

1 addition, the shared service model allows for the delivery of specialty services (i.e. Tax,
2 IT systems and processes) without the need for having multiple experts in many areas.

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4 This shared services model is a recognized business concept which has many benefits
5 including:

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7 • Minimization of the work force through commonly available specialist expertise and
8 resources;

9 • Ensuring consistent policy and governance framework processes;

10 • Rationalizing and providing consistent levels of service across the organizations (for
11 example, consolidation of office space, centralization of human resources, pay and
12 financial services, infrastructure support);

13 • Using common technology systems and platforms and providing better access to
14 information (for example, implementation of common financial and work material
15 management systems);

16 • Synergies from economies of scale (for example, accounts payable processing,
17 common procurement process and management of supplier relationships);

18 • Increased flexibility to pursue outsourcing of services where appropriate.

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20 Shared services cost levels are fully reviewed as part of the annual business planning
21 process (see Exhibit A, Tab 14, Schedule 1).

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23 Table 1 summarizes the Distribution portion of the Shared Services and Other OM&A
24 Costs over the Historic, Bridge and Test years.

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Table 1
Allocated Distribution Shared Services and Other OM&A Costs (\$ Millions)

Description	Historic			Bridge 2009	Test	
	2006	2007	2008		2010	2011
Common Corporate Functions and Services	33.2	35.6	39.5	45.2	47.5	46.6
Asset Management	40.9	38.1	41.1	49.1	68.3	72.5
Information Technology	45.5	49.2	53.7	69.3	79.1	81.9
Cornerstone	1.3	2.1	1.2	(0.8)	(4.6)	(7.8)
Cost of Sales	6.6	6.9	9.1	8.0	9.6	9.8
Other OM&A	(106.2)	(40.1)	(81.6)	(78.4)	(107.8)	(114.9)
Total	21.2	91.8	62.9	92.4	92.1	88.1

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For the 2006-2011 period, Hydro One has applied a cost allocation methodology developed by R. J. Rudden which utilizes a breakdown of activities and drivers. In 2009, the Company commissioned a study by Black and Veatch (“B&V”) to update the methodology to allocate common costs among the business entities using the common services (as discussed in Exhibit C1, Tab 5, Schedule 1). The approach utilizes a further breakdown of activities and drivers and is used in this application.

The following Table 2 provides an overview of the various shared services cost categories for 2010 and 2011 showing the total costs as well as the allocated Distribution costs.

Table 2
Shared Services and Other OM&A Costs (\$ Millions)

Function / Service	2010 Total	2011 Total	2010 DX Allocation	2011 DX Allocation
Common Corporate Functions and Services	103.0	102.5	47.5	46.6
Asset Management	137.8	145.8	68.3	72.5
Information Technology	149.8	155.3	79.1	81.9
Cornerstone	(14.0)	(26.1)	(4.6)	(7.8)
Cost of Sales	25.4	24.6	9.6	9.8
Other Shared Services	(258.3)	(286.2)	(107.8)	(114.9)
Total	143.7	116.0	92.1	88.1

The increase in 2010 as compared to 2008 is primarily related to:

- Higher CCFS costs due mainly to increased Human Resources support to meet expanded field work programs as well as succession planning; long-term relationship building with First Nations and Métis communities; and funding for the corporate records management project in Law. (see Exhibit C1, Tab 2, Schedule 7 for details);
- Higher Asset Management costs resulting from the *Green Energy and Green Economy Act, 2009*, and growth in the Distribution and Transmission SD&O work programs (see Exhibit C1, Tab 2, Schedule 8 for details);
- Higher Information Technology costs due to increased sustainment work effort for the completed Cornerstone Phase 1 and Phase 2 projects (see Exhibit C1, Tab 2, Schedule 9 for details);
- Lower Other Shared Services resulting from the growth in the capital work, thus generating higher overhead credits.

1 In the exhibits following, information is provided on the following areas:

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- 3 • Common Corporate Functions and Services;
- 4 • Asset Management Services;
- 5 • Information Technology;
- 6 • Cornerstone;
- 7 • Cost of Sales;
- 8 • Other OM&A.