

1           **SHARED SERVICES - COST OF SALES – EXTERNAL WORK**

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3           **1.0 OVERVIEW**

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5 Hydro One Distribution directly tracks cost of sales for unregulated revenues, which  
 6 includes contestable work such as: Lines - New Connections and Upgrades; Storm  
 7 Damage work; Distribution Generation Studies; Ministry of Transportation work; and  
 8 Forestry – Vegetation work. These are competitive services requested by customers and  
 9 are individually priced. Exhibit E1, Tab 2, Schedule 1 describes the categories of  
 10 external business and associated revenues over the 2006 to 2011 period, which also  
 11 relates to the level of external costs.

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13 The cost of sales for the 2006 to 2011 period is provided below.

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**Table 1**  
**Cost of Sales – Distribution External Work (\$ Millions)**

Description	2006 Historic	2007 Historic	2008 Historic	2009 Bridge	2010 Test	2011 Test
New Connects & Upgrades	3.5	3.2	3.0	2.9	2.7	2.8
Lines – Contestable Work	2.2	2.9	6.1	3.7	5.2	5.3
Other Cost of Sales	0.9	0.8	0.0	1.4	1.7	1.7
<b>Totals</b>	<b>6.6</b>	<b>6.9</b>	<b>9.1</b>	<b>8.0</b>	<b>9.6</b>	<b>9.8</b>

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18 The 2006 to 2011 costs are consistent with the drivers identified in Exhibit E1, Tab 2,  
 19 Schedule 1.

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1 The costing of external work is calculated the same way as for internal work as described  
2 in Exhibit E1, Tab 2, Schedule 1 and Exhibit C1, Tab 4, Schedule 1.

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#### 4 **2.0 NEW CONNECTS AND UPGRADES**

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6 Costs associated with New Connects and Upgrade activities are expected to be relatively  
7 consistent for both 2010 and 2011 as shown in Table 1 above. The stability of the  
8 forecast is driven by the current economic climate which is tempering growth in this area  
9 as well as Hydro One Distribution's focus on the growing core distribution work  
10 program.

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#### 12 **3.0 LINES – CONTESTABLE WORK**

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14 Costs associated with Lines – Other Contestable work, which includes activities such as  
15 Ministry of Transportation related work and the provision of Health and Safety Training  
16 to third parties, is expected to increase in both 2010 and 2011 as shown in Table 1 above.  
17 The main driver for the cost of sales increases in both years is the anticipated increases in  
18 recoverable work for the Ministry of Transportation related to the increased activity on  
19 infrastructure spending.

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#### 21 **4.0 OTHER COSTS OF SALES**

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23 In 2010 and 2011 Hydro One Distribution is expected to incur and recover costs  
24 amounting to \$1.7 million, for the provision of services to other Hydro One entities.  
25 Hydro One Distribution will not be adding a markup for providing these services to other  
26 Hydro One related entities. The revenues for which this cost will be incurred can be seen  
27 in External Revenues at, Exhibit E1, Tab 1, Schedule 2.