RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 150:

Reference(s): **Exhibit 9, Tab 1, Schedule 1, p. 5-6, p. 13**

Preamble:

Toronto Hydro stated that the amounts proposed for disposition in its DVAs include the balances as reflected in the audited financial statements for the fiscal year ended December 31, 2017 (Exhibit 9 / Tab 1 / pp. 5-6). In addition, some accounts seem to include forecasted balances to December 31, 2019 (e.g. the CRRVA) (Exhibit 9 / Tab 1 / Schedule 1 / p. 13).

a) For each DVA that Toronto Hydro is seeking approval to dispose as part of the current proceeding, please provide the following:
   i) A statement as to which year-end balance is being sought for clearance.
   ii) A statement as to whether Toronto Hydro intends to update the 2018 forecast year-end balances with actual 2018 year-end balances as part of the application update.
   iii) A statement as to whether the account includes any forecast balances for clearance.

b) The OEB's policy is to review and approve the disposition of audited DVA account balances. The OEB relies on audited DVA account balances in order to assist with its overall assessment of the validity and accuracy of the disposition amounts. To that end, it is the OEB's expectation that all 2020 rate applications will seek to dispose of 2018 audited DVA balances. In light of this, please explain why Toronto Hydro is proposing to dispose of some 2019 forecast DVA balances as part of its

2020 rates application. Please further explain why Toronto Hydro believes that a deviation from the OEB policy is appropriate and results in just and reasonable rates.

c) For all DVAs that include forecasted amounts, which may eventually be approved for disposition in the current application, please confirm that it is Toronto Hydro's intention to continue to track and record the actual transactions for each account up to the end of the 2019 for the purpose of truing-up the amounts that were approved for disposition to actual.

RESPONSE:

a) Please refer to Table 1 below.

Table 1: Variance Account Balances for Disposition

	Part (i)	Part (ii)	Part (iii)
Variance account balances for disposition	**Year of balance clearance**	**Update 2018 balances**	**Forecast balances**
Stranded meter costs	2017	N/A	N/A
IFRS USGAAP Transitional PP&E amounts	2017	N/A	N/A
Impact for USGAAP Deferral	2017	Y	N/A
Capital Related Revenue Requirement ("CRRRVA")	2019	Y	Y
Externally Initiated Capital ("EIP")	2019	Y	Y
Derecognition	2019	Y	Y
Wireless Attachments	2019	Y	Y
Monthly Billing	2019	Y	Y
Operating Centers Consolidation Program ("OCCP")	2018	Y	N/A
Other Post-Employment Benefits ("OPEB") Cash vs Accrual	2019	Y	Y
Renewable Generation Connection Funding Adder Deferral Account	2019	Y	Y
Excess Expansion Deposits (refer to Section 9.1)	2019	Y	Y

b) With the exception of the Monthly Billing deferral account, Toronto Hydro proposes to continue all the DVAs for which it is seeking approval to clear 2019 forecast balances.

For the capital related accounts (i.e. CRRRVA, the EIP, and Derecognition), Toronto Hydro proposes to clear the residual balances remaining in the accounts at the end of 2019, as part of the 2021 rates update. These residual balances will capture the variances between the approved clearances and the actual amounts remaining at the end of 2019. For the 2020-2024 period, Toronto Hydro proposes to open new accounts to record only those amounts related to the 2020-2024 period. This approach ensures transparency in amounts related to associated CIR periods for these capital-related accounts.

For the remaining accounts proposed to be cleared on a forecast basis (i.e. wireless attachments, OPEB, Renewable Connection Generation Funding, and excess expansion deposits), Toronto Hydro proposes to use the existing accounts to record amounts during the 2020-2024 period. These accounts are not as closely associated with the CIR cycle, and hence do not require new accounts for the 2020-2024 period. Toronto Hydro acknowledges that this approach departs from OEB policy, and respectfully submits that it is appropriate for the following reasons:

- the proposed treatment holds both ratepayers and the utility whole with respect to any variances, with the exception of the CRRRVA which only protects ratepayers from over-recovery;
- the balances forecasted in these accounts are reasonably accurate based on the best information available at the time of this application and;

- the proposed approach improves regulatory efficiency because it eliminates the need for additional process to clear the 2019 balances after the OEB renders its final decision in respect of this application.

c) Toronto Hydro confirms that it intends to continue to track and record the actual transactions for each relevant account up to the end of 2019 for the purpose of truing-up the amounts that were approved for disposition to actuals.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 151:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 6-7

Preamble:

Toronto Hydro indicates that it recorded true-up adjustments to previously approved balances by the OEB in both Account 1555 Stranded Meters and Account 1575 IFRS US GAAP Transitional PP&E Amounts. In both instances, Toronto Hydro indicated that the true-up was necessary in order to bring the approved balance of each account in-line with actual, and that each true-up is consistent with the underlying guidance issued by the OEB.

a) Please advise whether the actual December 31, 2014 NBV of the stranded meters can be reconciled to the December 31, 2014 audited financial statements. If not directly, then please provide the underlying asset continuity schedule for 2014 that reconciles to the 2014 audited financial statements and that presents the actual NBV of these stranded meters.

b) Please advise whether the actual $28.9 million of IFRS transitional adjustment to PP&E is disclosed in the transitional note disclosure that was provided in the audited financial statements in the year of transition. If so, please provide that note disclosure and reconcile accordingly. If this amount is part of a larger balance that is disclosed in the notes, then please provide a break-down of that larger balance and show that this component is picked-up in that balance.

c) Please advise whether Toronto Hydro proposes to close the Stranded Meters account and IFRS USGAAP Transitional PP&E Amounts account. If not, please explain why.

RESPONSE:

a) The actual December 31, 2014 NBV of the stranded meters of $14.4 million can be reconciled to the December 31, 2014 audited financial statements. Please see page 17, note 9 - Regulatory Assets and Liabilities in Appendix A to this response.

b) The $28.9 million is comprised of:

1) $24.2 million transitional adjustment; and
2) $4.7 million for the associated rate of return of 6.19 percent.

The $24.2 million transitional adjustment can be tied to Note 26 – IFRS Transition in the 2015 financial statements (Appendix B to this response) as follows:

Table 1: IFRS Transitional Adjustment ($ Millions)

IFRS Difference	Amount (Decrease)/Increase	Note reference within Note 26
Capitalizable employee benefits	(0.4)	E
Borrowing costs	2.6	F
Derecognition	(26.5)	G

The $4.7 million for the associated rate of return can be tied to Note 9 (c) – Regulatory Balances, IFRS Transitional Adjustments in the 2015 financial statements (Appendix C to this response).

c) Toronto Hydro is proposing to close Stranded Meters and IFRS USGAAP Transitional PP&E Amounts accounts after the rate riders expire.

1. INCORPORATION

On June 23, 1999, Toronto Hydro-Electric System Limited ["LDC"] was incorporated under the *Business Corporations Act* (Ontario), and is wholly-owned by Toronto Hydro Corporation [the "Corporation"]. The incorporation was required in accordance with the provincial government's Electricity Act. LDC is domiciled in Canada and its registered office is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the City of Toronto [the "City"] and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities.

2. BASIS OF PRESENTATION

LDC's audited financial statements have been prepared in accordance with US GAAP with respect to the preparation of annual financial information. These financial statements are presented in Canadian dollars, which is LDC's functional currency.

LDC has evaluated the events and transactions occurring after the balance sheet date through March 5, 2015 when LDC's financial statements were available to be issued after the approval by LDC's Board of Directors, and identified the events and transactions which required recognition in the financial statements and/or disclosure in the notes to the financial statements *[note 11]*.

3. REGULATION

In April 1999, the Government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

a) Electricity Distribution Rates

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013 and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to $398.8 million for 2014.

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter deferral account balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014 *[note 9[d]]*. The first rate rider relates to the recovery of $23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider relates to the recovery of $9.6 million, representing the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application includes requests for approval of capital expenditures of approximately $2.5 billion over the 2015-2019 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015 which are subject to review by the OEB. In addition, LDC seeks approval to recover the net book value of stranded meters *[note 9[d]]*. LDC's revenues over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets to the new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC's next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets, including a post-closing adjustment, was $42.5 million, subject to transaction costs. On July 31, 2014, LDC filed the above noted rate application with the OEB seeking a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer.

b) CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 MW of summer peak demand savings over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately $50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to $45.8 million for the delivery of CDM programs from 2011 to 2014. All programs to be delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit and deferred revenue. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC has estimated that approximately $5.7 million qualified as cost efficiency incentives, and approximately $4.9 million is repayable to the OPA for the remaining program administration budget and included within accounts payable and accrued liabilities *[note 4[g]]*.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement that have in-service dates in 2015 will be allocated toward the 2011-2014 program. LDC has requested separate funding from the OPA relating to these transitional CDM programs for 2015.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The OPA's objective is to reduce electricity consumption by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately $400.0 million, which includes participant incentives and LDC program administration costs. LDC is required to provide to the IESO its plan for achieving its CDM target by May 1, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, for each CDM program. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 periods. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from US GAAP for enterprises operating in an unregulated environment:

Regulatory Assets and Liabilities

LDC has determined that its assets and liabilities arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with FASB ASC 980 – "Regulated Operations", which includes accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under RRA, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under US GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on LDC's balance sheets and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was assessed to no longer be probable, the balances would be recorded in LDC's statements of net income and comprehensive income in the period that the assessment is made. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

Regulatory assets and liabilities are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months after each reporting period. All other regulatory asset and liability balances are classified as long-term on the balance sheets.

Allowance for funds used during construction

The OEB provides for the inclusion of an AFUDC when capitalizing construction-in-progress assets, until such time as the asset is substantially complete. A concurrent credit of the same amount is made to net financing charges when the allowance is capitalized. The interest rate for capitalization is prescribed by the OEB and modified on a periodic basis, and is applied to the balance of the construction-in-progress assets on a simple interest basis. The interest rate for capitalization for the period from January 1, 2014 to March 31, 2014 was 3.70%, and from April 1, 2014 to December 31, 2014 was 3.17% [January 1, 2013 to September 30, 2013 - 3.23%; October 1, 2013 to December 31, 2013 - 3.70%]. AFUDC is included in PP&E and intangible assets for financial reporting purposes, charged to operations through depreciation and amortization expense over the useful lives of the related assets and recovered through future distribution revenue.

b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition.

c) Accounts receivable

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. The carrying amount of accounts receivable is reduced through an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statements of net income and comprehensive income. Subsequent recoveries of receivables previously provisioned and written off are credited to the statements of net income and comprehensive income. Management estimates uncollectible accounts receivable after considering historical loss experience and the characteristics of existing accounts.

d) Inventories

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution system infrastructure to PP&E. As prescribed by the OEB, these items are depreciated when they are capitalized. Inventories are carried at the lower of cost and market, with cost determined on an average cost basis net of a provision for obsolescence.

[all tabular amounts in millions of Canadian dollars]

e) Property, plant and equipment

PP&E are stated at cost. In accordance with group depreciation practices, assets in a group are not removed from the accounts on disposition and instead depreciation continues to be recorded until the asset group is fully depreciated. Readily identifiable assets are removed from the accounts at retirement or disposition. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, AFUDC, and overhead directly attributable to the capital project.

PP&E relating to eligible capital expenditures approved under the ICM framework for the 2012, 2013 and 2014 work program proposals are reclassified from construction in progress to regulatory assets once an asset is determined to be in-service, as directed by the OEB. The assets are then depreciated in the regulatory asset account over the estimated useful lives in accordance with the PP&E depreciation rates. Upon final approval by the OEB and inclusion in LDC's rate base, the assets will be transferred back to PP&E.

Capital contributions received are used to finance certain capital projects of LDC. According to US GAAP and the accounting principles prescribed by the OEB, capital contributions received are treated as a credit to PP&E. The amount is subsequently depreciated by a charge to accumulated depreciation and a credit to depreciation expense at an equivalent rate to that used for the depreciation of the related PP&E.

Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution lines	2.0% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.5% to 10.0%
Buildings	1.3% to 5.0%
Rolling stock	12.5% to 25.0%
Other capital assets	4.0% to 25.0%
Equipment and tools	10.0% to 16.7%
Computer hardware	16.7% to 25.0%
Assets under capital lease	9.0% to 14.3%
Communications	10.0% to 20.0%

Construction in progress relates to assets not currently in use and therefore is not depreciated.

In the event that facts and circumstances indicate that PP&E may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is determined by the estimated future discounted cash flows.

f) Intangible assets

Intangible assets are stated at cost. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to Hydro One Networks Inc. for dedicated infrastructure in order to receive connections to transmission facilities.

In the event that facts and circumstances indicate that intangible assets may be impaired, an evaluation of recoverability is performed. For purposes of such an evaluation, the estimated future undiscounted cash flows associated with the asset are compared to the carrying amount of the asset to determine if a write-down is required. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is determined by the estimated future discounted cash flows.

g) Revenue recognition

Effective January 1, 2014, LDC has disaggregated the components of revenues into energy sales, distribution revenue and other revenue in the statements of net income and comprehensive income, with no change to the method of revenue recognition. Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed, which is impacted by energy demand, customer class usage patterns and composition, and weather conditions.

In December 2014, LDC revised its estimate of unbilled revenue based on new technology implemented to enhance the revenue estimation process. This change has been accounted for on a prospective basis in the financial statements as at December 31, 2014. For the three months and year ended December 31, 2014, the change in estimate reduced unbilled revenue by $7.7 million, settlement variances by $3.0 million, and distribution revenue by $10.7 million.

Energy sales arise from charges to customers for electricity generated by third parties and the related costs of purchased power, which are passed through to the customers at the cost paid. Under RRA, energy sales are equal to the cost of energy purchased in the period as settlement variances are recorded for the difference between the amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC charged by the IESO.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Revenue related to eligible capital expenditures under the ICM framework, included as part of distribution revenue, is recognized on the basis of in-service assets.

Other revenue, which includes revenue from services ancillary to the distribution of electricity and revenue from demand billable activities, is recognized as the services are rendered. Revenue not yet recognized from demand billable activities is included within deferred conservation credit and deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when they are considered earned and the amount realizable can be reasonably estimated.

In the course of its operations, LDC collects HST from its customers. When customers are billed, a current liability for HST is recognized which corresponds to the HST applied to the revenue derived from the services provided by LDC. When expenses are incurred by LDC, a current asset for HST is recorded which corresponds to the HST charged on the expenditures derived from the goods or services received by LDC. LDC’s revenues and expenses exclude HST. This net asset or liability is settled with the appropriate government authority.

h) Financial instruments

At inception, all financial instruments which meet the definition of a financial asset or financial liability are recorded at fair value, unless fair value cannot be reliably determined. Gains and losses related to the measurement of financial instruments are reported in the statements of net income and comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by LDC. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm’s length transaction between willing parties.

The following summarizes the accounting classification LDC has elected to apply to each of its significant categories of financial instruments:

Cash equivalents and short-term investments	Held for Trading
Accounts receivable and unbilled revenue	Loans and Receivables
Advance from related party	Other Financial Liabilities
Accounts payable and accrued liabilities	Other Financial Liabilities
Obligations under capital lease	Other Financial Liabilities
Customers' advance deposits	Other Financial Liabilities
Notes payable to related party	Other Financial Liabilities

LDC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the balance sheets:

- Cash equivalents, comprising short-term investments, are classified as "Held for Trading" and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Advance from related party is classified as "Other Financial Liabilities" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value due to the short maturity of this instrument.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Obligations under capital lease are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

- Customers' advance deposits are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value due to the short maturity of the current portion, and the long-term portion approximates the carrying value, taking into account interest accrued on the outstanding balance.

- Notes payable to related party are classified as "Other Financial Liabilities" and are initially measured at fair value. The carrying amounts are carried at amortized cost, based on an initial fair value as determined at the time using quoted market price for similar debt instruments. The fair value of the notes payable is calculated by discounting the related cash flows at the estimated yield to maturity of similar instruments *[note 14[a]]*.

i) Fair value measurements

LDC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect LDC's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

j) Employee future benefits

Multi-employer pension plan

LDC's full-time employees participate in a pension plan through OMERS. OMERS is a multi-employer, contributory, defined benefit pension plan established in 1962 by Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The OMERS plan is accounted for as a defined contribution plan where LDC recognizes the expense related to this plan as contributions are made, since it is not practicable to determine LDC's portion of pension obligations or the fair value of plan assets. LDC is not responsible for any other contractual obligations other than the contributions.

Post-retirement benefits other than pension

LDC has a number of unfunded benefit plans providing post-retirement benefits (other than pension) to its employees. LDC pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. LDC pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

LDC periodically measures its accumulated benefit obligation for accounting purposes as at December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2014.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method and is based on assumptions that reflect management's best estimate. All actuarial gains and losses and prior service costs are recognized in OCI as they arise and subsequently reclassified to a regulatory asset on the balance sheets. This results in the full recognition of the benefit obligation as a liability on the balance sheets.

Actuarial gains and losses are amortized into net periodic benefit cost for the current period when the net cumulative unrecognized actuarial gains or losses in the regulatory asset at the end of the previous reporting period exceed 10% of the accumulated benefit obligation at that date. These gains or losses are recognized over the expected average remaining service period of active employees participating in the plans.

The prior service costs in the regulatory asset are recognized as an expense on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The effects of a curtailment loss are recognized in the statements of net income and comprehensive income when its occurrence is probable and reasonably estimable. The effects of a curtailment gain are recognized in the statements of net income and comprehensive income when the related employees terminate or the plan suspension or amendment is adopted. The effects of a settlement gain or loss are recognized in the statements of net income and comprehensive income in the period in which a settlement occurs.

k) Customers' advance deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts owed to the customers with the debit charged to net financing charges. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on Offers to Connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with the debit charged to net financing charges. Deposits are classified as a current liability when LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

l) Income taxes

Under the Electricity Act, LDC is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in LDC paying taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred income tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred income tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheets and their respective tax basis, using the tax rates enacted by the balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is more likely than not that they will be realized, and are measured at the largest amount of the benefit that has a likelihood greater than 50 percent of being realized upon settlement. Deferred income tax assets are evaluated and unless realization is considered more likely than not, a valuation allowance is established.

ASC 980 requires the recognition of deferred income tax assets and liabilities and related regulatory liabilities and assets for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity distribution rates. These amounts include a gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred income tax assets. Deferred income taxes that are not included in the rate-setting process are charged or credited to the statements of net income and comprehensive income.

The benefits of the refundable apprenticeship and co-operative ITCs are credited against the related expense in the statements of net income and comprehensive income. All other types of ITCs are recorded as a reduction to income tax expense in the current period to the extent that realization of such benefit is more likely than not.

m) Use of estimates

The preparation of LDC's financial statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Significant areas requiring the use of management estimates include unbilled revenue, regulatory assets and liabilities, post-retirement benefits, income taxes (including deferred income taxes), and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance.

[all tabular amounts in millions of Canadian dollars]

n) Future Accounting Pronouncements and Adoption of IFRS

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its financial statements in accordance with US GAAP for its fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. Accordingly, LDC decided to adopt US GAAP at the time to mirror the decision of the Corporation. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Since the Corporation is converting to IFRS, on March 19, 2014 the Board of Directors of LDC also approved the adoption of IFRS for the year beginning on January 1, 2015. Accordingly, LDC's financial statements for 2015 will be prepared in accordance with IFRS with a transition date of January 1, 2014. LDC will apply the provisions of IFRS 14 - "Regulatory deferral accounts" in its first annual IFRS financial statements. Certain forward-looking information disclosed in these financial statements relate to US GAAP requirements which are not applicable under IFRS *[notes 8, 13[d] and 16]*.

LDC has an internal initiative to govern the conversion process and is continuing the process of evaluating the potential impact of the conversion to IFRS on its financial statements. LDC has completed a detailed assessment of the accounting and disclosure differences between US GAAP and IFRS and identified the areas that potentially may materially impact the financial statements on the date of transition to IFRS and post-IFRS implementation, which included RDAs, PP&E, capital contributions and employee benefits.

In May 2014, the FASB and IASB issued their converged standard, "Revenue from Contracts with Customers", which replaces existing revenue recognition guidance with a single model for recognizing revenue from contracts with customers except for leases, financial instruments and insurance contracts. The new IFRS standard is effective for annual reporting periods beginning on or after January 1, 2017. LDC is currently evaluating the impact of the new standard.

5. INVENTORIES

Inventories consist of the following:

	2014 $	2013 $
Fuses	**2.1**	2.5
Consumables, tools and other maintenance items	**2.2**	2.0
Drums and reels	**1.6**	1.5
Other	**2.7**	2.6
	8.6	8.6

For the year ended December 31, 2014, LDC recognized operating expenses of $5.8 million related to inventory used to service electrical distribution assets [2013 - $6.9 million].

6. CURRENT PORTION OF OTHER ASSETS

Current portion of other assets consists of the following:

	2014 $	2013 $
Prepaid expenses	**9.7**	8.6
Deferred financing costs	**0.3**	0.3
	10.0	8.9

[all tabular amounts in millions of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	2014			2013		
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Cost $**	**Accumulated depreciation $**	**Net book value $**
Distribution assets	**4,405.9**	**2,229.6**	**2,176.3**	4,257.5	2,130.6	2,126.9
Land and buildings	**209.7**	**77.1**	**132.6**	189.1	76.8	112.3
Equipment and other	**313.7**	**237.7**	**76.0**	297.1	216.6	80.5
Construction in progress	**407.6**	**—**	**407.6**	320.3	—	320.3
	5,336.9	**2,544.4**	**2,792.5**	5,064.0	2,424.0	2,640.0

As at December 31, 2014, Equipment and other included assets under capital lease with cost of $15.8 million [December 31, 2013 - $13.7 million] and accumulated depreciation of $8.5 million [December 31, 2013 - $4.8 million].

For the year ended December 31, 2014, AFUDC in the amount of $2.8 million [2013 - $1.3 million] was capitalized to PP&E and credited to net financing charges.

For the year ended December 31, 2014, capital contributions in the amount of $38.3 million [2013 - $28.7 million] were credited to PP&E.

For the year ended December 31, 2014, LDC recorded depreciation expense on PP&E of $129.5 million [2013 - $144.4 million], of which $3.7 million [2013 - $2.0 million] related to assets under capital lease.

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2014			2013		
	Cost $	**Accumulated amortization $**	**Net book value $**	**Cost $**	**Accumulated amortization $**	**Net book value $**
Computer software	**285.5**	**217.8**	**67.7**	268.4	198.8	69.6
Contributions	**23.0**	**4.0**	**19.0**	22.1	3.1	19.0
Software in development	**13.5**	**—**	**13.5**	11.7	—	11.7
Contributions for work in progress	**97.7**	**—**	**97.7**	71.2	—	71.2
	419.7	**221.8**	**197.9**	373.4	201.9	171.5

For the year ended December 31, 2014, AFUDC in the amount of $2.7 million [2013 - $2.0 million] was capitalized to intangible assets and credited to net financing charges.

For the year ended December 31, 2014, LDC recorded amortization expense on intangible assets of $19.9 million [2013 - $25.3 million].

[all tabular amounts in millions of Canadian dollars]

Estimated future amortization expense related to intangible assets recorded as at December 31, 2014 is as follows:

	$
2015	**20.3**
2016	**19.2**
2017	**19.8**
2018	**15.4**
2019	**12.7**

9. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	2014 $	2013 $
ICM	**396.7**	151.9
Post-retirement benefits	**87.3**	38.8
Settlement variances	**54.2**	8.2
Smart meters	**20.9**	25.2
Stranded meters	**14.4**	16.9
Other	**2.7**	0.5
Total regulatory assets	**576.2**	241.5
Less: Current portion of regulatory assets	**11.8**	7.1
Long-term portion of regulatory assets	**564.4**	234.4

Regulatory liabilities consist of the following:

	2014 $	2013 $
Deferred income taxes	**130.2**	155.9
Revision of prior year tax position	**22.3**	19.4
Income and other taxes variance account	**2.5**	2.4
RARA	**1.7**	4.3
Other	**1.1**	1.1
Total regulatory liabilities	**157.8**	183.1
Less: Current portion of regulatory liabilities	**1.6**	2.5
Long-term portion of regulatory liabilities	**156.2**	180.6

For the year ended December 31, 2014, LDC disposed of approved regulatory liabilities amounting to $2.6 million through permitted distribution rate adjustments [2013 – approved net regulatory assets of $0.2 million].

The regulatory assets and liabilities of LDC consist of the following:

a) Incremental Capital Module

The ICM regulatory asset account relates to the ICM application approved by the OEB and the associated rate rider, which became effective June 1, 2013 *[note 3[a]]*. As directed by the OEB, this account includes the cost of the eligible in-service capital expenditures under ICM, offset by the amount collected through the ICM rate riders. This account is also adjusted by the amount recognized into revenues related to the eligible in-service capital expenditures and the associated depreciation.

For the year ended December 31, 2014, eligible in-service capital expenditures of $248.6 million [2013 - $159.7 million] were reclassified from PP&E to regulatory assets as prescribed by the OEB. As a non-cash transaction, this reclassification has been excluded from the statements of cash flows. As at December 31, 2014, eligible in-service capital expenditures, net of accumulated depreciation, totalling $399.0 million, were recorded in regulatory assets [December 31, 2013 - $157.9 million]. In the absence of rate regulation, PP&E would have been $399.0 million higher as at December 31, 2014 [December 31, 2013 - $157.9 million higher].

For the year ended December 31, 2014, LDC recorded depreciation expense of $7.5 million [2013 - $1.8 million] related to the eligible in-service capital expenditures.

For the year ended December 31, 2014, the revenues related to the eligible in-service capital expenditures were $25.1 million [2013 - $6.7 million]. In the absence of rate regulation, for the year ended December 31, 2014, revenues would have been $3.7 million lower [2013 - $5.9 million higher].

b) Post-Retirement Benefits

This regulatory asset account relates to the expected future electricity distribution charges to customers arising from timing differences in the recognition of actuarial losses of other post-retirement benefits. In the absence of rate regulation, these amounts would be recorded in OCI and accumulated other comprehensive income. The amount is amortized over the same period as the corresponding actuarial losses. The period in which recovery is expected cannot be determined at this time.

c) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

d) Smart Meters and Stranded Meters

The smart meters and stranded meters regulatory asset accounts relate to the provincial government's decision to install smart meters throughout Ontario. LDC substantially completed its smart meter project as at December 31, 2010. In connection with this initiative, the OEB ordered LDC to record all expenditures and related revenues from 2008 to 2010 to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in PP&E. Effective January 1, 2011, LDC has recorded post-2010 smart meter costs in PP&E and intangible assets as a regular distribution activity as directed by the OEB. On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter deferral account balances *[note 3[a]]*.

The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. Accordingly, a new regulatory asset of $25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017, with a related amount recorded in revenue.

In addition, the net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to regulatory assets as at December 31, 2013. Depreciation expense was recorded on the stranded meters in regulatory assets in 2014. For the year ended December 31, 2014, LDC recorded depreciation expense of $2.5 million [2013 - $2.8 million] related to the stranded meters within regulatory assets. In the absence of rate regulation, for the year ended December 31, 2014, depreciation and amortization expenses relating to stranded meters would have been $2.5 million lower [2013 - $2.8 million lower]. Included in the 2015-2019 rate application is the recovery of the forecasted net book value of the stranded meters as at December 31, 2014 *[note 3[a]]*.

For the year ended December 31, 2014, LDC recognized $9.5 million of the forecasted 2014 smart meter incremental revenue requirement [2013 - $nil]. In the absence of rate regulation, for the year ended December 31, 2014, revenues relating to smart meters would have been $4.4 million higher [2013 - $51.5 million lower], operating expenses would have $nil impact [2013 - $7.1 million lower], and depreciation and amortization expenses would have $nil impact [2013 - $22.7 million lower].

e) Deferred Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred income tax assets *[note 4[l]]*.

As at December 31, 2014, LDC had a deferred income tax asset and a corresponding regulatory liability of $130.2 million [December 31, 2013 - $155.9 million] with respect to its rate-regulated activities that will be included in the rate-setting process.

f) Revision of Prior Year Tax Position

The revision of prior year tax position regulatory liability account relates to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers. As at December 31, 2014, the balance in this account consisted of an over-recovery of PILs from customers of $22.3 million [December 31, 2013 - $19.4 million]. LDC has requested disposition of this balance in the 2015-2019 rate application over a 36-month period commencing on May 1, 2015.

g) Income and Other Taxes Variance Account

The income and other taxes variance regulatory liability account relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates. As at December 31, 2014, the balance in this account consisted of an over-recovery of PILs from customers of $2.5 million [December 31, 2013 - $2.4 million].

h) Regulatory Assets Recovery Account

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB-prescribed methodology and related rates.

On February 22, 2011, the OEB approved the disposition of the Late Payment Penalties Settlement regulatory asset of $7.5 million, over a 21-month period commencing on August 1, 2011 and ending on April 30, 2013.

On April 2, 2013, the OEB approved the disposition of net regulatory liabilities of $6.5 million, primarily consisting of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014.

[all tabular amounts in millions of Canadian dollars]

10. OTHER ASSETS

Other long-term assets consist of the following:

	2014 $	2013 $
Prepaid expenses	**7.0**	7.1
Deferred financing costs	**1.1**	0.9
	8.1	8.0

11. ASSETS HELD FOR SALE

In December 2014, LDC entered into an agreement to sell a property including land and buildings owned by LDC to a third party. The sale is part of LDC's plan to consolidate its operating centres to lower costs and simplify long-term planning. Accordingly, the carrying amount of the identified assets of $4.0 million has been transferred from PP&E to assets held for sale as at December 31, 2014. LDC does not record depreciation on assets classified as held for sale. On March 3, 2015, LDC sold the property and is expected to recognize a gain of $5.9 million, subject to finalization of the costs related to the sale, to be deferred as a regulatory liability in the first quarter of 2015 as the amount is expected to reduce future electricity distribution rates for customers.

12. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2014 $	2013 $
Notes payable to related party:		
5.20% Long-term note payable to the Corporation due November 14, 2017	**245.1**	245.1
4.54% Long-term note payable to the Corporation due November 12, 2019	**245.1**	245.1
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**300.0**	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0
Total notes payable to related party	**1,700.2**	1,500.2
Less: Unamortized discount/premium	**8.0**	7.0
Less: Current portion of notes payable to related party	**60.0**	60.0
Long-term portion of notes payable to related party	**1,632.2**	1,433.2

All notes payable to related party of LDC rank equally.

On September 16, 2014, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on September 16, 2044, which bears interest at a rate of 4.13% per annum. Interest is calculated and payable semi-annually in arrears on March 16 and September 16 of each year. The net proceeds of the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

[all tabular amounts in millions of Canadian dollars]

13. EMPLOYEE FUTURE BENEFITS

Pension

LDC's full-time employees participate in a pension plan through OMERS. The plan assets are pooled together to provide benefits to plan participants and are not segregated in separate accounts for each member entity. As at December 31, 2014, the OMERS plan was 90.8% funded [December 31, 2013 - 88.2%]. OMERS has a strategy to return the plan to a fully funded position. LDC is not able to assess the implications of this strategy or the withdrawal of other participating entities from the OMERS plan on its future contributions.

For the year ended December 31, 2014, the total contributions of all participating employers and employees were approximately $3.7 billion [2013 - $3.5 billion]. For the year ended December 31, 2014, LDC's contributions to the plan were $17.7 million [2013 - $18.1 million], representing less than five percent of total contributions to the plan.

For 2014 and 2013, OMERS contribution rates were 9.0% up to the year's maximum pensionable earnings ["YMPE"] and 14.6% over YMPE for normal retirement age of 65.

As at December 31, 2013, OMERS had approximately 270,000 active members. As at December 31, 2014, approximately 1,500 members [December 31, 2013 - 1,500] had a current relationship with LDC.

Post-retirement benefits other than pension

a) Benefit Obligations

	2014 $	2013 $
Balance, beginning of year	**238.8**	253.9
Service cost	**4.4**	4.8
Interest cost	**11.1**	10.6
Benefits paid	**(10.6)**	(10.4)
Actuarial (gain) loss	**49.7**	(20.2)
Transfer from related parties	**0.2**	0.1
Balance, end of year	**293.6**	238.8

On February 13, 2014, LDC's unionized workforce ratified a collective agreement to expire at the end of January 2018. The agreement does not contain terms that create a post-retirement benefits liability in respect of past service.

b) Amounts recognized in regulatory assets

As at December 31, 2014, the amount recognized in regulatory assets related to unamortized net actuarial loss was $87.3 million [2013 - $38.8 million] *[note 9]*.

The estimated actuarial loss expected to be amortized from regulatory assets to net periodic benefit cost in 2015 is $4.3 million.

[all tabular amounts in millions of Canadian dollars]

c) Components of net periodic benefit costs

	2014 $	2013 $
Service cost	**4.4**	4.8
Interest cost	**11.1**	10.6
Amortization of actuarial loss	**0.9**	2.1
Net periodic benefit cost	**16.4**	17.5
Capitalized as part of PP&E	**6.6**	6.6
Charged to operations	**9.8**	10.9

d) Expected benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next five years, and in the aggregate for the five fiscal years thereafter:

	Post-retirement Benefits $
2015	**8.1**
2016	**8.8**
2017	**9.3**
2018	**9.9**
2019	**10.5**
2020-2024	**59.9**

e) Significant assumptions

	2014 %	2013 %
Accrued benefit obligation as at December 31:		
Discount rate	**4.00**	4.75
Benefit costs for years ended December 31:		
Discount rate	**4.75**	4.25
Assumed health care cost trend rates as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	**5.00**	6.00
For other retirements	**6.50**	7.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.00**	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	**2015**	2016
For other retirements	**2018**	2019

[all tabular amounts in millions of Canadian dollars]

f) Sensitivity analysis

Assumed medical and dental care cost trend rates have a significant effect on the amounts reported for medical and dental care plans. A one-percentage-point change in assumed medical and dental care cost trend rates would have the following effects for 2014:

	Increase $	Decrease $
Total of current service and interest cost (at 4.75%)	**2.3**	**(2.0)**
Accrued benefit obligation as at December 31, 2014 (at 4.00%)	**38.4**	**(34.5)**

Assumed interest rates have a significant effect on the amounts reported for the total accrued benefit obligation and expense. A one-percentage-point change in assumed interest rates would have the following effects:

	Increase $	Decrease $
Accrued benefit obligation as at December 31, 2014	**(45.7)**	**59.4**
Estimated net periodic benefit cost for 2015	**(3.4)**	**4.1**

14. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2014 and December 31, 2013, the fair values of cash and cash equivalents, net accounts receivable, unbilled revenue, advance from related party, and accounts payable and accrued liabilities approximate their carrying values due to the short maturity of these instruments *[note 4[h]]*. The fair values of customers' advance deposits approximate their carrying values taking into account interest accrued on the outstanding balance. Obligations under capital lease are measured based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

The carrying value and fair value of LDC's notes payable consist of the following:

	2014 $		2013 $	
	Carrying value	**Fair value (1)**	**Carrying value**	**Fair value (1)**
Long-term notes payable to the Corporation				
5.20% due November 14, 2017	**244.6**	**268.1**	244.5	269.6
4.54% due November 12, 2019	**244.2**	**270.9**	244.1	265.2
5.59% due May 21, 2040	**198.8**	**255.4**	198.7	226.7
3.59% due November 18, 2021	**298.7**	**321.1**	298.5	302.8
2.96% due April 10, 2023	**248.8**	**254.1**	248.7	232.9
4.01% due April 9, 2063	**198.7**	**201.8**	198.7	172.9
4.13% due September 16, 2044	**198.4**	**209.2**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**15.0**	15.0	15.0

(1) The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy.

[all tabular amounts in millions of Canadian dollars]

b) Financial Risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by LDC for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

LDC is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC monitors and limits its exposure to credit risk on a continuous basis.

LDC's credit risk associated with accounts receivable is primarily related to electricity bill payments from customers. LDC has approximately 740,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2014, LDC held security deposits in the amount of $43.2 million [December 31, 2013 - $44.7 million], of which $19.8 million [December 31, 2013 - $22.2 million] were related to security deposits on Offers to Connect to guarantee the payment of additional costs related to expansion projects. As at December 31, 2014, there were no significant concentrations of credit risk with respect to any customer. LDC did not have any single customer that generated more than 10% of total revenues for the years ended December 31, 2014 and December 31, 2013.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2014 $	2013 $
Unbilled revenue	**306.6**	326.1
Accounts receivable		
Outstanding for not more than 30 days	**179.9**	175.1
Outstanding for more than 30 days and not more than 120 days	**23.4**	22.8
Outstanding for more than 120 days	**14.2**	11.8
Less: Allowance for doubtful accounts	**(11.8)**	(10.8)
Total accounts receivable, net	**205.7**	198.9
Total accounts receivable and unbilled revenue	**512.3**	525.0

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2014 $	2013 $
Balance, beginning of year	**(10.8)**	(10.6)
Provision for doubtful accounts	**(7.4)**	(7.8)
Write-offs	**7.1**	8.1
Recoveries	**(0.7)**	(0.5)
Balance, end of year	**(11.8)**	(10.8)

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts had been provided as at December 31, 2014 and December 31, 2013.

The credit risk related to cash, cash equivalents and investments is mitigated by LDC's treasury policies on assessing and monitoring the credit exposures of counterparties. LDC's maximum exposure to credit risk is approximately equal to the carrying value of its financial assets.

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-retirement benefit obligations *[note 13[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents, advances from related party, and customers' advance deposits. LDC manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. Advances from related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2014, aside from the valuation of its post-retirement benefit obligations, LDC was exposed to interest rate risk predominately from advances from the Corporation, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.7 million to annual net financing charges.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing net financing charges.

[all tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

	December 31, 2014					
	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Advance from related party	**308.0**	**—**	**—**	**—**	**—**	**—**
Accounts payable and accrued liabilities [(1)]	**521.8**	**—**	**—**	**—**	**—**	**—**
Obligations under capital lease	**3.0**	**3.0**	**2.8**	**1.4**	**—**	**—**
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	**—**	**—**	**245.1**	**—**	**—**	**—**
4.54% due November 12, 2019	**—**	**—**	**—**	**—**	**245.1**	**—**
5.59% due May 21, 2040	**—**	**—**	**—**	**—**	**—**	**200.0**
3.59% due November 18, 2021	**—**	**—**	**—**	**—**	**—**	**300.0**
2.96% due April 10, 2023	**—**	**—**	**—**	**—**	**—**	**250.0**
4.01% due April 9, 2063	**—**	**—**	**—**	**—**	**—**	**200.0**
4.13% due September 16, 2044	**—**	**—**	**—**	**—**	**—**	**200.0**
Demand note payable to the Corporation due on demand	**45.0**	**—**	**—**	**—**	**—**	**—**
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**—**	**—**	**—**	**—**	**—**
Interest payments on long-term notes payable and demand notes payable	**72.8**	**72.8**	**72.8**	**60.0**	**60.0**	**838.5**
	965.6	**75.8**	**320.7**	**61.4**	**305.1**	**1,988.5**

(1) Accounts payable and accrued liabilities exclude $13.2 million of accrued interest on long-term notes payable and demand notes payable included within "Interest payments on long-term notes payable and demand notes payable".

Foreign exchange risk

As at December 31, 2014, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

15. FINANCIAL ASSISTANCE

As at December 31, 2014, $29.7 million [December 31, 2013 - $50.1 million] was utilized under the Corporation's demand credit facility in the form of letters of credit mainly to satisfy the prescribed prudential requirements of LDC with the IESO for the purchase of electricity.

16. INCOME TAXES

LDC's effective tax rate for the year ended December 31, 2014 was 9.43% [2013 – 2.63%]. Income tax expense for the year ended December 31, 2014 was $11.5 million [2013 - $3.1 million]. The effective tax rate and income tax expense for the year ended December 31, 2014 were higher than those for the year ended December 31, 2013 due to changes in permanent and temporary differences between accounting and tax treatments.

[all tabular amounts in millions of Canadian dollars]

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and Ontario income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

Statements of Net Income and Comprehensive Income

	2014 $	2013 $
Rate reconciliation		
Income before income taxes	**122.2**	118.8
Statutory Canadian federal and provincial income tax rate	**26.50%**	26.50%
Expected income tax expense	**32.4**	31.5
Temporary differences not benefited	**(18.2)**	(20.2)
Change in unrecognized tax benefits	**0.1**	(5.1)
Other	**(2.8)**	(3.1)
Income tax expense	**11.5**	3.1
Effective tax rate	**9.43%**	2.63%
Components of income tax expense		
Current income tax	**12.7**	5.2
Deferred income tax related to the origination and reversal of temporary differences	**0.4**	—
Non-refundable ITCs	**(1.6)**	(2.1)
Income tax expense	**11.5**	3.1

Balance Sheets

Significant components of LDC's deferred income tax assets are as follows:

	2014 $	2013 $
PP&E and intangible assets	**43.5**	64.5
Post-retirement benefits liability	**54.7**	53.0
Regulatory adjustments	**34.5**	41.3
Other taxable temporary differences	**(2.9)**	(2.9)
Deferred income tax assets	**129.8**	155.9

Deferred income tax assets are evaluated and are recognized to the extent that it is more likely than not that the tax benefit will be realized.

[all tabular amounts in millions of Canadian dollars]

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2014 $	2013 $
Balance, beginning of year	**0.2**	5.3
Increases for tax positions taken in the current year	**0.1**	—
Decreases for tax positions taken in prior years	**—**	(1.6)
Settlements with tax authorities	**—**	(3.5)
Balance, end of year	**0.3**	0.2

As at December 31, 2014, $0.3 million of unrecognized tax benefits [December 31, 2013 - $0.2 million] would have a favourable effect on the effective tax rate, if recognized. No interest and penalties have been accrued, since LDC is of the view that none are expected to be payable. During the next 12 months, unrecognized tax benefits are not expected to significantly change.

As at December 31, 2014, LDC's tax years currently open to examination by tax authorities include 2007 and subsequent years. Other than in respect of the fair market revaluation of LDC's assets on October 1, 2001 pursuant to Section 7 of Ontario Regulation 162/01 of the Electricity Act, tax years prior to 2007 are closed to further examination.

17. SHARE CAPITAL

Share capital consists of the following:

	2014 $	2013 $
Authorized		
The authorized share capital of LDC consists of an unlimited number of common shares without par value		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

Dividends

For the year ended December 31, 2014, the Board of Directors of LDC declared and paid dividends totalling $nil [2013 - $40.0 million] to the Corporation.

[all tabular amounts in millions of Canadian dollars]

18. NET FINANCING CHARGES

Net financing charges consist of the following:

	2014 $	2013 $
Interest income	**1.5**	2.2
Interest expense		
Long-term debt [(1)]	**(67.6)**	(70.4)
Other interest	**(6.3)**	(4.0)
AFUDC	**5.5**	3.3
	(66.9)	(68.9)

(1) Includes amortization of debt issuance costs, premiums and discounts.

19. STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	2014 $	2013 $
Accounts receivable	**(6.8)**	(13.1)
Unbilled revenue	**19.5**	(51.8)
Income tax receivable	**0.1**	4.4
Inventories	**—**	(1.0)
Other current assets	**(1.1)**	(4.2)
Accounts payable and accrued liabilities	**34.2**	44.9
Restructuring accrual	**—**	(12.0)
Deferred conservation credit and deferred revenue	**(19.0)**	0.1
Other current liabilities	**0.2**	0.2
	27.1	(32.5)

The reconciliation between total additions to PP&E and intangible assets and the amount presented on the statements of cash flows after factoring in the non-cash additions is as follows:

	2014 $	2013 $
Purchase of PP&E, cash basis	**487.1**	355.2
Net change in accruals related to PP&E	**48.2**	33.0
Capital lease additions	**2.1**	0.3
Asset retirement obligation additions	**0.3**	1.7
Capitalized overhead costs	**1.9**	2.3
Total additions to PP&E	**539.6**	392.5
Purchase of intangible assets, cash basis	**46.3**	54.5
Total additions to PP&E and intangible assets	**585.9**	447.0

[all tabular amounts in millions of Canadian dollars]

20. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which wholly owns the Corporation, the Corporation and TH Energy, a wholly-owned subsidiary of the Corporation. All transactions with related parties are conducted on terms similar to those offered to unrelated parties.

2014	City $	Corporation $	TH Energy $
Revenues	**227.6**	**—**	**1.1**
Operating expenses (recoveries) and capital expenditures	**20.7**	**2.4**	**(0.6)**
Net financing charges	**—**	**68.8**	**—**
Accounts receivable	**7.2**	**—**	**1.0**
Unbilled revenue	**22.3**	**—**	**—**
Advance from related party	**—**	**308.0**	**—**
Accounts payable and accrued liabilities	**43.2**	**14.4**	**—**
Current portion of notes payable to related party	**—**	**60.0**	**—**
Long-term portion of notes payable to related party	**—**	**1,632.2**	**—**
Advance deposits	**8.2**	**—**	**—**

2013	City $	Corporation $	TH Energy $
Revenues	235.8	—	0.3
Operating expenses (recoveries) and capital expenditures	31.9	3.1	(0.9)
Net financing charges	—	69.1	0.3
Dividends	—	40.0	—
Accounts receivable	2.1	—	—
Unbilled revenue	19.4	—	—
Advance from related party	—	150.0	—
Accounts payable and accrued liabilities	45.2	11.6	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	1,433.2	—
Advance deposits	8.8	—	—

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services, and TH Energy for demand billable services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Net financing charges represent interest charged by the Corporation and TH Energy on the advances and notes payable *[note 12]*. Dividends are paid to the Corporation *[note 17]*.

Accounts receivable represents receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and services. Unbilled revenue represents receivables from the City related to electricity provided and not yet billed. Advance from related party represents amounts payable to the Corporation for short-term borrowings obtained under the Corporation's revolving credit facility and commercial paper program. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation. Notes payable to related party represent amounts borrowed from the Corporation *[note 12]*. Advance deposits represent amounts received from the City for future expansion projects.

[all tabular amounts in millions of Canadian dollars]

On January 1, 2012, certain electricity distribution assets of TH Energy were transferred to LDC through a newly created wholly-owned legal entity (1798594 Ontario Inc.) of the Corporation. Immediately thereafter, the new legal entity was amalgamated with LDC. The transfer was completed for a purchase price of $28.5 million, with a post closing adjustment of $14.0 million. The transfer was initially funded with share capital issued by the new wholly-owned legal entity to the Corporation. Subsequently, LDC issued an intercompany note payable to TH Energy for the increase in the purchase price. On August 16, 2013, the principal amount of the note was repaid to TH Energy.

21. COMMITMENTS

Operating leases and capital projects

As at December 31, 2014, the future minimum annual payments under property operating leases, capital projects and other commitments with remaining terms from one to five years and thereafter were as follows:

	Operating leases $	Capital projects [2] and other $
2015	**6.1**	**37.7**
2016	**5.7**	**12.4**
2017	**2.0**	**—**
2018	**—**	**—**
2019	**—**	**—**
Thereafter	**—**	**—**
Total amount of future minimum payments [1]	**13.8**	**50.1**

[1] Refer to note 14 for future cash outflows excluded from the table above.
[2] Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

LDC has the option to renew its two major property operating leases at the end of the current lease term for an additional five years at the then fair rental value.

Operating lease expense for the year ended December 31, 2014 was $6.2 million [2013 - $6.1 million].

[all tabular amounts in millions of Canadian dollars]

Capital leases

As at December 31, 2014, the future minimum annual lease payments under capital leases with remaining lease terms from one to five years and thereafter were as follows:

	$
2015	**3.0**
2016	**3.0**
2017	**2.8**
2018	**1.4**
2019	**—**
Thereafter	**—**
Total amount of future minimum lease payments	**10.2**
Less: interest and executory costs	**0.8**
	9.4
Current portion included in Other liabilities	**2.6**
Long-term portion included in Other liabilities	**6.8**

22. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any applicable liability insurance policies which LDC believes would cover any damages which may become payable by LDC in connection with these actions, subject to such claim not being disputed by the insurer.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) which sought damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. On June 16, 2014, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice pursuant to which LDC paid the amount of $6.5 million, including all taxes and legal fees in settlement of the action of the class plaintiffs. LDC’s liability insurance covered the settlement payment.

On March 10, 2009, a third party claim was served by LDC related to the above action and on June 15, 2009, a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million were served by the owner and manager of 2 Secord Avenue. Given the preliminary status of the unsettled actions, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC. If damages were awarded, LDC would make a claim under its liability insurance which LDC believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC. If damages were awarded, LDC would make a claim under its liability insurance which LDC believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks general damages in the amount of $10.0 million and special damages in the amount of $20.0 million from LDC. The plaintiff's motion for certification of the class action was granted on September 11, 2014. Statements of defence to the main action and to the third party claim have not been filed. Given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of LDC. If damages were awarded, LDC would make a claim under its liability insurance which LDC believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC. If damages were awarded, LDC would make a claim under its liability insurance which LDC believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act* seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks general damages in the amount of $10.0 million and special damages in the amount of $20.0 million from LDC. The plaintiff's motion for certification of the class action was granted on September 11, 2014. Statements of defence to the main action and to the third party claim have not been filed. Given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of LDC.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC.

26. IFRS TRANSITION

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. Accordingly, LDC decided to adopt US GAAP at the time to mirror the decision of the Corporation. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Since the Corporation was converting to IFRS, on March 19, 2014 the Board of Directors of LDC also approved the adoption of IFRS for the year beginning on January 1, 2015. As described in note 2, these are LDC's first financial statements prepared in accordance with IFRS. IFRS 1 sets out the transitional requirements that LDC must apply in preparing its first IFRS financial statements.

The accounting policies set out in notes 2 and 4 have been applied in preparing the financial statements as at and for the year ended December 31, 2015, the comparative information as at and for the year ended December 31, 2014 and the opening IFRS balance sheet as at January 1, 2014 (LDC's date of transition to IFRS). All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS on LDC's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. LDC applied the following mandatory exceptions and optional exemptions in the preparation of the opening IFRS balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such cases, a first-time adopter may deem the previous GAAP carrying amount of such items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of LDC's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

LDC qualifies for the IFRS 1 exemption as it is subject to rate regulation. Accordingly, LDC elected to use the deemed cost exemption for its PP&E and intangible assets, except for construction in progress items for which capital contributions were received. The accumulated depreciation recognized under US GAAP prior to the transition date was included as part of the deemed cost such that the carrying amounts were not affected. The impact of this change was a decrease to both the cost and accumulated depreciation of PP&E by $2,424.0 million and to both the cost and accumulated amortization of intangible assets by $201.9 million, as at January 1, 2014.

LDC tested for asset impairment under this exemption and no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. LDC elected this exemption and used the borrowing costs determined under US GAAP at the date of transition and applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. LDC elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption was an increase to regulatory balances and a decrease to PP&E of $0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As LDC made the same determination of whether an arrangement contained a lease under US GAAP as that required by IFRIC 4, LDC elected this exemption and did not reassess its arrangements at the date of transition.

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* ["IFRS 3"] retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. LDC elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the date of transition. LDC did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the capital contributions included in the PP&E deemed cost.

The reconciliation of the January 1, 2014 and December 31, 2014 balance sheets from US GAAP to IFRS is as follows:

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at January 1, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		15.7	—	**15.7**
Accounts receivable		198.9	—	**198.9**
Unbilled revenue		326.1	—	**326.1**
Income tax receivable		0.3	—	**0.3**
Materials and supplies		8.6	—	**8.6**
Other assets	B	8.9	(0.1)	**8.8**
Regulatory assets	A	7.1	(7.1)	**—**
Total current assets		565.6	(7.2)	**558.4**
Property, plant and equipment	A, B, C	2,640.0	180.8	**2,820.8**
Intangible assets		171.5	—	**171.5**
Deferred tax assets	A	155.9	(23.8)	**132.1**
Other assets	B	8.0	(7.1)	**0.9**
Regulatory assets	A	234.4	(234.4)	**—**
Total assets		3,775.4	(91.7)	**3,683.7**
Regulatory balances	A, D	—	88.3	**88.3**
Total assets and regulatory balances		3,775.4	(3.4)	**3,772.0**
LIABILITIES AND EQUITY				
Current				
Advance from related party		150.0	—	**150.0**
Accounts payable and accrued liabilities	C	455.7	(29.2)	**426.5**
Customer deposits		37.3	—	**37.3**
Deferred conservation credit		20.0	—	**20.0**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.1	—	**2.1**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	2.5	(2.5)	**—**
Total current liabilities		735.6	(39.7)	**695.9**
Notes payable to related party		1,433.2	—	**1,433.2**
Customer deposits		7.4	—	**7.4**
Deferred revenue	C	—	45.7	**45.7**
Post-employment benefits	D	230.8	5.2	**236.0**
Other liabilities		14.4	0.1	**14.5**
Regulatory liabilities	A	180.6	(180.6)	**—**
Total liabilities		2,602.0	(169.3)	**2,432.7**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	D	604.3	0.9	**605.2**
Contributed surplus		12.8	—	**12.8**
Total equity		1,173.4	0.9	**1,174.3**
Total liabilities and equity		3,775.4	(168.4)	**3,607.0**
Regulatory balances	A	—	165.0	**165.0**
Total liabilities, equity and regulatory balances		3,775.4	(3.4)	**3,772.0**

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		84.7	—	**84.7**
Accounts receivable		205.7	—	**205.7**
Unbilled revenue		306.6	—	**306.6**
Income tax receivable		0.2	—	**0.2**
Materials and supplies		8.6	—	**8.6**
Other assets	B	10.0	(0.1)	**9.9**
Regulatory assets	A	11.8	(11.8)	**—**
Assets held for sale		4.0	—	**4.0**
Total current assets		631.6	(11.9)	**619.7**
Property, plant and equipment	A, B, C, D, E, F	2,792.5	432.0	**3,224.5**
Intangible assets	E	197.9	0.8	**198.7**
Deferred tax assets	A	129.8	13.3	**143.1**
Other assets	B	8.1	(6.9)	**1.2**
Regulatory assets	A	564.4	(564.4)	**—**
Total assets		4,324.3	(137.1)	**4,187.2**
Regulatory balances	A, D, E, F	—	197.1	**197.1**
Total assets and regulatory balances		4,324.3	60.0	**4,384.3**
LIABILITIES AND EQUITY				
Current				
Advance from related party		308.0	—	**308.0**
Accounts payable and accrued liabilities	C	535.0	(22.9)	**512.1**
Customer deposits		38.5	—	**38.5**
Deferred revenue	C	1.0	1.2	**2.2**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.6	—	**2.6**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	1.6	(1.6)	**—**
Total current liabilities		954.7	(31.3)	**923.4**
Notes payable to related party		1,632.2	—	**1,632.2**
Customer deposits		4.7	—	**4.7**
Deferred revenue	C	—	71.4	**71.4**
Post-employment benefits	D	285.6	1.8	**287.4**
Other liabilities		6.8	1.2	**8.0**
Regulatory liabilities	A	156.2	(156.2)	**—**
Total liabilities		3,040.2	(113.1)	**2,927.1**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	A, D	715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**
Total liabilities and equity		4,324.3	(113.0)	**4,211.3**
Regulatory balances	A	—	173.0	**173.0**
Total liabilities, equity and regulatory balances		4,324.3	60.0	**4,384.3**

[All tabular amounts in millions of Canadian dollars]

The reconciliations of the statement of income and the statement of comprehensive income from US GAAP to IFRS for the year ended December 31, 2014 are as follows:

STATEMENT OF INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Revenues				
Energy sales	A	2,700.4	(45.4)	**2,655.0**
Distribution revenue	A	554.2	0.9	**555.1**
Other	C	50.6	1.1	**51.7**
		3,305.2	(43.4)	**3,261.8**
Expenses				
Energy purchases		2,700.4	—	**2,700.4**
Operating expenses	A, D	257.8	0.3	**258.1**
Depreciation and amortization	A, C, F	159.4	24.1	**183.5**
		3,117.6	24.4	**3,142.0**
Finance costs	A, E	66.9	(2.5)	**64.4**
Gain on disposals of property, plant and equipment		1.5	—	**1.5**
Income before income taxes		122.2	(65.3)	**56.9**
Income tax expense	A	11.5	2.4	**13.9**
Net income		110.7	(67.7)	**43.0**
Net movements in regulatory balances, net of tax	A, D, E, F	—	66.9	**66.9**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax of $12.2	A, D	—	(33.9)	**(33.9)**
Net movements in regulatory balances related to OCI, net of tax of $12.2	A, D	—	33.9	**33.9**
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		110.7	(0.8)	**109.9**

[All tabular amounts in millions of Canadian dollars]

The reconciliation of the statement of changes in equity from US GAAP to IFRS for the year ended December 31, 2014 is as follows:

STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Share capital		556.3	—	**556.3**
Retained earnings, beginning of year	D	604.3	0.9	**605.2**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Retained earnings, end of year		715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

For LDC, the impact of IFRS 14 at January 1, 2014 was to transfer the ICM eligible in-service capital expenditures *[note 9[m]]* to PP&E, to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as "Total assets" and "Total liabilities and equity", respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by $7.1 million, non-current regulatory assets by $234.4 million, deferred tax assets by $23.8 million, current regulatory liabilities by $2.5 million and non-current regulatory liabilities by $180.6 million, and increase PP&E by $157.0 million, regulatory debit balances by $90.2 million and regulatory credit balances by $165.0 million.

As at December 31, 2014, the impact was to reduce current regulatory assets by $11.8 million, non-current regulatory assets by $564.4 million, current regulatory liabilities by $1.6 million and non-current regulatory liabilities by $156.2 million, and increase PP&E by $399.0 million, deferred tax assets by $13.3 million, regulatory debit balances by $179.0 million and regulatory credit balances by $173.0 million. For the year ended December 31, 2014, the impact was to increase distribution revenue by $0.9 million, operating expenses by $2.6 million, income tax expense by $0.8 million, finance costs by $0.1 million, net movements in regulatory balances, net of tax by $45.4 million and net movements in regulatory balances related to OCI, net of tax by $33.9 million, and to decrease energy sales by $45.4 million, depreciation and amortization expense by $2.5 million, and remeasurements of post-employment benefits, net of tax within OCI by $33.9 million.

B. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to LDC. The impact as at January 1, 2014 and December 31, 2014 was a decrease to current other assets of $0.1 million, a decrease to non-current other assets of $7.1 million and $7.0 million, respectively, and an increase to PP&E of $7.2 million and $7.1 million, respectively.

C. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. LDC applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at January 1, 2014, the impact was to increase PP&E by $16.5 million, decrease accounts payable and accrued liabilities by $29.2 million and increase deferred revenue by $45.7 million. As at December 31, 2014, the impact was to increase PP&E by $50.5 million, current deferred revenue by $1.2 million and non-current deferred revenue by $71.4 million, and reduce accounts payable and accrued liabilities by $22.1 million. For the year ended December 31, 2014, $0.7 million was reclassified from depreciation and amortization expense to other revenue.

D. Employee benefits

The attribution methods and attribution periods are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the balance sheets. The impact of these recognition and measurement differences as at January 1, 2014 was an overall decrease to the post-employment benefits liability by $2.8 million and regulatory debit balances of $1.9 million, and an increase to retained earnings of $0.9 million.

As at December 31, 2014, the impact of these recognition and measurement differences was a decrease to PP&E of $0.4 million, regulatory debit balances of $5.7 million (of which $6.1 million related to post-employment benefits, offset by $0.4 million related to IFRS transitional adjustments), post-employment benefit liability of $6.2 million, and an increase to opening retained earnings of $0.9 million. For the year ended December 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of $0.6 million, net movements in regulatory balances, net of tax of $1.4 million, and remeasurements of post-employment benefits within pre-tax OCI of $46.1 million, and an increase to net movements in regulatory balances related to pre-tax OCI of $46.1 million.

Under US GAAP, the amount of the actuarial present value of benefits expected to be paid in the next twelve months was presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. LDC elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As LDC does not expect to settle all of its sick leave benefits within twelve months, sick leave benefits have been included in the non-current liability as well. This presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits as at January 1, 2014 and December 31, 2014 in the amount of $8.0 million.

E. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates on a simple interest basis and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of LDC's external general borrowings using the effective interest rate method which is applied to the carrying amount of the asset including borrowing costs previously capitalized. In addition, under IFRS, capitalization commences immediately as the expenditure on a qualifying asset is incurred. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to increase PP&E by $2.1 million and intangible assets by $0.5 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by $2.6 million.

F. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by $26.5 million.

Impact on the statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities, and inclusion of amortization of deferred revenue related to capital contributions in operating activities. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were classified as investing activities. Under IFRS, LDC treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of income taxes paid and interest paid within the body of the statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
- Reclassification of adjustments relating to regulatory balances within operating activities to "Net movements in regulatory balances" in the application of IFRS 14.

TORONTO HYDRO Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014
[All tabular amounts in millions of Canadian dollars]

9. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)
Post-employment benefits	**81.2**	**—**	**—**	**—**	**81.2**	(1)
Foregone revenue	**—**	**61.1**	**—**	**—**	**61.1**	46(2)
IFRS transitional adjustments	**24.2**	**4.7**	**—**	**—**	**28.9**	46(2)
Settlement variances	**51.7**	**(26.4)**	**—**	**—**	**25.3**	(3)
Stranded meters	**14.4**	**—**	**—**	**—**	**14.4**	46(2)
Smart meters	**20.9**	**—**	**(10.9)**	**—**	**10.0**	16
LRAM	**—**	**9.1**	**—**	**—**	**9.1**	(4)
Named properties	**—**	**5.8**	**—**	**—**	**5.8**	46(2)
Capital contributions	**—**	**1.9**	**—**	**—**	**1.9**	46(2)
OPEB cash versus accrual	**—**	**1.8**	**—**	**—**	**1.8**	(5)
Other	**4.7**	**2.0**	**(0.1)**	**(4.4)**	**2.2**	10(2)
	197.1	**60.0**	**(11.0)**	**(4.4)**	**241.7**	

	January 1, 2014 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2014 $	Remaining recovery/ reversal period (months)
Post-employment benefits	36.9	45.3	(1.0)	—	81.2	(1)
Settlement variances	5.8	45.9	—	—	51.7	(3)
IFRS transitional adjustments	0.9	23.3	—	—	24.2	48(6)
Smart meters	25.2	9.5	(13.8)	—	20.9	28
Stranded meters	16.9	—	(2.5)	—	14.4	60(6)
Other	2.6	2.5	(0.2)	(0.2)	4.7	12-60(6)
	88.3	126.5	(17.5)	(0.2)	197.1	

(1) LDC did not seek recovery from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.

(2) Disposition period is based on the CIR decision and rate order *[note 3[a]]*.

(3) Disposition period of the low voltage variances of $1.3 million over 10 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of remaining settlement variances in its next rate applications.

(4) Disposition period of the 2011-2013 LRAM of $3.6 million over 10 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of the LRAM balances for 2014 and 2015 at a later date, for which timing is currently unknown.

(5) LDC intends to apply for disposition of the balance following the OEB consultation process on pension and OPEB, for which timing is currently unknown.

(6) Disposition period was based on the CIR application pending as at December 31, 2014 *[note 3[a]]*.

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)
Deferred taxes	**143.4**	**(28.6)**	**—**	**—**	**114.8**	(1)
Tax-related variances	**25.3**	**1.2**	**—**	**—**	**26.5**	10-34(2)
Derecognition	**—**	**9.9**	**—**	**—**	**9.9**	(3)
ICM	**2.3**	**—**	**7.4**	**—**	**9.7**	(3)
Gain on disposal	**—**	**5.9**	**—**	**—**	**5.9**	(4)
Capital-related revenue requirement	**—**	**2.8**	**—**	**—**	**2.8**	(3)
Other	**2.0**	**—**	**—**	**—**	**2.0**	10(5)
	173.0	**(8.8)**	**7.4**	**—**	**171.6**	

	January 1, 2014 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2014 $	Remaining recovery/ reversal period (months)
Deferred taxes	132.0	11.4	—	—	143.4	(1)
Tax-related variances	25.2	2.9	(2.8)	—	25.3	12-36(6)
ICM	6.0	(25.1)	21.4	—	2.3	(3)
Other	1.8	0.2	0.2	(0.2)	2.0	12(6)
	165.0	(10.6)	18.8	(0.2)	173.0	

(1) LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.

(2) Disposition period of the revision of prior year tax position account over 34 months and the income tax variance account over 10 months is based on the CIR decision and rate order *[note 3[a]]*.

(3) LDC intends to apply for disposition of the balance at a later date, for which timing is currently unknown.

(4) Disposition period for forecasted net gains of 34 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of the variance account at a later date, for which timing is currently unknown.

(5) Disposition period is based on the CIR decision and rate order *[note 3[a]]*.

(6) Disposition period was based on the CIR application pending as at December 31, 2014 *[note 3[a]]*.

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. For the year ended December 31, 2015, LDC recorded an impairment of $4.4 million on regulatory debit balances within 'Other' as a result of the CIR decision and rate order. There was no impairment recorded for the year ended December 31, 2014.

Refer to Regulatory Developments and Electricity Consumption paragraphs in the Risk Management and Risk Factors section of the December 31, 2015 MD&A for a discussion of the risks and uncertainties that affect the future recovery of the regulatory balances.

The regulatory balances of the Corporation consist of the following:

a) Post-Employment Benefits

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments. The balance arising during the years ended December 31, 2015 and December 31, 2014 primarily related to the actuarial gain and loss recorded for the year, respectively. As at December 31, 2015, the regulatory balance did not include carrying charges.

b) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 if new rates were implemented as of May 1, 2015. In the CIR decision and rate order, the OEB approved foregone revenue rate riders for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates *[note 3[a]]*. Based on that approval, a new regulatory balance of $61.1 million was recorded as at December 31, 2015 to reflect the amount associated with the 2015 year to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the forecasted balance of $25.8 million plus an additional $4.7 million for the associated rate of return of 6.19% *[note 3[a]]*. Based on that approval, an additional $4.7 million was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

d) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. The settlement variances relate primarily to non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of variances related to low voltage in 2013 of $1.3 million inclusive of carrying charges over a 10-month period commencing on March 1, 2016 *[note 3[a]]*.

e) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario. As at December 31, 2015, the regulatory balances did not include carrying charges.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. Depreciation expense on the stranded meters of $2.5 million was recorded within net movements in regulatory balances, net of tax until the end of 2014. Included in the 2015-2019 rate application was recovery of the forecasted net book value of the stranded meters as at December 31, 2014. In

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 152:

Reference(s): **Exhibit 9, Tab 1, Schedule 1, p. 7-10**
EB-2012-0079, Decision and Order, p. 8
EB-2015-0040, Report of the Ontario Energy Board on Regulatory Treatment of Pension and OPEB Costs

<u>Preamble:</u>

Toronto Hydro is seeking disposition of a debit (recovery) balance of $85.3 million in Account 1508 – Other Regulatory Assets, Subaccount – Impact for USGAAP, which captures the impact of the change in the accounting for OPEBs as a result of Toronto Hydro's transition to a different accounting framework.

a) Initially, when this account was approved by the OEB, it was to capture the OPEB transition adjustment related to Toronto Hydro's transition from CGAAP to USGAAP, mainly to recognize the unamortized actuarial gains and losses at the date of transition as a regulatory asset instead of in OCI (Exhibit 9 / Tab 1 / Schedule 1 / p. 7). As set out in the Decision and Order, this OPEB transitional impact was $30 million (EB-2012-0079 / Decision and Order / p. 8). However, per the DVA continuity schedule that Toronto Hydro submitted as part of this application, it is showing an initial impact (in 2012) of $61.5 million (Exhibit 9 / Tab 2 / Schedule 1 / p. 1). Please explain why there is such a significant difference compared to what was disclosed in the original application.

b) Please advise whether this initial transitional balance of $61.5 million recorded in the DVA continuity (Exhibit 9 / Tab 2 / Schedule 1 / p. 1) can be reconciled to the transitional impacts note disclosure of the audited financial statements for the transition year. If so, please provide and reconcile accordingly. If not, then please provide the back-up that was used quantify and record this amount.

c) The balances recorded in the account that relates to the difference in OPEB accounting arising from the transition to USGAAP was to continue to be amortized annually like it would have under CGAAP. Please explain where this annual amortization has been recorded in the DVA continuity schedule. If there was no amortization of the balance, please explain why.

d) For all years in which this account has transactions recorded, please provide a table to breakout each annual transactions balance in the DVA continuity between the portion that relates to amortization, gains and losses, and plan amendments and also itemize any other components that are captured in the account. Also for each of the years, please indicate whether the account is picking up the difference between CGAAP and USGAAP or USGAAP and IFRS.

e) Please confirm that all components that are itemized within the table requested in part (d) can be tied directly to an actuarial valuation done for the respective years. For any item that cannot be tied directly to an actuarial valuation, please explain the source of the entry and how it was quantified.

f) The OEB indicates that utilities that have an OEB-approved account to capture annual actuarial gains and losses that are recognized to OCI under IFRS (and never amortized) may propose disposition of the account in future rates proceedings if the gains and losses tracked in this account do not substantively offset over time (OEB Report on the Regulatory Treatment of Pension and OPEB Costs / p. 13). In the context that the noted report does not define the length of period needed in order to make such a determination, please explain why Toronto Hydro believes that the current time-period that has elapsed and has been examined within its analysis is long enough to conclude this balance will not be offset over-time.

g) Please clarify, and quote the source of any data that is being used to justify Toronto Hydro's position (including the period that the data relates to) that interest rates will remain stable (Exhibit 9 / Tab 1/ Schedule 1 / pp. 8-9).

h) Please provide the discount rate that would be used if an OPEB valuation was done as of December 31, 2018, calculated on the same basis as the December 31, 2017 discount rate that was used in Toronto Hydro's last OPEB valuation (3.5%) (Exhibit 9 / Tab 1/ Schedule 1 / p. 9).

i) Fluctuations in discount rates are only one aspect of an actuary's assumptions that can give rise to actuarial gains and losses. There are other assumptions, such as mortality rates, demographics, and health costs that can vary compared to actual experience and result in actuarial gains and losses. Please explain why Toronto Hydro has not given any consideration to these factors.

j) From its last actuarial valuation, please breakdown the total actuarial gain and loss that is attributed to each key assumption (e.g. percentage of total gain/loss relating to discount rate assumption, percentage relating to health cost, etc). Please provide a breakdown of the top 5 assumptions, with the remainder going to "other."

k) Please advise whether Toronto Hydro investigated other ways to dispose of the balance in this account. For example, was any consideration given to employing the corridor approach used by USGAAP to the balance in this account, or amortizing over the average remaining service life of the employees. Please explain what other methodologies were considered in order to minimize the impact on ratepayers.

RESPONSE:

a) Toronto Hydro transitioned from CGAAP to USGAAP on January 1, 2011 ("transition date"). The $30 million, representing the unamortized actuarial loss under CGAAP as at December 31, 2010, is the transitional adjustment due to the adoption of USGAAP, recorded as at the transition date. However, Toronto Hydro continued to accumulate the unamortized actuarial gains and losses incurred subsequent to the transition date (as determined by its actuary) in this deferral account. A reconciliation of the accumulated unamortized actuarial loss between January 1, 2011 and December 31, 2012 is presented below:

Table 1: Impact for USGAAP DVA 2011-2012 Reconciliation ($ Millions)

Transitional adjustment from CGAAP to US GAAP on Jan 1, 2011	30.1
Actuarial loss incurred in 2011	36.4
Amortization of actuarial loss in 2011	(1.7)
Actuarial loss incurred in 2012	0.8
Amortization of actuarial loss in 2012	(4.1)
Ending balance as at December 31, 2012	61.5

b) As noted in the response to part (a), the balance of $61.5 million includes the transitional adjustment on January 1, 2011 ($30.1 million) and subsequent actuarial losses, net of amortization incurred after the transition date ($31.4 million). Toronto

Hydro confirms that the transitional adjustment on January 1, 2011 can be reconciled to Note 23 "US GAAP Transition" in the Toronto Hydro Consolidated 2012 audited financial statements. The subsequent 2011 and 2012 actuarial losses and corresponding amortization can be reconciled to Note 13 "Employee future benefits" in the 2012 audited financial statements. Please refer to Appendix A to this response.

Table 2: Impact for USGAAP DVA – References to FS ($ millions)

Transaction	Amount	Reference
Transitional adjustment from CGAAP to US GAAP on Jan 1, 2011	30.1[1]	Note 23, Note A
Actuarial loss incurred in 2011 **Actuarial loss incurred in 2011 ($35.8M)** **Other actuarial loss in 2011 ($0.6M)**	36.4	Note 13.a)
Amortization of actuarial loss in 2011	(1.7)	Note 13.c)
Actuarial loss incurred in 2012 **Actuarial loss incurred in 2012 ($0.3M)** **Other actuarial loss in 2011 ($0.5M)**	0.8	Note 13.a)
Amortization of actuarial loss in 2012	(4.0)	Note 13.c)
Rounding	(0.1)	
Ending balance as at December 31, 2012	**61.5**	Note 13.b)

[1] Note 23, Transitional Adjustment - Jan 1, 2011 Balance Sheet

Financial Statement Caption	Amount
Regulatory assets - current	3.6
Regulatory assets - non current	29.2
Regulatory liabilities - current	(36.7)
Regulatory liabilities – non current	34.0
Transitional adjustment from CGAAP to USGAAP on Jan 1, 2011	**30.1**

c) The balances in the "Transactions Debit/ (Credit) during the period" column for the respective years in the DVA continuity schedule are net of annual amortization for all amounts reported under USGAAP (up to 2014, when Toronto Hydro adopted IFRS). There is no amortization under IFRS.

d) Please see Table 3 below.

Table 3: Impact for USGAAP DVA – Reconciliation to DVA continuity ($ thousands)

Year ended	Accounting Framework	Driving factors	Transactions	Ending Balance
	CGAAP to USGAAP	Transitional adjustment on January 1, 2011	30,130	
		Actuarial loss incurred in 2011	36,379	
		Amortization	(1,724)	
		Actuarial loss incurred in 2012	825	
		Amortization	(4,111)	
2012	**USGAAP**		**61,499**[1]	**61,499**
		Actuarial gain	(20,684)	
		Amortization	(2,034)	
2013	**USGAAP**		**(22,718)**	**38,781**
		Actuarial loss	49,399	
		Amortization	(848)	
2014	**USGAAP**		**48,551**	**87,332**
	USGAAP to IFRS	Transition adjustment	(6,127)	
		Actuarial gain	(15)	
2015	**IFRS**		**(6,142)**	**81,190**
		Actuarial gain	(21,022)	
2016	**IFRS**		**(21,022)**	**60,168**
		Actuarial loss	25,093	
2017	**IFRS**		**25,093**	**85,261**

[1] All ending transaction balances match to the DVA Continuity Schedule.

e) Toronto Hydro confirms that all amounts in the table in part (d) can be tied to an actuarial valuation, with the exception of the USGAAP to IFRS transitional adjustment. The transitional adjustment can be tied to Note 26 “IFRS Transition” in the 2015 audited financial statements. Please refer to Appendix B to this response.

f) In assessing whether or not the balance will offset over-time, Toronto Hydro considered actuarial assumptions that were readily available at the time of filing, namely the discount rate. The discount rates are dependent on long-term bond yields. Toronto Hydro considered the forecasted yields for 30-year Government bonds over the period 2018 to 2024. As the yield is expected to remain flat, Toronto Hydro determined that there would not be any actuarial gains due to significant changes in the discount rates in the short time. The discount rates will have to increase by approximately 2 percent in order to offset the current balance accumulated in this account.

g) Please see the response to part (f). Toronto Hydro considered the forecasted yields for 30-year Government bonds over the period 2018 to 2024. The rates were derived using Bloomberg's Forward Curve Analysis for 30-year Government of Canada bond yields.

h) The discount rate as of December 31, 2018 is not yet established. Pursuant to Procedural Order 2, Toronto Hydro expects to advise on the timing of the update by February 13, 2019. The planned updates to evidence are set out in Exhibit 1A, Tab 3, Schedule 1, Appendix B.

i) Toronto Hydro cannot make predictions on future changes in mortality rates, demographics, and health cost trend rate without a full valuation. The only actuarial assumption that Toronto Hydro can reasonably make some predictions on is the discount rate, as forecasted by financial institutions. Between 2011 and 2017, the actuarial gains and losses incurred due to changes in discount rate were $93.2 million, in relation to the $85.3 million DVA balance. Toronto Hydro considers changes in discount rate to be the assumption with the most significant impact on the balance accumulated in this account.

j) The latest actuarial valuation was performed as at January 1, 2016. The results of that valuation were extrapolated to December 31, 2017, assuming that there are no experience gains or losses other than differences in benefit payments and the change in the discount rate.

As at December 31, 2017, the breakdown of the net actuarial loss incurred on Toronto Hydro's OPEB liability is as follows:

Table 4: Breakdown of Net Actuarial Loss on OPEB Liability

Actuarial (gain)/loss due to:	Amount	Percentage
Changes in Discount rate	26,349	105%
Other	(1,256)	-5%
Net actuarial loss	25,093	

k) Toronto Hydro decided to align the timing of disposition of this balance with that of the other DVAs for which it applied for disposition. There is also no corridor approach under IFRS.

[all tabular amounts in thousands of Canadian dollars]

b) Promissory notes payable to the Corporation

On July 1, 1999, LDC issued a promissory note to the City ["Initial Note"] in the principal amount of $947,000,000 in partial consideration for the assets in respect of the electricity distribution system transferred by the Toronto Hydro-Electric Commission and the City to LDC effective July 1, 1999. The Initial Note was non-interest bearing until December 31, 1999 and interest bearing thereafter at the rate of 6% per annum. Pursuant to the terms of By-law No. 374-1999 of the City made under section 145 of the Electricity Act, the principal amount of the Initial Note was adjusted effective January 1, 2000 to $980,231,000 to reflect the deemed debt to equity structure of LDC permitted by the OEB. At the same time, the Initial Note was replaced by a promissory note ["Replacement Note"] issued by LDC, which was interest bearing at the rate of 6.8% per annum. At December 31, 2002, the Replacement Note was payable on the earlier of demand and December 31, 2003.

Concurrent with the closing of the Corporation's debenture offering on May 7, 2003, the City transferred the Replacement Note to the Corporation in consideration for the issuance by the Corporation to the City of a new promissory note in the principal amount of $980,231,000. Following the issuance of the new promissory note to the City, on May 7, 2003, LDC issued a promissory note payable on demand to the Corporation in the principal amount of $980,231,000.

On September 5, 2006, LDC amended and restated the promissory note payable to the Corporation effective May 1, 2006 by fixing the interest rate at 6.16% and establishing an agreed repayment schedule. LDC is required to pay the principal amount of the note as follows: $245,058,000 on the last business day before each of December 31, 2007, December 31, 2009, December 31, 2011 and on May 6, 2013. LDC made the first three scheduled payments on the respective due dates. Interest is calculated and payable quarterly in arrears on the last business day of March, June, September and December of each year.

On January 1, 2012, LDC issued a promissory note to the Corporation for general purposes. The principal amount of the promissory note is $45,000,000, which bears interest at a rate of 6.16% per annum, payable on demand. Interest is calculated and payable semi-annually in arrears on July 1 and January 1 of each year.

On January 1, 2012, LDC issued a promissory note to the Corporation for general purposes. The principal amount of the promissory note is $15,000,000, which bears interest at a rate of 3.32% per annum, payable on the earlier of demand and January 1, 2022. Interest is calculated and payable semi-annually in arrears on July 1 and January 1 of each year.

c) Promissory note payable to TH Energy

On July 1, 2012, LDC issued a promissory note to TH Energy in the principal amount of $14,013,000 *[note 19]*, which bears interest at a rate of 3.09% per annum, payable on the earlier of demand and July 1, 2022. Interest is calculated and payable semi-annually in arrears on January 1 and July 1 of each year.

13. EMPLOYEE FUTURE BENEFITS

Pension

LDC provides a pension plan for its full-time employees through OMERS. Details of the plan are as follows:

Pension Plan	Funded Status as at December 31, 2012	Contributions	
		2012 $	2011 $
OMERS	86%	**16,374**	13,813

[all tabular amounts in thousands of Canadian dollars]

The OMERS plan assets are pooled together to provide benefits to plan participants and the plan assets are not segregated in separate accounts for each member entity. As at December 31, 2012, the OMERS plan financial statements disclosed an actuarial deficit of approximately $9,900,000,000, which is being addressed through increases in contribution rates for participating employers and employees. For the year ended December 31, 2012, the total contributions of all participating employers and employees were approximately $3,200,000,000. LDC's contributions represent less than five percent of total contributions to the plan.

For 2012, OMERS contribution rates were 8.3% up to the year's maximum pensionable earnings ["YMPE"] and 12.8% over YMPE for normal retirement age of 65 [2011 - 7.4% up to YMPE and 10.7% over YMPE for normal retirement age of 65].

As at December 31, 2012, OMERS had approximately 266,000 active members, of which approximately 1,700 members had a current relationship with LDC.

Post-retirement benefits other than pension

a) Benefit Obligations

	2012 $	2011 $
Balance, beginning of year	**244,326**	198,630
Adjustment due to reorganization	**781**	2,143
Service cost	**5,035**	3,820
Interest cost	**11,454**	11,307
Benefits paid	**(7,960)**	(7,383)
Actuarial loss	**254**	35,809
Balance, end of year	**253,890**	244,326

b) Amounts recognized in regulatory assets

	2012 $	2011 $
Actuarial loss	**61,477**	63,698
Prior service cost	**22**	1,087
Total recognized in regulatory assets *[note 9]*	**61,499**	64,785

As at December 31, 2012, the estimated actuarial loss and prior service cost that are expected to be amortized from regulatory asset to net periodic benefit cost in 2013 are $2,064,000 and $2,000, respectively.

[all tabular amounts in thousands of Canadian dollars]

c) Components of net periodic benefit costs

		2012 $	2011 $	
Service cost		**5,035**	3,820	
Interest cost		**11,454**	11,307	
Amortization of actuarial loss		**3,146**	787	
Amortization of prior service cost	3,986	**840**	873	1,660
Net periodic benefit cost		**20,475**	16,787	
Capitalized as part of property, plant and equipment		**7,305**	6,758	
Charged to operations		**13,170**	10,029	

d) Expected benefit payments

The following benefit payments (net of recoveries from related companies), which reflect expected future service, as appropriate, are expected to be paid over the next five years, and in the aggregate for the five fiscal years thereafter:

	Post-retirement Benefits $
2013	**10,015**
2014	**8,061**
2015	**8,263**
2016	**8,940**
2017	**9,384**
2018-2022	**55,001**

23. US GAAP TRANSITION

Publicly accountable enterprises in Canada were required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. The Corporation elected to take the optional one-year deferral of its adoption of IFRS. In the absence of a definitive plan to consider the issuance of a rate-regulated accounting standard by the International Accounting Standards Board, the Corporation decided to evaluate the option of adopting US GAAP effective January 1, 2012 as an alternative to IFRS. On July 21, 2011, the Ontario Securities Commission granted the Corporation an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015. On August 26, 2011, the Board of Directors of the Corporation approved the adoption of US GAAP for financial reporting purposes for the year beginning on January 1, 2012. As a wholly-owned subsidiary, LDC elected to follow the Corporation and adopted US GAAP for financial reporting purposes for the year beginning on January 1, 2012.

These are LDC's first annual financial statements prepared in accordance with US GAAP. The accounting policies set out in note 4 have been applied consistently in preparing the financial statements for the year ended December 31, 2012 and the comparative periods.

LDC has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. For reporting purposes, the transition date to US GAAP is January 1, 2011, which is the commencement of the 2011 comparative period to LDC's 2012 financial statements. An explanation of how the transition from Canadian GAAP to US GAAP has affected LDC's financial statements is set out in the following tables and accompanying notes.

Given the Corporation's exemption to file under US GAAP up to December 31, 2014 by the Ontario Securities Commission, the Corporation is actively monitoring developments by the International Accounting Standards Board on rate-regulated accounting should a future IFRS conversion be required. Although the conversion of LDC's general purpose financial statements to IFRS was suspended in 2011, the IFRS conversion work is being managed in such a way that if a future transition to IFRS is required, it can be effectively accomplished.

The reconciliation of the January 1, 2011 balance sheet from Canadian GAAP to US GAAP is as follows:

BALANCE SHEET

[in thousands of Canadian dollars]

As at January 1, 2011	**Notes**	**Canadian GAAP $**	**Transitional Adjustments $**	**US GAAP $**
ASSETS				
Current				
Regulatory assets	A	—	3,555	**3,555**
Other	A	657,135	1,710	**658,845**
Total current assets		657,135	5,265	**662,400**
Regulatory assets	A	85,113	29,224	**114,337**
Other		2,383,017	—	**2,383,017**
Total assets		3,125,265	34,489	**3,159,754**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current				
Customers' advance deposits	B	—	50,630	**50,630**
Post-retirement benefits	A	—	7,415	**7,415**
Regulatory liabilities	A	—	36,654	**36,654**
Other	A, B	630,430	(20,187)	**610,243**
Total current liabilities		630,430	74,512	**704,942**
Customers' advance deposits	B	45,462	(31,840)	**13,622**
Post-retirement benefits	A	166,790	25,822	**192,612**
Regulatory liabilities	A	273,706	(34,005)	**239,701**
Other		1,116,215	—	**1,116,215**
Total liabilities		2,232,603	34,489	**2,267,092**
Total shareholder's equity		892,662	—	**892,662**
Total liabilities and shareholder's equity		3,125,265	34,489	**3,159,754**

2,649

The reconciliation of the December 31, 2011 balance sheet from Canadian GAAP to US GAAP is as follows:

BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31, 2011	Notes	Canadian GAAP $	Transitional Adjustments $	US GAAP $
ASSETS				
Current				
Other		540,468	—	**540,468**
Total current assets		540,468	—	**540,468**
Regulatory assets	A	77,322	65,716	**143,038**
Other		2,654,763	—	**2,654,763**
Total assets		3,272,553	65,716	**3,338,269**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current				
Customers' advance deposits	B	—	40,238	**40,238**
Post-retirement benefits	A	—	7,915	**7,915**
Regulatory liabilities	A	—	7,293	**7,293**
Other	A, B	438,507	(23,280)	**415,227**
Total current liabilities		438,507	32,166	**470,673**
Customers' advance deposits	B	35,930	(20,130)	**15,800**
Post-retirement benefits	A	176,370	60,041	**236,411**
Regulatory liabilities	A	210,280	(6,361)	**203,919**
Other		1,425,473	—	**1,425,473**
Total liabilities		2,286,560	65,716	**2,352,276**
Total shareholder's equity		985,993	—	**985,993**
Total liabilities and shareholder's equity		3,272,553	65,716	**3,338,269**

The reconciliation of net income from Canadian GAAP to US GAAP for the year ended December 31, 2011 is as follows:

RECONCILIATION OF NET INCOME FROM CANADIAN GAAP TO US GAAP

[in thousands of Canadian dollars]

	Notes	**2011** **$**
Net income, Canadian GAAP		93,331
Revenues	C	14,212
Operating expenses	C, D	(16,735)
Income tax recovery	D	2,523
Net income, US GAAP		**93,331**

Notes to the transitional adjustments

A. Post-retirement benefits

Under Canadian GAAP, unamortized actuarial gains and losses and unamortized prior service costs are not recorded on the balance sheets. Under US GAAP, all actuarial gains and losses and prior service costs are fully recognized in OCI in the period in which they arise and are presented within equity as Accumulated Other Comprehensive Income ["AOCI"]. Due to the rate-regulated nature of LDC's business, the impact to AOCI on transition and the impact to OCI on a go-forward basis will be reclassified to a regulatory asset account *[note 9[a]]*. This reclassification results in the full recognition of the benefit obligation as a liability on LDC's balance sheets and no balance reported in OCI and AOCI. A portion of the benefit obligation will also be presented as a current liability on the balance sheets. The current portion is the amount of the actuarial present value of benefits included in the benefit obligation which is expected to be paid in the next 12 months.

B. Customers' advance deposits

Under US GAAP, deposits that are due on demand or will be due on demand within one year from the end of the reporting period have been reclassified as current liabilities.

C. Demand billable income and expenses

Under US GAAP, associated costs related to demand billable income have been reclassified on the statements of net income and comprehensive income. There is no impact to the overall net income.

D. Income tax recovery

Under Canadian GAAP, all ITCs are recognized as a reduction of the related expenditure. Under US GAAP, the benefits of the refundable apprenticeship and co-operative ITCs are recognized as a reduction of the related expenditure. All other ITCs are recorded as a reduction of income tax expense in the current period to the extent that realization of such benefits is more likely than not.

By order of the court dated January 24, 2012, the above actions involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act* seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks general damages in the amount of $10.0 million and special damages in the amount of $20.0 million from LDC. The plaintiff's motion for certification of the class action was granted on September 11, 2014. Statements of defence to the main action and to the third party claim have not been filed. Given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of LDC.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC.

26. IFRS TRANSITION

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. Accordingly, LDC decided to adopt US GAAP at the time to mirror the decision of the Corporation. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Since the Corporation was converting to IFRS, on March 19, 2014 the Board of Directors of LDC also approved the adoption of IFRS for the year beginning on January 1, 2015. As described in note 2, these are LDC's first financial statements prepared in accordance with IFRS. IFRS 1 sets out the transitional requirements that LDC must apply in preparing its first IFRS financial statements.

The accounting policies set out in notes 2 and 4 have been applied in preparing the financial statements as at and for the year ended December 31, 2015, the comparative information as at and for the year ended December 31, 2014 and the opening IFRS balance sheet as at January 1, 2014 (LDC's date of transition to IFRS). All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS on LDC's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. LDC applied the following mandatory exceptions and optional exemptions in the preparation of the opening IFRS balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such cases, a first-time adopter may deem the previous GAAP carrying amount of such items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of LDC's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

LDC qualifies for the IFRS 1 exemption as it is subject to rate regulation. Accordingly, LDC elected to use the deemed cost exemption for its PP&E and intangible assets, except for construction in progress items for which capital contributions were received. The accumulated depreciation recognized under US GAAP prior to the transition date was included as part of the deemed cost such that the carrying amounts were not affected. The impact of this change was a decrease to both the cost and accumulated depreciation of PP&E by $2,424.0 million and to both the cost and accumulated amortization of intangible assets by $201.9 million, as at January 1, 2014.

LDC tested for asset impairment under this exemption and no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. LDC elected this exemption and used the borrowing costs determined under US GAAP at the date of transition and applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. LDC elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption was an increase to regulatory balances and a decrease to PP&E of $0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As LDC made the same determination of whether an arrangement contained a lease under US GAAP as that required by IFRIC 4, LDC elected this exemption and did not reassess its arrangements at the date of transition.

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* ["IFRS 3"] retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. LDC elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the date of transition. LDC did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the capital contributions included in the PP&E deemed cost.

The reconciliation of the January 1, 2014 and December 31, 2014 balance sheets from US GAAP to IFRS is as follows:

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at January 1, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		15.7	—	**15.7**
Accounts receivable		198.9	—	**198.9**
Unbilled revenue		326.1	—	**326.1**
Income tax receivable		0.3	—	**0.3**
Materials and supplies		8.6	—	**8.6**
Other assets	B	8.9	(0.1)	**8.8**
Regulatory assets	A	7.1	(7.1)	**—**
Total current assets		565.6	(7.2)	**558.4**
Property, plant and equipment	A, B, C	2,640.0	180.8	**2,820.8**
Intangible assets		171.5	—	**171.5**
Deferred tax assets	A	155.9	(23.8)	**132.1**
Other assets	B	8.0	(7.1)	**0.9**
Regulatory assets	A	234.4	(234.4)	**—**
Total assets		3,775.4	(91.7)	**3,683.7**
Regulatory balances	A, D	—	88.3	**88.3**
Total assets and regulatory balances		3,775.4	(3.4)	**3,772.0**
LIABILITIES AND EQUITY				
Current				
Advance from related party		150.0	—	**150.0**
Accounts payable and accrued liabilities	C	455.7	(29.2)	**426.5**
Customer deposits		37.3	—	**37.3**
Deferred conservation credit		20.0	—	**20.0**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.1	—	**2.1**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	2.5	(2.5)	**—**
Total current liabilities		735.6	(39.7)	**695.9**
Notes payable to related party		1,433.2	—	**1,433.2**
Customer deposits		7.4	—	**7.4**
Deferred revenue	C	—	45.7	**45.7**
Post-employment benefits	D	230.8	5.2	**236.0**
Other liabilities		14.4	0.1	**14.5**
Regulatory liabilities	A	180.6	(180.6)	**—**
Total liabilities		2,602.0	(169.3)	**2,432.7**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	D	604.3	0.9	**605.2**
Contributed surplus		12.8	—	**12.8**
Total equity		1,173.4	0.9	**1,174.3**
Total liabilities and equity		3,775.4	(168.4)	**3,607.0**
Regulatory balances	A	—	165.0	**165.0**
Total liabilities, equity and regulatory balances		3,775.4	(3.4)	**3,772.0**

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		84.7	—	**84.7**
Accounts receivable		205.7	—	**205.7**
Unbilled revenue		306.6	—	**306.6**
Income tax receivable		0.2	—	**0.2**
Materials and supplies		8.6	—	**8.6**
Other assets	B	10.0	(0.1)	**9.9**
Regulatory assets	A	11.8	(11.8)	**—**
Assets held for sale		4.0	—	**4.0**
Total current assets		631.6	(11.9)	**619.7**
Property, plant and equipment	A, B, C, D, E, F	2,792.5	432.0	**3,224.5**
Intangible assets	E	197.9	0.8	**198.7**
Deferred tax assets	A	129.8	13.3	**143.1**
Other assets	B	8.1	(6.9)	**1.2**
Regulatory assets	A	564.4	(564.4)	**—**
Total assets		4,324.3	(137.1)	**4,187.2**
Regulatory balances	A, D, E, F	—	197.1	**197.1**
Total assets and regulatory balances		4,324.3	60.0	**4,384.3**
LIABILITIES AND EQUITY				
Current				
Advance from related party		308.0	—	**308.0**
Accounts payable and accrued liabilities	C	535.0	(22.9)	**512.1**
Customer deposits		38.5	—	**38.5**
Deferred revenue	C	1.0	1.2	**2.2**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.6	—	**2.6**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	1.6	(1.6)	**—**
Total current liabilities		954.7	(31.3)	**923.4**
Notes payable to related party		1,632.2	—	**1,632.2**
Customer deposits		4.7	—	**4.7**
Deferred revenue	C	—	71.4	**71.4**
Post-employment benefits	D	285.6	1.8	**287.4**
Other liabilities		6.8	1.2	**8.0**
Regulatory liabilities	A	156.2	(156.2)	**—**
Total liabilities		3,040.2	(113.1)	**2,927.1**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	A, D	715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**
Total liabilities and equity		4,324.3	(113.0)	**4,211.3**
Regulatory balances	A	—	173.0	**173.0**
Total liabilities, equity and regulatory balances		4,324.3	60.0	**4,384.3**

[All tabular amounts in millions of Canadian dollars]

The reconciliations of the statement of income and the statement of comprehensive income from US GAAP to IFRS for the year ended December 31, 2014 are as follows:

STATEMENT OF INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Revenues				
Energy sales	A	2,700.4	(45.4)	**2,655.0**
Distribution revenue	A	554.2	0.9	**555.1**
Other	C	50.6	1.1	**51.7**
		3,305.2	(43.4)	**3,261.8**
Expenses				
Energy purchases		2,700.4	—	**2,700.4**
Operating expenses	A, D	257.8	0.3	**258.1**
Depreciation and amortization	A, C, F	159.4	24.1	**183.5**
		3,117.6	24.4	**3,142.0**
Finance costs	A, E	66.9	(2.5)	**64.4**
Gain on disposals of property, plant and equipment		1.5	—	**1.5**
Income before income taxes		122.2	(65.3)	**56.9**
Income tax expense	A	11.5	2.4	**13.9**
Net income		110.7	(67.7)	**43.0**
Net movements in regulatory balances, net of tax	A, D, E, F	—	66.9	**66.9**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax of $12.2	A, D	—	(33.9)	**(33.9)**
Net movements in regulatory balances related to OCI, net of tax of $12.2	A, D	—	33.9	**33.9**
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		110.7	(0.8)	**109.9**

[All tabular amounts in millions of Canadian dollars]

The reconciliation of the statement of changes in equity from US GAAP to IFRS for the year ended December 31, 2014 is as follows:

STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Share capital		556.3	—	**556.3**
Retained earnings, beginning of year	D	604.3	0.9	**605.2**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Retained earnings, end of year		715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

For LDC, the impact of IFRS 14 at January 1, 2014 was to transfer the ICM eligible in-service capital expenditures *[note 9[m]]* to PP&E, to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as “Total assets” and “Total liabilities and equity”, respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by $7.1 million, non-current regulatory assets by $234.4 million, deferred tax assets by $23.8 million, current regulatory liabilities by $2.5 million and non-current regulatory liabilities by $180.6 million, and increase PP&E by $157.0 million, regulatory debit balances by $90.2 million and regulatory credit balances by $165.0 million.

As at December 31, 2014, the impact was to reduce current regulatory assets by $11.8 million, non-current regulatory assets by $564.4 million, current regulatory liabilities by $1.6 million and non-current regulatory liabilities by $156.2 million, and increase PP&E by $399.0 million, deferred tax assets by $13.3 million, regulatory debit balances by $179.0 million and regulatory credit balances by $173.0 million. For the year ended December 31, 2014, the impact was to increase distribution revenue by $0.9 million, operating expenses by $2.6 million, income tax expense by $0.8 million, finance costs by $0.1 million, net movements in regulatory balances, net of tax by $45.4 million and net movements in regulatory balances related to OCI, net of tax by $33.9 million, and to decrease energy sales by $45.4 million, depreciation and amortization expense by $2.5 million, and remeasurements of post-employment benefits, net of tax within OCI by $33.9 million.

B. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to LDC. The impact as at January 1, 2014 and December 31, 2014 was a decrease to current other assets of $0.1 million, a decrease to non-current other assets of $7.1 million and $7.0 million, respectively, and an increase to PP&E of $7.2 million and $7.1 million, respectively.

C. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. LDC applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at January 1, 2014, the impact was to increase PP&E by $16.5 million, decrease accounts payable and accrued liabilities by $29.2 million and increase deferred revenue by $45.7 million. As at December 31, 2014, the impact was to increase PP&E by $50.5 million, current deferred revenue by $1.2 million and non-current deferred revenue by $71.4 million, and reduce accounts payable and accrued liabilities by $22.1 million. For the year ended December 31, 2014, $0.7 million was reclassified from depreciation and amortization expense to other revenue.

D. Employee benefits

The attribution methods and attribution periods are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the balance sheets. The impact of these recognition and measurement differences as at January 1, 2014 was an overall decrease to the post-employment benefits liability by $2.8 million and regulatory debit balances of $1.9 million, and an increase to retained earnings of $0.9 million.

As at December 31, 2014, the impact of these recognition and measurement differences was a decrease to PP&E of $0.4 million, regulatory debit balances of $5.7 million (of which $6.1 million related to post-employment benefits, offset by $0.4 million related to IFRS transitional adjustments), post-employment benefit liability of $6.2 million, and an increase to opening retained earnings of $0.9 million. For the year ended December 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of $0.6 million, net movements in regulatory balances, net of tax of $1.4 million, and remeasurements of post-employment benefits within pre-tax OCI of $46.1 million, and an increase to net movements in regulatory balances related to pre-tax OCI of $46.1 million.

Under US GAAP, the amount of the actuarial present value of benefits expected to be paid in the next twelve months was presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. LDC elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As LDC does not expect to settle all of its sick leave benefits within twelve months, sick leave benefits have been included in the non-current liability as well. This presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits as at January 1, 2014 and December 31, 2014 in the amount of $8.0 million.

E. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates on a simple interest basis and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of LDC's external general borrowings using the effective interest rate method which is applied to the carrying amount of the asset including borrowing costs previously capitalized. In addition, under IFRS, capitalization commences immediately as the expenditure on a qualifying asset is incurred. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to increase PP&E by $2.1 million and intangible assets by $0.5 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by $2.6 million.

F. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by $26.5 million.

Impact on the statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities, and inclusion of amortization of deferred revenue related to capital contributions in operating activities. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were classified as investing activities. Under IFRS, LDC treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of income taxes paid and interest paid within the body of the statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
- Reclassification of adjustments relating to regulatory balances within operating activities to "Net movements in regulatory balances" in the application of IFRS 14.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 153:

Reference(s): Exhibit 9, Tab 1, Schedule 1, pp. 10-11

Preamble:

Toronto Hydro notes that $36.8 million of the variance recorded in the CRRVA is related to an error in the estimated UL used to calculate the depreciation for meters in the 2015-2019 forecast. The effect of the error is that the approved capital–related revenue requirement that was funded through rates was higher than required (Exhibit 9 / Tab 1 / Schedule 1).

a) Please advise when the depreciation rate error first occurred (i.e. in the pre-filed evidence or in the draft rate order). Please provide excerpts from the 2015-2019 Custom IR evidence that highlights where the error can be found.

b) Please confirm that the depreciation rate used for meters has been properly updated in the current application to fix the error on a go-forward basis. Please provide specific evidence references to Toronto Hydro's depreciation evidence (Exhibit 4B / Tab 1).

c) Please explain what controls Toronto Hydro has in place to ensure that this type of error does not occur again in the future.

RESPONSE:

a) The consequences of the error formed part of the pre-filed evidence of Toronto Hydro's 2015-2020 CIR application (EB-2014-0116) and were included in depreciation presented in Exhibit 1B, Tab 2, Schedule 3, at Table 3 on page 10. The Metering Program described in EB-2014-0116, Exhibit 2B, Section E5.1 describes several 2015-2019 metering projects involving meter replacements and meter data collection systems. Meter data collection systems are similar to computer equipment and have a shorter useful life compared to meter assets. During the 2015-2019 planning process, depreciation expense related to metering assets was inadvertently calculated using the shorter useful life related to meter data collection systems which resulted in greater forecasted depreciation expense (and revenue requirement) in years 2016-2019. Depreciation for 2015 was not affected as this amount was determined based on calculations within Toronto Hydro's planning system and was less prone to manual (spreadsheet) errors. There is no specific reference in the 2015-2019 pre-filed evidence where the error can be identified.

b) Toronto Hydro confirms that the depreciation rates for meter assets have been updated and properly applied in the current application. The depreciation related to meters can be found in Account 1860, as presented in Exhibit 2A, Tab 1, Schedule 2, OEB Appendix 2-BA and Exhibit 4B, Tab 1, Schedule 1, Appendix A.

c) Toronto Hydro reviewed the depreciation calculation process to identify areas for improvement. This included expanding the review of the spreadsheet model used to determine depreciation to a more detailed level for reasonability, and simplifying the model to facilitate review, including the centralization of useful life schedules to mitigate risk of inconsistency. Access to modify planning information has also been limited to selected staff.

Focussed attention was given to the depreciation forecasts for assets relating to metering data collection systems, which have a shorter useful life relative to customer meters assets.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 154:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 10-12

Preamble:

The variance recorded in the CRRVA that is not related to the depreciation error is $20.8 million. This variance is related to the difference between the actual mix of capital programs and the forecasted and actual timing of capital assets entering service (Exhibit 9 / Tab 1 / Schedule 1 / p. 11).

a) Please provide an estimate of the proportion (%) of the non-depreciation error related variance recorded in the CRRVA that was driven by in-service delays.

b) Please provide detailed calculations or references to the approvals granted in the 2015-2019 rates proceeding supporting the following line items in Table 3 (Exhibit 9 / Tab 1 / Schedule 1 / p. 12):
   i) Line 3 – Capital-related revenue requirement from February 29, 2016 rate order.
   ii) Line 4 – Revenue requirement impact from the application of the stretch factor.
   iii) Line 8 – Other adjustments.
   iv) Line 10 – Actual historic and forecast bridge capital-related revenue requirement.

c) With respect to adjustments for the amounts captured in the Externally Driven Capital Variance Account and the Derecognition Variance Account, please advise whether carrying charges have been included in the adjustment. If so, please explain why carrying charges should form part of the adjustment.

RESPONSE:

a) There is no set methodology to generate this estimate.

b) Please see below:

i) Please refer to EB-2014-0116, Draft Rate Order Update (February 29, 2016) at Table 2 on page 6.

ii) The calculation for the revenue requirement impact from the application of the stretch factor is as follows:

Table 1: Calculation of the Revenue Requirement Impact from Application of Stretch Factor

	2015	2016	2017	2018	2019	Total	
Interest	79.3	87.7	95.4	99.9	104.3		
ROE	120.2	133.0	144.7	151.6	158.2		
Depreciation	206.0	218.7	242.2	257.7	275.0		
PILS/Taxes	25.0	16.9	24.3	40.2	45.7		
Capital-related RR	**430.5**	**456.3**	**506.6**	**549.4**	**583.2**	***A***	
OEB Decision Stretch for reduction	0.6%	0.6%	0.6%	0.6%	0.6%	***B***	
Stretch Factor to Capital Funding		**2.6**	**5.4**	**8.4**	**11.7**	**28.1**	**A x B**

iii) The Other Adjustments line relates to revenue requirement variances due to rate base variances that are not associated with 2015-2019 In-Service Additions, Derecognition or the Externally Driven Capital Variance Accounts. Given the complexity of the several factors that can impact the revenue requirement, such as 2015 approved compared to actual rate base as well as other changes in rate base unrelated to in-service additions such as disposal of property, the revenue requirement impact from each of these cannot be discretely presented.

iv) The calculation for the Actual/Bridge Capital-Related RR is as follows:

Table 2: Calculation for the Actual/Bridge Capital-Related RR

	2015	2016	2017	2018	2019	2015-2019
Net Income	119.2	130.8	143.8	154.9	166.4	**715.2**
Interest	78.6	86.2	94.8	103.1	109.7	**472.4**
Depreciation	166.0	179.1	192.2	210.1	227.6	**974.9**
Derecognition	24.6	27.0	24.5	20.8	20.1	**117.0**
PILS	25.2	26.2	25.8	14.9	19.8	**111.7**
TOTAL	**413.6**	**449.3**	**481.0**	**503.7**	**543.6**	**2,391.2**

c) Confirmed that carrying charges are not applied.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 155:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 14-17

a) Please explain why the Externally Driven Capital Variance Account is required going forward assuming the CRRVA is continued. Please confirm that the CRRVA, in its current form, captures the same variances.

b) Please explain how the actual and forecast bridge capital in-service addition amounts shown in Table 5 (Exhibit 9 / Tab 1 / Schedule 1 / p. 15 / Line 2) were calculated.

RESPONSE:

a) The Externally Driven Capital Variance Account was established due to the recognition of the volatile and difficult to predict nature of the investments the utility is expected to incur to accommodate large, third party-managed infrastructure projects (e.g. Metrolinx). Volatility results from Toronto Hydro's inability to manage and predict the timing, nature, parameters, scope, and cost of each third party request and may result in over or under recovery of costs. This CRRRVA was established to address the possibility that Toronto Hydro may not bring its entire capital program into service during the CIR period.

Toronto Hydro believes that the established symmetrical Externally Driven Capital Variance Account is appropriate for the circumstances and should be continued. The CRRRVA established for the 2015-2019 CIR period excludes balances that are captured in the Externally Driven Capital and Derecognition variance accounts.

b) Please refer to Toronto Hydro's response to interrogatory 2A-SEC-31.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 156:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 17-18

Preamble:

In Table 6 (Exhibit 9 / Tab 1 / Schedule 1 / p. 18), Toronto Hydro provided its calculation of the balance in the Derecognition Variance Account.

a) Please explain why the Derecognition Variance Account is required going forward assuming the CRRVA is continued. Please confirm that the CRRVA, in its current form, captures the same variances.

b) Please provide references to the approvals granted in the 2015-2019 rates proceeding supporting the losses on derecognition included in approved rates (Exhibit 9 / Tab 1 / Schedule 1 / p. 18 / Table 6 / Line 1).

c) For the actual losses on derecognition (Exhibit 9 / Tab 1 / Schedule 1 / p. 18 / Table 6 / Line 2), please advise whether the amounts for each year can be tied to the audited financial statements. If so, provide the reference in the audited statements to where each balance can be found.

d) Please explain the basis for the forecast losses on derecognition for 2018 and 2019 (Exhibit 9 / Tab 1 / Schedule 1 / p. 18 / Table 6 / Line 2).

e) Please explain what the PILs component relates to and how it was calculated (Exhibit 9 / Tab 1 / Schedule 1 / p. 18 / Table 6 / Line 4).

RESPONSE:

a) The Derecognition Variance Account was approved to address the expectation that material annual variances between forecasted and actual derecognition might arise and would compound over the five year CIR term. This variance, resulting largely from non-operational reasons, may result in over or under recovery of costs.

Toronto Hydro continues to expect derecognition volatility due to Toronto Hydro's limited experience with the derecognition of asset values and the dynamic nature of its capital program and operating environment making it difficult to forecast derecognition amounts.[1]

In contrast, the CRRRVA was established to address the possibility that Toronto Hydro may not bring its entire capital program into service during the CIR period through the tracking of associated variances.

b) Derecognition amounts funded in rates are included as part of the depreciation amounts within the draft rate order from Toronto Hydro's last proceeding. Please refer to EB-2014-0116, Draft Rate Order Update (February 29, 2016), Table 2 at page 6.

c) Derecognition amounts are included with depreciation and amortization expense presented in the financial statements. Please refer to the table below for a decomposition of depreciation and amortization.

[1] The requirement to report and forecast derecognition resulted from the IFRS implementation by Toronto Hydro in 2015.

Table 1: Decomposition of Depreciation and Amortization ($)

	2015	2016	2017
Depreciation (Exhibit 1C, Tab 3, Schedule 3, Appendix A & C and Financial Statements 2015: Note 7, 2016-2017: Note 6)	150.0	163.9	176.4
Amortization Intangible Assets (Exhibit 1C, Tab 3, Schedule 3, Appendix A & C and Financial Statements 2015: Note 8, 2016-2017: Note 7)	20.5	21.4	23.0
Derecogition (Exhibit 9, Tab 1, Schedule 1, Table 6, page 18 and Exhibit 4B, Tab 1, Schedule 1, Appendix A)	24.1	27.0	24.5
Capitalized depreciation (Exhibit 4B, Tab 1, Schedule 1, Appendix A)	(1.8)	(1.7)	(1.6)
Total Depreciation and Amortization (Statement of Income - Exhibit 1C, Tab 3, Schedule 3, Appendix A,B, C)	192.8	210.6	222.3

d) Forecasted derecognition is determined as follows:

- For (a) large, discreet projects where assets to be removed from service are identifiable (such as the ERP project), and (b) meter assets, the amount of derecognition is specifically forecasted. For these assets, the forecasted derecognition is based on the forecasted remaining asset value (at the expected time of removal) and timing of removal from service.
- For other capital projects, the immediate year of the forecast is developed based on planned asset removals identified through project plans; for subsequent years, the historical relationship between actual derecognition expense and capital expenditures is applied to the forecasted capital expenditures.

e) The PILs component of the derecognition variance calculation represents the PILs consequence of the difference in funded and actual revenue requirement. Please refer to the tables below for the PILs calculations.

1 **Table 2: PILs Calculations**

	Actual			Forecast		Total	
	2015	**2016**	**2017**	**2018**	**2019**		
Losses on derecognition included in approved rates	33.9	26.6	28.0	29.4	32.6	150.5	
Actual and forecast losses on derecognition	24.1	27.0	24.5	20.8	20.1	116.5	
Variance	(9.8)	0.4	(3.5)	(8.6)	(12.5)	(34.0)	**[b]**
PILs	(3.4)	0.2	(1.2)	(3.0)	(4.5)	(11.9)	**([a] + [b]) x [c] / (1 - [c])**
Capital revenue requirement	0.4	0.7	0.7	1.2	2.1	5.1	
Derecognition variance account	(12.8)	1.3	(4.0)	(10.4)	(14.9)	(40.8)	
Derecognition variance account - carrying charges	(0.1)	(0.1)	(0.2)	(0.3)	(0.6)	(1.3)	
Total	**(12.9)**	**1.2**	**(4.2)**	**(10.7)**	**(15.5)**	**(42.1)**	

Capital revenue requirement calculation	Actual			Forecast		Total	
	2015	**2016**	**2017**	**2018**	**2019**		
Rate Base	4.9	9.6	11.1	17.1	27.6	**70.3**	
Return on equity	0.2	0.4	0.4	0.6	1.0	**2.6**	**[a]**
Interest expense	0.1	0.2	0.2	0.4	0.7	**1.6**	
PILs	0.1	0.1	0.1	0.2	0.4	**0.9**	
Capital revenue requirement	0.4	0.7	0.7	1.2	2.1	**5.1**	

Input Assumptions	Actual			Forecast		
	2015	**2016**	**2017**	**2018**	**2019**	
Half year rule	50.0%	50.0%	50.0%	50.0%	50.0%	
Long term debt	4.28%	4.28%	4.28%	4.28%	4.28%	
Short term debt	1.38%	1.38%	1.38%	1.38%	1.38%	
Return on equity	9.3%	9.3%	9.3%	9.3%	9.3%	
PILs rate	26.5%	26.5%	26.5%	26.5%	26.5%	**[c]**

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 157:

Reference(s): Exhibit 9 / Tab 1 / Schedule 1 / pp. 20, 24

Preamble:

Toronto Hydro notes that its Monthly Billing Deferral Account is intended to record the incremental costs and savings resulting from the mandatory transition to monthly billing. Toronto Hydro noted that it did not include any costs or savings with the mandatory transition in its 2015-2019 Custom IR application (Exhibit 9 / Tab 1 / Schedule / p. 20).

a) Please explain, specifically, what variance is recorded in the account (e.g. is the account recording the incremental costs / savings of monthly billing relative to the amount built into rates for Toronto Hydro's existing billing-related activities based on bi-monthly billing). If so, please provide the amount built into rates for billing-related activities (considering the inflationary factor applied during the 2016-2019 period) and confirm that the variance recorded in the account is truly incremental to those costs.

RESPONSE:

a) The variance account records the incremental costs that Toronto Hydro incurred as a result of monthly billing that it would not have otherwise incurred. For example, the 2015-2019 Custom CIR application allowed for producing, delivering, and processing payments and related activities for six bills per non-seasonal residential and general service < 50kW customer per year. The variance account captures the costs incurred to produce, deliver, and process payments and related activities for the additional six non-seasonal residential and general service < 50kW bills per year. The variance account also captures the working capital savings, thereby offsetting incremental costs, as explained in Exhibit 9, Tab 1, Schedule 1 at page 29.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 158:

Reference(s): **Exhibit 9, Tab 1, Schedule 1, p. 32**

Preamble:

In Table 14, Toronto Hydro quantifies the variance associated with the forecast gains on the sale of property and the actual gains realized (Exhibit 9 / Tab 1 / Schedule 1 / p. 32).

a) Please provide the detailed calculation for each of the actual net gain amounts presented in the table. Ensure that the calculation is broken down in sufficient detail to show the proceeds received, NBV of property at time of disposition, costs incurred on the transaction (and an explanation of the types of costs), the tax on the gain, and the gross up for PILs tax savings. In addition, please provide the forecasted net gain in a comparable format.

b) Please explain whether Toronto Hydro intends to close the OCCP account. If not, please explain why the account is still necessary.

RESPONSE:

a) Please refer to Table 1 below for the actual net gain calculations and Table 2 for the forecasted net gain calculations.

Table 1: Actual Net Gain Calculations ($ Millions)

	28 Underwriters	5800 Yonge
Sale Proceeds	10.5	122.2
Disposal Costs[1]	(0.6)	(5.4)
NBV	(4.0)	(8.7)
Pre-tax gain	5.9	108.1
Tax recovery (expense)	0.1	(9.5)
Gain (loss), net of tax	6.0	98.6
Tax savings (grossed up)	2.1	35.5
Actual net gain, grossed up for tax savings	**8.1**	**134.1**

Note 1: Types of disposal costs include real estate commission fees, deed registration feeds, land transfer tax, land purchase (for existing transformer to stay on 28 Underwriter land), fibre removal costs, and legal fees.

Table 2: Forecasted Net Gain Calculations ($ Millions)

	28 Underwriters	5800 Yonge
Sale Proceeds	13.0	65.0
Disposal Costs[2]	(0.3)	(4.8)
NBV	(3.8)	(10.5)
Pre-tax gain	8.9	49.7
Tax recovery (expense)	0.0	(5.3)
Gain (loss), net of tax	8.9	44.4
Tax savings (grossed up)	3.2	16.0
Forecasted net gain, grossed up for tax savings	**12.1**	**60.4**

Note 2: Types of disposal costs forecasted include real estate commission fees, legal fees, and fibre removal costs.

b) Toronto Hydro intends to close the OCCP variance account once the balance is approved and cleared.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 159:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 33-34

Preamble:

In Table 15, Toronto Hydro calculates its annual cash vs accrual differential related to its OPEB costs (Exhibit 9 / Tab 1 / Schedule 1 / p. 34).

a) Please provide the reference to the evidence from the 2015-2019 rates proceeding where the approved amounts for the period 2015 to 2019 related to the Forecasted OPEB Costs (OM&A programs) can be found (Exhibit 9 / Tab 1 / Schedule 1 / p. 34 / Table 15 / Line 1). If there is no direct link in the evidence, please explain how these amounts have been determined.

b) Please explain how Toronto Hydro is able to segregate the OPEBs that have been capitalized to assets for purposes of calculating the depreciation related to capitalized OPEBs costs. Please explain how this was quantified and why the resulting amounts are reasonable.

c) Please advise whether the Estimated Capital Depreciation Collected For OPEBs (Exhibit 9 / Tab 1 / Schedule 1 / p. 34 / Table 15 / Line 2) represents the depreciation related to OPEBs that were capitalized in that particular year, or the depreciation associated with the YTD unamortized OPEB costs that have been capitalized to assets.

d) Please advise whether the actual cash payments that were made in respect OPEBs for the period 2015-2019 can be tied to the Employee Future Benefits note of the audited financial statements. If not, please explain why and the source of these amounts.

e) Please explain why Toronto Hydro is multiplying the variance (Difference (C) = (A)-(B)) by the OpEx/CapEx split (Exhibit 9 / Tab 1 / Schedule 1 / p. 34 / Table 15 / Line 7). Please confirm that the starting point is already the OPEB costs that were approved in OM&A. Please explain why applying the OpEx/CapEx split to that number would be appropriate.

f) Please explain the basis of the forecast actual cash payments for 2018 and 2019 and why Toronto Hydro believes it to be a reasonable estimate.

RESPONSE:

a) The starting point for the calculation of the cash versus accrual difference was the 2014 OPEB OM&A, as submitted in THESL_IRR_4B_01_OEBStaff_79B_20141105 – column 18, row 9 ($10.0 million).

   In the OEB's Decision and Order EB-2014-0116, issued on December 29, 2015, Toronto Hydro was directed to determine its 2015 base OM&A increase by applying 2.1 percent to the 2014 actual spending.

b) Toronto Hydro calculates a percentage based on the actual labour capitalized and applies that percentage to the total OPEB costs to derive the amount that has been capitalized to assets. The amounts are reasonable as it is based on actual labour costs.

c) The estimated capital depreciation represents depreciation related to OPEB costs that were capitalized in each year based on accumulated depreciation since 2000.

d) The actual cash payments that were made in respect to OPEBs for the period 2015-2017 can be tied to the actuarial valuation reports for the respective years. The forecasted cash payments with respect to OPEBs for 2018 and 2019 can be tied to 2017 actuarial report for the respective years. The payments noted in Table 15 are pertaining to THESL Regulated only. The amounts disclosed in the Employee Future Benefits note to the audited financial statements represent the total payments pertaining to the consolidated OPEB liability for the Toronto Hydro Consolidated entity.

e) Toronto Hydro confirms that the starting point is the approved OM&A as described in the response to part a). Toronto Hydro used this calculation methodology when it was first directed to calculate the recovery for OPEBs using the cash method in its 2015 Draft Rate Order, which reduced base OM&A by $2.3 million. In the OEB's Decision on Draft Rate Order, the OEB accepted the $2.3 million reduction and affirmed that "the variance account that tracks the difference between cash and accrual OPEB accounting should match for consistency with this amount[1]."

Toronto Hydro was first directed to account for OPEBs on a cash rather than an accrual basis for ratemaking purposes in the EB-2014-0116 Decision and Rate Order[2].

[1] EB-2014-0116, Toronto Hydro-Electric System Limited Decision on Draft Rate Order (February 25, 2016) at p 5.
[2] EB-2014-0116, Toronto Hydro-Electric System Limited Decision and Order (December 29, 2015) at p 13.

At the time, Toronto Hydro had already submitted a response to interrogatory from OEB Staff that showed the OPEBs recovered in rates for the period 2000 to 2013 relative to the actual cash payments for that period[3]. Toronto Hydro used the information from the OEB Staff interrogatory response to derive the $2.3 million adjustment. As shown in Exhibit 9, Tab 1, Schedule 1, page 34, Table 15, Line 1 through 5, the calculation is consistent with the methodology that OEB Staff had outlined in IR79. Toronto Hydro then took the calculation a step further and introduced another split intended to exclude, at a high level, the capital portion from the deferral account. As explained in Toronto Hydro's Reply on Draft Rate Order, there is increased complexity in tracking the capital portion of the variance and the effort required to undertake this tracking is not justified[4]. Toronto Hydro continued to use this methodology as directed to calculate the amounts for the deferral account for 2015-2018.

Toronto Hydro notes that there are alternative methods in calculating the cash versus accrual amount, while still maintaining the fact that the complexity in tracking the capital portion remains unjustified. As noted in the OEB consultation, for utilities that capitalize a significant portion, they may propose an enhanced methodology for determining the cash versus accrual account balance[5].

An alternative method would be to start with the portion of OPEB costs that is included in OM&A and compare it to cash payments as illustrated in Table 1 below.

[3] EB-2014-0116, Toronto Hydro-Electric System Limited Responses to Ontario Energy Board Staff Interrogatories 79 (November 5, 2015) at p 2.
[4] EB-2014-0116, Toronto Hydro-Electric System Limited Reply to Submissions on Draft Rate Order (February 12, 2016) at p 29-32.
[5] EB-2015-0040, Report of the Ontario Energy Board Regulatory Treatment of Pension and Other Post-employment Benefit Costs (September 14, 2017) at p 12.

Table 1: Cash versus Accrual Variance – Alternative calculation ($ Millions)

	Actual			Forecasted		Total
	2015	2016	2017	2018	2019	
Forecasted OPEB costs (OM&A programs)	10.2	10.4	10.6	10.8	11.1	**53.1**
Less: Cash payments	9.1	10.8	10.9	9.3	9.9	**50.0**
Alternative Cash versus Accrual Variance	1.1	(0.4)	(0.3)	1.5	1.2	**3.1**

f) The forecasted cash payments for 2018 and 2019 were determined by Toronto Hydro's actuary, based on the extrapolation of the results of the most recent actuarial valuation as at January 1, 2016.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 160:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 36-37

Preamble:

Toronto Hydro explains that a credit refund due to ratepayers that has accumulated in Account 1551 as a result of a new Smart Metering Entity charge that the OEB had approved effective January 1, 2018 (Exhibit 9 / Tab 1 / Schedule 1 / pp. 36-37).

a) Please advise whether the balance in this account was previously disposed as part of Toronto Hydro's 2019 rates proceeding (Exhibit 9 / Tab 1 / Schedule 1 / p. 37). If not, please advise if Toronto Hydro will be seeking disposition of the balance in this account as part of the current proceeding (as part of its application update).

RESPONSE:

a) Toronto Hydro confirms that it has cleared the 2017 Smart Meter Entity Charges balances in this account as part of its 2019 Custom Incentive Rate-setting Update Application and is not seeking disposition of 2017 balances in the current proceeding. Toronto Hydro will, as part of its update of DVA balances for 2018, include for disposition any 2018 balances in this account.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 161:

Reference(s): **Exhibit 9, Tab 1, Schedule 1, p. 39**
Exhibit 9, Tab 3, Schedule 1, p. 1

a) Please provide rationale supporting the proposed allocator for each DVA and the balances that are proposed for disposition that are not recorded in a DVA.

RESPONSE:

Please see table below for the rationale supporting the proposed allocator for each DVA in Table 18 of Exhibit 9, Tab 1, Schedule 1 at page 39.

Table 1: Rationale for Proposed Allocator

Account	Allocator	Rationale
Stranded Meter Costs	Split of Residential, General Service <50 kW and 50-999 kW customers at time of conversion to smart meters.	Same as allocator as was approved in the last rebasing application (EB-2014-0116).
IFRS-USGAAP Transitional PP&E Amounts	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.
Impact for USGAAP Deferral	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.
CRRRVA	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.

Account	Allocator	Rationale
Externally Driven Capital	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.
Derecognition	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.
Wireless Attachments	Forecast 2020 Revenue Offsets excluding Street Light direct allocation	Revenues are same in nature as revenue offsets.
Monthly Billing	Split of Residential and GS<50kW customers	Allocated to classes impacted by mandated monthly billing.
OCCP	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue. Consistent with OEB approved allocation of original OCCP credit.
OPEB Cash vs Accrual	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution revenue.
Excess Expansion Deposits	2017 Distribution Revenue, excluding Residential, CSMUR, and General Service <50 kW	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution, excluding classes where no expansion deposits collected.
Deferred Gain on Disposals	2017 Distribution Revenue	Allocated in same proportion as historical revenue requirement, as reflected by historical class distribution. Consistent with OEB approved allocation of original OCCP credit.
AR Credits	Classes where AR credits residing	Allocated proportionally to same classes where credits residing.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 162:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 40

a) Please advise whether Toronto Hydro is seeking approval to maintain the Excess Expansion Deposits Variance Account for the 2020-2024 period (or if it is intended to only deal with variances that accrued during the 2016-2019 period).

RESPONSE:

Toronto Hydro is seeking approval to clear the 2016-19 Excess Expansion Deposits variances of $5.5 million (including carrying charges) to customers. Toronto Hydro is also seeking approval to maintain the Excess Expansion Deposits Variance Account for the 2020-2024 period.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 163:

Reference(s): **Exhibit 9, Tab 1, Schedule 1, p. 42**
EB-2015-0040 / Report of the Ontario Energy Board on Regulatory Treatment of Pension and OPEB Costs

Preamble:

Toronto Hydro discusses the mechanics of the Pension and OPEB differential tracking account that was introduced by the OEB (EB-2015-0040 / Report of the Ontario Energy Board on Regulatory Treatment of Pension and OPEB costs). Toronto Hydro noted that in accordance with the report it is a generic account for which utilities will not have to submit an accounting order (Exhibit 9 / Tab 1 / Schedule 1 / p. 42).

a) In its description outlining how the account operates, there is no indication provided by Toronto Hydro on how it intends to treat amounts that have accumulated within its Account 1508 – Other Regulatory Assets, Subaccount – OPEB Cash vs Accrual. If approved for disposition, the Report of the Ontario Energy Board on Regulatory Treatment of Pension and OPEB costs requires that balances within this account be transferred to the new differential tracking account as they are being recovered from ratepayers. Please confirm that Toronto Hydro intends to follow the guidance provided in the noted report.

RESPONSE:

Confirmed – Toronto Hydro intends to follow the guidance provided in the report.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 164:

Reference(s): **Updated Evidence, EB-2014-0116 Approved Accounting Orders, p. 8-9**

a) Please explain the status of the Variance Account for 2015 Opening Rate Base to Capture Prudence-Based ICM Disallowances. Specifically, advise whether this account was ever disposed and whether it has been or should be closed.

RESPONSE:

a) As per the OEB approved EB-2015-0173 Settlement Proposal, the Variance Account for 2015 Opening Rate Base to Capture Prudence-based ICM Disallowances was closed at a zero balance without any disposition.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 165:

Reference(s): **Exhibit 9, Tab 2, Schedule 1**

Preamble:

Toronto Hydro has filed an incomplete version of the OEB issued DVA continuity schedule.

a) Please confirm that it is Toronto Hydro's intention to file a completed version of the latest OEB issued DVA continuity schedule, which can be accessed on the OEB's website (released July 12, 2018), as part of its application update.

RESPONSE:

Yes, Toronto Hydro will file a completed version of the latest OEB issued DVA continuity schedule as part of its application update.

RESPONSES TO ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES

INTERROGATORY 62:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 8

Preamble:

Toronto Hydro is seeking recovery of this balance in the current application as changes in the underlying actuarial assumptions, in particular changes in discount rate, are not expected to substantially offset the actuarial loss incurred to date.

a) Confirm the differential between LC Bond rates and CAI FIERA Capital rate for the period 2016-2017

b) Confirm the discount rate for the most recent period

c) When was the last TH Actuarial Assessment Completed?

d) Please provide the consultants specific recommendations regarding the Valuation and discount rate.

e) Why did following the Valuation did not Toronto Hydro not raise the 3.5% discount rate to 4% to reduce the actuarial loss? Please explain in detail.

RESPONSE:

a) The average differential between LC Bond rates and CIA FIERA Capital rate for the 2016 to 2017 period was 1.61 percent.

b) At the time of filing the Application, the discount rate used for the most recent actuarial (extrapolation) report was 3.5 percent, as at December 31, 2017.

c) At the time of filing the Application, the last actuarial valuation was completed as at January 1, 2016 and the last actuarial extrapolation (only updated for discount rate revision) was completed for December 31, 2017.

d) For the last actuarial extrapolation completed for December 31, 2017, the consultants presented Toronto Hydro with the CIA Fiera rate of 3.43 percent and the Willis Towers Watson rate of 3.40 percent. Based on the two percentages provided, Toronto Hydro rounded to 3.50 percent as its discount rate at the time.

e) As noted above in part (d), at the time of filing the Application, Toronto Hydro used the discount rate from the last actuarial extrapolation completed by the consultants.

RESPONSES TO ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES

INTERROGATORY 63:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p. 36

The RSVA accounts are not being cleared until 2019 CIR proceeding. Will the resulting Rate rider be added to current Dispositions?

RESPONSE:

Toronto Hydro has proposed to clear the RSVA accounts for year-end balances as of December 31, 2017 as part of its 2019 Custom Incentive Rate-setting Update Application. As such, the resulting rate riders will not be added to the current dispositions for the 2020-2024 period, but included with the 2019 dispositions. As noted at Exhibit 9, Tab 1, Schedule 1, Section 5.1, December 31, 2018 year-end balances will be proposed for clearance when the 2018 RRR Report is finalized.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 95:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p.12

Please revise Table 3 to show the balance broken down into two categories, i) impact of useful life used to calculate the depreciation for meters, ii) all other reasons.

RESPONSE:

Please see the revised Table below.

Table 1: 2015-2019 CRRRVA Breakdown ($ Millions)

	2015 Actual	2016 Actual	2017 Actual	2018 Bridge	2019 Bridge	Total
Metering Useful Life Impact	0.0	(3.7)	(7.2)	(10.9)	(14.9)	(36.8)
Remaining Capital Variance	(2.7)	(2.1)	(7.1)	(11.0)	1.9	(20.8)
Sub-account 1508 - CRRRVA	(2.7)	(5.8)	(14.3)	(21.9)	(13.0)	(57.6)

Note: Rounding differences may exist.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 96:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p.10-13

Is the Toronto Hydro proposal to create a new CRRRVA for the 2020-2024 period or is to extent the existing account until 2024 so as to allow Toronto Hydro to make up any under-spending on capital during the 2020-2024 period to offset the forecast $57.6M credit owed to customers.

RESPONSE:

Please refer to Toronto Hydro's response to interrogatory 9-Staff-150.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 97:

Reference(s): Exhibit 9, Tab 1, Schedule 1, p.30

Please provide the full calculation of the working capital savings.

RESPONSE:

Please see Table 1 and Table 2 below for the calculation of working capital savings.

Table 1: Calculation for Working Capital savings related to Monthly Billing

	(A)	(B)		
	Decrease in revenue lag (%)[2]	Estimated reduction of AR/unbilled revenues (cumulative) [3]	[(A)*(B)] / 12 In millions	
September 2016	7.51	$5.0	$0.03	(a)
October 2016	7.51	$10.0	$0.06	(a)
November 2016	7.51	$20.0	$0.13	(a)
December 2016	7.51	$25.0	$0.16	(a)
January 2017[1]	7.51	$25.0	$0.16	(e)

Note 1: The assumption is that the savings will continue at the same flat rate going forwards.
Note 2: 2015-2019 THESL WACC (based on OEB's deemed structure)
Note 3: Based on assumption of percentage of relevant customers rolled into the monthly billing program each month in the transition period from September to December 2016.

Table 2: Working capital savings for 2016-2019 ($ Millions)

	2016	2017	2018	2019	Total
	$\sum$(a)	(e) * 12	(e) * 12	(e) * 12	
Working Capital Savings	$0.4	$1.9	$1.9	$1.9	**$6.1**

Note: rounding differences may exist

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES

INTERROGATORY 60:

Reference(s): Exhibit 9, Tab 1, Schedule 1

a) Is the purpose of sub-account 1508 THESL Externally Driven Revenue Requirement to capture variance related to projects done under the auspices of the Public Service Works on Highway Act (PSWHA)?

b) If yes, are there any project costs others than those subject to the PSWHA that might be included in this sub-account? If yes please describe what type of capital expenditure projects might be included (e.g. projects subject to developer capital contributions etc.)

RESPONSE:

a) Consistent with the OEB's decision in the utility's last rebasing application, the purpose of sub-account 1508 – Other Regulatory Assets, Subaccount – Externally Driven Capital Variance account is "to capture the difference between the amounts included in rates related to capital spending on third party initiated relocation and expansion projects and the amounts actually spent from 2015 to 2019.[1]" This account is not limited to projects done under the auspices of the *Public Service Works on Highways Act* ("PSWHA").

[1] EB-2014-0116, OEB Decision and Order (December 29, 2015) at page 50.

b) Please refer to the Externally Initiated Plant Relocation and Expansion program evidence at Exhibit 2B, Section E5.2.