



1 Equipment. Additional information on the Vegetation Management Program can  
 2 be seen in Exhibit C1, Tab 2, Schedule 2;

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4 **2.0 TRANSPORT AND WORK EQUIPMENT**

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6 The increase of \$93.7 million in capital expenditures in 2010 from the bridge year 2009,  
 7 as shown in Table 1, is directly related to the increase in work programs, additional  
 8 staffing, changes to the Forestry and Provincial Lines Apprenticeship Programs, as well  
 9 as the new Corporate initiatives for the GEGEA. Hydro One has 5,881 units with an  
 10 original capital value (“OCV”) of \$372 million, of which approximately 400 units require  
 11 replacement. Fleet capital requirements are primarily based on industry standards  
 12 (manufacturer’s recommendations) for life cycle expectancy, the remaining capital value,  
 13 and operating cost drivers. Light vehicles are replaced after 6 years or 180,000 km,  
 14 service trucks are replaced after 6 years or 200,000 km, and work equipment is replaced  
 15 after 8 to 10 years or 330,000 km.

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**Table 1**  
**Capital Expenditures From 2006 – 2011 (\$ Millions)**

Description	Historic			Bridge	Test		Allocated to Distribution	
	2006	2007	2008	2009	2010	2011	2010	2011
<b>Total Cost</b>	<b>41.2</b>	<b>41.1</b>	<b>52.0</b>	<b>39.7</b>	<b>133.4</b>	<b>74.1</b>	<b>101.4</b>	<b>56.3</b>

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21 The objective of the TWE Replacement Program is to promote an orderly system of  
 22 purchasing and funding a standardized fleet replacement process, to plan for future  
 23 transportation requirements as well as identify the need to increase overall fleet size. The  
 24 TWE Replacement Program annually analyzes 5-year cycles for capital investment  
 25 requirements and maintains a safe and efficient fleet. It is critical to evaluate and forecast  
 26 spending requirements to minimize fluctuating spending patterns and to stabilize long  
 27 term capital investment. The fleet capital program, on an annual basis, is evaluated

1 against the business plan and is subject to the work program prioritization and forecasting  
2 process.

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4 Business cases for the program are prepared and approved and the equipment is  
5 strategically procured through a tendering process.

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7 The TWE Replacement Program reviews:

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- 9 • Equipment capital forecast;
  - 10 • Equipment productivity, functionality, and future requirements;
  - 11 • Equipment standards, equipment age, mechanical condition, kilometers traveled  
12 and cost per kilometer, downtime, and repair time;
  - 13 • Safety/risk;
  - 14 • Work programs, evaluating staff and equipment complement;
  - 15 • Tendered procurement process;
  - 16 • Fleet's Original Capital Value and Net Book Value;
  - 17 • Historical and future utilization;
  - 18 • Strategic procurement; and
  - 19 • Cost versus 5-year business plan.
- 20

21 The guidelines for vehicles considered for replacement are based on vehicles meeting  
22 predetermined criteria including, but not limited to: manufacturer's life expectancy,  
23 average cost per kilometer, regulated maintenance standards and safety/risk. Hydro One  
24 takes advantage of discounts by establishing purchasing cycles with manufacturers. As  
25 vehicles reach the targeted criteria, a vehicle maintenance evaluation is performed and, in  
26 some cases, the unit may be reassigned to other functions with "low usage" requirements.  
27 The replacement program measures the age and value of the fleet and meets the  
28 requirements and due diligence of a typical Utility fleet.

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The benefits of our replacement program include:

- Maximum safety, productivity and utilization;
- Minimum downtime, repair time, and fleet complement;
- Reduced operating costs.

## **2.1 2006 to 2011 Period Analysis**

As noted in Exhibit C1, Tab 4, Schedule 1 (Costing of Work), the overall size of Hydro One Networks Inc.'s fleet was adjusted to 5,881 vehicles and other equipment in 2009 to match the work programs. TWE expenditures are forecasted to be \$133.4 million in 2010 based on the number of vehicles required to execute the planned work programs, additional staffing requirements and the additional Distribution and Transmission internal work requirements for the GEGEA.

The increase in the capital requirement in 2008 over 2007 was directly related to the increase in the Provincial Lines and Forestry Apprenticeship Programs in anticipation of regular staff retirements and will be readjusted when the staff complement is right-sized. Of the \$52.0 million, \$7.2 million was required for Provincial Lines to accommodate the increase in work program to offset rental requirements and to support the Lines apprenticeship program, and \$4.8 million was related to additional large equipment requirements for Forestry in order to facilitate changes in the apprenticeship program.

In 2009, the capital expenditure primarily reflects the amount required to maintain core Fleet requirements. Of the \$39.7 million, \$3.2 million is required to support the Forestry apprenticeship program and additional staffing, and \$1.5 million is required to support the Provincial Lines additional staffing requirements.

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2 Similarly, TWE capital expenditures are forecasted to be \$133.4 million in 2010 based on  
3 the planned work programs (\$37.9 million), additional equipment requirements for the  
4 Provincial Lines and Forestry Apprenticeship Programs and additional staff (\$12.5  
5 million), as well as the Distribution and Transmission internal work requirements for the  
6 GEGEA (\$83.0 million). In 2011, the forecasted TWE capital expenditures of \$74.1  
7 million include the requirements for core Fleet replacements (\$39.7 million), as well as  
8 the Distribution and Transmission internal work requirements for the GEGEA (\$34.4  
9 million).

## 10 11 **2.2 Capital vs. Operating Leases**

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13 The evaluation of leasing as a financial alternative to the approved capital program was  
14 evaluated during the 2003 strategic sourcing initiative. The evaluation included the  
15 review of both capital and operating leases and the total operating costs. The risks and  
16 benefits generated by leasing were evaluated and it was decided the risks outweighed the  
17 modest benefits. The results therefore indicated that leasing was not cost effective.

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19 The requirement for short term rentals (as distinct from long term rentals) is recognized  
20 and is included with our operating expenses in Exhibit C1, Tab 5, Schedule 1.

## 21 22 **2.3 Procurement Initiatives**

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24 In order to achieve cost reductions over the next five years, Fleet Services follow capital  
25 procurement objectives for material and service acquisitions which include:

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- Profile the commodities, collect and analyze cost drivers;
  - Analyze the supply market;
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- 1       • Develop a strategy for sourcing;
- 2       • Select the suppliers through a rigorous RFP process;
- 3       • Conduct negotiations.

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5       These procurement initiatives have allowed Hydro One Networks Inc. to lock in pricing  
6       for 3 year terms with preferred vendors.

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### 8       **3.0     SERVICE EQUIPMENT**

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10      Table 2 identifies the expenditures for Service Equipment for the 2006 to 2011 period.

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**Table 2**  
**MFA Service Equipment 2006 – 2011 (\$ Millions)**

<b>Description</b>	<b>Historic</b>			<b>Bridge</b>	<b>Test</b>		<b>Allocated to Distribution</b>	
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>
<b>Total Cost</b>	<b>3.9</b>	<b>7.9</b>	<b>11.7</b>	<b>12.1</b>	<b>12.0</b>	<b>8.8</b>	<b>6.8</b>	<b>5.0</b>

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16      Minor fixed assets for service equipment consists of capital items of \$2,000 or more,  
17      required by Hydro One staff to carry out construction and maintenance work programs.  
18      Capital items less than \$2,000 are expensed to OM&A. Minor fixed asset expenditures  
19      for service equipment are required to replace equipment at end of life, replace  
20      technologically obsolete service equipment when new standards and safer work practices  
21      come into effect, and provide for sufficient levels of new service equipment consistent  
22      with work program expansion and increasing staffing levels.

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24      Purchases in this category include specialized transportation equipment for off-road work  
25      sites and mobile equipment required to carry out a variety of work.

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1 Specialized transportation equipment used for both Distribution and Transmission  
2 includes items such as all-terrain vehicles, boats, barges, snowmobiles and related  
3 accessories. Generally, Service Equipment largely used for both distribution and  
4 transmission related work includes: mobile cranes, stringing equipment, Schnabel cars,  
5 and float trailers.

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7 Mobile equipment includes oil tankers, de-gassifiers, and dry air machines required for  
8 transformer maintenance, SF6 gas carts required for the maintenance of SF6 breakers,  
9 and a variety of other equipment necessary to analyze, test, and carry out construction  
10 and maintenance associated with the transmission work program.

11

12 Year-over-year changes in spending are largely the result of the evolving needs of  
13 distribution and transmission growing work programs. The \$3.3 million (-27%) decrease  
14 in spending in 2011 over 2009 is largely due to the fact that Station will not purchasing  
15 the new CMS Vacuum Dry Out which was expected to cost approximately \$2.5M.

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17 Capital requirements related to health, safety and the environment have increased year-  
18 over-year. We have invested in AED (defibrillator) devices, for example, to enhance  
19 basic life support capability at Hydro One workplaces, including offices and vehicles.