COSTING OF WORK

1.0 OVERVIEW

Hydro One Distribution’s work program is bundled into packages of work identified as programs or projects. Program and project costs are comprised primarily of activities associated with labour, equipment and material acquisition. This Exhibit details the breakdown of each of these three cost activities, and how the costs are applied to programs and projects. This costing approach is consistent with the requirements of US Generally Accepted Accounting Principles (“USGAAP”).

Hydro One Distribution categorizes its costs into two major classifications - common and direct. Common costs, both OM&A and capital expenditures, are allocated to Distribution and Hydro One’s other lines of business. Direct costs charged to work orders include labour (comprising of salaries, benefits and pension costs), material, fleet and supply chain. Labour costs are calculated as a product of actual time multiplied by the standard labour rate. Material costs are charged directly to the work program or project. Fleet costs are charged using a fleet rate. Supply Chain costs are charged via a material surcharge. All of these elements are described in detail in this Exhibit.

2.0 PROJECT AND PROGRAM MAJOR COST CATEGORIES

2.1 Labour Rate

Labour hours are distributed directly to benefiting programs and projects by using timesheets, consistent with common industry practice. Standard hourly labour and equipment rates are then used to convert the reported hours into costs. Both labour and equipment rates are “fully loaded” to ensure that all associated support costs required to
deploy resources and equipment are accurately and cost effectively distributed to the
benefiting work.

On an annual basis, the standard labour rates are derived based on information gathered
through the annual budgeting process. Resource budgets for each major resource
category are calculated and categorized into three basic cost components: forecast
billable (direct charged) hours, forecast non-billable hours and forecast non-billable
expenses. Total payroll and expense costs along with an assignment of support activity
costs, divided by the forecast billable hours, create the standard labour rate. Table 1,
below, shows an example of the composition of a standard labour rate for one category,
the Regional Line Maintainer – Regular Staff, over the period 2010 to 2019.

Table 1
Standard Hourly Labour Rate Composition
Regional Line Maintainer – Regular Staff

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Obligations</td>
<td>69.09</td>
<td>70.60</td>
<td>74.42</td>
</tr>
<tr>
<td>Contractual time away from work</td>
<td>9.76</td>
<td>9.61</td>
<td>9.81</td>
</tr>
<tr>
<td>Time not directly benefiting a specific Program or Project</td>
<td>6.47</td>
<td>5.84</td>
<td>5.95</td>
</tr>
<tr>
<td>Hourly Rate</td>
<td>110.00</td>
<td>110.00</td>
<td>115.00</td>
</tr>
</tbody>
</table>

The cost elements embedded in the standard rate as illustrated in Table 1 are explained in
the pages following, using the position of Regional Line Maintainer – Regular Staff and
the 2014 cost composition, as an example.
2.1.1 Payroll Obligations ($76.85)

A brief description of the cost elements included in this category is provided below. Compensation, wages and benefits are more fully explained in Exhibit C1, Tab 3, Schedule 2.

Base Labour and Payroll Allowances (58% of Payroll Obligations)

- Base Pay: Contractually negotiated and reflected in wage schedules.
- Payroll Allowances: Allowances are also contractually negotiated and stated in collective agreements. Regular staff (PWU) is entitled to travel, footwear and on-call allowances. Casual trades are entitled to board and travel allowances where circumstances require it.

Company Benefits (37% of Payroll Obligations)

- Regular Staff: Comprising pension (30.9% of base pensionable earnings) and current and post-employment benefits; health, dental, etc. (24.2% of base pensionable earnings).
- Non-Regular Staff (for example, casual trades): Pension and welfare contributions made on behalf of the non-regular employee. These contributions are significantly lower in comparison to the Company benefit contributions made on behalf of the regular employee.

Government Obligations (5% of Payroll Obligations)

- Consists of Canada Pension Plan (CPP), Employment Insurance (EI), Employee Health Tax (EHT) and Workplace Safety and Insurance Board (WSIB) contributions.
2.1.2 Contractual Time Away from Work ($10.20)

This category consists primarily of employee vacation and statutory holidays, all established and identified in the Company’s collective agreements. Sickness and accident costs are also included and are based on historical trends and consider current Company initiatives.

2.1.3 Time Not Directly Benefiting a Specific Program or Project ($6.19)

This category includes time for attendance of safety meetings, housekeeping and downtime often created due to inclement weather. These estimates are based primarily on historical trends.

2.1.4 Field Supervision and Technical Support ($10.27)

This category includes the costs associated with field trades supervision and other management and technical staff providing support services to manage and monitor the status of the assigned programs and projects.

2.1.5 Support Activities ($14.49)

Administrative Expenses and Support (76% of Support Activities)

These costs include administrative expenses such as travel costs, cell-phones and other miscellaneous expenses that cannot be specifically attributed to a particular program or project. Also included is an assignment of costs for clerical support activities and other centralized support to facilitate work management system requirements.
Work Methods & Training (14% of Support Activities)

Costs to design, develop, continually update and maintain and deliver work methods and training programs. Costs are assigned based on the forecast consumption of these services as agreed to by the Work Methods & Training function and service recipient.

Health, Safety & Environmental Support (10% of Support Activities)

Costs to design, develop, continually update and maintain and deliver health, safety and environmental practices primarily for staff working in field locations. Costs are assigned based on the forecast consumption of these services as agreed to by the Health, Safety & Environment function and the service recipient.

2.2 Fleet Rate

Hydro One controls and manages approximately 7,300 vehicles and other fleet equipment to support its work programs and staffing requirements used for both Distribution and Transmission work. The fleet has grown by 1,600 vehicles and other fleet equipment since 2009 reflecting an increase in the work program to be executed. Fleet Management is described in Section 3.0 of this Exhibit.

Fleet assets are categorized into 59 classes of equipment. For each equipment class, a standard equipment rate is calculated by dividing the annual forecast cost to maintain each class of equipment by the annual forecast hours that the class of equipment is required to work (utilization hours). Utilization hours are derived based on a review of historical trends and an annual review of the upcoming work program. Utilization hours are defined as the hours the equipment is being used “on the job”. Table 2 below displays the hourly fleet rate, as an example for one of the commonly used classes of
equipment in the Distribution business (a line maintenance truck) for historical, bridge and test years, illustrating that the rate includes all costs attributable to the benefiting work.

<table>
<thead>
<tr>
<th>Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly Fleet Rate - Line Maintenance Truck</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>34.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>35.28</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td>37.43</td>
<td></td>
<td></td>
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<tr>
<td>2013</td>
<td>35.44</td>
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<td></td>
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<tr>
<td>2014</td>
<td>35.72</td>
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<tr>
<td>2015</td>
<td>35.99</td>
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</tr>
<tr>
<td>2016</td>
<td>36.27</td>
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<td></td>
</tr>
<tr>
<td>2017</td>
<td>36.55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>36.82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>37.10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Below is a listing of each cost category, with percentages reflective of the 2014 fleet rate. A further description of each cost category is more fully explained in Section 3.4 of this Exhibit.

Operations & Repair Costs (55% of Fleet Rate)
Fuel Costs (14% of Fleet Rate)
Depreciation (31% of Fleet Rate)

2.3 Material Surcharge Rate

A standard material surcharge rate, which captures supply chain procurement costs benefiting a particular program or project, is applied to material costs. A detailed description of Hydro One’s approach to supply chain management is found in Section 4.0 of this Exhibit.

Material costs charged to a project or program is based on the issue cost from Inventory, which is the Moving Average Price (MAP) or the direct-shipped purchase order price.
On a monthly basis, total monthly material charges are surcharged with a fixed percentage cost to recover costs associated with purchasing, transportation and inventory management. The percentages range from 11% to 17%, depending on work program service requirements. The percentages are derived by assigning the costs of these activities to the work programs based on an annual assessment of the consumption of these services divided by the annual forecast of purchased material.

The costs recovered in the surcharge are as follows:

- Hydro One Costs: Management, demand planning, warehousing and transportation of material, and investment recovery (comprising approximately 60% of the total costs); and
- Inergi Contract Costs: Procurement (comprising approximately 40% of the total costs).

### 2.4 Other Program and Project Costs

Depending on the nature of the work, Hydro One Distribution's program or project costs also include additional costs beyond the major contributors identified above. These additional costs may include the costs of external contractors and/or miscellaneous job specific consumables such as travel expenses or the purchase of low value material.

In terms of estimating and costing of capital work, there may be circumstances when removal costs or customer contributions need to be separately identified. In these cases, the cost of removal work is accounted for as depreciation, and customer contributions are netted against gross capital costs.
Capital work also receives a monthly charge for its share of corporate interest and overhead costs. The composition of these two cost categories and the annual calculation are explained in Exhibit D1, Tab 4, Schedule 1, Interest Capitalized and Exhibit C1, Tab 5, Schedule 2, Overhead Capitalization Rate.

2.5 Standard Rates

When using standard rates, residual costs naturally arise when actual costs incurred differ from the standards. These variances are accounted for on a monthly basis and assigned to both capital and maintenance programs. The monthly assignments of residual costs are made to OM&A and Capital based on the program and project cost activities responsible for generating the year-to-date variances.

3.0 FLEET MANAGEMENT SERVICES

Fleet Management Services provides centralized and turnkey services that include maintenance, administration, vehicle replacement and disposal. Vehicles are maintained to an optimum level to ensure public and employee safety and compliance with laws and Ministry regulations, including, but not limited to; CSA 225, the Highway Traffic Act and the Commercial Vehicle Operator’s Registration regulations. Fleet Management Services also ensures that environmental impacts are minimized and line-of-business productivity is optimized by minimizing downtime and travel time, and by optimizing technology and continuous improvement opportunities.
Fleet Management Services has adapted to the changing needs of its business by:

- Revising the Company’s model for responding to internal customers from fixed zone service to a mobile and fire hall model, with maintenance garages strategically placed throughout the Province to facilitate a more rapid turnaround for vehicle servicing;
- Optimizing the number of geographical locations served through implementation of Garage hubs;
- Reducing equipment downtime and improving our equipment utilization;
- Providing more competitive and cost efficient fleet support, enhanced through the procurement of modern maintenance facilities;
- Adopting a flexible service delivery model that matches the nomadic and variable work program needs of Hydro One’s lines of business with service delivery options that mirror private sector practices. Such options include shift work, extended hours of service and mobile service delivery;
- Developing more timely, strategic and cost-efficient processes for equipment procurement and disposal;
- Developing a long-range capital replacement program; and
- Adopting data collection and information management systems that match the nomadic requirements of the Company’s business units.

3.1 Maintenance Model

Fleet Management Services has developed a balanced maintenance model for mobile service delivery and centralized facilities. This model provides for 38 provincial locations and balances geographical customer requirements, travel time, third party vendor support and response time. Mobile/satellite repair units minimize costs organizationally by providing timely on-site field support for various nomadic work programs, such as vegetation control, new construction and off-road tower maintenance.
Services provided to the lines of business meet the rigorous requirements of Fleet Management Services’ agreements and are structured as a mobile and fire hall operating model to meet customer requirements.

3.2 Managed Systems

Fleet Management System

The strategic alliance to implement a fleet management system (FMS), developed with Automotive Resources International (ARI) in 2003, was renewed in 2008. In 2013 the contract was extended to 2015 to allow pursuit of a potential amalgamation of a FMS with the Ontario Public Service. The implementation of the FMS created an automated web-based system that uses a single credit card for each vehicle to capture all operating costs including fuel, parts and repairs. The FMS also incorporates programs to manage contracts, such as tender agreements, and the system prescribes spending guidelines and negotiated discounts. The system measures a variety of targets that reconcile approved purchase orders, estimates versus actuals, and vendor-related expenditures, discounts and complaints.

The benefits of the FMS include:

- Improved scheduling of preventative maintenance, reduced repair times, travel time and reduced equipment downtime;
- Increased access to a number of vendors for fuel, repairs and parts, thus minimizing cost and downtime;
- Improved cost and efficiency, through carefully-considered procurement strategies and economies of scale, including improved volume discounts for fuel, parts and service;
• A 1-800 number for repairs, roadside assistance and towing and improved reporting and data collection; and

• Exposure to best practices for fleet management by similar sector organizations.

The FMS uses a variety of linked programs to manage the data and information for all facets of the business, including internal and external repairs. This takes advantage of both internal and external intelligence and technology.

The maintenance program minimizes avoidable and expensive repairs and minimizes equipment downtime, which results in improved equipment utilization. Both internal and external service providers have access to the appropriate information through state-of-the-art automated management systems, allowing for quality decision-making at all levels of the maintenance program. Examples of the information provided include:

• Real time vehicle history;
• Warranty criteria and warranty recovery;
• A work and resources scheduling tool;
• A pending and overdue work information alert system;
• Product information, including vendor-specific information;
• Repair and safe practices manuals;
• Process and policy information;
• Invoice and cost-management details;
• Monthly and ad-hoc reports; and
• Work order management.
In 2009, Hydro One Fleet Services entered into a pilot program to install GPS (Global Positioning System) into 500 Transportation and Work Equipment (TWE) units as part of the Hydro One Environmental Plan. From this Pilot Project, Hydro One Fleet Services recorded a number of lessons learned. These lessons were incorporated in the tender for a new generation fleet telematics system for 2,700 fleet vehicles that will provide significant enhancements to operator safety, workplace efficiency and reduction of environmental impacts. This project is currently scheduled to be implemented by end of 2014. The Telematics initiative will allow for continuous improvements and permit implementation of best practices through:

- Improved operator safety through awareness and driver aids;
- Decreased kilometers driven through route optimization;
- Increased productivity/utilization of vehicles;
- Expanded environmental benefits, including increased fuel efficiency and reduction of greenhouse gases;
- Increased fleet response time;
- Providing acceptable data for Fuel Tax Credits;
- Tracking of vehicle condition, including fluid levels, pressures and temperatures; and
- Increased security of fleet vehicles.

### 3.3 Fleet Complement and Utilization

Fleet Management Services controls and manages approximately 7,300 vehicles and other equipment primarily for Transmission and Distribution work. Inventory levels are controlled and set by the Hydro One lines of business and Fleet Management Services within the guidelines set for staffing versus fleet ratio, type and volume of work programs, geographic locations and utilization targets. The increase in the fleet
complement, therefore, is directly related to the increase in the Company’s work on system infrastructure and corresponding staffing levels. Fleet Management Services maintains 38 facilities to support 17 Forestry locations, 1,004 Distribution Stations, 289 Transmission Stations, and 54 Provincial Lines operational centers.

As capital and OM&A investments have been increasing, the options to meet increased equipment demand include the purchase of new equipment, rental of additional equipment or increased utilization of existing equipment. The optimum option is to increase utilization, which minimizes capital investment compared to the option of additional purchases. Simultaneously, it maximizes the advantage of owned core equipment versus the additional cost of external rentals, which is 30 percent higher than owned equipment rates. This assessment is based on an internal comparison of the actual costs of equipment rentals versus those of owned core equipment.

The benefits of improving utilization include:

- decreased long term capital requirements;
- improved ability to respond to fluctuations in work programs; and
- reduced rental costs, with a correspondingly lower impact on the Company’s OM&A budget.

Equipment utilization averages have increased from approximately 65 percent in 2001 to approximately 80 percent in 2012. The 2012 average equipment rate is $21.38 per hour; this is established by averaging total annual fleet equipment costs over total annual fleet utilization hours.
3.4 Fleet Management Services Budget

Fleet Management Services’ annual budget is developed and managed based on the all-in costs of operating the fleet and the following criteria:

- Historical and forecast fixed and variable costs including fuel, depreciation, maintenance and repair, labour/staffing, and external rentals;
- Historical cost and mechanical fitness evaluations;
- Work program forecasts provided by the lines of business;
- Estimates provided by internal and external providers;
- The requirements of the capital/vehicle replacement program; and
- Projected escalators.

Table 3, below, provides total expenditures on the components comprising the fleet rate for historic, bridge and test years. These expenditures are distributed among each of the 59 classes of vehicles.

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td>Operations &amp; Repairs</td>
<td>52.9</td>
<td>51.5</td>
<td>55.3</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>57.8</td>
<td>60.5</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>62.7</td>
<td>63.7</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>64.8</td>
<td>66.3</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>67.7</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>34.3</td>
<td>34.9</td>
<td>35.3</td>
</tr>
<tr>
<td></td>
<td>35.3</td>
<td>37.3</td>
<td>38.3</td>
</tr>
<tr>
<td></td>
<td>39.3</td>
<td>40.3</td>
<td>41.3</td>
</tr>
<tr>
<td></td>
<td>42.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>22.0</td>
<td>28.3</td>
<td>29.1</td>
</tr>
<tr>
<td></td>
<td>30.2</td>
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</tr>
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</tr>
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<td></td>
<td>143.6</td>
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<td></td>
</tr>
<tr>
<td>Rentals</td>
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<td>0.9</td>
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<tr>
<td></td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>114.2</td>
<td>116.6</td>
<td>120.7</td>
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<td></td>
<td>124.2</td>
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<td>136.2</td>
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</tr>
<tr>
<td></td>
<td>145.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.4.1 Operations and Repairs

This cost category primarily consists of repair costs (external and internal labour and parts). The budget is based on a forecast of the annual maintenance schedules for each piece of equipment. The age and the history of the vehicles are considered in the calculations. Throughout the year, all repair costs are charged directly to each piece of equipment. Operations costs include administration staff and their allocated share of central service support costs (for example, work methods and safety training activities).

3.4.2 Depreciation

The depreciation for each class within the fleet is calculated based on the current depreciation policies in Hydro One, the current composition of the fleet, and annual forecast additions and deletions.

3.4.3 Fuel Cost

Fuel cost per class of equipment is calculated based on past history and current market projections as well as the current composition of the class. Throughout the year, fuel costs are charged directly to the particular piece of equipment consuming the fuel.
3.4.4 External Fleet Rentals

Due to the seasonal and fluctuating nature of the Company’s work program, Hydro One Distribution requires the use of externally-owned equipment to meet the peaks in its programs. Using a process similar to that used to cost Hydro One Distribution’s own fleet, standard rates are calculated and costs are distributed to the Company’s programs and projects.

3.5 Recent Productivity Improvements in Fleet Management Services

Hydro One Distribution supports continuous improvement. This section details current work in progress in fleet management that promotes workplace and operator safety, productivity, efficiency and environmental considerations.

Hydro One Distribution’s fleet management system is an automated web-based system under which a single credit card captures all operating costs (including fuel, parts and repairs) for each vehicle. This system is used to measure a variety of targets which identify opportunities to reduce costs and increase productivity efficiencies through strategic procurement practices and economies of scale, including improved volume discounts for fuel, parts and service.

Hydro One Distribution has a maintenance program for its fleet of vehicles. Internal and external service providers are granted access to appropriate information through state-of-the-art management systems linked to Hydro One Distributions fleet management system. This allows for improved work and resource scheduling tools, information alerts and invoice and cost management details, resulting in avoidable and expensive repairs and equipment downtime being minimized and improved fleet efficiency.
As discussed in section 3.2, the Telematics Initiative will allow Hydro One Distribution to continuously improve and implement best practices in operator safety, workplace efficiency and environmental impacts. Operator safety will be improved through awareness and driver aids. Improvements in productivity efficiencies will include decreased kilometers driven through route optimization, increased fleet response time and automated tracking of vehicle condition. Also, with the implementation of telematics, environmental benefits such as increased fuel efficiency and a reduction of greenhouse gases will be realized.

4.0 SUPPLY CHAIN MANAGEMENT

Hydro One delivers end-to-end supply chain services for the Distribution, Transmission, Telecom and Remotes businesses. The focus is on the right product with the right quality, at the right place, right time and at the right cost.

The forecast 2015 costs for Supply Chain Services are expected to be $40.5 million and remain fairly flat through 2019. These services include strategic sourcing (purchase) of materials and services, storage and distribution of materials; demand planning, inspection services, transportation, inventory management, and investment recovery of disposed assets.

Supply Chain Services costs are allocated to work programs and projects through the material surcharge rate.

This section describes the budgeted cost levels, followed by a description of the components of Supply Chain Management.
The increase in supply chain costs between 2010 and 2013 reflects the increase in transaction volumes, as well as cost increases related to transportation and warehousing.

Hydro One Distribution’s Supply Chain is a service which has been largely outsourced to Inergi L.P. The components of supply chain management performed by Inergi include sourcing (purchase) of materials and services, execution of transportation contracts, and contract management.

### 4.1 Supply Chain Policies and Procedures

Hydro One Distribution operates a fair and transparent procurement process that gives all companies equal opportunity to do business consistent with its Procurement Policy and Principles.

Tenders and proposals are evaluated based on predefined evaluation criteria by cross-functional teams as required. The outcome of the evaluation is the foundation for awarding procurement contracts.
4.2 Sourcing of Materials and Services

The sourcing of materials and services, primarily carried out within Inergi, includes the following:

- Demand Management and Procurement – Market intelligence with respect to commodities, processing purchase transactions and inspecting and expediting services to ensure delivery to contract commitments.
- Sourcing and Vendor Management – Services to support sourcing all commodities and services which include managing the size and composition of the vendor base and resolving issues.

Hydro One Distribution manages its procurement and supply base by using strategic sourcing in the acquisition of goods and services. Strategic sourcing is a disciplined business process for purchasing goods and services on a Company-wide basis using cross-functional teams to manage the supply base as a valued resource. The methodology’s five-step process includes spending analysis, market analysis, development of a sourcing strategy, negotiation, award and contract management.

4.3 Inspection Services

Inergi LP is engaged to provide timely inspection services to assure that products are manufactured in accordance to specifications established by Hydro One Distribution, and tracks costs and schedules on a product and project basis.
4.4 Storage and Distribution of Materials - Warehousing

Hydro One Distribution’s central warehouse operation in Barrie is responsible for the storage and distribution of materials for the service centres and station locations. This warehouse services two primary customers, Customer Operations and Grid Operations. Customer Operations is further serviced through 88 field service centres and Grid Operations through 21 station locations. The field staff is responsible for receiving shipments and for storing and ordering material. Deliveries to the service centres are contracted to a third party transportation carrier.

The intent of a consolidated warehouse operation is to realize efficiencies through focusing on activities such as:

- Bar coding to improve operating efficiencies such as receipting, cycle counting, shipping and tracking inventory;
- Managing and coordinating the delivery of materials on the scheduled delivery date to the service centres to ensure that the field operation receives the right material at the right time; and
- Improving receipting efficiency by integrating with the contracted transportation company to provide visibility into the supply chain and scheduling the inbound shipment.

4.5 Transportation

Hydro One Distribution manages its inbound and outbound transportation of materials through contracts with third party companies. In 2013, Hydro One Distribution entered into a new transportation contract for material delivery in and out of the central warehouse.
4.6 Investment Recovery

The final step of the supply chain is the disposal and investment recovery of end-of-life assets. This recovery is typically in the range of $2.5 million to $4.4 million per year, and primarily involves vehicle sales and scrap metal. Hydro One Distribution continues to focus on extracting the maximum value possible from the sale of these assets.

A breakdown of the sale of assets is as follows:

<table>
<thead>
<tr>
<th>Type of Sale</th>
<th>Recovery 2010</th>
<th>Recovery 2011</th>
<th>Recovery 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Sales</td>
<td>1.1</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Scrap Metal</td>
<td>1.4</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.5</strong></td>
<td><strong>4.4</strong></td>
<td><strong>2.6</strong></td>
</tr>
</tbody>
</table>

**Note:** 2011 Vehicle Sales include a sale of a helicopter ($0.5M)

4.7 Cost Savings from Strategic Sourcing

Between 2008 and 2015, due to its collaborative planning and strategic sourcing initiative, Hydro One Networks estimates $141 million in cumulative savings in the purchase of major equipment, commodities and services such as power transformers, circuit breakers, wood poles, distribution transformers, wire and cable, and pole and line hardware. Strategic sourcing results vary from commodity to commodity or from one service to another.
The main benefits of sourcing strategies are described below:

- Active involvement of internal stakeholders to communicate their business needs for the products and services;
- Cost reduction by increased leverage of Company-wide expenditures – purchases are consolidated by commodity and/or service to ensure that the business receives maximum value. This eliminates the need to tender and purchase as requirements surface -- an added benefit of this approach;
- Reduced total life cycle cost for materials and services – when purchasing equipment, all aspects are identified to ensure that Hydro One Distribution acquires maximum value for the life cycle of the equipment. For example, specifications, maintenance requirements, installation services and warranty services are defined and reviewed to ensure that business needs will be met, and order and invoice processes, lead time and inventory requirements, etc. are evaluated to determine where greater efficiencies may be realized;
- Improved security of supply through longer-term agreements. To maximize value, longer-term agreements are established with fixed prices, or formula pricing is considered to ensure that Hydro One Distribution achieves best value;
- Improved and/or consistent quality of material and services.

Collaborative planning and strategic sourcing will continue to be a major focus, as the Company emphasizes cost control and security of supply while demand in the global utility sector increases.
4.8 Recent Productivity Improvements in Supply Chain Management

Hydro One Distribution is interested in continuous improvement, and supply chain management is one example. This section details some work in progress to provide effectiveness and efficiency gains.

Previously, procurement of material for projects usually occurred after the release of the project. The supply management process is evolving, however, to consider the broader work program over multiple years, and obtain quotes for materials required over multiple delivery dates. This approach assists vendors by allowing them to better plan their activities, and leads to lower costs and a stronger relationship between Hydro One Distribution and the vendor – which has additional benefits if difficulties arise in the supply of materials.

Hydro One Distribution has also developed “outline agreements” with vendors to establish a standing order or relationship for critical materials, such as cable and autotransformers as well as material for day to day consumption. In addition, the Company involves some suppliers in its planning activities, and studies historical buying patterns to assist in planning purchases.

Streamlining standards is another way in which Hydro One Distribution is improving the strategic sourcing process. In addition to simplifying procurement, this also increases both the likelihood that spares will be available for use, and the ease of maintaining a lower inventory.