RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 5-STAFF-312

References: **Exhibit 5, Tab 1, Schedule 1, Page 7**
EB-2009-0084, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, Page 57
EB-2018-0165, 2020 Custom IR, Decision and Order, December 19, 2019, Page 153
Excel Appendix OA-OB, November 17, 2023
Excel Revenue Requirement Workforms (2025, 2026, 2027, 2028, and 2029), November, Tab 7 Cost of Capital, November 17, 2023
OEB Letter, 2024 Cost of Capital Parameters, October 31, 2023

Preamble:

Toronto Hydro stated that its short-term debt rate for ratemaking purposes is based on a "One-Month Banker's Acceptance rates (Bloomberg L.P.)", plus a five-basis point administration fee.

Toronto Hydro provided the following table in its evidence.

Table 5-1: Short-Term Rates

Year	Short Term Rates
2023	5.15%
2024	5.40%
2025	5.40%

OEB staff notes that Toronto Hydro has calculated its short-term debt rate for ratemaking purposes in a different manner than that set for electricity distributors in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities. However, the OEB accepted Toronto Hydro's different approach in its last Custom IR proceeding.

In Appendix-OA filed November 17, 2023, Toronto Hydro proposes a short-term debt rate of 5.25%. A short-term debt rate of 5.25% is also reflected in Toronto Hydro's Excel revenue requirement workforms for the rate years 2025 through 2029.

The deemed short-term debt rate of 6.23% for electricity distributors was issued by the OEB on October 31, 2023.

QUESTION (A) – (F):

a) Please confirm that to determine the final revenue requirement for 2025 and the subsequent years (i.e., 2026-2029), Toronto Hydro intends to use a short-term rate of 5.25%, or a different rate as updated through interrogatories. If this is not the case, please explain.

b) Please explain why a short-term debt rate of 5.40% is reflected in Toronto Hydro's Table 6, but a different rate of 5.25% is used in Appendix-OA and the Excel revenue requirement workforms for the rate years 2025 through 2029.

c) Please provide the supporting calculations for the short-term debt percentages shown in Toronto Hydro's Table 6 and Appendix-OA, including which Bloomberg ticker(s) was used.

d) Please confirm that the manner in which Toronto Hydro has calculated its short-term debt rate and to determine the final revenue requirement for 2025 and the subsequent years (i.e., 2026-2029), is consistent with that approved by the OEB in Toronto Hydro's 2020 Custom IR proceeding. If this is not the case, please explain.

e) Please explain why it is appropriate for Toronto Hydro to continue to depart from using the deemed short-term debt rate approved by the OEB (which is generally used by other electricity distributors).

f) Please explain the impact on Toronto Hydro's 2025 through 2029 revenue requirements if Toronto Hydro used the deemed short-term debt rate of 6.23% issued by the OEB on October 31, 2023.

RESPONSE (A) – (F):

To determine the final revenue requirement for the purpose of setting rates, at the time of Draft Rate Order, Toronto Hydro intends to update the short-term rate based on the deemed short-term debt rate to be issued by OEB in October 2024.

Table 6 provided forecasted short-term rates for the respective years. For the year 2023, forecasted rate was provided based on short-term rates that prevailed in Q3, 2023. For the years 2024 and 2025, an additional 25 basis points were added to factor in the possibility of an interest rate hike. However, given the uncertainty related to future monetary policy changes, for the 2025-2029 revenue requirement workforms included in the pre-filed evidence, Toronto Hydro applied the most recent actual short-term rate in Appendix-OA.

The utilization of the 6.23% rate issued by OEB will change the cost of capital from 6.17% to 6.21% and it will result in an increase of $2.3M in revenue requirement. Toronto Hydro notes that the rate issued by the OEB was not applied in the pre-filed evidence because the revenue requirement evidence was already locked-down by that point in time.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 5-STAFF-313

References: **Exhibit 5, Tab 1, Schedule 1 , Pages 4, 6**
Excel Appendix OA-OB, November 17, 2023
Exhibit 1C, Tab 3, Schedule 6
OEB letter, 2024 Cost of Capital Parameters, October 31, 2023
Excel Revenue Requirement Workforms (2025, 2026, 2027, 2028, and 2029), November, Tab 7 Cost of Capital, November 17, 2023

Preamble:

Toronto Hydro stated that is had an all-in coupon rate of 4.93% on Toronto Hydro Corporation's (THC) 30-year issuance on August 28, 2023. However, OEB staff could not find this bond listed in Toronto Hydro's Appendix OB Debt Instruments for the rate year 2025.

In Appendix OB, Toronto Hydro indicated that on October 2, 2023, it had issued a debenture for $200,000,000 with a rate of 5.25%, however, no promissory note was filed in Toronto Hydro's evidence in Exhibit 1C. Also, "Table 5: Forecasted Long-Term Debt Issues" on page 6 of Exhibit 5 shows a forecasted rate of 5.00% and not 5.25% for the debt issued in October 2023.

The deemed long-term debt rate of 4.58% for electricity distributors was issued by the OEB on October 31, 2023.

Toronto Hydro has calculated a long-term debt rate of 3.95% in Appendix OB for the 2025 rate year. A long-term debt rate of 3.95% is also reflected in Toronto Hydro's Excel revenue requirement workforms for the rate years 2025 through 2029.

QUESTION (A):

a) Please reconcile the debt that Toronto Hydro stated was issued on August 28, 2023 with the debt issuances shown in Appendix OB.

RESPONSE (A):

The all-in coupon rate of 4.93% for 30-year THC debt issuance as at August 28, 2023 was an indicative rate mentioned in the context of comparing credits spreads and absolute all-in-yields between 2022 and 2023. There was no actual issuance of THC debt on August 28, 2023.

QUESTION (B):

b) Please provide the promissory note for the debenture issued October 2, 2023 for $200,000,000, explain whether the rate was 5.00% or 5.25%, and update the evidence as required.

RESPONSE (B):

The promissory note issuances mentioned in Table 5 were forecasted long-term debt issuances. There was no THC promissory note issuance on October 2, 2023. Toronto Hydro issued $200M promissory note at an all-in coupon rate of 5.18% on October 12, 2023. Toronto Hydro has updated Appendix OA-OB to reflect the same, which is attached as Appendix A to this interrogatory response.

QUESTION (C):

c) If any debt instruments have been issued since the preparation of the pre-filed evidence for the current proceeding, please update the relevant evidence (including Appendix OA and Appendix OB), and provide a copy of the relevant promissory note(s).

RESPONSE (C):

Please see the attached Appendix A and B to this response.

QUESTION (D) AND (E):

d) For each promissory note shown on Appendix OB with rates greater than the current deemed long-term debt rate of 4.58%. please provide the following:

i. The start date of the debt.

ii. The deemed long-term debt rate in place at the time the debt was issued

iii. The need for the debt and rationale supporting taking the debt at the rate offered

e) Please provide rationale supporting the need for the forecasted debt issues shown in Appendix OB, including any specific capital project(s) that the debt funding is for.

RESPONSE (D) – (E):

Toronto Hydro is assigned debt through promissory notes from its parent, Toronto Hydro Corporation. These promissory notes are written on the same market terms as the parent debt applicable to Toronto Hydro Corporation (plus an additional five basis points for an administration fee). Toronto Hydro has the following promissory notes with rates greater than 4.58 percent:

Description	Amount ($)	Rate (%)	Start Date of the debt	Deemed long-term debt rate at the time of issuance (%)	Issuance - Actual/ Forecast
2022 Series 19	300,000,000	5.00%	13-Oct-22	3.49%	Actual
2023 Series 20	250,000,000	4.66%	14-Jun-23	4.88%	Actual
2023 Series 21	200,000,000	5.18%	12-Oct-23	4.88%	Actual
2024 Series 22	200,000,000	5.85%	01-Nov-24	4.58%	Forecast
2025 Series 23	300,000,000	5.45%	07-Jul-25	NA	Forecast

Toronto Hydro issues debt to fund its capital and operational requirements and to refinance its maturing debt. For actual issuances, the rate reflects market conditions at the time of issuance. The variance to the deemed long-term debt rate issued by OEB is mainly due to timing differences, as OEB issued rates are calculated based on bond yields during the month of September for the prior year.

QUESTION (F):

f) Please confirm that to determine the final revenue requirement for 2025 and the subsequent years (i.e., 2026-2029), Toronto Hydro intends to use a long-term rate of 3.95%, or a different rate as updated through interrogatories. If this is not the case, please explain.

RESPONSE (F):

Toronto Hydro intends to use a long-term rate that it updates through the interrogatories.

PROMISSORY NOTE

Principal Sum Cdn$200,000,000.00

FOR VALUE RECEIVED, the undersigned hereby unconditionally promises to pay to the order of Toronto Hydro Corporation ("THC") on October 12, 2028 (the "Due Date") the principal sum of **Two Hundred Million Dollars ($200,000,000.00)** (the "Principal Sum") in lawful money of Canada at 14 Carlton Street, Toronto, Ontario M5B 1K5, or such other place as THC may designate by notice in writing to the undersigned and to pay interest on the Principal Sum at the rate of **5.18**% per annum calculated and accruing from the date hereof to the Due Date and thereafter until the Principal Sum is repaid to THC.

Interest shall be calculated and payable semi-annually in arrears in equal instalments on the 12th of April and the 12th of October in each year at the same address where the 12th of April or the 12th of October is a Business Day. Where the 12th of April or the 12th of October is not a Business Day, then the interest shall be payable on the following Business Day. For the purpose of this Promissory Note, a "Business Day" shall mean a day on which banks are open for business in the City of Toronto, Ontario but does not include Saturday, Sunday, or a statutory holiday in the Province of Ontario. Interest both before and after default and judgment on the principal amount and overdue interest shall be payable at the aforementioned rate.

All payments or any part thereof may be extended, rearranged, renewed or postponed by THC. On or after September 12, 2028 (1 month prior to the Due Date), THC may demand payment of the Principal Sum outstanding, together with accrued and unpaid interest to the date of the demand at its option, in whole at any time or in part from time to time, on not more than 60 and not less than 10 days prior notice, and the undersigned shall make payment of such amount as demanded. No delay or failure by THC to exercise any right or remedy against the undersigned shall be construed as a waiver of that or any right or remedy nor shall any waiver hereunder be deemed to be a waiver of subsequent default.

The undersigned hereby waives presentment, demand, protest or other notice of every kind in the enforcement of this promissory note. All amounts owning hereunder will be paid by the undersigned without regard for any equities between the undersigned and THC or any right of set-off or cross-claim.

In the event of a default hereunder the undersigned agrees to pay all expenses, including without limitation, reasonable legal fees (on a solicitor and his own client basis), incurred by THC in endeavoring to enforce its rights hereunder.

This promissory note is non-negotiable and non-assignable without the prior written consent of the undersigned.

DATED at Toronto, Ontario, effective as of the 12th day of October, 2023.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

By: ______________________

Name: Anthony Haines
Title: President and Chief Executive Officer

By: ______________________

Name: Celine Arsenault
Title: EVP and Chief Financial Officer

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 5-STAFF-314

References: **Exhibit 5, Tab 1, Schedule 1, Page 1**
EB-2009-0084, OEB Report, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, Page 50
Filing Requirements For Electricity Distribution Rate Applications - 2023 Edition for 2024 Rate Applications, Chapter 2 Cost of Service, December 15, 2022, Page 36

Preamble:

Toronto Hydro proposes to set its capital structure for ratemaking purposes in accordance with the OEB's cost of capital policy (EB-2009-0084) issued on December 11, 2009 (OEB Report). Toronto Hydro's debt to equity split for the test years is set at 60:40, with the debt component including a deemed 4% short-term debt component.

The OEB's filing requirements require explanations for material changes in actual capital structure or material differences between actual and deemed capital structure.

QUESTION (A) - (C):

a) Please provide Toronto Hydro's actual debt to equity ratio for each year 2020 to 2023.
b) Please explain any material differences between the actual debt to equity ratio for each year 2020 to 2023 and the deemed ratio of 60:40 previously used to set rates.
c) Please explain any material changes in the actual capital structure for the period 2020 to 2023, year-over-year.

RESPONSE (A) – (C):

Please see the table below for Toronto Hydro Consolidated (THC) debt-to-capital and debt-to-equity ratios. Toronto Hydro manages these ratios are the consolidated company level for the purpose of enabling public debt issuances. As shown below, the average ratios over the current rate period are aligned with the OEB deemed capital structure.

Table 1: Toronto Hydro Consolidated Debt-to-Capital and Debt-to-Equity Ratio

	2020	2021	2022	2023	Average
Debt-to-Capital	57.1%	57.8%	60.0%	61.5%	59.1%
Debt-to-Equity	1.33	1.37	1.50	1.60	1.45

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 5-STAFF-315

Reference: **Exhibit 5, Tab 1, Schedule 1, Pages 1, 2**
EB-2009-0084, OEB Report, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, December 11, 2009, p. 50

Preamble:

Toronto Hydro proposes to set its capital structure for ratemaking purposes in accordance with the OEB Report. Toronto Hydro's debt to equity split for the test years is set at 60:40, with the debt component including a deemed 4% short-term debt component.

Toronto Hydro also stated that to determine the final revenue requirement for 2025 and the subsequent years (i.e., 2026-2029), Toronto Hydro intends to rely on the ROE set by the OEB in the final quarter of 2024.

QUESTION (A):

a) Under current and forecasted macroeconomic conditions, what are the key business risks and financial risks faced by Toronto Hydro?

RESPONSE (A):

As detailed through the evidence in this application, Toronto Hydro faces existing and emerging business and financial risks including, but not limited to:

- Operational risk with respect to aging infrastructure, technical obsolescence and other critical asset risks that can result in failure and service interruptions.
- Protecting against rising cybersecurity threats is a critical business risk that Toronto Hydro must continue to manage as the grid and utility operations become more interconnected and digitized.

- The need for significant investments in infrastructure and human capital, coupled with a regulatory framework that does not permit full and sufficiently timely cost recovery, puts pressure on Toronto Hydro's balance sheet and financial metrics which the utility must continue to manage effectively to maintain its credit rating and favourable market borrowing costs.
- Fluctuations in interest rates can impact borrowing costs and financial stability, as Toronto Hydro continues to incur and carry a significant amount of debt to finance its capital work program.
- Macroeconomic uncertainty (e.g. as observed with the pandemic), shifts in energy consumption patterns, the proliferation of distributed energy resources, and changes in customer behavior driven by policy and technology evolutions affect the predictability of year-over-year customer demand and revenue.
- The adoption of new technologies, such as grid automation, energy storage systems, and advanced metering infrastructure carries implementation and operational risks, including ensuring that the workforce has the necessary skills to operate and maintain these technologies.
- Labour market shortages and high-demand for specialized skills creates competition for top talent, and places incremental risk on the ability to attract and retain skilled employees.
- Maintaining a productive working environment that is necessary to deliver customer outcomes requires effective employee relations strategies to maintain high employee engagement and satisfaction, and to avoid labour unrest which can disrupt operations, impact business continuity and lead to service interruptions.
- Supply chain disruptions and fluctuations in the prices of critical materials and services observed in recent years pose incremental risks to the execution of the utility's capital program.
- Navigating changing consumer needs and preferences as more customers automate and digitize their homes and businesses, and adopt electrified technologies such as EVs and heat pumps, increasing their dependence on electricity for day-to-day energy needs.

- An incentive-based regulatory framework which places a greater degree of risk on Toronto Hydro's profitability based on the achievement of performance outcomes that provide value to customers.
- Climate change-related events, such as storms and floods, can damage infrastructure and disrupt operations, leading to increased maintenance and repair costs.
- Inherent safety risks for employees and the public arising from the nature of the electricity distribution business.
- Legal challenges, such as lawsuits related to environmental issues, safety concerns, or contractual disputes, can lead to financial losses and damage the company's reputation.
- Failure to comply with regulatory requirements, safety standards, financial reporting obligations, or environmental regulations can result in administrative fines and penalties and reputational risk.

QUESTION (B):

b) Please identify and explain how all risk factors were considered by Toronto Hydro, including energy transition risk, volumetric risk (i.e., energy and demand), financial risk, operational risk, and regulatory risk. Has Toronto Hydro taken into account these risks in its evaluation of its business risk and financial risk, its requested allowed ROE, and its requested deemed capital structure?

RESPONSE (B):

With respect business enterprise risks as outlined in part (a) above, Toronto Hydro's proposed ROE and deemed capital structure is aligned with existing OEB policy as set out in reference 2, and the follows the guidance articulated in section 2.5 of the OEB's Chapter 2 of the Filing Requirements. In this application, Toronto Hydro is not proposing a distributor-specific cost of capital and/or capital structure, as the utility believes that the current cost of capital parameters continue to be appropriate for setting its 2025-2029 rates on a just and reasonable basis.

Toronto Hydro's Custom Rate Framework as outlined in Exhibit 1B, Tab 2, Schedule 1, appropriately allocates risk and benefit between the utility and the ratepayers with respect to the execution of the proposed 2025-2029 Investment Plan, the ability to recover prudent and necessary costs to deliver the plan and maintain a fair return, and the achievement of productivity and performance outcomes that provide demonstrable value to customers.

QUESTION (C):

c) Please explain whether Toronto Hydro's view is that OEB regulation can mitigate all business risks and financial risks, including the risk associated with the energy transition, or that there are certain business risks and financial risks that cannot be mitigated by regulation.

RESPONSE (C):

Toronto Hydro's view is that OEB regulation should be responsive to the existing and evolving business conditions that Toronto Hydro faces, and contemplate how to use existing and evolved regulatory mechanisms to enable and incent the utility to effectively manage its business and deliver its outcome-based multi-year plan within these business conditions. All of this should be done in harmony with the OEB's statutory objectives and the principles of performance-based regulation, including (i) protecting consumers with respect to price and service quality outcomes in the near and long-term, (ii) aligning and balancing the interests of ratepayers and utilities, and (iii) safeguarding financial viability by maintaining the opportunity for the utility and its shareholder to earn a fair return on investment.

/C

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES

INTERROGATORY 5-STAFF-316

References: Exhibit 5, Tab 1, Schedule 1, Pages 1, 2
Exhibit 1C, Tab 3, Schedule 7, Appendix A and Appendix B

Preamble:

OEB staff requests further information from Toronto Hydro that relates to its requested allowed ROE and deemed capital structure and other utility comparables.

Toronto Hydro has provided its rating agency reports in Exhibit 1C, as follows:

- Appendix A: S&P, May 11, 2023
- Appendix B: DBRS, May 1, 2023

QUESTION (A):

a) Please provide any subsequent rating agency reports from S&P and DBRS issued after May 2023.

RESPONSE (A):

There are no Toronto Hydro specific subsequent rating agency reports.

QUESTION (B):

b) Please explain whether any rating agency has expressed concerns with Toronto Hydro's requested allowed ROE and requested deemed capital structure.

RESPONSE (B) :

The credit rating agencies have not expressed any concerns about Toronto Hydro's requested allowed ROE or requested deemed capital structure.

QUESTION (C):

c) Has Toronto Hydro performed any analysis that compares its business risk and financial risk, its requested allowed ROE, and its requested deemed capital structure to other large electricity distribution companies in Canada or the U.S.? If so, please provide that analysis.

RESPONSE (C):

Toronto Hydro has not performed such analysis for the reasons noted in 5-Staff-315(b) .

QUESTION (D):

d) Please confirm that Toronto Hydro has lower business risk and financial risk than most other Ontario electricity distributors due it being able to leverage its sheer size (i.e., considering operational efficiencies and economies of scale). If this is not the case, please explain.

RESPONSE (D):

No. This statement is incompatible with current OEB policy, as set out in EB-2009-0084 affirmed in numerous rates proceedings since then, whereby the OEB determined that the business and financial risks of local distribution companies (LDCs) in the province are sufficiently comparable for the purposes of determining the cost of capital parameters to be applied for setting just and reasonable distribution rates. Additionally, this statement is also contrary to the extensive evidence on record in this application, including an empirical Total Cost Benchmarking study (Exhibit 1B, Tab 3, Schedule 3, Tab 3, Appendix A) as well the responses to interrogatories 2B-Staff-121 and 5-Staff-315, which demonstrates that Toronto Hydro continues to face many existing and emerging business risks, challenges and costs associated with maintaining and operating a complex and mature distribution system, and serving the diverse needs of customers in a large urban service territory.

QUESTION (E):

e) Please explain whether Toronto Hydro has any problems attracting capital and provide a comparison of the rates it has recently borrowed at, compared to its utility peers.

RESPONSE (E):

Toronto Hydro has successfully attracted equity and debt capital to date at rates consistent with those established and funded through the OEB cost of capital framework.

QUESTION (F):

f) Please provide evidence that shows how Toronto Hydro's key actual financial metrics have trended from 2016 through 2023.

RESPONSE (F):

The key financial metrics that Toronto Hydro monitors for capital structure purposes are debt to capitalization (D/C) ratio and adjusted funds from operations to debt (AFFO/Debt).

Table 1: 2016-2023 Key Financial Metrics for Credit Standing

THC	2016	2017	2018	2019	2020	2021	2022	2023
Debt-to-Capital	62.2%	55.6%	54.1%	55.1%	57.1%	57.8%	60.0%	61.5%
AFFO-to-Debt (S&P)	18.4%	16.7%	17.3%	18.0%	12.6%	13.1%	10.3%	11.9%

RESPONSES TO CONSUMERS COUNCIL OF CANADA INTERROGATORIES

INTERROGATORY 5-CCC-62

Reference: Exhibit 5, Tab 1, Schedule 1, Page 1

Toronto Hydro sets its capital structure according to the OEB's Cost of Capital guidelines. The debt/equity split included in the calculation of the revenue requirement is 60:40. Given that as compared to Toronto Hydro's last Custom IR plan this plan reduces Toronto Hydro's business risk by including the Demand-related Variance Account and cost of service treatment for OM&A costs why does a 40% equity component remain appropriate for Toronto Hydro?

RESPONSE:

Please see the response to Interrogatory 5-EP-34(b).

RESPONSES TO ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES

INTERROGATORY 5-EP-34

Reference: **Exhibit 5, Tab 1, Schedule 1, Page 1, Capital Structure**
Exhibit 9, Tab 1, Schedule 1, Page 27

Preamble:

"Toronto Hydro's sets its capital structure for ratemaking purposes in accordance with the OEB's Cost of Capital guidelines issued in EB-2009-0084, Report of the Board on the Cost of Capital for Ontario's Regulated Utilities (December 11, 2009) ("Report of the Board"). For Toronto Hydro, the debt to equity split for the test years is set at 60:40. The debt component in each year includes a deemed 4 percent short-term debt component".

QUESTION (A):

a) Is Toronto Hydro's debt to equity split of 60:40 the same as that of other electricity distributors regulated by the OEB?

RESPONSE (A):

To the best of Toronto Hydro's knowledge, and in keeping with the OEB Decision in its generic cost of capital proceeding (EB-2009-0084), the OEB has consistently applied the 60:40 debt-to-equity split to all electricity distributors in the province.

QUESTION (B):

b) Please confirm that the proposed Custom IR lowers the business risk of Toronto Hydro. If the answer is no, please explain why not?

RESPONSE (B):

No. Toronto Hydro's Custom Rate Framework as outlined in Exhibit 1B, Tab 2, Schedule 1, appropriately allocates risk between the utility and the ratepayers with respect to the execution of the proposed 2025-2029 Investment Plan, the ability to recover prudent and necessary costs to deliver the plan, and the achievement of productivity and performance outcomes that provide demonstrable value to customers.

Custom IR is a performance-based rate-setting ("PBR") approach that carries multi-year business risk for utilities. The proposed framework focuses on outcomes: further shifting considerable business performance and earnings risk onto the utility to the benefit of customers. As noted in the response to 1B-EP-12(f) and demonstrated in the response to 1B-Staff-12(a), the utility faces a significant revenue deficiency (earnings risk) of approximately $81 million under the proposed rate framework, which can only be mitigated through the attainment of productivity and performance objectives that provide demonstrable benefits to customers in the next rate period and beyond. Please see the response to 1B-SEC-13 for an analysis of the financial risk that the utility carries in the proposed Custom Rate Framework relative to minimum direct customer benefits that the Performance Incentive Mechanism delivers.

Please see the response to 5-Staff-315 for a discussion of the enterprise risks that Toronto Hydro faces.

QUESTION (C) :

c) Please confirm that the recent OEB decision in EB-2023-0143 Getting Ontario Connected Act Variance account lowers the regulatory risk of Toronto Hydro.

RESPONSE (C):

The variance account does not reduce regulatory risk, since the recovery of the costs tracked in this variance account remain subject to a future, OEB prudence review, as affirmed in the OEB's Decision and Order (October 31, 2023).

QUESTION (D):

d) If the OEB approves Toronto Hydro's Custom IR, should it adjust the debt to equity split commensurate with the reduction in the business risk and regulatory risk? Please explain your answer.

RESPONSE (D):

Respectfully, the question confuses two entirely separate constructs: (i) the Custom IR framework and (ii) the OEB's cost of capital parameters.

With respect to (i) the OEB established the Custom Incentive Rate-setting (CIR) option through the Renewed Regulatory Framework in October 2012. Neither the purpose, nor the effect, of CIR was to alter business or regulatory risk for utilities. The public interest purpose and effect were to establish a means of escalating utility investments required to meet rapidly growing grid and customer needs more effectively and efficiently than other forms of OEB Performance-Based Rate-setting (PBR). As noted in the response to (b) above, business and financial risk has not been reduced under the proposed Custom Rate Framework. Through the PIM, the proposed framework places a significant incremental business performance and earnings risk on the utility to the benefit of ratepayers.

With respect to (ii) the OEB established the cost of capital policy in EB-2009-0084, and determined that the current deemed capital structure of 60% debt, 40% equity is appropriate for all electricity distributors, and the use of a formula-based equity risk premium approach continues to meet the Fair Return Standard (FRS). In 2016, the OEB affirmed that the 2009 cost of capital framework remained appropriate for all distributors. To the best of Toronto Hydro's knowledge, the OEB has consistently applied these cost of capital parameters to every electricity distributor in the province.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 5-SEC-117

Reference: Exhibit 5, Tab 1, Schedule 1, Page 1

With respect to its proposed capital structure, please provide a copy of any analysis undertaken by, or for, Toronto Hydro since 2016, regarding changes in its business and/or financial risk

RESPONSE:

Toronto Hydro has not undertaken specific analysis of its proposed capital structure since 2016 that is related to changes in its business and/or financial risk.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 5-SEC-118

Reference: Exhibit 5, Tab 1, Schedule 1, Page 6

With respect to the forecast long-term debt issuances:

QUESTION (A) :

a) Please provide the basis for the corporate spread estimates.

RESPONSE (A):

The corporate spreads on the forecast long term debt issuances were based on credit spreads of A rated utility companies. The average 10-year and 30-year credit spreads for A rated utilities during the twelve months ended July 31, 2023 were ~145 basis points and ~165 basis points respectively. The highest 10-year and 30-year credit spreads for A rated utilities during the same period were ~165 basis points and ~185 basis points respectively.

A credit spread of 150 basis points was used for the 10-year $200M Series-21 promissory note planned in October 2023. A credit spread of 190 basis points, was used for the 30-year $200M Series-22 promissory note planned in November 2024 and a credit spread of 170 basis points was used for the 10-year $300M Series-23 promissory note planned in July 2025. The highest spreads seen during the twelve-month period were used for both Series-22 and Series-23 to compensate for market risks.

QUESTION (B)

b) Toronto Hydro states that the debt rates are based, in part, on the 10 and 30 year-Government of Canada Bond Yield from Bloomberg L.P. Is this the current Bond Yields, or forecast Bond Yields?

RESPONSE (B):

They are forecast bond yields.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES

INTERROGATORY 5-SEC-119

Reference: Exhibit 5, Tab 1, Schedule 1, Page 7

What is the interest rate that Toronto Hydro pays on its revolving credit facility?

RESPONSE:

Since there has been no draw down on the credit facility, Toronto Hydro pays no interest on the facility. However, if Toronto Hydro had to draw down on the facility, then the interest rate would be CORRA (Canadian Overnight Repo Rate Average) plus 80 basis points.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES

INTERROGATORY 5-VECC-76

Reference: Exhibit 5, Tab 1, Schedule 1, Page 7

QUESTIONS (A) AND (B) :

a) Please clarify whether it is THESL's intention to apply the Board's deemed short-term debt rate (as updated in 204) or apply an updated forecast based on the methodology described at the above reference, for the short term debt component of the cost of capital.

b) If the latter please explain the reasons it is reasonable for ratepayers to pay an additional 5 basis point administration fee for access to short-term debt.

RESPONSE (A) AND (B):

Yes, it is Toronto Hydro's intention to apply the Board's deemed short-term debt rate for the short-term debt component of the cost of capital. Please refer to the response to 5-Staff-312(d).

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES

INTERROGATORY 5-VECC-77

Reference: Exhibit 5, Tab 1, Schedule 1, Pages 5-7

QUESTION (A):

a) Please provide an update as to the actual rate to be applied for the $200m note to be issued October 15, 2023.

RESPONSE (A):

The Series-21 $200M promissory note was issued on October 12, 2023 at a coupon rate of 5.18% maturing October 12, 2028. The coupon rate included an underlying Government of Canada bond yield of 4.16% and a credit spread of 102 basis points.

QUESTION (B):

b) Please explain why it is appropriate to include a basis point administration fee on this debt.

RESPONSE (B):

The 5 basis points administration fee on this debt is consistent with prior rate applications filed and approved that included the same administration fee.

QUESTION (C):

c) Does the rate for all of the other notes shown in Table 4 all include a similar 5 basis point administration fee?

RESPONSE (C):

Yes. All the promissory notes issued by Toronto Hydro include an additional spread of 5 basis points.

QUESTION (D):

d) Please explain what costs administration fees recoup as distinct from the various Finance Costs paid by ratepayers in OM&A and as shown in Appendix 2-JC.

RESPONSE (D):

The costs included in the administration fee of 5 basis points include but are not limited to the following: (i) Management's monitoring of market financial data to recommend the size, term, and timing of any debt issuance(s) (ii) the preparation of materials for Audit and Board approval of the recommendation to issue debt (iii) the selection of a lead bank dealer(s) to work with the Toronto Hydro Corporation on the preparation of all due diligence materials and to advise on market timing and execution, and (iv) the co-ordination of all documentation in order to successfully price and close a transaction with investors. The nature of these costs is consistent with the costs included and approved in Toronto Hydro's previous rate application (EB-2018-0165).