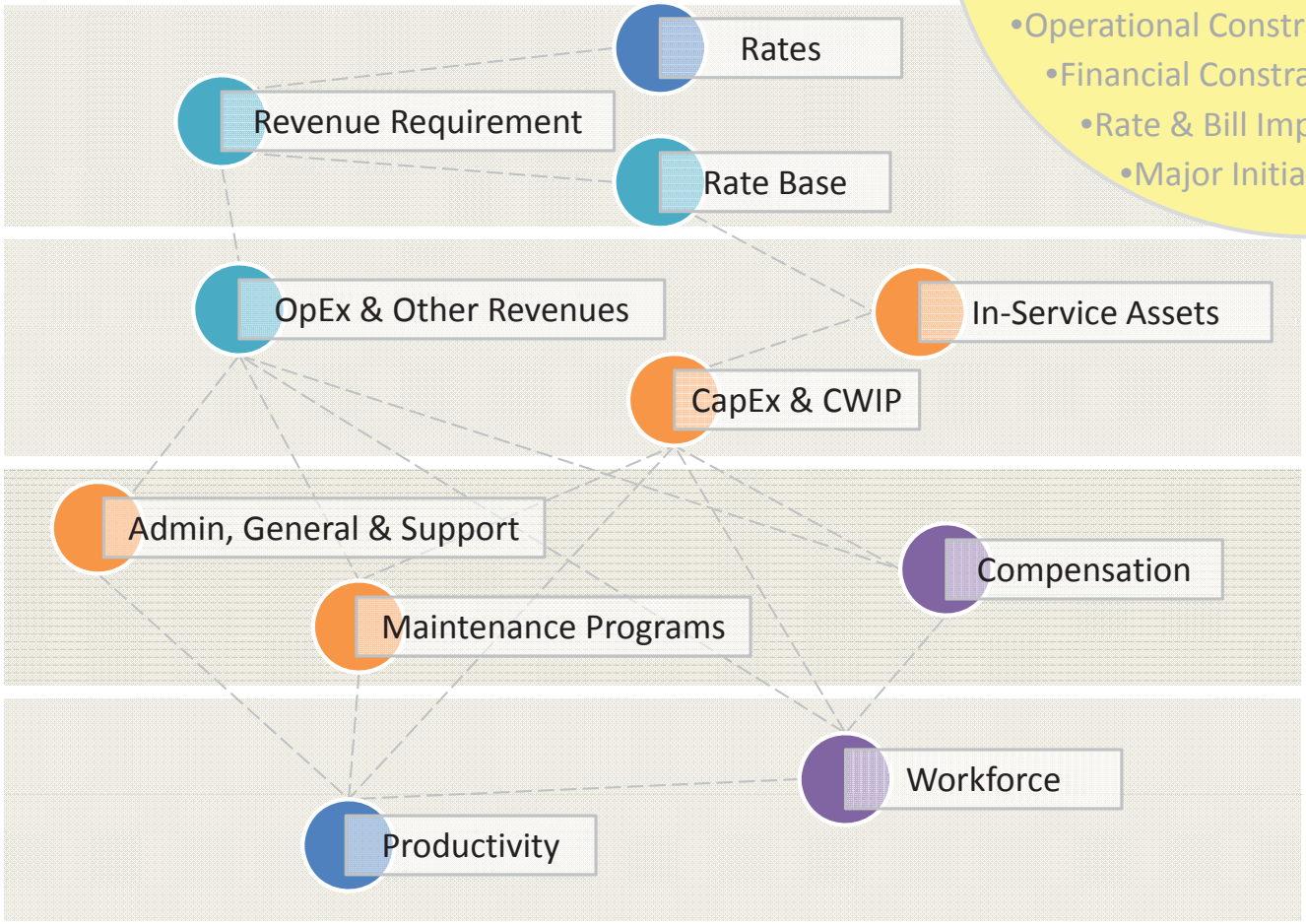
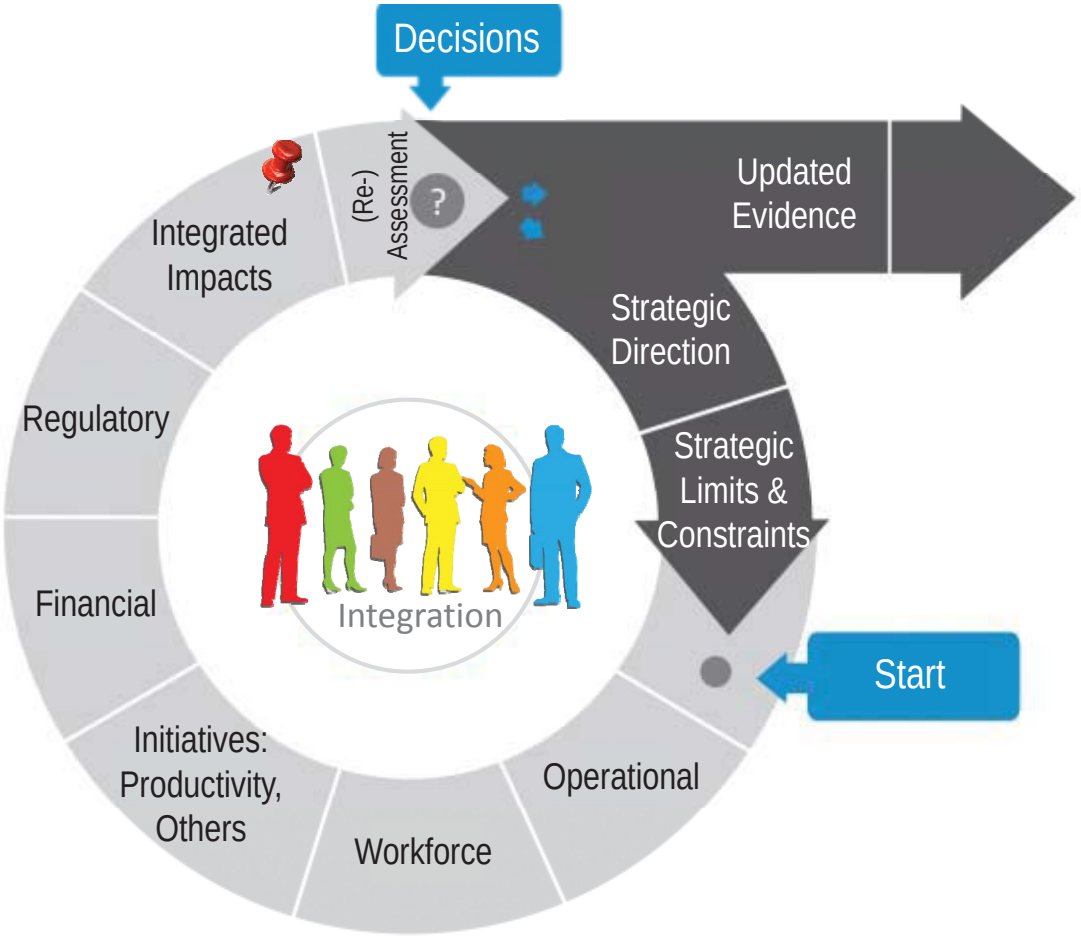
Financial Planning Components

Interdependencies

- Strategic Direction
- Regulatory Framework
- Accounting Standards
- Operational Constraints
- Financial Constraints
- Rate & Bill Impacts
- Major Initiatives



Iterative Planning Approach



Recap

- Interdependencies
- Inter-connections

- Where to begin?
- Who initiates?

- Iterative, adaptive approach
- Integrated impact assessment

- Operational alignment
- Timely, firm Executive decisions

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Approach

Integrated, adaptive planning

- Finance-initiated OpEx discussion

- Operational requirements
- Integrated impact assessments

- Operationally-finalized OpEx
- Regulatory evidence

Timing

- Finance-initiated OpEx discussion

Feb.

- Operational requirements
- Integrated impact assessments

Mar.10

- Operationally-finalized OpEx
- Regulatory evidence

Mar.24

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Corporate Strategy

The Corporation's vision is to "continuously maximize customer and stakeholders' satisfaction by being safe, reliable and environmentally responsible at optimal costs". The Corporation has an ERM framework that helps determine whether the Corporation is well positioned to achieve its strategic objectives. The ERM framework provides a consistent, disciplined methodology for controlling risk by identifying, assessing, managing, monitoring and reporting risks for the Corporation.

The Corporation is focused on the following four strategic pillars:

People – the Corporation aims to maintain an engaged, healthy, productive, and safe workforce to meet changing business requirements, as it strives to:

- Provide a healthy and safe workplace
- Develop a skilled and knowledgeable workforce
- Keep its workforce engaged

The Corporation will continue to strengthen its already strong safety culture through various internal initiatives in order to achieve world-class results. The Corporation is committed to employee safety and will remain persistent in its efforts to mitigate the risk of injury to its workforce. This will be accomplished through ongoing safety inspections, audits, annual policy review and the continuation of the safety programs and standards. The Corporation will continue to use the internal responsibility system to reinforce the importance of safety in the workplace.

Financial – the Corporation aims to meet the financial objectives of its shareholder, as it strives to:

- Provide a fair return to the shareholder
- Continue to increase shareholder value

The Corporation has provided its shareholder with an annual increase in economic value over the last decade. To meet financial objectives of the shareholder, the Corporation seeks to increase shareholder value and is committed to provide a fair return to its shareholder in the future. Along with excellence in corporate financing and financial management, the Corporation will strive to maintain an investment grade credit rating.

Operations – the Corporation aims to improve reliability through sustainable system management, as it strives to:

- Keep the lights on
- Keep the system safe
- Build a grid that supports a modern Toronto

The Corporation is engaging in resource and capital-intensive programs to improve capacity, reliability and quality. The capital program will replace aging assets and accommodate next generation technology to suit the regulatory trends that incent the increased use of distributed generation.

Customer – the Corporation aims to provide value to customers, as it strives to:

- Make it easy to work with
- Help conserve energy
- Provide innovative tools and technology

The Corporation is looking at ways to improve the level of satisfaction that customers experience, whether it is through education and awareness programs, interaction with call centre representatives, their account managers or over the internet. The Corporation continues to undertake initiatives and invest in technology and processes to improve the customer experience. In turn, this focus on customer service will provide long-term value for money.

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. KPIs are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2013 KPIs associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	• Number of recordable injuries x 200,000 / exposure hours.
	Employee Engagement	• Average number of employee engagement sessions per employee per year, including corporate-wide, divisional and departmental.
Financial	Net Income	• Net income per the Corporation's consolidated financial statements.
Operations	System Average Interruption Duration Index	• Measure of the annual system average interruption duration per customers served, not including MED.
	System Average Interruption Frequency Index	• Measure of the frequency of service interruptions per customers served, not including MED.
	Worst Performing Feeders	• Total number of feeders experiencing seven or more sustained outages in a year, with outages defined as interruptions greater than one minute.
	LDC Regulated Capital	• Achievement of LDC capital work program as approved by the Board of Directors.
Customer	Conservation Demand Management	• Annual summer peak demand savings through year over year megawatt reduction.
	Enhanced Customer Engagement	• Increase in customer self-serve transactions / engagements using various self-serve options.
	Call Centre Service Response	• Average of call centre responses within thirty seconds.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2013, the Corporation exceeded all of its corporate and divisional objectives represented by its KPIs. The Corporation's ability to deliver results in each of its strategic pillars is limited by risks inherent in its regulatory environment, business, workforce and in the economic environment. These risks are discussed under the section "Risk Management and Risk Factors" in this MD&A.

regulatory obligations. The plans are also informed by other important considerations such as customer needs (including service levels and consumption-management tools), rate impacts, value-for-money, productivity, and maintaining the financial health and viability of the utility, etc. These considerations roll up to the four pillars discussed at Exhibit 1C, Tab 3, Schedule 1 and Schedule 2.

No one of these considerations is determinative of the utility's ultimate financial plan, but they all inform ultimate funding requests. For example, Toronto Hydro believes that staffing levels beyond the operating costs proposed in this application are optimal based on the utility's assessment of its operating requirements, its retirement projections for the next five to 15 years, and the significant lead time for training certified and skilled trades (four to six years). However, the utility has moderated its funding request in light of other considerations, such as rate impacts.

Informed by the considerations described above, Toronto Hydro developed the OM&A plan on the basis of both a top-down and bottom-up approach as described in Exhibit 1C, Tab 3, Schedule 2. In general, Toronto Hydro's objective was to put forward a plan that largely maintained functional requirements such as safe and reliable grid operations and system performance, service levels and legal, regulatory and statutory compliance in an efficient manner.

Toronto Hydro used both general and specific cost and economic assumptions in its 2015 forecast of the operating costs. Labour costs have been adjusted to reflect the annual rate adjustments that Toronto hydro has committed to in its collective agreements. The labour cost forecast was also adjusted to reflect market-competitive pay increases for non-unionized employees. For more information, refer to Exhibit 4A, Tab 4, Schedule 5. Otherwise, a general inflation factor of 1.7% was applied, consistent with the OEB's current inflation factor.

4. APPROACH

The planning approach is predicated on the concept of a top-down, bottom-up process. Senior Management establishes the top-down constraints. Based on those top-down constraints, the business units exercised discipline and restraint in developing their bottom-up requests for OM&A funding.

The planning approach started as a top-down exercise in which, as noted above, the utility decided that it would seek to operate within the incentive-based environment underlying the IRM framework for OM&A for the five-year plan term. In this way, an objective of building the financial plan was to exercise constraint (top-down) on the overall plan, and restraint (bottom-up) in developing funding requests. Toronto Hydro was also mindful that any constraint and restraint also needed to be situated in the context of Toronto Hydro's ability to comply with its obligations/conditions of licence, its strategic pillars (Exhibit 1C, Tab 3, Schedule 1), as well as to respond to the resourcing needs driven by new or modified activities that have arisen since the utility's last rebasing in 2011.

To this end, Toronto Hydro's financial planning process for operating expenditures was informed by a business planning approach that examined underlying elements of existing budgets, as well as incremental requests for budget increases. In other words, departments were asked to outline the allocation of current expenditures, as well as justifying additional requests for 2015. Part of obtaining the full picture involved generally considering expenditures that were incremental since Toronto Hydro's last rebasing year (2011).

The practical application of Toronto Hydro's approach of integrating the top-down and bottom-up needs identification into its OM&A planning process entailed the utility's departments coming forward with plans and requests for ongoing and incremental

activities, which were then examined on a top-down basis for alignment with key considerations, such as the potential rate impact of the aggregate OM&A request for 2015.

5. RESULTS

In the result, while Toronto Hydro is putting forward in this application a 2015 rebasing plan that includes a number new or materially-expanded OM&A activities that it expects will be sustained over the period of the plan, these requests are largely driven by functional requirements. Examples of these new or materially-expanded programs include:

- The Disaster Preparedness Management Program aimed at enhancing the utility's capabilities to plan for and operate during major contingency events;
- Increased Billing, Remittance and Meter Data Management expenditures to enable deployment and maintenance of technology upgrade projects to support meter reading infrastructure renewal, and accommodate significant Canada Post service fee increases; and
- Increased Preventative and Predictive Maintenance expenditures to optimize the asset maintenance cycles, driven, among other factors, by the results of the Reliability Centered Maintenance (RCM) analysis.

For additional details on the evolution of Toronto Hydro's OM&A cost drivers and business environment changes, please refer to Exhibit 4A, Tab 2, Schedules 1 through 21, as well as financial schedules provided in Exhibit 4A, Tab 1.

By contrast, this also means that Toronto Hydro did not put forward other possible sustained and reasonable OM&A requests that would represent what the utility may believe is operationally optimal or required. As noted above, and in line with the

OVERVIEW OF THE OPERATING, MAINTENANCE AND ADMINISTRATION (OM&A) EXPENDITURES

The purpose of this schedule is to provide a brief summary of Toronto Hydro's Operations, Maintenance and Administration (OM&A) evidence that describes the utility's OM&A expenditures as well as the analytical work, activities and obligations underlying them. The schedule also details the top-down and bottom-up budgetary considerations driving the preparation of the 2015 Test Year OM&A forecasts.

1. CONCORDANCE WITH CHAPTER 2 FILING REQUIREMENTS

As discussed in Exhibit 1B, Tab 2, Schedule 2 ("Alignment with The Renewed Regulatory Framework"), in preparing its 2015-2019 Custom IR OM&A evidence, Toronto Hydro consulted the OEB's filing requirements with respect to the OM&A guidance provided in Chapter 2 of the Ontario Energy Board's (OEB's) Filing Requirements for Electricity Distribution Rate Applications, as updated on July 17, 2013. A key evolution in the OEB's guidance concerns the manner of presentation and the subsequent review of the OM&A evidence on the basis of output / program-based expenditure presentation – a departure from the previous approach which focused on discrete OM&A cost inputs.[2]

Consistent with the OEB guidance, Toronto Hydro presents its Historical, Bridge and Test Year OM&A expenditures as a sum of 19 discrete programs, and a grouping of utility-wide costs and adjustments that cannot be readily assigned to a single program and/or presented as a standalone program. The descriptions and variance analysis for these programs and associated expenditures and adjustments can be found in Exhibit 4A, Tab 2, Schedules 1 through 21. In an effort to balance the OEB's guidance on program-based OM&A cost review with the objective of providing a thorough cost analysis,

[2] Ontario Energy Board, Application Filing Requirements, Chapter 2, S 2.7 p. 27, 17 July, 2013

Toronto Hydro has further broken down a number of OM&A Programs into Segments – i.e., discrete activity-based areas that address different facets of a single program. Each segment description includes an overview of the activities comprising the segment, the requirements driving the work, and a variance analysis. /C

As noted by the OEB in the July 2013 update of Chapter 2 Filing Requirements, adopting a program-based approach to presenting the OM&A activities entails a transition period for the utility. While Toronto Hydro submits that the manner of presentation of its 2015 OM&A activities is consistent with the OEB guidance, the utility notes that its work in developing a meaningful program/Segment OM&A presentation involved a significant amount of assumptions and complex analytic work, given that Toronto Hydro internal OM&A tracking procedures do not fully lend themselves to the approach contemplated by the OEB.

At Toronto Hydro, OM&A plans are generally presented on a operating department or "Responsibility Centre" (RC) basis, whereby each RC is tied to the operational management of broad, but discrete functional areas such as customer care, finance, regulatory, safety, IT, HR or legal. That is, on the basis of the areas of discrete responsibility and type of departmental expenditures, rather than the (often cross-functional) activities or programs that the utility at large undertakes. In this way, for areas with multiple activities, financial plans are presented at their highest level on the basis of the type of the expenditure (e.g., payroll), rather than the program that those expenditures correlate to (e.g., work program execution). In a number of cases, although a department tracks its financial plan on an RC basis, they may also break down and track certain line items on the basis of files or activities. For example, maintenance programs that may require resources from several departments to complete the activities have separate work orders that field employees use to charge their time. This approach helps

to track and manage the costs associated with the maintenance programs consistently across the utility and track year-over-year variances.

This transition from RC to activity-based presentation is particularly salient with respect to the OM&A evidence contained within Exhibit 4A, Tab 2, Schedules 6 through 9, describing the programs that in previous filings (e.g., EB-2011-0144) were presented as a single cost item described as Operations Support. Given a number of important and functionally distinct activities captured within the previous Operations Support definition, Toronto Hydro has made best efforts to provide dedicated descriptions and variance analysis for each of the four ensuing programs and the associated segments. However, for the reasons noted above, the utility employed estimates to determine the particular program/segment expenditures for the Historical and Bridge years.

2. OVERVIEW OF THE OM&A PROGRAMS AND EXPENDITURES

Toronto Hydro's total 2015 forecasted OM&A expenditures are $269.5 million – 13.2% or $31.5 million above the 2011 expenditures approved by the OEB ($238 million) in Toronto Hydro's latest rebasing application (EB-2010-0142), and $30.9 million or 13% above the 2011 actual expenditures ($238.6 million).[2] Overall, the cost increase from 2011 to 2015 represent an average of 3.3% a year. Toronto Hydro notes that Section 3 of this schedule details the process and considerations informing Toronto Hydro's budgeting of the 2015 Test Year OM&A budget, including the constraint and restraint exercised with deference to several inter-related factors including ratepayer impact, and the utility's operational needs and obligations. /C

[2] Because OM&A was settled on an envelope basis in the utility's last rebasing application (EB-2010-0142), and because 2011 OEB-Approved and 2011 actual expenditures were very similar ($238 OEB-Approved vs. $238.6 actuals expenditures), Toronto Hydro has only reported 2011 actual expenditures in the OEB appendices filed at Exhibit 4A, Tab 1, Schedules 2-5. /C

RESPONSES TO SUSTAINABLE INFRASTRUCTURE ALLIANCE OF ONTARIO INTERROGATORIES

INTERROGATORY 31:

Reference(s): Exhibit 4A, Tab 1, Schedule 1

THESL notes that it "presents its Historical, Bridge and Test Year OM&A expenditures as a sum of 19 discrete programs", but goes on to say that "OM&A plans are generally presented on a operating department or 'Responsibility Centre' (RC) basis".

a) Please clarify whether THESL tracks and operates its OM&A on a program or department level? For example, does THESL have an actual "Finance Program" or a "Legal Services Program", or is this presentation a reflection of THESL's interpretation of the Filing Requirements?

b) Please explain the differences, if any, between THESL "programs" as presented in this application and the corresponding departments. For example, are there any identifiable differences between the functions and costs of the "Finance Program" and the functions and costs of the "Finance Department" presented in prior rate applications?

c) For all OM&A "programs" identified in Table 1, please identify the relevant department that undertakes each program.

d) Please provide the OM&A budgets mapped by operating department (Responsibility Centre), as referenced above.

RESPONSE:

a) The program-based presentation of OM&A budgets reflects Toronto Hydro's interpretation of the OEB guidance provided in Section 2.7 of the Chapter 2 of the *Filing Requirements for Electricity Distributors* (July 17, 2013) that mandates

RESPONSES TO SUSTAINABLE INFRASTRUCTURE ALLIANCE OF ONTARIO INTERROGATORIES

applicants to present their OM&A variance analysis on the basis of outcome-based programs. For internal purposes, Toronto Hydro tracks its OM&A expenditures at a departmental level.

b) As explained and produced in response to part (c) below, in a number of instances Toronto Hydro's OM&A programs as presented in this application are overseen by several different departments. For example, Preventative and Predictive Maintenance program encompasses the work performed by the Engineering and Construction and Electrical Operations and Procurement divisions. In other cases (e.g., Customer Care), the program-based presentation corresponds to a single departmental budget. For a further discussion of program-based presentation of OM&A Costs, please see Toronto Hydro's responses to interrogatory 4A-CCC-30 and interrogatory 4A-OEBStaff-63.

c) Please see Appendix A to this Schedule.

d) Please see response to (c) above.

Appendix A: Historical, Bridge and Test Year OM&A Expenditures by Program and Department

In millions of dollars; Rounding variances may exist.

($M) Prorgram	Department	2011 Actual	2012 Actual	2013 Actual	2014 Bridge	2015 Test
Preventative & Predictive Maintenance						
	Engineering & Construction	2.7	3.8	3.5	3.7	5.1
	Electric Operations & Procurement	11.0	12.1	9.3	12.4	14.9
Sub-total Preventative & Predictive Maintenance		13.7	16.0	12.8	16.1	20.1
Corrective Maintenance						
	Engineering & Construction	1.3	1.9	1.7	2.1	2.6
	Electric Operations & Procurement	24.5	19.6	15.3	17.0	19.6
Sub-total Corrective Maintenance		25.8	21.5	17.0	19.0	22.2
Emergency Response	Electric Operations & Procurement	13.3	13.9	26.3	16.2	15.3
Disaster Preparedness Management	Electric Operations & Procurement	0.9	0.0	-	-	2.4
Control Centre	Electric Operations & Procurement	8.4	8.3	8.9	8.2	8.4
Customer-Driven Work						
	Engineering & Construction	1.9	1.3	2.2	2.3	2.0
	Electric Operations & Procurement	4.1	4.6	4.9	5.9	8.1
Sub-total Customer-Driven Work		6.0	5.9	7.0	8.2	10.1
Planning						
	Engineering & Construction	9.0	9.0	11.5	10.2	12.6
	Electric Operations & Procurement	-	-	0.0	0.1	0.3
Sub-total Planning		9.0	9.0	11.5	10.3	12.9
Work Program Execution Management and Support	Engineering & Construction	5.0	5.5	5.6	5.8	6.1
Work Program Execution						
	Engineering & Construction	10.9	9.1	9.7	10.9	11.9
	Electric Operations & Procurement	4.0	4.7	3.4	3.3	3.2
Sub-total Work Program Execution		14.9	13.8	13.0	14.3	15.2
Fleet and Equipment Services	Electric Operations & Procurement	8.7	8.5	8.7	8.4	8.9
Facilities Management	Electric Operations & Procurement	24.6	23.5	24.2	27.2	27.5
Supply Chain Services	Electric Operations & Procurement	7.1	6.6	9.0	10.3	9.9
Customer Care	Customer Care	41.9	37.5	39.7	42.2	46.1
Human Resources and Safety	Human Resources and Safety	13.7	13.2	15.3	15.3	16.1
Finance	Finance	16.1	14.7	15.7	17.0	17.9
Information Technology	Information Technology & Risk Management	30.3	28.5	31.0	33.4	34.9
Rates and Regulatory Affairs	Regulatory Affairs and General Counsel	7.2	7.8	8.4	6.4	8.4
Legal Services	Regulatory Affairs and General Counsel	5.5	4.3	4.5	5.3	5.5
Charitable Donations (LEAP)	Customer Care	0.7	0.7	0.7	0.7	0.8
Common Costs and Adjustments	Corporate-wide	5.7	(6.0)	0.5	2.3	1.0
Allocations and Recoveries	Corporate-wide	(19.9)	(17.4)	(13.3)	(19.9)	(20.2)
Restructuring Costs	Corporate-wide	-	27.7	-	-	-
Total OM&A		**238.6**	**243.5**	**246.4**	**246.6**	**269.5**

OEB Appendix 2-JA
Summary of Recoverable OM&A Expenses

(in $ Millions)

	Last Rebasing Year (2011 Actuals)	2012 Actuals	2013 Actuals	2014 Bridge Year	2014 Bridge Year	2015 Test Year
Reporting Basis	CGAAP	USGAAP	USGAAP	USGAAP	MIFRS	MIFRS
Operations	$ 59.7	$ 55.9	$ 59.5	$ 58.5	$ 58.5	$ 70.3
Maintenance	$ 56.1	$ 54.8	$ 66.8	$ 59.3	$ 59.3	$ 61.2
SubTotal	**$ 115.8**	**$ 110.7**	**$ 126.4**	**$ 117.8**	**$ 117.8**	**$ 131.5**
%Change (year over year)		-4.4%	14.1%	-6.8%	0.0%	11.6%
%Change (Test Year vs Last Rebasing Year - Actual)						13.6%
Billing and Collecting	$ 40.6	$ 36.0	$ 35.2	$ 37.9	$ 37.9	$ 41.5
Community Relations	$ 2.9	$ 2.9	$ 2.9	$ 2.7	$ 2.7	$ 2.7
Administrative and General	$ 72.6	$ 67.8	$ 75.0	$ 81.2	$ 81.2	$ 86.5
Taxes Other Than Income Taxes	$ 5.9	$ (2.3)	$ 6.4	$ 6.5	$ 6.5	$ 6.5
Donations	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.8
SubTotal	**$ 122.7**	**$ 105.1**	**$ 120.1**	**$ 128.8**	**$ 128.8**	**$ 138.0**
%Change (year over year)		-14.4%	14.3%	7.3%	0.0%	7.1%
%Change (Test Year vs Last Rebasing Year - Actual)						12.4%
Total	**$ 238.6**	**$ 215.8**	**$ 246.4**	**$ 246.6**	**$ 246.6**	**$ 269.5**
Restructuring Costs (OEB Account 6310 - Extraordinary Deduction)		$ 27.7				
Total - Including Restructuring Costs	**$ 238.6**	**$ 243.5**	**$ 246.4**	**$ 246.6**	**$ 246.6**	**$ 269.5**
%Change (year over year)		2.1%	1.2%	0.1%	0.0%	9.3%

	Last Rebasing Year (2011 Actuals)	2012 Actuals	2013 Actuals	2014 Bridge Year	2014 Bridge Year	2015 Test Year
Operations	$ 59.7	$ 55.9	$ 59.5	$ 58.5	$ 58.5	$ 70.3
Maintenance	$ 56.1	$ 54.8	$ 66.8	$ 59.3	$ 59.3	$ 61.2
Billing and Collecting	$ 40.6	$ 36.0	$ 35.2	$ 37.9	$ 37.9	$ 41.5
Community Relations	$ 2.9	$ 2.9	$ 2.9	$ 2.7	$ 2.7	$ 2.7
Administrative and General	$ 72.6	$ 67.8	$ 75.0	$ 81.2	$ 81.2	$ 86.5
Taxes Other Than Income Taxes	$ 5.9	$ (2.3)	$ 6.4	$ 6.5	$ 6.5	$ 6.5
Donations	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.8
Restructuring Costs (OEB Account 6310 - Extraordinary Deduction)	-	$ 27.7	-	-	-	-
Total	**$ 238.6**	**$ 243.5**	**$ 246.4**	**$ 246.6**	**$ 246.6**	**$ 269.5**
%Change (year over year)		2.1%	1.2%	0.1%	0.0%	9.3%

	Last Rebasing Year (2011 Actuals)	Variance 2011 BA - 2011 Actuals	2012 Actuals	Variance 2012 Actuals vs. 2011 Actuals	2013 Actuals	Variance 2013 Actuals vs. 2012 Actuals	2014 Bridge Year	Variance 2014 Bridge vs. 2013 Actuals	2015 Test Year	Variance 2015 Test vs. 2014 Bridge
Operations	$ 59.7	-	$ 55.9	$ (3.7)	$ 59.5	$ 3.6	$ 58.5	$ (1.0)	$ 70.3	$ 11.8
Maintenance	$ 56.1	-	$ 54.8	$ (1.4)	$ 66.8	$ 12.0	$ 59.3	$ (7.5)	$ 61.2	$ 1.9
Billing and Collecting	$ 40.6	-	$ 36.0	$ (4.7)	$ 35.2	$ (0.7)	$ 37.9	$ 2.6	$ 41.5	$ 3.6
Community Relations	$ 2.9	-	$ 2.9	$ 0.0	$ 2.9	$ (0.1)	$ 2.7	$ (0.2)	$ 2.7	$ 0.1
Administrative and General	$ 72.6	-	$ 67.8	$ (4.8)	$ 75.0	$ 7.2	$ 81.2	$ 6.2	$ 86.5	$ 5.3
Taxes Other Than Income Taxes	$ 5.9	-	$ (2.3)	$ (8.2)	$ 6.4	$ 8.7	$ 6.5	$ 0.1	$ 6.5	$ 0.0
Donations	$ 0.7	-	$ 0.7	$ (0.1)	$ 0.7	$ (0.0)	$ 0.7	-	$ 0.8	$ 0.2
Restructuring Costs (OEB Account 6310 - Extraordinary Deduction)			$ 27.7							
Total OM&A Expenses	$ 238.6	-	$ 243.5	$ (22.8)	$ 246.4	$ 30.7	$ 246.6	$ 0.2	$ 269.5	$ 22.9
Adjustments for Total non-recoverable items (from Appendices 2-JA and 2-JB)			$ 27.7							
Total Recoverable OM&A Expenses	$ 238.6	-	$ 215.8	$ (22.8)	$ 246.4	$ 30.7	$ 246.6	$ 0.2	$ 269.5	$ 22.9
Variance from previous year			$ (22.8)		$ 30.7		$ 0.2		$ 22.9	
Percent change (year over year)			-9.6%		14.2%		0.1%		9.3%	
Percent Change: Test year vs. Most Current Actual					9.37%					
Simple average of % variance for all years										3.5%
Compound Annual Growth Rate for all years										2.5%
Compund Growth Rate 2013 Actuals vs. 2011 Actuals					1.1%					

Note:

1 "BA" = Board-Approved

2 If it has been more than three years since the applicant last filed a cost of service application, additional years of historical actuals should be incorporated into the table, as necessary, to go back to the last cost of service application. If the applicant last filed a cost of service application less than three years ago, a minimum of three years of actual information is required.

3 Recoverable OM&A that is included on these tables should be identical to the recoverable OM&A that is shown for the corresponding periods on Appendix 2-JB.

OEB Appendix 2-L
Recoverable OM&A Cost per Customer and per FTE

	Last Rebasing Year (2011 Actuals)	2012 Actuals	2013 Actuals	2014 Bridge Year	2014 Bridge Year	2015 Test Year
Reporting Basis	CGAAP	USGAAP	USGAAP	USGAAP	MIFRS	MIFRS
Number of Customers (mid-year)	705,756.00	713,093.00	724,144.00	736,974.00	736,974.00	749,679.00
Total Recoverable OM&A from Appendix 2-JB	$238.6	$215.8	$246.4	$246.6	$246.6	$269.5
OM&A cost per customer	$ 338.08	$ 302.63	$ 340.26	$ 334.68	$ 334.68	$ 359.51
Number of FTEs	1,820	1,601	1,527	1,537	1,537	1,564
Customers/FTEs	387.83	445.46	474.10	479.62	479.62	479.49
OM&A Cost per FTE	131,117.08	134,806.50	161,319.54	160,517.12	160,517.12	172,378.66

Notes:

1 If it has been more than three years since the applicant last filed a cost of service application, additional years of historical actuals should be incorporated into the table, as necessary, to go back to the last cost of service application. If the applicant last filed a cost of service application less than three years ago, a minimum of three years of actual information is required.

2 The method of calculating the number of customers must be identified.

3 The method of calculating the number of FTEs must be identified. See also Appendix 2-K

4 The number of customers and the number of FTEs should correspond to mid-year or average of January 1 and December 31 figures.

5 Toronto Hydro notes that its OM&A per customer metrics do not account for an estimated 300,000 behind-the-bulk-meter multi-unit dwelling customers.

Throughout 2014, Toronto Hydro expects to further reduce the number of manual readings to 20,000 meters, primarily through enhancements of data collection and processing capabilities for the commercial customers.

In addition to metered customers, Toronto Hydro has approximately 11,700 Unmetered Scattered Load ("USL") connections, which includes service to telephone booths, bus shelters, cable television boosters, traffic and park lighting, and signs. These unmetered devices consume a consistent amount of electricity from month to month and the ensuing bills are based on mutually agreed-upon load assumptions. The Billing, Remittance and Meter Data Management segment is responsible for keeping an up-to-date list of all service locations and updating usage calculations when customers make changes. To ensure USL billing accuracy, Toronto Hydro periodically conducts random field audits and reconciliation exercises with its customers.

3.2. Billing and Payment Services

The utility offers its customers several options for billing delivery method, including standard paper-based bills, e-bills and ePost billing services. For customers with specific accessibility needs, Toronto Hydro facilitates additional accommodation options, including bills with an option to increase font size, and audio playback options. To date, approximately 73,000 of Toronto Hydro customers receive their bills on line using e-billing options, which facilitates cost savings for the utility and provides convenience and accessibility for customers. Given the recent increase of Canada Post rates, Toronto Hydro is undertaking a proactive outreach campaign encouraging customers to adopt the electronic modes of receiving their bills as a means of controlling costs.

In addition to issuing electricity bills, the segment facilitates preparation and issuance of other customer bills for non-electricity services, such as customer-driven projects and costs resulting from certain claims proceeding.

- communicating through channels such as direct mail, newsletters, and association outreach, educational and sector specific information;
- acting as a single point of contact within Toronto Hydro to facilitate and coordinate work related to large C&I customers; and
- building and maintaining positive relationships with Toronto's business community.

5.4. Customer Experience

To deliver timely, effective and comprehensive customer-facing activities and internal service practices, the Customer Experience area manages customer research, traditional and digital outreach efforts, through media, collateral (brochures, bill inserts and newsletters), direct mail, website, social media, mobile and e-mail outreach for residential and business customers. Customer research activities allow Toronto Hydro to gain insights into how current services, processes and communications align with customer views and experiences, and identify opportunities for improvement.

Using the feedback received through customer research and outreach, Toronto Hydro launched a customized self-service portal (MyTorontoHydro) in 2012, which offers an automated move-in/move-out processing capability, pre-authorized payment enrolment, the ability to view bill and payment history, and individual unit consumption information for landlords. The adoption of this service was promoted through traditional and digital outreach campaigns, with approximately 76,000 customers registered as of May 2014.

Toronto Hydro's on-line services were further enhanced in 2013 through the introduction of a mobile web application that provides customers with energy management information, a bill comparison function, and alerts to help manage electricity costs.

By the end of 2014, Toronto Hydro plans to consolidate all of its on-line service offerings (ebills, MyTorontoHydro, TOU portal) into one interface, to provide customers a single sign-on experience, thereby improving usability and uptake. Additional offerings will continue to be incorporated based on customer research and identified opportunities to increase efficiency. This includes offering MyTorontoHydro account management services to commercial customers and a fully automated new customer move-in process.

Over time, direct-to-customer communication efforts have increased due to the on-going changes in the government and regulatory policy affecting Ontario's electricity market, including new rate structures, technologies and service offerings. In a similar manner, the scope and volume of customer communications has grown to increase the adoption of Toronto Hydro's online and paperless service offerings, thereby decreasing expenditures associated with customer call handling and increasing customer choice and convenience. Proactive communications through bill inserts newsletters and digital messaging helps build customer awareness and understanding of key aspects of the sector, increases the uptake of on-line services, and reduces the volume of interactions with the Contact Centre. This improves the efficiency and the effectiveness of maintaining customer relationships while also delivering operational gains.

Finally, the Quality Assurance function manages the development and distribution of issue-specific training materials for internal and external resources. It is also engaged in knowledge and service quality management, analyzing first call resolution ("FCR") results, conducting post-call customer surveys, and identifying training gaps as well as process and technology improvement opportunities. The function is also responsible for maintaining an intranet tool that provides staff with information on current policies, procedures, and regulatory changes to better service customers.

The table below (Table 6) illustrates Toronto Hydro's historical and forecast apprenticeship hiring.

Table 6: Training Programs

Apprentice Group	2011	2012	2013	2014	2015	2016	2017	2018	2019
CPCP	13	0	0	9	18	18	18	18	27
CPLP	12	0	0	0	24	12	12	12	12
DST	12	0	9	9	16	8	0	0	8
PSC	8	4	0	4	6	4	2	2	2
CMM	0	0	0	0	5	0	4	5	4
Engineering Technologist	17	6	2	15	6	6	8	2	12
Engineer	16	2	6	2	2	2	2	1	1
Total	**78**	**12**	**17**	**39**	**77**	**50**	**46**	**40**	**66**

The utility's CPLP program is recognized and accredited by the Ministry for Training, Colleges and Universities ("MTCU"). The other four apprenticeship programs are designed with the objective of developing and maintaining the specialized skills and knowledge that certified and skilled trades and designated and technical professionals require to work on Toronto Hydro's distribution plant safely and effieciently.

The MCTU considers Toronto Hydro a Training Delivery Agent ("TDA"), which means that Toronto Hydro's apprenticeship programs must satisfy certain educational standards and criteria, as outlined in the MTCU's TDA Approval Process Guidelines. These requriements apply to the CPLP program, and these standards are consistently applied to all other programs. Pursuant to these criteria and standards, Toronto Hydro must:

- support increased apprenticship registrations, participations and completions;
- improve the apprenticeship delivery system in at least one of the key cornerstones as determined by MTCU;

order to secure the specific knowledge and talent that the utility requires to meet operational requirements going forward. The utility must also balance this need against the wave of projected retirements over the next five to ten years, and the varying training durations required for new entrants to the workforce to become fully competent.

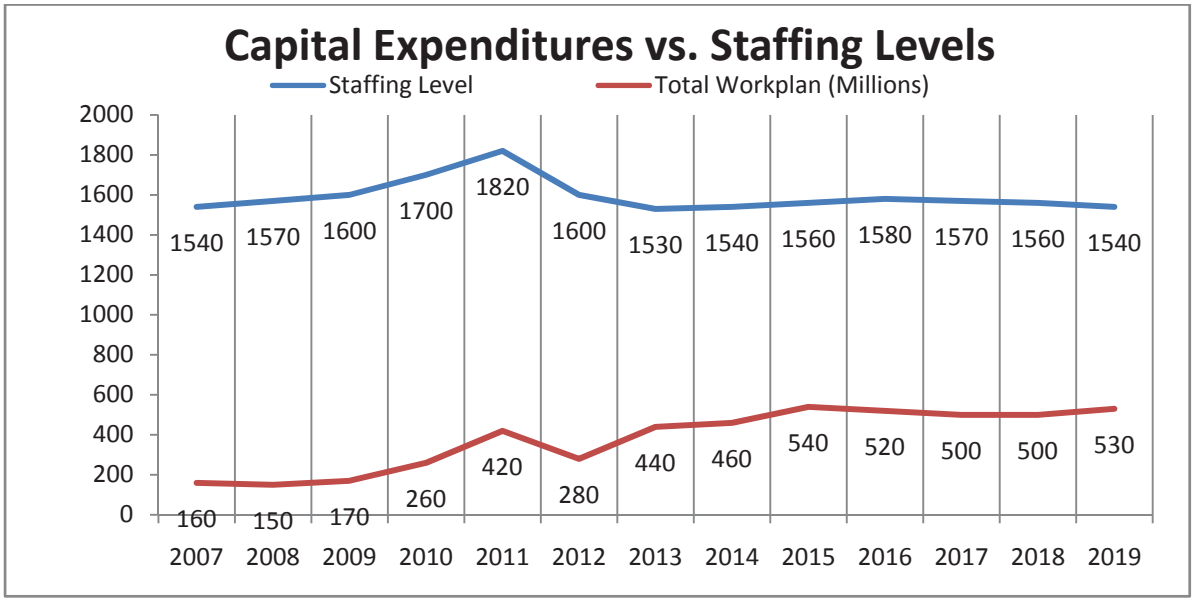

Figure 1: Capital Expenditures vs. Staffing Levels (2007 – 2019)

To deliver its capital programs, Toronto Hydro relies on a number of key Certified and Skilled Trades and Designated and Technical Professional positions, such as Certified Power Cable Person ("CPCP"), Certified Power Line Person ("CPLP"), Distribution System Technologist ("DST"), Certified Meter Mechanic/Tester, Power System Controller ("PSC"), Engineering Technologist ("ETL"), and Engineers. The utility forecasts a large number of retirements in these positions over the next five to ten years, and must continue to invest in training and development in order to facilitate the transfer of critical knowledge and key skills that employees in these positions require to safely and efficiently plan and execute the utility's work programs.

2.5. Senior Management

Senior management employees, including the executive team, represent approximately four percent of the utility's workforce. These individuals provide the leadership and strategic guidance that a utility of Toronto Hydro's size and complexity requires in order to perform effectively and responsibly in a complex regulatory business environment. Their accountabilities are extensive, with many senior management positions providing oversight to multiple subject portfolios.

3. WORKFORCE COMPLEMENT: PAST, PRESENT AND FUTURE

In 1998, after Toronto Hydro was formed through the amalgamation of six former utilities, the utility's workforce was comprised of approximately 2,400 employees. Over a period of four years (i.e., 1998-2001), the workforce was reduced to approximately 1,550 employees. This reduction in headcount was achieved as a result of voluntary retirement program and a voluntary separation program in 2001 that resulted in the loss of critical positions for the utility (such as those in the certified and skilled trades).

Over time, Toronto Hydro has been working towards staffing up its workforce in these critical positions in preparation for the wave of retirements expected over the next five to ten years, to support capital infrastructure renewal, and to allow for the lead-time required to safely train new workforce entrants.

From 2011 to 2013, Toronto Hydro experienced another notable reduction in the size of its workforce, from approximately 1,820 full time equivalent ("FTE") employees in 2011 to 1,527 FTEs in 2013. The workforce reduction that Toronto Hydro sustained between 2011 and 2013 was a result of: (1) rebalancing of the critical workforce (such as certified and skilled trades and designated and technical professional) through a voluntary exit

program[1] and workforce downsizing; and (2) organizational and job design, following the Ontario Energy Board's ("OEB") decision in EB-2011-0144[2].

In April 2013, the OEB substantially approved the investments proposed in Toronto Hydro's Incremental Capital Module ("ICM") application.[3] The capital work in that application represented a continuation of the elevated level of capital spending (and specifically system renewal spending) that the utility has been engaged in for several years. While it represented a significant management challenge, Toronto Hydro was able to safely execute the ICM plan using the funding available to it in that period. The utility accomplished this through various means, including the efficient planning and hiring decisions, as well as the prudent use of external resources.

In the 2015-2019 rate period, Toronto Hydro plans to execute the largest capital work program in utility's history (refer to the DSP in Exhibit 2B), using approximately the same number of internal resources as it did in the 2012-2013 period. One of the greatest risks to the safe and responsible execution of this work program is the increasing wave of retirements projected in the next five to ten years.

As discussed in more detail in the Aging Workforce Challenge section below, Toronto Hydro expects a large wave of retirements in the next five to ten years and must invest in developing and maintaining a dependable, adaptable and highly-skilled workforce. To prudently manage costs during the upcoming rate period, Toronto Hydro proposes a conservative staffing plan, despite challenges that it faces over the next five years (i.e., 25 percent of the workforce is expect to retire in the next five years, and the size of capital program is expected to increase by approximately 22 percent, relative to 2013).

[1] The program targeted administrative and clerical positions, and focused on the reduction of non-certified trades jobs in areas where automation increased and outsourcing opportunities at a lower operating cost presented itself.
[2] EB-2011-0144, Decision with Reasons (January 5, 2012).
[3] EB-2012-0064, Partial Decision and Order (April 2, 2013).

To limit the rate increases for the upcoming rate period, Toronto Hydro proposes to continue to replace employees as they retire on a "just in time" basis. This is not the optimal approach to workforce renewal, given the time that is required to safely and effectively train new workforce entrants to work on Toronto Hydro's distribution system. It was adopted, however, to constrain costs over the 2015 to 2019 period. As a long-term strategy, this approach is not preferred because it may compromise Toronto Hydro's ability to satisfy its commitments.

Toronto Hydro has implemented a multi-faceted staffing strategy to maintain quality service and value to rate payers, and to plan for upcoming retirements. Toronto Hydro's Workforce Renewal Strategy is discussed in more detail in section 4 below.

4. AGING WORKFORCE CHALLENGE

The Canadian utility industry faces a major workforce renewal challenge over the next decade, as the wave of baby-boomer[4] retirements intensifies (refer to the Conference Board of Canada Report on Labour Market and Human Resource Trends for the Canadian Utility Sector, which is filed at Exhibit 4A, Tab 4, Schedule 4).

To illustrate the effect of this challenge on Toronto Hydro's workforce, the chart below (Table 2) compares, by age group, the Canadian population to Toronto Hydro's workforce. The average age at Toronto Hydro currently is 46.

[4] The term "baby boomers" refers to those individuals that were born between 1947 and 1965.

Table 2: Population by Age Group (Canada and Toronto Hydro)

Demographic Cohorts	Statistics Canada % of Workforce	Toronto Hydro % of Workforce
Age		
Age <25	14.87%	1.75%
Age 25-34	21.60%	22.17%
Age 35-44	21.24%	14.41%
Age 45-54	23.47%	42.21%
Age 55-64	15.35%	18.03%
Age >65	3.48%	1.42%

The 45 to 54 age group, which include the youngest baby boomers, is the focus of the aging workforce challenge, as these employees represent approximately 42 percent of Toronto Hydro's workforce. More specifically, the challenge is that the 35 to 44 age-group that immediately follows the youngest boomers, is relatively small (14.41%) in comparison to the percentage of the workforce that is over 45. The immediate consequence of this challenge is that as young boomers step in to fill the roles of senior boomers who, by 2015, will be in their mid to late 60s, the employees in the 35 to 44 age group will be called on to fill their positions. To ensure the workforce is prepared to safely and effectively perform these senior roles, the workers in the 35 to 44 age group must undergo the required training and development before they are called on to fill more senior positions.

To manage the challenge of the large wave of retirements that are expected to place in the next five to ten years, Toronto Hydro requires funding to invest in hiring new entrants and facilitating apprenticeships, co-op programs and in-house training. Toronto Hydro must pursue these investments now to account for the time it takes to train new employees and to transfer corporate and technical knowledge to them from senior employees.

Appendix to Undertaking No. TC J2.4 - Revised to be per FTE

	2011 Actuals	2012 Actuals	2013 Actuals	2014 BRIDGE	2015 TEST	Increase	CAGR
Number of Employees (FTEs including Part-Time)[1]							
Executive	9.2	7.4	8.0	6	6		
Management (excluding executive)	52.7	45.6	47.2	48	49		
Supervisory	186.5	164.4	166.3	170	170		
Non-Management (Non-Union, Non-Supervisory)	238.3	242.8	250.2	279	287		
CUPE	1,159.3	1,048.1	962.7	921	925		
Society	53.4	56.8	51.0	52	50		
Contract for a Defined Term[1]	37.6	35.8	42.1	60	77		
Total	1,737.0	1,600.8	1,527.4	1,537	1,564		
Total Salary and Wages (including overtime and incentive pay)							
Executive	$ 310,154	$ 346,695	$ 332,748	$ 391,986	$ 404,015	30.26%	7.45%
Management (excluding executive)	$ 164,444	$ 173,856	$ 174,856	$ 184,405	$ 188,822	14.82%	3.65%
Supervisory	$ 126,098	$ 128,119	$ 129,975	$ 129,275	$ 132,277	4.90%	1.21%
Non-Management (Non-Union, Non-Supervisory)	$ 91,882	$ 97,269	$ 96,976	$ 100,820	$ 103,725	12.89%	3.17%
CUPE	$ 96,468	$ 92,059	$ 97,205	$ 99,603	$ 101,081	4.78%	1.18%
Society	$ 107,744	$ 105,870	$ 112,383	$ 120,763	$ 122,048	13.28%	3.27%
Contract for a Defined Term[1]	$ 68,943	$ 71,227	$ 66,316	$ 73,999	$ 77,435	12.32%	3.03%
Total	$ 101,960	$ 100,079	$ 104,025	$ 106,657	$ 108,367	6.28%	1.55%
Total Benefits (Current + Accrued)							
Executive	$ 106,229	$ 97,602	$ 94,049	$ 111,216	$ 108,602	2.23%	0.55%
Management (excluding executive)	$ 51,778	$ 54,549	$ 58,144	$ 60,617	$ 59,896	15.68%	3.86%
Supervisory	$ 39,213	$ 41,541	$ 45,457	$ 45,547	$ 44,776	14.19%	3.49%
Non-Management (Non-Union, Non-Supervisory)	$ 33,012	$ 34,941	$ 37,321	$ 37,003	$ 36,578	10.80%	2.66%
CUPE	$ 31,424	$ 32,922	$ 36,534	$ 35,276	$ 34,346	9.30%	2.29%
Society	$ 36,802	$ 37,797	$ 41,747	$ 41,763	$ 40,500	10.05%	2.47%
Contract for a Defined Term[1]	$ 5,128	$ 5,443	$ 5,675	$ 5,656	$ 5,161	0.65%	0.16%
Total	$ 33,087	$ 34,586	$ 37,927	$ 36,883	$ 35,732	7.99%	1.97%
Total Compensation (Salary, Wages, & Benefits)							
Executive	$ 416,383	$ 444,297	$ 426,797	$ 503,202	$ 512,617	23.11%	5.69%
Management (excluding executive)	$ 216,221	$ 228,406	$ 233,000	$ 245,021	$ 248,718	15.03%	3.70%
Supervisory	$ 165,310	$ 169,659	$ 175,432	$ 174,822	$ 177,053	7.10%	1.75%
Non-Management (Non-Union, Non-Supervisory)	$ 124,894	$ 132,211	$ 134,297	$ 137,823	$ 140,304	12.34%	3.04%
CUPE	$ 127,892	$ 124,981	$ 133,740	$ 134,879	$ 135,427	5.89%	1.45%
Society	$ 144,547	$ 143,667	$ 154,130	$ 162,526	$ 162,548	12.45%	3.07%
Contract for a Defined Term[1]	$ 74,071	$ 76,670	$ 71,992	$ 79,655	$ 82,597	11.51%	2.83%
Total	$ 135,047	$ 134,665	$ 141,952	$ 143,540	$ 144,098	6.70%	1.65%
Average Total Compensation (Salary, Wages, & Benefits)							
Executive	$ 416,383	$ 444,297	$ 426,797	$ 503,202	$ 512,617		
Management (excluding executive)	$ 216,221	$ 228,406	$ 233,000	$ 245,021	$ 248,718		
Supervisory	$ 165,310	$ 169,659	$ 175,432	$ 174,822	$ 177,053		
Non-Management (Non-Union, Non-Supervisory)	$ 124,894	$ 132,211	$ 134,297	$ 137,823	$ 140,304		
CUPE	$ 127,892	$ 124,981	$ 133,740	$ 134,879	$ 135,427		
Society	$ 144,547	$ 143,667	$ 154,130	$ 162,526	$ 162,548		
Contract for a Defined Term[1]	$ 74,071	$ 76,670	$ 71,992	$ 79,655	$ 82,597		
Total	$ 135,047	$ 134,665	$ 141,952	$ 143,540	$ 144,098		
Total Compensation Expensed	$ 139,376,030	$ 137,907,417	$ 133,422,085	$ 137,588,178	$ 140,947,660		
Total Compensation Capitalized	$ 95,201,725	$ 77,666,306	$ 83,395,907	$ 82,975,905	$ 84,349,808		

[1] Contract for a Defined Term refers to "Temporary staff"

	2011 Actuals	2012 Actuals	2013 Actuals	2014 BRIDGE	2015 TEST
Number of Employees (FTEs including Part-Time)[1]					
Executive	9.2	7.4	8.0	6	6
Management (excluding executive)	52.7	45.6	47.2	48	49
Supervisory	186.5	164.4	166.3	170	170
Non-Management (Non-Union, Non-Supervisory)	238.3	242.8	250.2	279	287
CUPE	1,159.3	1,048.1	962.7	921	925
Society	53.4	56.8	51.0	52	50
Contract for a Defined Term[1]	37.6	35.8	42.1	60	77
Total	1,737.0	1,600.8	1,527.4	1,537	1,564
Total Salary and Wages (including overtime and incentive pay					
Executive	$ 2,840,668	$ 2,554,144	$ 2,661,984	$ 2,469,509	$ 2,424,089
Management (excluding executive)	$ 8,663,257	$ 7,930,713	$ 8,254,968	$ 8,888,300	$ 9,252,273
Supervisory	$ 23,519,791	$ 21,056,378	$ 21,612,100	$ 21,912,108	$ 22,420,927
Non-Management (Non-Union, Non-Supervisory)	$ 21,894,101	$ 23,620,194	$ 24,258,726	$ 28,169,003	$ 29,769,166
CUPE	$ 111,838,939	$ 96,489,851	$ 93,579,854	$ 91,767,199	$ 93,499,770
Society	$ 5,757,843	$ 6,010,237	$ 5,729,052	$ 6,219,276	$ 6,102,405
Contract for a Defined Term[1]	$ 2,591,089	$ 2,546,373	$ 2,790,818	$ 4,464,343	$ 5,962,522
Total	$ 177,105,689	$ 160,207,891	$ 158,887,502	$ 163,889,738	$ 169,431,152
Total Benefits (Current + Accrued)					
Executive	$ 972,941	$ 719,048	$ 752,393	$ 700,663	$ 651,611
Management (excluding executive)	$ 2,727,764	$ 2,488,349	$ 2,744,978	$ 2,921,727	$ 2,934,914
Supervisory	$ 7,313,972	$ 6,827,249	$ 7,558,586	$ 7,720,279	$ 7,589,611
Non-Management (Non-Union, Non-Supervisory)	$ 7,866,282	$ 8,484,867	$ 9,335,845	$ 10,338,736	$ 10,498,007
CUPE	$ 36,431,653	$ 34,506,022	$ 35,171,649	$ 32,500,903	$ 31,769,774
Society	$ 1,966,724	$ 2,145,710	$ 2,128,201	$ 2,150,794	$ 2,024,985
Contract for a Defined Term[1]	$ 192,730	$ 194,587	$ 238,837	$ 341,244	$ 397,414
Total	$ 57,472,066	$ 55,365,832	$ 57,930,489	$ 56,674,344	$ 55,866,316
Total Compensation (Salary, Wages, & Benefits)					
Executive	$ 3,813,609	$ 3,273,192	$ 3,414,377	$ 3,170,172	$ 3,075,700
Management (excluding executive)	$ 11,391,021	$ 10,419,062	$ 10,999,947	$ 11,810,027	$ 12,187,187
Supervisory	$ 30,833,763	$ 27,883,627	$ 29,170,686	$ 29,632,387	$ 30,010,538
Non-Management (Non-Union, Non-Supervisory)	$ 29,760,384	$ 32,105,061	$ 33,594,572	$ 38,507,738	$ 40,267,173
CUPE	$ 148,270,591	$ 130,995,873	$ 128,751,502	$ 124,268,102	$ 125,269,544
Society	$ 7,724,567	$ 8,155,947	$ 7,857,254	$ 8,370,070	$ 8,127,390
Contract for a Defined Term[1]	$ 2,783,820	$ 2,740,961	$ 3,029,655	$ 4,805,587	$ 6,359,936
Total	$ 234,577,755	$ 215,573,723	$ 216,817,992	$ 220,564,082	$ 225,297,468
Average Total Compensation (Salary, Wages, & Benefits)					
Executive	$ 416,383	$ 444,297	$ 426,797	$ 503,202	$ 512,617
Management (excluding executive)	$ 216,221	$ 228,406	$ 233,000	$ 245,021	$ 248,718
Supervisory	$ 165,310	$ 169,659	$ 175,432	$ 174,822	$ 177,053
Non-Management (Non-Union, Non-Supervisory)	$ 124,894	$ 132,211	$ 134,297	$ 137,823	$ 140,304
CUPE	$ 127,892	$ 124,981	$ 133,740	$ 134,879	$ 135,427
Society	$ 144,547	$ 143,667	$ 154,130	$ 162,526	$ 162,548
Contract for a Defined Term[1]	$ 74,071	$ 76,670	$ 71,992	$ 79,655	$ 82,597
Total	$ 135,047	$ 134,665	$ 141,952	$ 143,540	$ 144,098
Total Compensation Expensed	$ 139,376,030	$ 137,907,417	$ 133,422,085	$ 137,588,178	$ 140,947,660
Total Compensation Capitalized	$ 95,201,725	$ 77,666,306	$ 83,395,907	$ 82,975,905	$ 84,349,808

[1] Contract for a Defined Term refers to "Temporary staff"

STANDARD & POOR'S RATINGS SERVICES
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Summary:

Toronto Hydro Corp.

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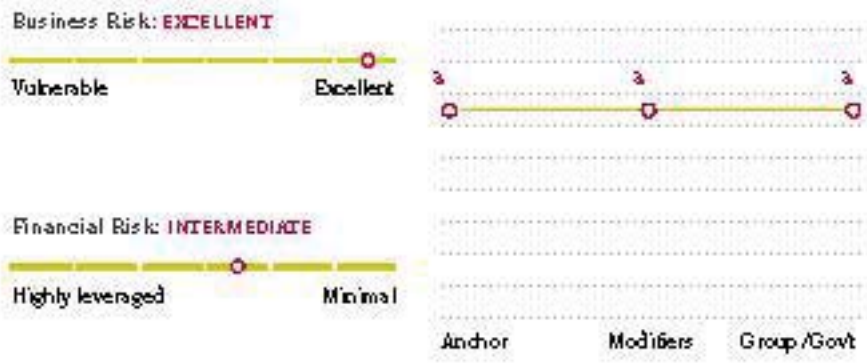
Summary:

Toronto Hydro Corp.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Transparent, predictable and stable regulatory regime • No input cost risks, because tariffs allow the pass-through of major expenses to customers • Stable customer base with no meaningful customer concentration risk	• Stable regulated cash flow • Sizable capital programs related to aging infrastructure • High leverage

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' expectation that Toronto Hydro Corp. will continue to focus on the regulated utility business, which provides a stable and predictable stream of cash flow during our two-year outlook horizon. In addition, we believe the company will manage its capital expenditure cost to be within the approved amount set forth by the Ontario Energy Board (OEB) and maintain the deemed capital structure.

Downside scenario

We could downgrade the rating as a result of a material adverse regulatory decision, severe operational inefficiencies, or other changes that we believe might lead to long-term financial deterioration resulting in adjusted funds from operations [AFFO]-to-debt falling below 13%.

Upside scenario

We could upgrade the rating if we expect Toronto Hydro to demonstrate sustainable long-term financial growth or to improve its financial position that results in AFFO-to-debt of 23%-25%. This could require the utility to deviate from its financial policy, which we believe is highly unlikely. As a result, the prospect of an upgrade is limited during our two-year outlook horizon.

Standard & Poor's Base-Case Scenario

The key drivers in our analysis continue to be the regulatory framework and the performance of the utility operator within the regulatory framework.

Assumptions

- The regulatory system will be stable and Toronto Hydro will not experience any material, adverse regulatory decisions
- The utility will earn a standard return on equity of approximately 9.58%, operate within the deemed capital structure with 60% debt, and not spend any unapproved capital
- The company will have its rate base reset in 2015 under the new custom incentive rate-making (IR) method

Key Metrics

	2013A	2014E	2015E
AFFO/debt	16.7%	13%-16%	13%-15%
AFFO/interest	3.68x	3.3x-4.0x	3.3x-4.0x

AFFO--Adjusted funds from operations. A--Actual. E--Estimate.

Business Risk: Excellent

In our view, Toronto Hydro's business risk profile is "excellent." The main positive driver continues to be the OEB. The

regulator continues to provide a transparent regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. Historically, electricity rates are established under a cost-of-service framework with rates for subsequent three years under an incentive-rate mechanism. In 2012, the OEB proposed additional alternatives to electricity rate settings. We believe Toronto Hydro will adapt the custom IR method to reflect the revenue requirement based on the large multiyear capital programs the company is committed to in the next few years. Toronto Hydro most recently had its cost-of-service hearing in 2011 and is scheduled for a rate reset in 2015. The regulatory framework also limits the utility's exposure to commodity risk and associated cash flow volatility because price fluctuations in the commodity flow through directly to customers.

Further supporting the excellent business risk profile is Toronto Hydro's large and diverse customer base with no meaningful concentration risk Residential and small businesses account for more than 90% of the total. In our view this customer profile is less sensitive to macroeconomic stress and business cycles. Nevertheless, the residential customer base has some sensitivity to volume fluctuations, primarily weather-driven, although we do not believe the fluctuations would pressure credit metrics at the rating. We do not expect Toronto Hydro's customer composition to change materially over the next two-year horizon.

We believe the utility carries relatively low operating risk because it has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreement, which reduces operating risks. We expect operational efficiency and reliability to remain within provincial industry norms to avoid regulatory risk linked to poor sustained performance.

Financial Risk: Intermediate

When evaluating the "intermediate" financial risk profile for Toronto Hydro, we take into the consideration of the company's lower-risk regulated business model and apply the low-volatility table. We expect the utility will continue generating stable cash flow, a key credit strength. The company has large capital programs in the next few years and relies on the combination of internal FFO and external debt to fund these capital expenditures. As a result, this has a downward pressure on the credit metrics, especially the AFFO-to-debt metric. However we believe the company will be able to maintain the AFFO-to-debt metric above the 13% threshold.

To further support the intermediate financial profile risk is that we expect Toronto Hydro to maintain its deemed capital structure established by the regulator, which includes about 60% debt. Furthermore, the company has a C$400 million commercial paper (CP) program with C$150 million outstanding. Supporting the CP program are liquidity facilities available under the utility's C$600 million revolving credit facility; hence, available borrowing under the credit facility is reduced by the amount of CP outstanding. In our opinion, the credit facility provides sufficient backup liquidity to protect Toronto Hydro in the event the company is unable to roll over the maturing paper with new notes.

Liquidity: Adequate

In our view, Toronto Hydro's liquidity "adequate". The company has sufficient liquidity sources to cover more than 1.1x its uses. Moreover, in the event of a 10% EBITDA decline, Toronto Hydro's sources of funds would still exceed its

uses. In our opinion, the company has sound relationships with its banks, generally satisfactory standing in credit markets and generally prudent financial risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of approximately C$290 million • Undrawn committed credit facility of C$450 million expiring in October 2018, and two smaller facilities with total capacity of C$95 million, of which C$26 million is available	• A broad range of capital spending in 2014 that is estimated in the range of C$280 million to C$540 million • CP of C$150 million that matures in 2014 • Cash dividends of approximately C$61 million

Covenants

We expect Toronto Hydro to maintain sizable headroom below its 75% debt-to-capital covenant.

Other Modifiers

The modifying factors had no impact on the rating.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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Rating Report

Report Date:
May 13, 2014

Previous Report:
October 28, 2013

Insight beyond the rating.

Toronto Hydro Corporation

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The Company

Toronto Hydro Corporation (THC) is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited, which distributes electricity and engages in Conservation and Demand Management activities; and Toronto Hydro Energy Services Inc., which provides street lighting services. THC's sole shareholder is the City of Toronto (rated AA).

Recent Actions

November 25, 2013
Commercial Paper Rating Assigned; Short-Term Rating Discontinued

Rating

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

Rating Update

DBRS has confirmed the ratings of Toronto Hydro Corporation (THC or the Company), as listed above. The rating confirmation reflects THC's low business risk profile and reasonable financial risk profile. However, THC faces financial challenges due to its aging infrastructure replacement program that could pressure its balance sheet. DBRS views leverage rising above the regulatory capital structure as high for the current rating category and could potentially trigger a negative rating action.

THC's business risk profile is supported by a reasonable regulatory environment in Ontario and stable earnings from regulated business accounting for virtually all of the Company's earnings and cash flow. The regulatory framework for distribution utilities in Ontario is shifting from the current third-generation incentive regulatory mechanism (IRM) to the renewed regulatory framework. Under Ontario Energy Board's (OEB) renewed regulatory framework, the Company's electricity distribution business (LDC) is expected to file under custom incentive regulation (CIR) in Q3 2014 for rates effective 2015 to 2019. DBRS views CIR as well-suited to distributors such as THC with large, broad, multi-year capital investments that require certainty of funding in advance, as capex decisions will be driven by pre-approval from the OEB. Given that CIR is new and the forecasting period is five years (compared to three years under the earlier framework), THC's cash flow could be affected if the LDC is unable to recover large unforeseen discrepancies between forecasts and actual capex and operating expenses in a timely manner. The current rating is based on DBRS's expectation that the implementation of the renewed regulatory framework in Ontario will not have a material impact on the credit profile of THC.

THC's financial metrics are currently commensurate with an "A" rating range. However, financial metrics could weaken and may not be commensurate with the current ratings, as significant capital expenditure is needed to replace the Company's aging infrastructure (approximately $400 million approved by OEB for 2014), resulting in higher free cash flow deficits. In recent years, THC has funded these deficits with a combination of asset sales and debt, maintaining leverage close to the regulatory capital structure (60% debt to 40% equity). DBRS is concerned that the rising leverage could pressure Company's balance sheet as cash balances have been depleted, and going forward it will likely depend entirely on debt due to its limited access to equity markets. DBRS will monitor regulatory developments subsequent to the Company's CIR filings in Q3 2014 and OEB approval expected in Q2 2015, with a view to a potential negative rating action should leverage exceed the regulatory capital structure.

Rating Considerations

Strengths
(1) Reasonable regulatory environment
(2) Strong franchise area
(3) Reasonable financial profile

Challenges
(1) Balance sheet pressure due to high capex
(2) Earnings sensitive to volume
(3) Limited access to equity markets

Financial Information

Toronto Hydro Corporation	For the year ended December 31				
(CA$ millions where applicable)	2013	2012	2011	2010	2009
EBIT gross interest coverage	2.50	2.44	2.16	2.10	1.73
Total debt in capital structure (1)	57.6%	57.2%	59.7%	58.5%	55.4%
Cash flow/Total debt	18.6%	16.3%	19.5%	17.9%	18.3%
(Cash flow-dividends)/Capex (times)	0.62	0.63	0.58	0.58	0.79
Net income before non-recurring items	112	105	93	61	43
Cash flow from operations	301	239	287	253	222

(1) Including operating leases. (2) 2011 to 2013 financials based on USGAAP.

Rating Considerations

Strengths

(1) **Reasonable regulatory environment.** THC is predominantly a regulated electric distribution company that operates in a reasonable regulatory environment. The Company's regulated business model provides a high degree of stability to earnings and cash flow over the long term.

(2) **Strong franchise area.** THC is one of the largest municipally owned local distribution companies (LDCs) in Canada, serving a customer base of approximately 730,000 customers. Almost all of THC's electricity throughput is distributed to residential and general service customers, who account for 90% of the LDC's revenue (approximately 18% of the market in the Province of Ontario (rated AA (low)). Demand from these customers is relatively stable year over year, as they are less sensitive to economic cycles. Toronto is now the fourth-largest metropolitan area, by population, in North America.

(3) **Reasonable financial profile.** The Company's key credit metrics remain reasonable for its rating category. The confirmation incorporates DBRS's expectations that the Company remains committed to maintaining its debt-to-capital ratio in line with the LDC's regulatory 60% debt-to-40% equity structure, and that in the event that debt leverage rises above the regulated capital structure, the Company will take necessary measures to restore its structure to the 60% debt level in a timely manner.

Challenges

(1) **Balance sheet pressure due to high capex.** Significant capital expenditure is needed to replace the Company's aging infrastructure (approximately $400 million approved by OEB for 2014; $413 million spent in 2013), resulting in higher free cash flow deficits. In recent years, THC funded free cash flow deficits with a combination of proceeds from asset sales and debt, maintaining leverage close to the regulatory deemed capital structure (60% debt to 40% equity). However, as the Company's cash balances have been depleted, going forward it will need to depend entirely on debt to fund its cash flow deficits. DBRS is concerned that this might affect the Company's financial flexibility and its ability to maintain leverage in line with the LDC's deemed capital structure.

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

(3) **Limited access to equity markets.** THC's ownership structure (100% owned by the City of Toronto (the City; rated AA)) limits its ability to access the equity markets. As a result, THC's cash flow deficits are being financed largely through debt.

Earnings and Outlook

(CA$ millions where applicable)	For the year ended December 31 2013	2012	2011	2010	2009
Net Sales	578	577	587	549	504
EBITDA	323	332	325	326	295
EBIT	179	191	174	157	132
Gross interest expense	72	78	81	75	77
Earning before taxes	113	117	98	86	62
Net income before non-recurring items	112	105	93	61	43
Reported net income	121	86	96	66	42
Return on equity	9.5%	9.4%	8.7%	6.0%	4.3%
Rate base	2,298	2,298	2,298	2,141	2,035

(1) 2011 to 2013 financials based on USGAAP.

2013 Summary

- THC's earnings are supported by a reasonable regulatory environment and a strong franchise area with a diversified customer base.
- Net earnings before recurring items were higher due to lower operating costs resulting from cost reductions and staff restructuring in 2012, as well as lower financial charges.
- Reported net income was higher in 2013 due to: (1) OEB's January 2014 disposition of the smart meter deferral account balances, permitting the recovery of return on assets since 2008 and providing for a one-time, non-recurring gain of $21 million in 2013, offset by higher operating expenses due to storm costs of $10.2 million; and (2) lower net income in 2012, resulting from a non-recurring restructuring charge of $27.8 million related to cost-reduction initiatives. DBRS has adjusted net sales and earnings to reflect these non-recurring items.

Electricity Throughputs (million kWh)	%	2013	2012	2011	2010	2009	2008	2007	2006
Residential	21%	5,073	5,174	5,204	5,209	5,037	5,216	5,332	5,352
General service	70%	17,027	17,206	17,148	17,318	16,855	17,415	17,837	17,583
Large users	10%	2,326	2,182	2,355	2,219	2,462	2,508	2,591	2,592
Total (million kWh)	100%	24,426	24,562	24,708	24,746	24,354	25,139	25,760	25,527
Growth in electricity throughputs		(0.6%)	(0.6%)	(0.2%)	1.6%	(3.1%)	(2.4%)	0.9%	(3.2%)

Customers	%	2013	2012	2011	2010	2009	2008	2007	2006
Residential	89%	648,380	637,910	629,049	620,501	611,357	605,509	601,515	599,080
General service	11%	81,137	80,699	80,222	79,836	78,840	78,589	78,349	78,978
Large users	0%	51	52	52	50	47	47	49	49
Total	100%	729,568	718,661	709,323	700,387	690,244	684,145	679,913	678,107
Growth in customer base		1.5%	1.3%	1.3%	1.5%	0.9%	0.6%	0.3%	0.2%

As of December 31, 2013

2014 Outlook

- 2014 is the final year the LDC will use a third-generation IRM (2012-2014). Under the IRM, the Company's earnings and ROE could be negatively affected if it is unable to meet the efficiency targets.

Financial Profile and Outlook

(CA$ millions where applicable)	For the year ended December 31 2013	2012	2011	2010	2009
Net income before non-recurring items	112	105	93	61	43
Depreciation & amortization	173	142	151	169	163
Deferred income taxes and other	16	(7)	43	22	16
Cash flow from operations	301	239	287	253	222
Dividends paid	(43)	(48)	(33)	(25)	(25)
Capital expenditures	(413)	(302)	(437)	(391)	(249)
Free cash flow (bef. working cap. changes)	(156)	(111)	(183)	(163)	(53)
Changes in non-cash work. cap. items	(45)	(4)	59	27	(31)
Changes in regulatory assets & liabilities	(20)	11	(66)	(16)	(59)
Net Free Cash Flow	(220)	(103)	(191)	(151)	(142)
Acquisitions & long-term investments	0	0	0	0	0
Short-term investments	0	34	(34)	50	0
Proceeds on asset sales	2	3	5	9	1
Net equity change	0	0	0	0	0
Net debt change	147	(2)	54	198	3
Other	(5)	(9)	(10)	13	9
Change in cash	(77)	(78)	(176)	119	(129)
Total debt	1,618	1,470	1,470	1,410	1,211
Cash and cash equivalents	0	77	154	330	211
Total debt in capital structure (1)	57.6%	57.2%	59.7%	58.5%	55.4%
Cash flow/Total debt	18.6%	16.3%	19.5%	17.9%	18.3%
EBIT gross interest coverage (times)	2.50	2.44	2.16	2.10	1.73
Dividend payout ratio	38.4%	45.6%	35.5%	40.8%	59.2%

(1) Including operating leases. (2) 2011 to 2013 financials based on USGAAP.

2013 Summary

- THC's financial profile and key credit metrics remained reasonable for the assigned rating category.
- Capex has been steadily rising due to the replacement of aging electricity infrastructure, resulting in free cash flow deficits. Capital expenditures for the Copeland project were $43.5 million for 2013 (Total of $60.5 million spent on the project). The deficit in 2013 was financed with debt and cash on hand.
- Dividends are paid as per policy adopted by the City, that THC will pay the greater of $25 million per year (in segments throughout the year) or, if applicable, 50% of its consolidated net income for the year.

2014 Outlook

- In December 2013, the OEB approved a settlement agreement which correlates to the approval of capital expenditures amounting to $398.8 million for 2014.
- In February 2014, THC commenced tunneling for the Copeland Station project. The total capital expenditure required for the project is expected to be approximately $195 million.
- DBRS expects the Company to manage its balance sheet prudently, so that it continues to maintain its leverage in line with the LDC's deemed capital structure. Should leverage rise above the deemed capital structure (over 60%) or if key credit metrics weaken significantly, THC's financial profile could deteriorate to a level that is no longer commensurate with the current A (high) rating.
- It remains to be seen whether THC's dividend policy will be flexible should capex increase significantly, potentially weakening its financial profile.

Long-Term Debt Maturities and Bank Lines

(CA$ millions)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash & Cash Equivalents	-	-	-	-
Revolving Credit Facility	600.0	150.0	450.0	Oct 10, 2018
Prudential Facility	75.0	50.1	24.9	Demand
Working Capital Facility	20.0	19.1	0.9	Demand
		Total	**475.9**	

As at December 31, 2013

- On September 6, 2013, Toronto Hydro extended its $600 million committed credit facility by an additional year, to now mature in October 2018. As at December 31, 2013, $150 million was drawn under this facility.
- On December 17, 2013, Toronto Hydro launched a Commercial Paper program (DBRS rated R-1 (low)) for $400 million backstopped by its credit facility.
- The Company's liquidity profile remained strong and sufficient to cover all near- to medium-term obligations, with approximately $477 million of available funds.
- THC also has a $75 million Prudential Facility and $20 million Working Capital Facility.

Debentures

(CA$ millions)	Maturity	Outstanding
Series 2 - 5.15%	Nov 14, 2017	250.0
Series 3 - 4.49%	Nov 12, 2019	250.0
Series 6 - 5.54%	May 21, 2040	200.0
Series 7 - 3.54%	Nov 18, 2021	300.0
Series 8 - 2.91%	Apr 10, 2023	250.0
Series 9 - 3.96%	Apr 9, 2063	200.0
Total debentures		**1,450.0**
Less: Current portion of debentures		(0.7)
Long-term portion of debentures		**1,449.3**

As at December 31, 2013

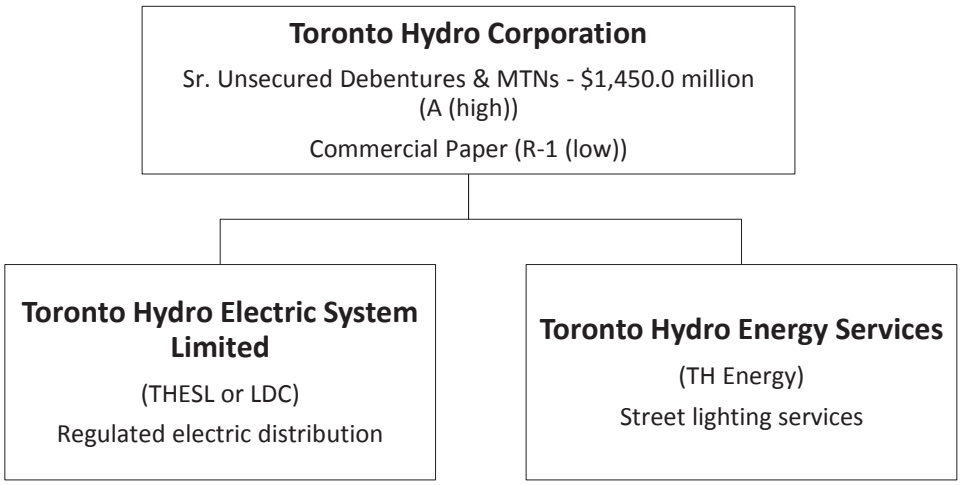
Debentures Maturities

(CA$ millions)	2014	2015	2016	2017	2018+	Total
Amount	-	-	-	250.0	1200.0	1450.0
% of Total	0.0%	0.0%	0.0%	17.2%	82.8%	100.0%

As at December 31, 2013

- Debt maturities are reasonably staggered and THC continues to have good access to debt capital markets. The Company has access to a base shelf prospectus filed on December 10, 2012, for the issuance of up to $1.5 billion (approximately, $1.05 billion available as at December 31, 2013), active for 25 months following this prospectus date.
- On April 9, 2013, THC issued $250 million of 2.91% senior unsecured debentures due April 10, 2023 (Series 8), and $200 million of 3.96% senior unsecured debentures due April 9, 2063 (Series 9). Net proceeds from the issuances were used to repay THC's Series 1 and Series 5 debentures, which matured on May 7, 2013, and May 6, 2013, respectively.

Corporate Structure



- THC is a holding company with the following two subsidiaries operating exclusively in the Toronto area:
  - Toronto Hydro Electric System Limited, one of the largest municipal distribution utilities in Canada, is responsible for regulated electricity distribution (99% of revenue).
  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- Most of the energy produced in Ontario is generated by Ontario Power Generation Inc. (rated A (low)), then transmitted to THC's networks by Hydro One Inc. (rated A (high)). From there, THC distributes the power to its customers via overhead and underground lines.
- The Company currently employs approximately 1,540 people, has a peak load of approximately 5,000 megawatts and distributes electricity to approximately 730,000 customers (approximately 18% of the market in the Province of Ontario (rated AA (low)).

Regulation

- THC operates under a reasonable regulatory environment regulated by the OEB (refer to Page 8), whose mandate is to approve and set rates for the distribution and transmission of electricity, as set out by the *Electricity Act, 1998*.
- The LDC operates with a deemed capital structure of 60% debt (divided into 56% long-term and 4% short-term) and 40% equity, and an allowed ROE of 9.58%.
- For rate setting, the Company currently operates under the third-generation IRM framework for the 2012-2014 rate years.
- For 2015 and onward, THC is expected to operate under a CIR, which is a hybrid between cost of service (COS) and IRM (minimum five-year term). The rate setting for the term is based on distributor's forecasts and OEB's IR analysis, using productivity benchmarking.
- CIR is suited to distributors with large, broad, multi-year investment needs over a five-year period or more and distributors who require certainty of funding several years in advance.
- CIR requires THC to provide five-year histories and five-year forecasts, with emphasis on how the plan will vary from one application type to another. Benchmarking will likely include a combination of service quality, financial performance, asset management and Conservation and Demand Management (CDM) inflation factors. "Off-ramps" of +/- 300 basis points will be allowed and additional funding is available to compensate for unforeseen events costing over $1 million.
- In January 2014, the OEB approved the disposition of balances in its smart meter deferral account related to installations in 2008, 2009 and 2010. The two new rate riders approved are effective May 1, 2014.
- In 2015, the LDC will be allowed to seek recovery for capital spent in 2012 and 2013 that has not yet been approved by the OEB in the current ICM decision, due to the standard operation of the regulatory model.

Assessment of Regulatory Environment

Criteria	Score	Analysis
(1) Deemed Equity	Excellent Good Satisfactory Below Average Poor	The OEB allows LDC to have a deemed equity of 40%, which has been consistent historically.
(2) Allowed ROE	Excellent Good Satisfactory Below Average Poor	The OEB's allowed return on equity (ROE) for the LDC has been 9.58% in the past few years.
(3) Energy Cost Recovery	Excellent Good Satisfactory Below Average Poor	No power price risk, as the Company is allowed to pass through the entire cost of purchased power used by its customers.
(4) Capital Cost Recovery	Excellent Good Satisfactory Below Average Poor	Major capital costs are pre-approved by the OEB and added to rate base after project completion.
(5) COS vs. IRM	Excellent Good Satisfactory Below Average Poor	LDC is regulated under an incentive rate mechanism (IRM), with three years in between the COS rebasing year.

Criteria	Score	Analysis
(6) Political Interference	Excellent Good Satisfactory Below Average Poor	After years of a relatively stable political and regulatory environment, the utility sector in Ontario could face growing challenges. As generation costs potentially rise above and ultimately test the political ceiling (10% increase of the total bill annually), it may be difficult for the utilities to pass costs onto the ratepayers.
(7) Retail Rate	Excellent Good Satisfactory Below Average Poor	Retail rates in Ontario are at the mid-range of rates in other Canadian provinces. Toronto Hydro's rates range between 11.2 cents/kWh to 13.5 cent/kWh on peak rates from May 2014. The economic environment in Ontario is stable (real GDP grew by 2.3% in 2013).
(8) Stranded Cost Recovery	Excellent Good Satisfactory Below Average Poor	Toronto Hydro has a limited history of stranded costs. Most prudently incurred or budgeted capital expenditures are approved by the OEB. DBRS notes that there can be some regulatory lag in the approval of capital expenditures under the renewed regulatory framework.
(9) Rate Freeze	Excellent Good Satisfactory Below Average Poor	From 2002 to 2005, due to rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed province-wide. There have been no subsequent province-wide rate freezes.
(10) Market Structure (Deregulation)	Excellent Good Satisfactory Below Average Poor	Electricity distribution in Ontario is largely regulated and the structure provides for stability and low risk associated with purchased energy costs and counterparty risk.

Toronto Hydro Corporation

Report Date:
May 13, 2014

Toronto Hydro Corporation

Balance Sheet

(CA$ millions)	Dec. 31 2013	Dec. 31 2012	Dec. 31 2011		Dec. 31 2013	Dec. 31 2012	Dec. 31 2011
Assets				**Liabilities & Equity**			
Cash & equivalents	0	77	154	Bank indebtedness	169	0	0
Accounts receivable	203	175	183	Accounts payable	457	383	412
Inventories	9	8	7	Current portion L.T.D.	0	470	0
Unbilled revenue	327	278	262	Customer advanced deposits	37	40	40
Prepaid expenses & other	17	15	51	Deferred revenue	21	20	13
				Other current liab.	13	24	17
Total Current Assets	555	552	657	**Total Current Liab.**	696	938	483
Net fixed assets	2,664	2,527	2,399	Long-term debt	1,449	1,000	1,470
Future income tax assets	158	194	202	Deferred income taxes	175	193	200
Goodwill & intangibles	171	134	113	Provisions	237	249	241
Regulatory assets	234	120	143	Regulatory liabilities	5	4	3
Investments & others	14	12	12	Other L.T. liab.	16	16	27
				Shareholders' equity	1,219	1,140	1,102
Total Assets	3,798	3,539	3,528	**Total Liab. & SE**	3,798	3,539	3,528

	For the year ended December 31				
Liquidity & Capital Ratios	**2013**	**2012**	**2011**	**2010**	**2009**
Current ratio	0.80	0.59	1.36	1.26	2.02
Total debt in capital structure	57.0%	56.3%	57.1%	57.6%	54.8%
Total debt in capital structure (1)	57.6%	57.2%	59.7%	58.5%	55.4%
Cash flow/Total debt	18.6%	16.3%	19.5%	17.9%	18.3%
Cash flow/Total debt (1)	18.2%	15.7%	17.6%	17.3%	17.9%
(Cash flow-dividends)/Capex (times)	0.62	0.63	0.58	0.58	0.79
Dividend payout ratio	38.4%	45.6%	35.5%	40.8%	59.2%
Coverage Ratios (times)					
EBIT gross interest coverage	2.50	2.44	2.16	2.10	1.73
EBITDA gross interest coverage	4.50	4.25	4.03	4.37	3.86
Fixed-charges coverage	2.53	2.46	2.16	2.10	1.77
EBIT gross interest coverage (1)	2.51	2.46	2.24	2.13	1.76
Profitability Ratios					
EBITDA margin	55.9%	57.5%	55.3%	59.4%	58.6%
EBIT margin	31.0%	33.0%	29.6%	28.5%	26.3%
Profit margin	19.4%	18.2%	15.9%	11.1%	8.4%
Return on equity	9.5%	9.4%	8.7%	6.0%	4.3%
Return on capital	5.9%	6.0%	5.6%	4.5%	4.1%

(1) Including operating leases. (2) 2011 to 2013 financials based on USGAAP.

Toronto Hydro Corporation

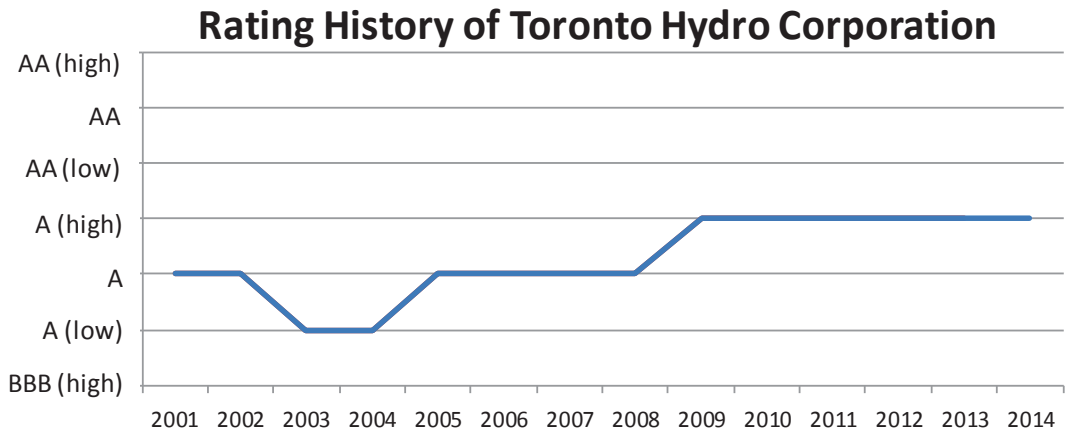
Report Date:
May 13, 2014

Rating

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

Rating History

	Current	2013	2012	2011	2009-2010
Issuer Rating	A (high)	A (high)	NR	NR	NR
Senior Unsecured Debentures & MTNs	A (high)	A (high)	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	NR	NR	NR



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

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1	**Energy Probe TCQ 49**	Consolidated Financial Summary 2013 (*Sic*) - 2019											
2	Toronto Hydro Submission	Approved	Actual	Actual	Estimate	Proposed		Proposed	Proposed	Proposed	Proposed	**Comments**	**References**
3		2011	2012	2013	2014	2015		2016	2017	2018	2019		2015-2019: E1B_T02_S03
4	Operating Revenues	522	524.2	546.05	546.5	661.2		691.5	747.0	800.1	843.5	*See Cover Letter Para 11*	2012-2014: Toronto Hydro RRR
5	Other Revenues	26	19.4	25.4	25.7	46.1		46.8	47.4	48	48.7		Filings and Supporting Materials
6	Total Revenue	548	543.6	571.45	572.2	707.3		738.3	794.4	848.1	892.2		
7													
8	Total OM&A Expense	238.6	215.8*	246.4	246.6	269.5		273.3	277.1	281	284.9	*See Cover Letter Para 8*	Past/Test Year data: E4A_T01_S01; *2012 amount is ne
9	Rate Base	2298.2	2534.3	2658.4	2774.9	3313.5		3683.9	3977.9	4199.8	4415.2		Information underlying E1B_T02_S03
10	**Capital Factor**												
11	Interest Expense					*81.80*		*90.90*	*98.20*	*103.70*	*109.00*		
12	Depreciation & Amortization					*208.20*		*222.00*	*248.20*	*266.70*	*287.20*		
13	Return on Capital (ROE)					*123.30*		*137.10*	*148.00*	*156.30*	*164.30*		
14	PILs/Income Taxes					*24.4*		*14.90*	*22.80*	*40.50*	*46.70*		
15	Subtotal Capital-Related RR					*437.80*		*465.0*	*517.30*	*567.20*	*607.30*		
16	*Cn*					-		*4.11*	*7.57*	*6.68*	*5.01*		E1B_T02_S03
17	*Scap*					-		*0.67*	*0.69*	*0.71*	*0.72*		
18	*PCI*					-		*4.57*	*8.00*	*7.09*	*5.41*	**PCI=I-X+Cn-Scap*(I-X)**	
19	**Total Gross Revenue Requirement**	548	543.6	571.45	572.2	707.3		738.3	794.4	848.1	892.1		
20	**Other Revenues**	-26	-19.4	-25.4	-25.7	-46.1		-46.8	-47.4	-48	-48.7		
21	**RATES REVENUE REQUIREMENT**	**522**	**524.2**	**546.05**	**546.5**	**661.2**		**691.5**	**747**	**800.1**	**843.5**	*See Cover Letter Para 9, 10*	
22													
23													
24	Total Debt	1378.9	1520.58	1595.04	1664.94	1988.1		2210.34	2386.74	2519.88	2649.12	60.00%	4.11%
25	Common Equity	919.3	1013.72	1063.36	1109.96	1325.4		1473.56	1591.16	1679.92	1766.08	40.00%	9.30%
26	Total Rate Base	2298.2	2534.3	2658.4	2774.9	3313.5		3683.9	3977.9	4199.8	4415.2	100.00%	6.19% Information underlying E1B_T02_S03
27													
28													
29		**CAPEX and In Service Asset Additions**											
30	**Capital Expenditures**												
31	Total System Access Capital	58.3	53.2	86.6	76	86.1		93.5	100.9	90.4	85.5		
32	Total System Renewal Capital	219.3	157.2	231.1	286.4	251.7		235	246.3	260.1	265.5		
33	Total System Service Capital	75.6	38.4	83.7	104.1	86.8		56.5	62.5	49.5	73.9		E3A-T06_S02, App 2-AA
34	Total General Plant Capital	67.7	29.3	33.8	109.5	104.6		99.4	28.9	32.1	27.9		
35	Other	24.6	9.9	10.5	13.3	10.3		19.8	28.6	37.9	49.4		
36	**Total Distribution Capital**	**445.5**	**288.0**	**445.7**	**589.2**	**539.6**		**504.2**	**467.4**	**470.0**	**502.2**		
37													
38	**In-Service Asset Additions**												
39	Total System Access Capital												
40	Total System Renewal Capital												
41	Total System Service Capital												
42	Total General Plant Capital												
43	Other												
44	**TOTAL ISAs**	439.1*	**209.4**	**381.3**	**480.3**	**653.6**		543.1	505.7	441	529.9		Interrogatory 2B-SEC-25. *2011 ISA reflects the actual a
45	**Variation**											*See Cover Letter Para 12*	
46													
47		**OM&A**											
48	**Description**	**Bd Approv**	**Actual**	**Actual**	**Estimate**	**Test Base**		**Proposed**	**Proposed**	**Proposed**	**Proposed**	**Categories/Taxonomy**	
49		**2011**	**2012**	**2013**	**2014**	**2015**		**2016**	**2017**	**2018**	**2019**		
50	Operations	59.7	55.9	59.5	58.5	70.3							
51	Maintenance	56.1	54.8	66.8	59.3	61.2							
52	Billing and Collecting	40.6	36.0	35.2	37.9	41.5							
53	Community Relations	2.9	2.9	2.9	2.7	2.7							
54	Administrative and General	72.6	67.8	75.0	81.2	86.5							
55	Taxes Other Than Income Taxes	5.9	-2.3	6.4	6.5	6.5							
56	Donations	0.7	0.7	0.7	0.7	0.8							
57	**TOTAL**	**238.6**	**215.8**	**246.4**	**246.6**	**269.5**		**273.3**	**277.1**	**281**	**284.9**	*See Cover Letter Para 8*	Past/Test Year data: E4A_T01_S01;
58	**Variation: Restructuring Costs**		27.7										

t of 27.7 restructuring costs

amount.