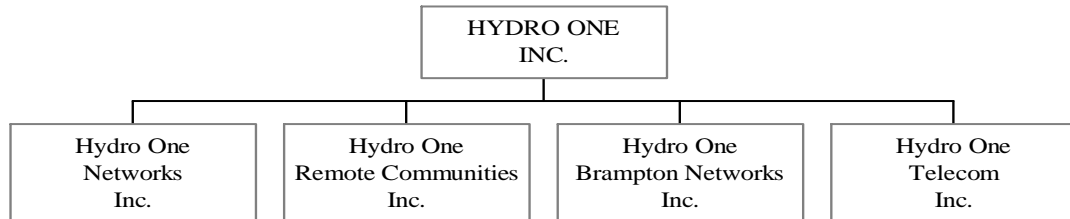


1 **Figure 1**
2 **Hydro One Inc.**



3
4 **3.0 HYDRO ONE NETWORKS INC.**

5
6 Hydro One is the primary subsidiary of Hydro One Inc. Its principal mandate is
7 established by Section 48 (1) of the *Electricity Act, 1998*, which states:

8
9 “The objects of Hydro One Inc. include, in addition to any other objects,
10 owning and operating transmission systems and distribution systems
11 through one or more subsidiaries.”

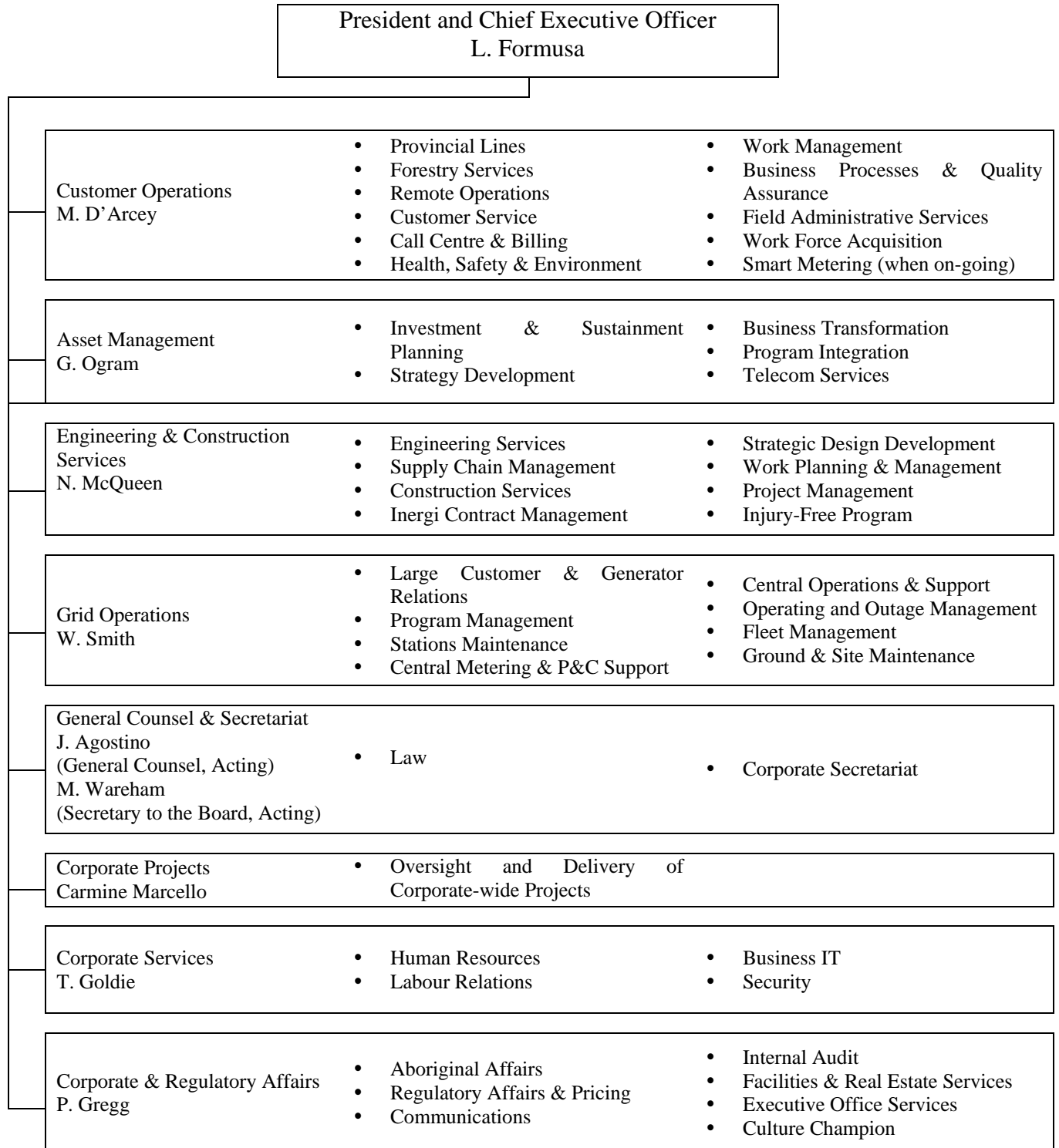
12
13 Accordingly, Hydro One, as a subsidiary of Hydro One Inc., is permitted to carry on
14 business related to the ownership, operation and management of both electricity
15 transmission and distribution systems and facilities, under a separate Board-approved
16 licence for each of its transmission and distribution businesses. A copy of Hydro One’s
17 distribution licence is provided in Exhibit A, Tab 6, Schedule 1.

18
19 Hydro One’s businesses are carried out by four operating divisions (Customer
20 Operations, Asset Management, Engineering and Construction Services and Grid
21 Operations). There are also four service groups (Law, Finance, Corporate Services and
22 Corporate and Regulatory Affairs). An organization chart indicating these divisions and
23 the main functions of each is provided in Figure 2.

1
 2

Figure 2

Hydro One Networks Inc. Organization



3

1 **4.0 HYDRO ONE’S DISTRIBUTION BUSINESS**

2
3 As stated earlier, Hydro One is mandated and licensed to provide both the transmission
4 and distribution of electricity to customers in Ontario. Operating both businesses from the
5 one corporation has enabled Hydro One to take advantage of a multi-skilled work force.
6 Efficiencies have been realized through the sharing of certain facilities and equipment,
7 where possible. For example, in 2004, the rationalization and amalgamation of a number
8 of facilities (the Transmission and the Distribution Operations Management Centres and
9 twelve transmission operating centres) were completed. This has enabled the monitoring,
10 control and operation of all of the Company’s transmission and much of the distribution
11 assets from one location – the Ontario Grid Control Centre (“OGCC”).

12
13 Although staff, equipment and facilities may be shared, the definition of work specific to
14 the Distribution Business is undertaken annually and appropriate systems, processes and
15 models provide for the isolation of costs related to this work. High level descriptions of
16 the work to be performed by Hydro One in 2008 in relation to Hydro One’s Distribution
17 Business or on distribution assets can be found in the Summary of OM&A Expenses and
18 Summary of Capital Budget Exhibits (Exhibit C1, Tab 2, Schedule 1 and Exhibit D1, Tab
19 3, Schedule 1, respectively), followed by their companion exhibits that provide details of
20 the costs for Sustainment, Development, Operations, Customer Care and Shared Services.

21
22 Hydro One utilizes a centralized shared services model to deliver its common services.
23 This serves as the most economic approach. Accordingly, common services are provided
24 to the Transmission and Distribution businesses of Hydro One and to other subsidiaries
25 of Hydro One Inc. on a centralized basis.

26
27 The costs of these services and assets are assigned to business units on the basis of cost
28 causation. These costs and assets are directly assigned where it is possible to do so. All
29 other costs are allocated based on cost drivers, direct benefits or other methods as
30 appropriate. The series of exhibits in Exhibit C1, Tab 5, describe these allocation

1 methods, as well as the derivation of the overhead capitalization rate, which determine
2 the assignment of overhead costs to capital expenditures.

3
4 Hydro One commissioned R.J. Rudden Associates to conduct studies to recommend
5 appropriate allocation methods for the assignment of these costs (the “Rudden Study”).
6 The Rudden Study was presented for examination during Hydro One’s 2006 Distribution
7 Rates proceeding, RP-2005-0020/EB-2005-0378 and was accepted by the Board as an
8 appropriate methodology for allocating costs among the subsidiaries. R.J. Rudden was
9 retained in 2006 to update the cost allocation report, specific to the Transmission
10 business, based on the same methodology as used in Hydro One’s 2006 Distribution
11 Rates proceeding. The Rudden methodology has been used to derive the 2008 common
12 cost allocation to the Distribution business as discussed in Exhibit C1, Tab 5, Schedule 1.

13 14 **5.0 AFFILIATES AND RELATED PARTIES**

15 16 **5.1 Other Subsidiaries of Hydro One Inc.**

17
18 As noted in section 2.0 of this Exhibit, Hydro One Inc. owns three other subsidiaries -
19 Hydro One Remote Communities Inc., Hydro One Brampton Networks Inc. and Hydro
20 One Telecom Inc. The business function of each is provided below.

- 21
- 22 a) Hydro One Remote Communities Inc. carries on all business relating to ownership,
23 operation, maintenance and construction of generation and distribution assets used in
24 the supply of electricity to remote communities throughout northern Ontario that are
25 not connected to the transmission grid.
 - 26 b) Hydro One Brampton Networks Inc. carries on all business relating to the ownership,
27 operation and management of electricity distribution systems and facilities in
28 Brampton, Ontario.

- 1 c) Hydro One Telecom Inc. carries on all business relating to leasing dark fibre and
2 providing lit capacity to other telecommunications carriers, large corporations,
3 government, health care and education institutions.

4

5 **5.2 Related Parties**

6

7 Ontario Electricity Financial Corporation (“OEFC”), the Independent Electricity System
8 Operator (the “IESO”), the Ontario Power Authority (the “OPA”) and Ontario Power
9 Generation Inc. (“OPG”) are related parties of Hydro One Inc., due to their ownership by
10 the Province. Each is described below.

11

12 a) OEFC is the financial successor corporation of Ontario Hydro, established under
13 Section 54 of the *Electricity Act, 1998*. Among its primary responsibilities is the
14 management and retirement of Ontario Hydro’s outstanding debt and other financial
15 obligations.

16 b) The IESO is the centralized independent electricity system operator responsible for
17 maintaining the security and reliability of electricity supply in Ontario and for
18 directing the operations of the IESO-controlled grid. The Ontario Energy Board
19 approves the licence, business plan and fees of the IESO.

20 c) The OPA is mandated to ensure the adequacy and efficiency of electricity supply in
21 the Province through planning of electricity supply and demand.

22 d) OPG’s principal business is the generation and sale of electricity to customers in
23 Ontario and in inter-connected markets. OPG is licensed by the Ontario Energy
24 Board.

25