

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: (416) 481-1967
Facsimile: (416) 440-7656

Rosemarie T. Leclair
Chair & CEO

Commission de l'énergie de l'Ontario
CP. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4
Téléphone: (416) 481-1967
Télécopieur: (416) 440-7656

Rosemarie T. Leclair
Président et Directrice Générale



January 13, 2012

Mr. Clare R. Copeland
Chair
Toronto Hydro Corporation
14 Carlton Street
Toronto, ON M5B 1K5

Dear Mr. Copeland

As you know, the Ontario Energy Board recently released its decision on Toronto Hydro's application for rate increases with a cumulative three-year impact of 49%, or \$14.43 per month, for a typical consumer (18.7%, or \$5.52 per month in 2012; 12%, or \$4.20 per month, in 2013; and 12%, or \$4.71 per month, in 2014). There has been much discussion in the media about the Board's decision and its impact on Toronto Hydro and its customers.

The Board is mandated to oversee the Province's electricity and natural gas sectors through effective, fair and transparent regulation. In doing so, the Board seeks to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.

In light of this serious responsibility, I believe that it is important to ensure that the Board's rate-setting processes, the Board's decision in this case and the options available to Toronto Hydro are clearly understood by Toronto Hydro and its customers.

The Board has developed and implemented a multi-year rate setting process, called IRM, to encourage utilities to maximize their efficiency while generating the revenue required to reliably deliver electricity to consumers. The process typically follows a four-year cycle, starting with a comprehensive review of revenue requirements. In the intervening years, the rate setting process provides for inflationary increases adjusted by a productivity measure. In addition, the Board's process also allows adjustments for unforeseen or extraordinary investment if the need arises, the Incremental Capital Module.

This is the rate-setting framework that the Board, in its recent decision, has indicated should be applied to Toronto Hydro.

Under the rate-setting framework set out above, utilities have maintained their annual level of capital spending throughout the IRM period consistent with the level approved in the initial review of revenue requirements. In the Board's view, that is good utility practice and based on our experience, that is how most other utilities in the province manage their capital programs.

The Board approved levels of capital spending for Toronto Hydro in the range of \$350 million in 2010 and \$378 million for 2011. The most recent Board decision does not limit Toronto Hydro's capital spending to \$140 million in 2012, as suggested in Toronto Hydro media commentary, and does not prevent Toronto Hydro from maintaining its capital budget at these historical levels. Additionally, Toronto Hydro can, and has been invited to apply under the Board's incremental capital module to get additional capital funding to meet any extraordinary requirements. The Board's decision suggests that, based on a preliminary review, certain capital projects contemplated by Toronto Hydro are directly analogous to projects that the Board has previously approved under an ICM for other distributors. In other words, if Toronto Hydro brought an application for an ICM and if that application was approved by the panel hearing the case, these projects could add \$86 million to invest in the utility's infrastructure needs. When this is added to previous spending levels, this could provide Toronto Hydro with a capital program in excess of \$450 million for 2012.

As I noted earlier, the OEB takes its responsibility very seriously. We are mindful of the importance of investing in infrastructure to maintain reliability while ensuring that customer rates remain just and reasonable. The Board's rate-setting framework combined with the incremental capital module is designed to achieve that important balance for consumers.

In its decision, the Board has encouraged Toronto Hydro to apply for an increased capital allowance under the rate-setting framework described above, and we continue to encourage Toronto Hydro to do so. If, however, Toronto Hydro believes that the Board has erred in its decision, there are remedies that it can pursue, either to the Board itself for a review or to the Courts by way of an appeal.

I trust that this information has been of some assistance. The Board looks forward to continuing to work cooperatively with Toronto Hydro to meet its customers' needs going forward.

Regards,



Rosemarie T. Leclair
Chair &CEO

cc : Toronto Hydro Board of Directors
Anthony Haines, President &CEO