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July 13, 2007

Councillor Paula Fletcher
City Hall
100 Queen Street West, Suite C44
Toronto, ON M5H 2N2

Dear Councillor Fletcher,

Further to our conversation yesterday regarding the information released by Toronto Hydro at a meeting on July 10th, I want to state emphatically that neither Toronto Hydro nor Hydro One is pursuing any option such as the so called "Third Line" as the preferred solution to the security of supply issues facing the city. Minister Duncan has made it very clear that the government does not support the Third Line as an option and we support that opinion. The meeting in question was part of our outreach to our stakeholders as we prepare for our 2008 rate application to the Ontario Energy Board. Unfortunately a piece of outdated information was included in the presentation, which gave the impression that Toronto Hydro and Hydro One were pursuing the "Third Line" option. Nothing could be further from the truth. I would like to apologize for this misinformation and as the head of Toronto Hydro Corporation, I take full responsibility for this unfortunate incident.

The material that has been provided to you by Mr. Gibbons has been taken out of context, and it was made very clear by my staff to all in attendance that Toronto Hydro is, first and foremost, committed to seeking demand side management and distributed generation solutions to the supply concerns that all parties recognize must be addressed. This is consistent with public statements from the Minister and Ontario Power Authority. Toronto Hydro will continue to seek solutions to this issue through prudent conservation measures, using the tools that have been made available to us by the provincial government.

I know that you understand that we must find a solution to the supply constraints to Toronto as soon as possible. We will ensure that the process that is put in place to find the answers is open, transparent, includes a significant focus on DSM, and will meet the needs of Toronto. We have

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serious concerns about the security of our supply in that we do not have enough capacity in the transmission lines feeding Toronto to switch between these lines, should there be a failure of one or both of the lines. Our objective is to finally begin to address the issue and no longer ignore a problem that has been building for the last 20 years. Our intention is to explore all options to find an acceptable solution that provides adequate security for Toronto's electricity supply.

The preferred solution is DSM and other conservation options and we are committed to full public discussion about this. I want to reiterate that we are not pursuing any options other than DSM and other conservation measures. You have my personal commitment that conservation will always be our priority as a first line of defence against the infrastructure issues that we face. We have committed hundreds of millions of dollars to maintain and rebuild our distribution system in Toronto, and we will continue to supplement our capital expenditures by using all options available to us to meet demand growth through conservation.

Toronto Hydro Corporation has taken the lead on so many DSM initiatives. We have much more to do, and we are pushing forward aggressively. Please be assured that we will be looking to fully exploit DSM opportunities in the context of resolving the security of supply issue, and that we will be seeking your assistance in this regard.

Sincerely,



David S. O'Brien
President and Chief Executive Officer

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Cc: The Honourable Dwight Duncan, Minister of Energy
Mayor David Miller
Peter Tabuns, MPP (Toronto-Danforth)
Dr. Jan Carr, Chief Executive Officer, Ontario Power Authority
Jack Gibbons, Chair, Ontario Clean Air Alliance
Laura Formusa, Acting President and CEO, Hydro One Inc.