

1 **COMMON CORPORATE FUNCTIONS AND SERVICES & OTHER**
2 **OM&A**

3
4 The Corporation has identified certain functions that provide common services to all
5 business units. It was determined that these functions could be shared effectively by all
6 business units, avoiding costly and unnecessary duplication. These costs are referred to
7 as Common Corporate Functions and Services (“CCFS”). Included in this exhibit is a
8 discussion of CCFS costs and activities as well as Other OM&A which is comprised of
9 credits associated with Capitalized Overhead, Environmental Provisions, Indirect
10 Depreciation and Other Costs.

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12 **1.0 COMMON CORPORATE FUNCTIONS AND SERVICES**

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14 Table 1 presents, for comparison purposes, the total CCFS costs over the Historic, Bridge
15 and Test years as well as the 2010 and 2011 Distribution allocation amounts.

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Table 1
Total 2006 - 2011 CCFS Costs and 2010/2011
Allocation to Distribution (\$ Millions)

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Corporate Management	8.3	5.6	6.1	6.1	6.6	6.7	3.1	3.1
Finance	22.3	22.4	32.2	32.7	30.4	29.2	13.9	13.3
Human Resources	10.5	12.1	13.6	17.5	18.1	18.6	8.4	8.6
Corporate Communications & Services	6.4	5.8	6.1	9.6	12.5	12.4	6.5	6.3
General Counsel and Secretariat	6.8	7.9	6.4	7.4	9.0	9.2	3.7	3.8
Regulatory Affairs	15.8	18.0	17.2	18.5	20.8	20.7	9.7	9.3
Corporate Security	1.8	1.7	2.1	2.5	2.7	2.8	1.4	1.4
Internal Audit	2.5	2.5	2.5	2.9	2.9	3.0	0.8	0.8
<i>Total CCF&S Costs</i>	74.3	76.0	86.1	97.1	103.0	102.5	47.5	46.6

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Total CCFS costs increased by approximately \$11.0 million in 2009 due mainly to increased Human Resource support to meet expanded field work programs driven by the Green Energy & Green Economy Act, 2009 (“GEGEA”) such as distributed generation and smart grid as well as succession planning (see Section 1.3); long-term relationship building with First Nations and Métis (see Section 1.4); the conversion to International Financial Reporting Standards (“IFRS”) (see Section 1.2); and funding for the records management project in Law (see Section 1.5). These increases are partially offset by the transfer of Finance’s Cornerstone Enablement function to Information Technology.

14

The increase of approximately \$5.9 million in 2010 is driven primarily by programs to support resource and capacity building in First Nations and Métis Relations (see Section

16

1 1.4) and the inclusion of incremental major rate hearing costs starting in 2010, which
2 were historically reported in Other OM&A, as explained in Section 1.6.

3
4 Details on costs and work in each CCFS function are provided in the following sections.

5
6 **1.1 Corporate Management**

7 Table 2 provides a summary of Corporate Management costs:

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9 **Table 2**
10 **Corporate Management Function (\$ Millions)**
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Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	8.3	5.6	6.1	6.1	6.6	6.7	3.1	3.1

12
13
14 Corporate Management represents those functions responsible for providing overall
15 strategic direction to the corporation, including the Board of Directors, Chief Executive
16 Officer ("CEO"), Chief Financial Officer ("CFO"), the General Counsel and Secretary as
17 well as the costs of certain supporting functions, such as Executive Office support and
18 External Relations.

19
20 The President, CFO and General Counsel & Secretary are considered to be part of Hydro
21 One Inc. and provide services to Hydro One Networks Inc.

22
23 The General Counsel and Secretary function provides advice and support to the Board of
24 Directors and Corporate Officers. It provides advice and training, reports on Code of
25 Conduct, reports on activities related to the Freedom of Information and Privacy Act as
26 well as the Federal Personal Information Protection & Electronic Documents Acts
27 ("PIPEDA").

1

2 The CFO is responsible for the oversight of the Finance function and the reporting of
3 information to Hydro One subsidiaries, regulators, investors and the shareholder. This
4 includes the review and approval of financial and investment decisions, business and
5 strategic plans and ensuring integrity of, and compliance with, internal controls over
6 regulatory, financial and accounting activities.

7

8 The allocation of the costs associated with the activities of Corporate Management are
9 governed by a Service Level Agreement between Hydro One Inc. (“HOI”), Hydro One
10 Networks Inc. (“HONI”) and the legal subsidiaries as outlined in Exhibit A, Tab 9,
11 Schedule 2. This exhibit also describes the activities performed by HOI, HONI and the
12 amounts allocated to the various subsidiaries.

13

14 2008 to 2011 includes a lower level of executive compensation, consistent with the
15 Agency Review Panel (the “Arnett Panel”) report. Increases in 2010 and 2011 are
16 mainly due to additional work requirements driven by the GEGEA.

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18 **1.2 Finance**

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20 Table 3 provides a summary of Finance costs:

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Table 3
Finance Function (\$ Millions)

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	22.3	22.4	32.2	32.7	30.4	29.2	13.9	13.3

25

1 1.2.1 Overview

2

3 Finance provides strategic advice and services related to the planning, processing,
4 recording, reporting and monitoring of all financial transactions taking place within the
5 organization. Services are provided through the following specialist functions:

6

- 7 • Corporate Controllers;
- 8 • Corporate Tax;
- 9 • Treasury.

10

11 Both Outsourcing Services and Enablement were included in Finance in 2008 at a
12 combined total cost of \$4.5 million. In 2009, the Outsourcing Services function was
13 transferred to Corporate Communication and Services and Enablement was transferred to
14 Information Technology. Partially offsetting these transfers is an increase in Finance
15 costs from 2008 to 2009 mainly related to internal control services that ensure controls
16 are sustained through the Cornerstone Phase 2 implementation, increased Inergi project
17 support for Cornerstone and increased IFRS costs which encompass the development,
18 review and monitoring activities associated with the conversion. Finance costs are lower
19 in 2010 as a result of the implementation of IFRS and the completion of Cornerstone
20 Phase 2, resulting in decreased Inergi project support.

21

22 1.2.2 Corporate Controllers

23

24 Corporate Controllers provides leadership and direction regarding all business planning,
25 financial reporting, accounting and internal control policies and procedures to ensure
26 statutory and regulatory compliance and consistency with generally accepted accounting
27 principles. This includes leading the IFRS conversion project.

28

1 The function oversees the development of actual and forecast financial information and
2 manages reporting processes to appropriate audiences or stakeholders. Corporate
3 Controllers are responsible for establishing and leading the annual business planning and
4 budgeting processes and presentation of the plan to the Board of Directors and the
5 Provincial Government. This function is also responsible for managing and providing
6 direction to the company with respect to matters of internal control, including
7 Organization Authority Registers, financial policies and procedures and providing
8 leadership regarding compliance with Bill 198 and associated Ontario Securities
9 Commission (“OSC”) related rules.

10

11 Routine financial services, such as Accounts Payable, Accounts Receivable, Fixed Asset
12 Accounting, General Accounting, Planning Budgeting and Reporting support, Pension
13 support and a number of administrative procedures are outsourced to Inergi. These
14 services are a major portion of the Corporate Controllers costs.

15

16 The total cost of Corporate Controllers activities in 2010 and 2011 are \$24.1 million and
17 \$22.7 million respectively, of which \$11.4 million and \$10.7 million are allocated to
18 Distribution.

19

20 1.2.3 Corporate Tax

21

22 Corporate Tax manages the tax obligations of each corporation within the Hydro One
23 group including corporate income and capital taxes, the federal goods and services tax,
24 the provincial retail sales tax, debt retirement charge, payroll and non-resident
25 withholding tax and the employer health tax. Corporate Tax ensures that internal and
26 external tax compliance requirements are met.

27

1 The costs associated with Corporate Tax activities are \$1.8 million in 2010 and 2011 with
2 approximately \$0.6 million charged to Distribution in both years. Corporate Tax costs
3 have remained constant over the 2006 - 2011 period.

4

5 1.2.4 Treasury

6

7 Treasury total costs are \$7.2 million in 2010 and \$7.4 million in 2011. Costs of \$2.6
8 million for 2010 and \$2.7 million for 2011 are related to the following:

9

- 10 • execute borrowing plans and issue commercial paper and long-term debt;
- 11 • ensure compliance with securities regulations, bank and debt covenants;
- 12 • manage the company's daily liquidity position, control cash and manage the
13 company's bank accounts;
- 14 • settle all transactions and manage the relationship with creditors; and
- 15 • communicate with debt investors, banks and credit rating agencies.

16

17 The remaining \$4.5 million for 2010 and \$4.7 million for 2011 include:

18

- 19 • costs of \$3.8 million for 2010 and \$4.0 million for 2011 representing costs
20 incurred in relation to assessment of risk, negotiation and purchase of insurance
21 policies, claims management and settlement. These costs represent the premiums
22 paid for third party liability, fiduciary liability, directors and officers insurance,
23 and also the cost of self-insurance for liability exposures that are either not
24 covered by insurance policies or fall below the specified deductibles.
- 25 • costs of \$0.7 million for 2010 and 2011 representing Decision Support costs
26 which were previously part of Financial Strategy. Decision Support provides
27 services such as business case review, business valuation, transaction support, and
28 other services as required. The function develops and maintains financial models

1 and provides analytical support for a variety of financial planning and reporting
2 processes;

3

4 Hydro One Distribution is allocated \$1.9 million of the \$4.5 million Treasury budget for
5 2010 and \$1.9 million of the \$4.7 million budget for 2011.

6

7 The cost for other insurance premiums are charged to work programs or are included as
8 an Asset Management cost.

9

10 Table 4 shows the premium for all of Hydro One Inc.'s insurance policies and the cost of
11 self insurance for the 2006 to 2011 period. Self insurance costs for the 2009 to 2011
12 period take into consideration the company's risks exposures, the long-term historical
13 claims experience, the deductible on the liability policies and the costs of insuring the self
14 insured exposures. The increase in 2009-2011 self-insurance cost is mainly related to
15 deteriorated loss experience compared to 2008.

16

17

Table 4
Hydro One Inc. Insurance Program (\$ Millions)

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	2006	2007	2008	2009	2010	2011
Hydro One Inc. Insurance Premiums	5.0	5.1	4.9	6.2	6.5	6.9
Self Insurance Cost	0.7	1.0	1.6	2.1	2.3	2.3
Total	5.7	6.1	6.5	8.3	8.8	9.2

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1 **1.3 Human Resources**

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3 Table 5 provides a summary of Human Resources costs:

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5 **Table 5**
6 **Human Resources Function (\$ Millions)**
7

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	10.5	12.1	13.6	17.5	18.1	18.6	8.4	8.6

8
9 The Human Resources (“HR”) function exists to enable the success of Hydro One. As a
10 staff function, HR adds value by providing advice, guidance and services to managers
11 (and on their behalf, to employees) which support and optimize the acquisition and
12 management of the workforce, and the treatment of pensioners. HR provides consulting,
13 leadership development and recruiting, diversity and resourcing programs, compensation
14 and benefits and labour relations services.

15
16 One of the greatest challenges facing Hydro One is in an area where HR will be expected
17 to play a significant role – the dramatic demographic transition that will be occurring in
18 the Hydro One workforce over the next few years. By December 31, 2009, approximately
19 1,000 Networks staff (transmission and distribution) are eligible for undiscounted
20 retirement. By December 31, 2011, approximately 1,400 Networks staff are eligible for
21 undiscounted retirement. HR is also involved in promoting the development of the skill
22 base and expertise required by Hydro One from graduates of high schools, trades schools,
23 colleges and universities. New staff means extra training which will be provided by HR
24 staff dedicated to this function. Hydro One is currently looking at ways by which to
25 mitigate some of the impact of this “wave” of staffing work; by outsourcing or further
26 automating (IT) some of the more labour intensive components of the hiring processes.

1 The total costs for 2010 and 2011 are \$18.1 million and \$18.6 million respectively with
2 \$8.4 million and \$8.6 million allocated to Distribution. The cost increases in 2009 and
3 2010 are due to the expansion of the HR work program to support increased
4 hiring/staffing levels, not only due to the demographics issue but also due to expanding
5 core SDO work programs; enhanced graduate training and coaching programs; employee
6 engagement survey and advertising.

7

8 1.3.1 HR Consulting

9

10 Hydro One's HR Consultants provide advice and guidance to managers, supervisors, and
11 employees on a myriad of issues related to HR policies and procedures, collective
12 agreement administration, staffing and other large initiatives that impact staff. Alongside
13 the Generalist consulting group, Hydro One HR contains a number of smaller 'specialist'
14 support/service activities. The Pension and Benefits Section administers the Hydro One
15 Pension Plan for approximately 7,100 pensioners. In addition, this section also
16 administers the benefits programs for all employee groups.

17

18 1.3.2 Leadership Development and Recruiting

19

20 This function recommends and administers policy in areas related to external hiring and
21 development; in addition it manages all of Hydro One's management/leadership
22 development activities, plus miscellaneous specialized one-off hiring initiatives, as
23 required.

24

1 1.3.3 Diversity & Resourcing Programs

2

3 This function manages Hydro One's principal¹ cyclical hiring processes - the New
4 Graduate, the Fellowship program, the Co-Op Student/Internship/Developmental,
5 program and the Summer Student Hiring program. Additionally, the unit is responsible
6 for the Hydro One Diversity Program including Women in Leadership and Mentoring.

7

8 1.3.4 Compensation & Benefits

9

10 Payroll operations for a Company the size and complexity of Hydro One are both critical
11 and extensive. The labour intensive transactional elements of payroll administration were
12 largely outsourced to Inergi with contract administration within Hydro One to ensure
13 compliance and cost containment. This same group also manages the Short Term
14 Incentive Plan for Management Compensation Plan staff.

15

16 1.3.5 Labour Relations

17

18 Labour Relations exists to provide advice, guidance and training to managers regarding
19 collective agreements and labour legislation and manages the grievance and arbitration
20 process. There are 24 collective agreements plus midterm agreements and letters of
21 understanding that bind the company. In addition, the company must comply with
22 legislation such as the Ontario Labour Relations Act, the Employment Standards Act, the
23 Human Rights Code, etc, all of which require interpretation and advice to Managers.

24

¹ Trades staff are hired through the Power Workers' Union Hiring Hall processes.

1 **1.4 Corporate Communications & Services**

2
3 Table 6 provides a summary of Corporate Communications & Services costs:

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5 **Table 6**
6 **Corporate Communications Function (\$ Millions)**
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Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	6.4	5.8	6.1	9.6	12.5	12.4	6.5	6.3

8
9 This function comprises Corporate Communications, First Nations and Métis Relations
10 and Outsourcing Services. The increase in 2009 compared to 2008 is mainly related to
11 the inclusion of Outsourcing Services, which prior to 2009, was in Finance and the
12 expansion of First Nations and Métis Relations to sustain long-term relationship building
13 and negotiations with First Nations and Métis as a result of the growth of Hydro One core
14 SDO work programs. Increased spending in 2010 results mainly from the continued
15 expansion of First Nations and Métis Relations work program for relationship and
16 capacity building as well as increased spending to manage the service delivery agreement
17 with Hydro One.

18
19 **1.4.1 Corporate Communications**

20
21 Corporate Communications is responsible for managing all communications initiatives
22 for the corporation. Services are provided in respect of communications strategy; media
23 and public relations; issue management; public affairs, community and government
24 relations; corporate reputation; customer communications; advertising, graphic design;
25 writing; employee communications; stakeholdering; and internet/intranet
26 communications.

1 Over the period from 2008 to 2011, Corporate Communications costs are relatively
2 stable.

3

4 1.4.2 First Nations and Métis Relations

5

6 Another important role that falls within the Corporate Relations function is First Nations
7 and Métis Relations. Hydro One owns assets on reserve lands and within the traditional
8 territories of First Nations & Métis Peoples. Hydro One recognizes that First Nation's
9 peoples and their lands are unique in Canada, with distinct legal, historical and cultural
10 significance. Forging relationships with First Nation communities based upon trust,
11 confidence, and accountability is vital to achieving our corporate objectives. The First
12 Nations and Métis Relations group encompasses the following functions:

13

- 14 • Sustains long-term capability in the areas of relationship building, negotiations
15 and the successful implementation of on-going programs to achieve Hydro One's
16 goals in the area of partnerships with the First Nations peoples;
- 17 • Develops and maintains key relationships with senior government officials, both
18 federal and provincial, as well as representatives of key businesses including but
19 not limited to other energy companies;
- 20 • Monitors jurisprudence which may impact on relationships and negotiations with
21 Aboriginal communities.
- 22 • Manages the First Nations & Métis Capacity building to ensure adequate financial
23 and human resources are available to the First Nations & Métis peoples to provide
24 value added input to projects and/or initiatives taken on by Hydro One;
- 25 • Coordinates conferences to educate and share information amongst attendees
26 regarding current jurisprudence and best practices in First Nations & Métis
27 relations;

- 1 • Resolves transmission and distribution line tenancy issues, past grievances and
2 other issues with First Nations & Métis communities;
- 3 • Supports procurement opportunities for qualified First Nations & Métis
4 businesses;
- 5 • Provides consultation services on projects and/or initiatives that affect the First
6 Nations & Métis peoples and communities.
- 7 • Provides leadership and advice in the building of knowledge and awareness of
8 First Nations issues within the company and with the shareholder.
- 9 • Develops, in conjunction with the Human Resources and Labour Relations
10 departments, a strategy and implementation plan to enhance the level of
11 aboriginal employment at Hydro One.

12
13 First Nations and Métis Relations costs are \$3.4 million in 2010 and \$3.5 million in 2011
14 of which \$1.3 million and \$1.4 million are allocated to Distribution. The increase in
15 costs in 2009 and 2010 is required to sustain long-term relationship building and
16 negotiations with First Nations and Métis as a result of the growth of the Hydro One core
17 SDO work programs.

18 19 1.4.3 Outsourcing Services

20
21 Outsourcing Services manages the overall business relationship between Hydro One
22 and Inergi LP. Outsourcing Services develops and implements best practice
23 governance processes in order to maximize the value of the existing relationship with
24 Service Provider(s) to the benefit of Hydro One. Outsourcing Services is responsible
25 for the design and development of a new service delivery agreement with Hydro
26 One's existing supplier or other suppliers. Outsourcing Services costs are \$3.5 million
27 in 2010 and \$3.2 million in 2011 of which \$1.8 million and \$1.5 million respectively
28 are allocated to Distribution.

1 **1.5 General Counsel and Secretariat**

2
3 Table 7 provides a summary of the costs of the General Counsel and Secretary function:

4 **Table 7**
5 **General Counsel and Secretary Function (\$ Millions)**

6

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	6.8	7.9	6.4	7.4	9.0	9.2	3.7	3.8

7

8 **1.5.1 Overview**

9
10 The offices of the General Counsel and Secretary ("GC&S") provide legal advice and
11 direction to Hydro One and its operating subsidiaries, as well as overall guidance in the
12 areas of corporate structure, governance, business ethics and the business code of
13 conduct. The GC&S function consists of two main functions: Law and the Corporate
14 Secretariat. The Corporate Secretariat reports to the General Counsel.

15
16 The GC&S functions in Hydro One Networks Inc. consist of:

- 17
- 18 • Provision of legal services to all business units including the Company's major
19 borrowing and financing initiatives, regulatory activities, Transmission and
20 Distribution businesses (contracts, other commercial matters), employment,
21 including pension and benefits, health, safety and environment, litigation, all
22 Board of Directors related activities, and arranging for the provision of legal
23 services to the Corporation. The volume of these services is driven by capital and
24 OM&A activities, as well as increasing regulatory and legislative oversight
25 functions;
 - 26 • Overseeing the Law and Corporate Secretariat functions;
 - 27 • Ensuring compliance with legal and regulatory requirements.

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Hydro One does most of its legal work in-house, except when the in-house expertise is not available (for example, tax, labour) or when the workload exceeds the capacity of the internal legal group.

The increase in costs in 2009 and 2010 are driven mainly by increased work requirements related to the GEGEA and the records management project, expected to begin in 2009 and continue through 2010.

1.5.2 Law

Law provides legal advice to all business units of the Corporation, acting as an internal “law firm” for the corporation. It advises on most aspects of law affecting the corporation, and relies on its experience and knowledge of the Company’s business in providing economic and timely advice. The Law function maintains core knowledge of the law and the Company’s business.

1.5.3 Corporate Secretariat

The Corporate Secretariat provides support to the Office of the Chair, the Board of Directors and its Committees, including the administrative aspects of the Board and its meetings. It provides advice and analysis with regard to a variety of board-related matters, including corporate governance best practices and emerging trends and issues. It provides advice and direction with regard to the business Code of Conduct, ensuring appropriate actions to resolve known or suspected violations. This group also has responsibility for Community Citizenship initiatives advising the Corporation on compliance with privacy legislation, and administering requests for information under the Freedom of Information and Protection of Privacy Act.

1 **1.6 Regulatory Affairs**

2
 3 Table 8 provides a summary of Regulatory Affairs costs:

4
 5 **Table 8**
 6 **Regulatory Affairs Function (\$ Millions)**
 7

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Regulatory Affairs	7.0	7.9	8.2	8.5	8.1	8.5	3.4	4.3
OEB Costs	8.8	10.1	9.0	10.0	10.2	10.4	5.3	4.7
Incremental Major Rate Hearing Costs*	0.0	0.0	0.0	0.0	2.5	1.8	1.0	0.3
Total Cost	15.8	18.0	17.2	18.5	20.8	20.7	9.7	9.3

8 * Note: Incremental Major Rate hearing costs prior to 2010 were included in "Other Distribution Costs"

9
 10 1.6.1 Overview

11
 12 Regulatory Affairs consists of Regulatory Affairs and the Pricing and Load Forecast
 13 Management functions. The costs of this function include Hydro One's share of the
 14 Ontario Energy Board ("OEB") costs, including the OEB quarterly assessment costs,
 15 OEB proceeding-specific costs and OEB-ordered intervenor cost awards. OEB assessed
 16 costs are approximately \$10.2 million of total 2010 costs and approximately \$10.4
 17 million of total 2011 costs. Beginning in 2010, Regulatory Affairs costs include
 18 incremental major rate hearing costs that were previously included in "Other Distribution
 19 Costs". These are incremental external costs directly related to rate filings and include
 20 costs of contractors and consultants as well as intervenor awards. These costs amount to
 21 \$2.5 million in 2010 and \$1.8 million in 2011. The amount included in Other
 22 Distribution Costs is \$2.1 million in 2008 and approximately \$4.8 million in 2009, which
 23 includes costs for both the Distribution and Transmission rate applications.
 24

1 1.6.2 Regulatory Affairs Activities

2

3 Regulatory Affairs is responsible for managing the Company's relationships with the
4 regulatory bodies with which it interacts, including the Ontario Energy Board, the IESO,
5 the OPA, and the National Energy Board. Through this function, it is responsible for
6 developing strategy and coordinating the Company's submissions to these bodies and
7 participation in regulatory initiatives such as the development of the Transmission
8 System Code (“TSC”).

9

10 Regulatory Affairs is involved in the coordination, preparation and processing of
11 applications, as well as providing support to witnesses and business support staff. Such
12 proceeding-specific services are provided for a wide range of applications, including
13 distribution and transmission rates, transmission leaves-to-construct, merger/ acquisition/
14 amalgamation/ divestiture applications and area and system supply planning. In addition
15 to proceeding-specific work, Regulatory Affairs is responsible for a variety of ongoing
16 reporting and other activities. The function prepares quarterly and annual reports
17 required under OEB Reporting and Record-keeping Requirements. Work includes
18 meeting, reporting on, and responding to Regulatory Compliance Issues. Pricing and cost
19 allocation analysis and support are also provided within Regulatory Affairs for rate
20 applications. This includes development of rate structures and rates for the regulated
21 transmission and distribution tariffs applicable to the Company and the provision of
22 support in submitting and defending rate proposals. The function also assists with the
23 implementation of approved transmission and distribution rates.

24

25 Load Forecasting and Load Data Management units are included within the Regulatory
26 Affairs group. Load Forecasts are developed to enable system planning and financial
27 planning which underlie the company's financial forecasts. The Load Forecast function
28 provides load forecast data including the capture of CDM impacts. Load Forecast staff

1 support Hydro One Networks business units and the OPA with forecasting analysis and
2 evaluation covering time of use, bypass and embedded generation. Load Data
3 Management provides analytical support for conservation and demand management
4 projects and provides load research analysis.

5

6 Regulatory costs in 2009 through 2011 are being driven by an extremely aggressive
7 regulatory program including a major Distribution Cost of Service Application for 2010-
8 2011 rates, a major Transmission Cost of Service Application for 2011-2012 Revenue
9 Requirement, several leave to construct applications, asset sales and service territory
10 transfers to remove long term load transfers.

11

12 The OEB is continuing a busy and challenging program of reviews and initiatives, most
13 of which involve Hydro One. In 2009 the Board is conducting several generic
14 proceedings on issues such as:

15 (1) Unauthorized sub-metering activity by small distributors who may be exempted under
16 section 53.18 of the *Electricity Act, 1998*,

17 (2) Standard Service Supply Code amendments which give effect to recent changes to
18 Ontario Regulation 95/05 and clarify applicability to condominium customers of seasonal
19 tier RPP rate changes,

20 (3) Distribution System Code amendments arising from deferring the wind-up of Long-
21 term Load Transfer (LTLTs) arrangements,

22 (4) Distribution System Code amendments regarding Generation Connection Process
23 Reform,

24 (5) Transition to International Financial Reporting Standards (IFRS) and

25 (6) Cost of Capital review.

1 1.6.3 Ontario Energy Board Costs

2
3 Under the *Ontario Energy Board Act, 1988*, the OEB is required to recover all of its
4 annual operating costs. Almost all of its costs are recovered from gas and electricity
5 distributors and electricity transmitters. A small fraction of OEB costs are recovered
6 from the IESO, the OPA, OPG and from licensing fees and penalties. OEB costs that are
7 subject to recovery include its staff costs, office space costs, administration costs and
8 overheads. These costs are allocated to one of six categories – electricity distribution,
9 electricity transmission, gas distribution, IESO, OPA and OPG. Hydro One Networks'
10 allocation arises from OEB costs related to electricity distribution and transmission.

11
12 **1.7 Corporate Security**

13
14 Table 9 provides a summary of Corporate Security costs:

15
16 **Table 9**
17 **Corporate Security Function (\$ Millions)**
18

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	1.8	1.7	2.1	2.5	2.7	2.8	1.4	1.4

19
20 The Corporate Security Services (“CSS”) function exists to enable the success of Hydro
21 One primarily in the protection of assets (assets include people, property and
22 information) and assisting in the reliable delivery of electricity. CSS adds value by
23 providing advice, guidance, investigative and intelligence gathering expertise and
24 services to managers (and on their behalf, to employees) which support and optimize the
25 reliable delivery of electricity and the protection of Hydro One assets. Effective asset
26 protection and recovery can be the primary differentiating factor between success and
27 failure for critical infrastructure organizations such as Hydro One. This is achieved by

1 effective corporate security policies, directives, guidelines and services, which can
 2 significantly enhance employee and business productivity.

3
 4 The 2009 cost increase is due to the full-time implementation of the recent Theft of
 5 Electricity Investigation Program (“TOPI”) on both residential and commercial accounts.

6
 7 The total costs in 2010 and 2011 are \$2.7 million and \$2.8 million respectively of which
 8 \$1.4 million was allocated to Distribution and \$1.5 million was allocated to Distribution
 9 in 2011. In the last decade there has been a dramatic increase in the focus on the
 10 protection of critical infrastructure and the industries that comprise these key social,
 11 safety and security functions due to the recognition of the criticality for electricity
 12 delivery assets and global and domestic terrorist activities.

13
 14 **1.8 Internal Audit and Risk Management**

15
 16 Table 10 provides a summary of Internal Audit and Risk Management costs:

17
 18 **Table 10**
 19 **Internal Audit and Risk Management Function (\$ Millions)**

20

Description	Historic			Bridge	Test		DX Allocation	
	2006	2007	2008	2009	2010	2011	2010	2011
Total Cost	2.5	2.5	2.5	2.9	2.9	3.0	0.8	0.8

21
 22 Internal Audit reports to the CEO and the Audit and Finance Committee of the Board of
 23 Directors. It is an independent, objective, assurance and consulting activity designed to
 24 add value to and improve Hydro One's operations. The mandate for Internal Audit is to
 25 provide independent assurance to the CEO and Board that internal controls are adequate
 26 in areas of high-risk and to follow-up and report on management actions to address

1 findings from past audits. The Corporate Business Risk Management function supports
 2 the CEO by:

3

- 4 • developing business risk management policies, frameworks and processes;
- 5 • introducing and promoting new techniques for assisting management to identify
 6 and evaluate risks within their operations;
- 7 • preparing corporate risk assessments; and,
- 8 • maintaining a framework of key business risks.

9

10 The department helps the Company accomplish its objectives by bringing a systematic
 11 and disciplined approach to evaluating and improving the effectiveness of risk
 12 management, internal control and governance processes. The total costs for this function
 13 in 2010 and 2011 are \$2.9 million and \$3.0 million, respectively, of which \$0.8 million is
 14 allocated to Distribution in both years.

15

16 **2.0 OTHER OM&A**

17

18 Other OM&A is comprised of credits associated with Capitalized Overhead,
 19 Environmental Provisions, Indirect Depreciation and Other Costs as listed in Table 11.

20

21

22

23

Table 11
Total Distribution Other OM&A (\$ Millions)

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Capitalized Overhead	(59.8)	(46.6)	(44.6)	(62.0)	(87.5)	(88.7)
Environmental Provision	(11.6)	(6.3)	(9.1)	(6.3)	(12.8)	(16.9)
Indirect Depreciation	(11.6)	(10.5)	(10.3)	(11.1)	(11.5)	(12.7)
Other	(23.3)	23.3	(17.6)	1.0	3.9	3.4
Total	(106.2)	(40.1)	(81.6)	(78.4)	(107.8)	(114.9)

24

1 **2.1 Capitalized Overhead Credit**

2
 3 **Table 12**
 4 **Distribution Corporate Overhead Credit (\$ Millions)**
 5

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Distribution	(59.8)	(46.6)	(44.6)	(62.0)	(87.5)	(88.7)

6
 7 Capitalized overheads represent that portion of allocated shared corporate and/or business
 8 unit functions and services that are deemed through the capital overhead rate to be
 9 supportive of Capital projects as opposed to OM&A based projects. These costs are
 10 included in shared services and in the lines of businesses. OM&A expense is thus
 11 reduced by the capitalized amounts. The increase in the overhead credit in 2009 and
 12 2010 is due mainly to the growth in the Distribution capital program.

13
 14 The capitalized OM&A costs are charged to Capital projects based on the allocation
 15 methodology derived through the accepted Black & Veatch study.

16
 17 **2.2 Environmental Provision**

18
 19 **Table 13**
 20 **Distribution Environmental Provision (\$ Millions)**
 21

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Distribution	(11.6)	(6.3)	(9.1)	(6.3)	(12.8)	(16.9)

22
 23 In 2001, Networks business recognized a liability on its balance sheet for the present
 24 value of future estimated environmental expenditures necessary to deal with legacy
 25 contaminated lands and the implementation of remedial measures to treat, removed or
 26 otherwise manage the contamination. The change in accounting policy from the previous

1 as-incurred basis was adopted to align with the theoretically stronger U.S. generally
2 accepted accounting principle that was expected to be imminent in Canada.
3 Environmental work is initially recognized in the sustaining work program. The amount
4 is then removed from OM&A and the liability / provision is amortized by the amount of
5 the expenditures incurred. The resultant impact on OM&A expense of this
6 environmental work is nil, since the amortization expense grouped with 'Depreciation and
7 Amortization' on the operating statement is transferred from OM&A to Depreciation
8 expense.

9

10 The increase in the credit in 2010 results from increased PCB removal program
11 requirements in order to meet the 2008 Federal PCB Regulations.

12

13 **2.3 Indirect Depreciation**

14

15

16 **Table 14**
17 **Distribution Indirect Depreciation (\$ Millions)**

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Distribution	(11.6)	(10.5)	(10.3)	(11.1)	(11.5)	(12.7)

18

19 Transportation and Work Equipment (“TWE”) charges in the OM&A work programs
20 include depreciation expense associated with the asset being used. For accounting
21 classification purposes it is necessary to remove this depreciation amount from OM&A
22 and appropriately charge it to Depreciation Expense. The credit increases in the test years
23 due to the expanded use of T&WE in the larger SDO work program.

24

1 **2.4 Other**

2

3

4

5

Table 15
Distribution Other Costs (\$ Millions)

Description	Historic			Bridge	Test	
	2006	2007	2008	2009	2010	2011
Distribution	(23.3)	23.3	(17.6)	1.0	3.9	3.4

6

7 These costs represent material unexpected or non-recurring expenses. For example, they
8 include items such as insurance rebates, adjustments to provisions, vacation reserves,
9 Gregorian or fiscal adjustments and inventory adjustments. Starting 2010, incremental
10 major rate hearing costs previously included in “Other” are reported in Regulatory
11 Affairs in Section 1.6. The credit from 2008 is driven primarily by the recognition of
12 one-time pension adjustment.