

**SHARED SERVICES - FACILITIES & REAL ESTATE AND
 STATION SECURITY INFRASTRUCTURE**

1.0 INTRODUCTION

This exhibit addresses Facilities and Real Estate’s (“F&RE”) capital expenditures to acquire (own or lease) and maintain Hydro One Networks Inc.’s office space and service centres and capital expenditures to enhance security infrastructure.

Table 1 presents total F&RE and security infrastructure capital expenditures for the Historic, Bridge and Test Years as well as the 2010 and 2011 Distribution amounts.

**Table 1
 Total Facilities and Real Estate and Security Infrastructure Capital Expenditures
 (\$ Millions)**

Description	Historic			Bridge	Test		Allocated to Distribution	
	2006	2007	2008	2009	2010	2011	2010	2011
Major	3.0	6.5	6.1	20.6	53.2	53.9	23.2	23.5
MFA	0.6	3.1	1.0	1.5	10.3	9.3	5.8	5.3
Total	3.6	9.6	7.1	22.1	63.4	63.2	29.0	28.8

2.0 SHARED SERVICES - FACILITIES & REAL ESTATE

Table 2 presents total F&RE capital expenditures for the Historic, Bridge and Test Years as well as the 2010 and 2011 Distribution amounts.

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Table 2
Total Facilities and Real Estate Capital Expenditures (\$ Millions)

Description	Historic			Bridge	Test		Allocated to Distribution	
	2006	2007	2008	2009	2010	2011	2010	2011
Major	3.0	6.5	6.1	20.6	40.7	41.0	18.6	18.8
MFA	0.6	3.1	1.0	1.5	10.3	9.3	5.8	5.3
Total	3.6	9.6	7.1	22.1	50.9	50.3	24.4	24.1

The primary driver for the increase in costs is the need to provide suitable space and to accommodate the staff resources and equipment required to handle the substantial growth in core sustaining, development and operations work programs over this period (as described in Exhibits C and D). These expenditures encompass the refurbishment, acquisition and/or development of field facilities and the expansion and improvement of head office space.

2.1 F&RE Capital Expenditures

The F&RE major capital program allows for the provision of workspace for head office facilities, the Ontario Grid Control Centre in Barrie, and field administrative and service centre facilities.

1 Key Program work activities include:

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- 3 • Addressing Company accommodation requirements in terms of new buildings,
4 buildings additions and major facility renovations;
 - 5 • Replacement of major building components including roof structures, windows,
6 heating, ventilating and air conditioning (“HVAC”) systems and other structural
7 elements and building systems;
 - 8 • Dealing with environmental issues that may arise such as mould;
 - 9 • Water treatment upgrades to improve quality and reliability of water supply,
10 including conversions to municipal supply.
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12 a) Field Facilities Accommodations Requirements

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14 The capital work program includes improvements to existing facilities, building additions
15 and new facilities in line with the Company’s operational requirements and responding to
16 work program space demands. This program also focuses on ensuring critical facility
17 structural and other building improvements to enhance the life of assets.

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19 Maintaining building and site assets in a condition that ensures their long-term viability,
20 while meeting the workspace needs of employees on a day to day basis, is critical for the
21 successful completion of a variety of corporate work activities. Hydro One contracts to
22 have regular inspections of administrative and service centre sites across the province,
23 ensuring critical building/site components (such as HVAC systems, roof, windows) are
24 routinely inspected and major structural and related problems are identified. From the
25 inspection recommendations, component replacement work is scheduled on a priority
26 basis. Planned and corrective replacement of these critical components varies year over
27 year based on recommendations from the facility service providers.

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1 The facilities infrastructure base is dominated by buildings and associated systems and
2 components that are at or reaching the end of their asset life cycle. Approximately 40%
3 of administrative and service centre facilities are estimated to be more than 40 years old.
4 The aging facilities asset base in conjunction with work program demands and
5 operational needs of the business units requires capital investment in order to continue to
6 provide adequate workspace accommodation. These requirements will be addressed on a
7 priority basis and/or as opportunities emerge at an estimated cost of \$18.9 million and
8 \$17.9 million in 2010 and 2011 respectively.

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10 b) Head Office and GTA Facilities Accommodation Requirements

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12 Capital investment of \$32.0 million is required in 2010 and \$32.4 million in 2011. This
13 investment is required to secure accommodation (including furniture systems) for
14 additional staff as result of the expansion of Company work programs, including GEGEA
15 Initiatives. This will provide for head office accommodation improvements as well as
16 address the need for tenant improvements for the required additional space within the
17 GTA.

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19 Head Office Accommodation Requirements:

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21 The current 483 Bay Street lease expires on January 31, 2010 with a requirement to
22 provide a one year notice in advance of Hydro One Networks' intentions to renew. With
23 the lease renewal option, a Head Office accommodation strategy was developed to
24 address defined accommodation needs and an improved productive work environment.

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26 This strategy includes the following key objectives:

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- 1 • Provide approximately 280,000 square feet of office space for a total of 1700
- 2 staff, including consolidation and planned growth of approximately 500 staff to
- 3 address additional work disclosed in Exhibits C and D;
- 4 • A single building or complex;
- 5 • Address the change in need for accommodation through opportunities for the
- 6 expansion or contraction of space; and
- 7 • Efficient, well located and serviced space that promotes and achieves the
- 8 objective of environmental sustainability;

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10 Through a competitive process, a commercial real estate firm was retained to assist with
11 the identification, evaluation and negotiations for the office space requirements. The
12 retained firm undertook to directly investigate, through a formal RFP process, with
13 landlords and real estate brokers leasing opportunities to meet Hydro One Networks'
14 objectives within the GTA. Of the eleven office space proposals received, a comparative
15 analysis process was undertaken of five short listed options, which identified two
16 Downtown Toronto options with landlords that were well suited to meet Hydro One
17 Networks' requirements. Hydro One Networks pursued parallel negotiations with the
18 respective landlords including validation of the lease terms and pricing in the market
19 place at that point in time.

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21 Ultimately the Board of Directors of Hydro One Inc. approved a new eleven year lease
22 term at 483 Bay Street as the Head Office of Hydro One Networks comprising a total
23 rentable area of 285,448 square feet. The estimated improvements for this space are
24 approximately \$39.8 million in capital funds for tenant and related improvements and
25 \$15.3 million in new furniture systems, which are considered necessary given the length
26 of the lease term and are now at end of life and require replacement. Furthermore, this
27 capital funding includes an estimated \$3.2 million for replacement of base building
28 elements that have also reached end of life and will be completed by Hydro One

1 Networks as part of its tenant improvements, but will be refunded by the landlord upon
2 completion as part of tenant inducements. The planned tenant improvement capital
3 expenditures including office furniture are expected to take place in years 2010 and 2011
4 following commencement of the new lease term on February 1, 2010.

6 **2.2 Minor Fixed Assets (“MFA”)**

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8 Office workstations and furniture are beyond the end of their normal service life and need
9 to be replaced. Table 1 shows MFA expenditure increasing in 2010 and 2011. This
10 reflects replacement of furniture and office equipment in conjunction to head office
11 accommodation and furniture systems related to new and renovated space
12 accommodation requirements.

15 **3.0 SECURITY INFRASTRUCTURE**

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17 Table 3 summarizes the total Stations Security and Infrastructure capital expenditure as
18 well as the Distribution amounts for 2010 and 2011.

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20 **Table 3**
21 **Total Security Infrastructure Capital Expenditures (\$ Millions)**
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Description	Historic			Bridge 2009	Test		Allocated to Distribution	
	2006	2007	2008		2010	2011	2010	2011
Major	0.0	0.0	0.0	0.0	12.5	12.9	4.6	4.8
MFA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	12.5	12.9	4.6	4.8

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24 Security infrastructure is designed to effectively deter, delay, detect and respond to
25 security threats that target Distribution and Transmission stations. The program follows a

1 risk based approach using threat and risk assessments to determine station criticality and
2 exposure to security threats. There are about 1,100 Distribution Stations and security
3 upgrades are planned for 100 locations over the 2010-14 period, or about 20 per year.
4 Capital expenditures will include enhanced perimeter security through reinforced fencing,
5 intrusion and tamper detections systems and other security measures. This work will help
6 to maintain reliability, reduce power outages and improve employee and public safety. In
7 2010, total expenditures will be \$12.5 million with \$4.6 million associated with
8 Distribution stations. In 2011 expenditures will be \$12.9 million with \$4.8 million
9 associated with Distribution stations.