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January 20, 2012

Rosemarie T. Leclair  
Chair & CEO  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> floor  
Toronto, Ontario  
M4P 1E4

Dear Ms. Leclair,

We received your letter dated January 13<sup>th</sup>. The Board of Directors and management of Toronto Hydro (TH<sup>TM</sup>) are also mindful of the importance of investing in infrastructure to maintain reliability while ensuring that customer rates remain just and reasonable. To address our concerns about service reliability while remaining mindful of the impact on rates, the Board of Directors and TH management have been driving to deliver large capital construction programs while increasing efficiency in the organization.

**Funding for Capital Expenditures Under the Incentive Regulatory Mechanism:**

An independent, qualified third party has verified that the IRM provides TH with approximately \$140,000,000 in funding through depreciation for capital programs (plus any additional amounts which may be approved under the OEB's Incremental Capital Module), as compared to the approximately \$380,000,000 that was approved by the OEB last year.

**System Deterioration and Reliability:**

Approximately 40 percent of power outages in Toronto last year were caused by equipment failures and we have not met the OEB's minimum reliability standards for local distribution companies for the past five years. At the request of the OEB, we conducted independent reviews of our equipment assessment methods. Both BIS Consulting LCC and Kinetrics have confirmed that TH's asset condition assessment methodology is industry best practice. In support of our 2009 rate filing, Capgemini found that, when comparing distribution system performance of major cities including those in the G8, TH's distribution system performance is significantly worse than other leading cities in terms of frequency and duration of outages. These studies have supported TH's OEB approved plans in three successive filings over the last five years.

**Unique Challenges:**

TH is facing several unique challenges. For example, our downtown grid was built in the 50's and 60's using paper insulated lead-sheathed power cables, which was the highest standard at the time. Due to the nature of these cables, a separate, highly skilled workforce

is required to maintain them, and very few utilities use lead cable today. There are only two suppliers of these cables remaining in the world with only one of these in North America. Our cables are aging, present an environmental safety risk, are in short supply, and must be replaced to ensure that we don't compromise the security of supply to downtown Toronto. It will take approximately 20 years to complete this work.

TH also conducts an ongoing contact voltage detection and remediation program. Working with the Electrical Safety Authority on a plan, in 2009 we spent approximately \$17,000,000 to assess and repair the end-of-life underground infrastructure. On an ongoing basis, we have been spending \$4,000,000 per year to scan city streets nightly. No other utility in Ontario is undertaking such a program.

Growth in Toronto also presents a significant challenge. According to the City of Toronto's Economic Development Committee, there were approximately 163 high-rise buildings under construction in Toronto in October 2011 – more than any other city in North America. In 2015 the City of Toronto is hosting the Pan Am Games, and TH's involvement will be substantial.

Despite the growth in customers and infrastructure demand, our revenues have not grown, principally due to the successful results of energy conservation programs.

#### **Workforce and Productivity:**

We continue to make good progress in these areas. Our overall employee headcount is down by 35 percent since the amalgamation of the former Metropolitan Toronto utilities, and the executive ranks have been reduced by 50 percent over the last few years. Mercer Canada Limited, in a report to the Board of Directors has stated:

“THC has a fair, competitive and effective performance management and compensation program. Compensation levels are well below median market practice and are at risk for delivered results. The systems and processes which support these programs are highly effective, reflect market best practice and have served as a role model for other LDC's in Ontario.”

We have made significant productivity gains across the organization. For example, absenteeism at TH is 15 percent below the average of all Canadian public and private sector companies and has improved by 34 percent over the past five years. According to a study done by Gartner, a leading information technology research and advisory company, “Toronto Hydro's total IT spend is 10% (or \$4.8M) less than what the peer groups would require on average to support the same workload.”

We have just completed our largest annual capital construction program while achieving 2,000,000 hours without a lost time injury in our workforce. This is the best safety record that we have ever achieved and is a 56 percent reduction in injuries since 2007.

As approved by the OEB, we have invested millions of dollars annually in our workforce renewal program. To date we have 120 new apprentices who are being trained in TH's trades school. The trade school is certified by the Ontario Ministry of Colleges and Universities, and is the only one of its kind in Ontario delivered by a local utility. This apprentice program is critical to enabling us to meet the future needs of TH as our aging workforce retires.

Approximately half of our capital construction work is competitively tendered to independent construction companies. The productivity of TH's internal resources has improved and now approximates that of the contractors. Our wrench-time productivity is in the "Industry Leading" category within the power industry as reported by Booz & Company (a leading global management consulting firm).

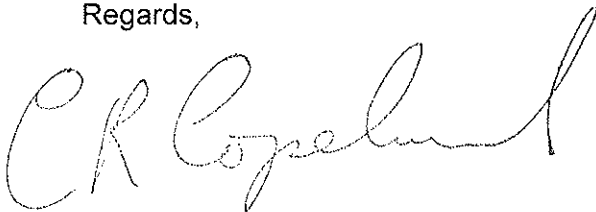
**Customer Service:**

TH has been a leader amongst local distribution companies in implementing a number of important programs that are aligned with the government's policies on smart meters, time-of-use rates and conservation and demand management programs. Today we have 700,000 customers with smart meters and bill over 650,000 on time-of-use rates. During the implementation of these important programs, call volumes substantially increased. We managed these challenges by deploying cost-effective resource strategies and a variety of communications channels. As a commitment to providing excellent customer service, TH consistently exceeds the OEB's minimum call response requirement.

**Toronto Hydro Rates:**

Since 2005, TH's distribution rates have remained virtually flat. We are sensitive to the fact that our application, if approved, would result in increases of approximately \$5 dollars per month per year for customers. We continue to believe in the need to renew Toronto's end-of-life infrastructure and look forward to an opportunity to present this case to the OEB. In light of the above, we will be filing a request to the OEB to review its decision shortly.

Regards,

A handwritten signature in black ink, appearing to read "CR Copeland". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Clare R Copeland