




Customer Information System Replacement Vision, Strategy and Planned Approach

Cornerstone Phase 4

Update for Stakeholders

June 29, 2011

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Hydro One's IT strategy is to rationalize applications and transform business processes through the implementation of commercial off the shelf (COTS) applications 

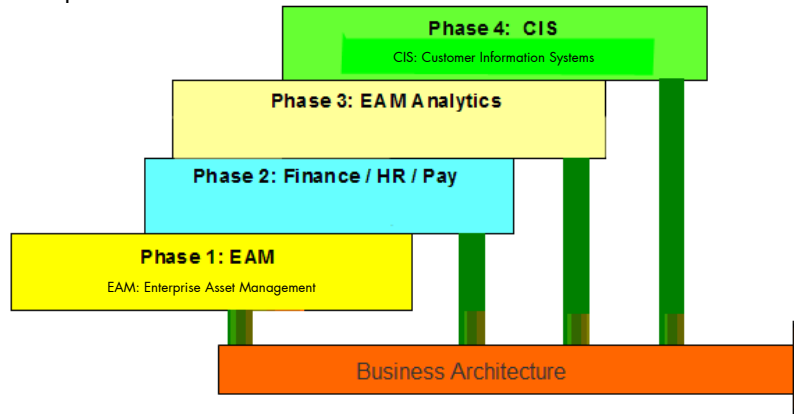
- Supports a mandate to pursue efficiencies, **productivity improvements**, and an improved and integrated customer experience
- Addresses operations **risk** associated with unsupported custom solutions that are expensive to maintain and modify to meet evolving requirements
- Enables adoption of **standard industry processes** and practices where appropriate to maximize cost effectiveness
- Leads to a **lower long-run IT cost structure** by leveraging off-the-shelf, common applications on common infrastructure – leading up to and beyond the next outsourcing contract

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Cornerstone Summary



- Since it began in 2006, the Cornerstone strategy continues to be a four-phase staged plan to replace core end-of-life information systems with enterprise-wide commercial-off-the-shelf solutions.
- It also initiated the transformation of the corporate culture through new, rationalized processes, using SAP as the system of record for core operations.



Cornerstone Summary (cont'd)



- **Phase 1:** Replaced Legacy Passport Enterprise Asset Management and Supply Chain system with SAP. Associated business processes were reengineered to support a plain-vanilla implementation of SAP with no customization of core SAP code. First phase went live in Q2 2008.
- **Phase 2:** Replaced the legacy PeopleSoft financials and pay systems along with certain Asset Management functions and information management/reporting capabilities with SAP. Went into production in Q3 2009.
- **Phase 3:** Projects designed to release additional value from the first two phases. These initiatives are in various stages of completion, and relate primarily to enhanced asset analytical and supply chain capability.
- **Phase 4:** Replacement of customized, legacy customer systems built on discontinued platforms. Emphasis on simplifying the interactions for customers (first contact resolution) and driving efficiency and effectiveness through innovation and service delivery transformation.

Project Process Summary



- Request for Information (RFI) issued to market to determine available software products.
- Request For Proposal (RFP) issued to solicit both a software solution and system integration services to meet the stated requirements.
- Commenced three month Discovery Phase in Q1 2011 resulting in finalized scope and fixed price for System Integrator services. Benefits locked in at this time.
- Third-party expertise used to negotiate software license costs. Achieved discount within specified range.
- Board Approval attained in May 2011.
- Projected in-service is targeted to pre-date and maximize leverage entering into the Outsourced Services RFP process.

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Cost-Benefit Summary of Overall Cornerstone Program



		Costs	Benefits (projected over 7 years)
Phase 1	Enterprise Asset Management	\$127M ¹	\$200M
Phase 2	Finance/Human Resources/ Payroll, Business Reporting, IFRS in SAP	\$166M ¹	\$50M
Phase 3	Enhanced Enterprise Asset Management	\$60M	\$150M
Phase 4	Customer Information System	\$180M	\$172M
Total Cornerstone Program		\$533M	\$572M

¹ Actual cost of phase 1 and 2 projects

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Customer Information System (CIS): Rationale for Replacement



A new CIS enables the company to meet the significant challenges of an evolving utility future.

Rationale:

1. Address current needs
 - Eliminate operational risk by replacing an aging, customized, legacy system
2. Realize immediate value
 - Quantitative and qualitative value in enhanced capabilities that tie directly to productivity, efficiencies and cost reductions
3. Enable a future Customer Vision
 - Meet the needs of a new utility customer from a leaner, more productive service delivery model

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1. Address Current Needs



Eliminate operational risk by replacing an aging, customized, legacy system

- Legacy Customer Service System (CSS) supports Customer Contacts and the Meter-to-Bank processes
- Built on Accenture Customer/1 software - not Commercial Off the Shelf software (COTS) and no longer marketed or supported by the vendor
- Original deployment was April 8, 1998
- Invested ~\$200M+ in customized extensions and add-ons in the last 13 years to satisfy regulatory requirements and enhancements
 - Largest investments – Market Opening and Smart Meter implementation
- Has been customized to the point where it is a stand-alone Hydro One only system. Resulting set of Open Market System (OMS) and CSS applications are highly customized and increasingly costly to maintain or enhance

CSS is built on a discontinued platform and needs to be replaced.

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2. Improving Customer Value



New CIS provides immediate value tied directly to corporate goals

Value of direct benefits will come close to offsetting the investment, minimizing the impact to rates

Value Areas:

- Adopt best practice processes
 - “Out of the box” capabilities leads to quantified benefits
- Enhanced capabilities
 - Directly support 90% Customer Satisfaction goal
- More flexible platform (configurable versus customizable)
- Lower Total Cost of Ownership (TCO)

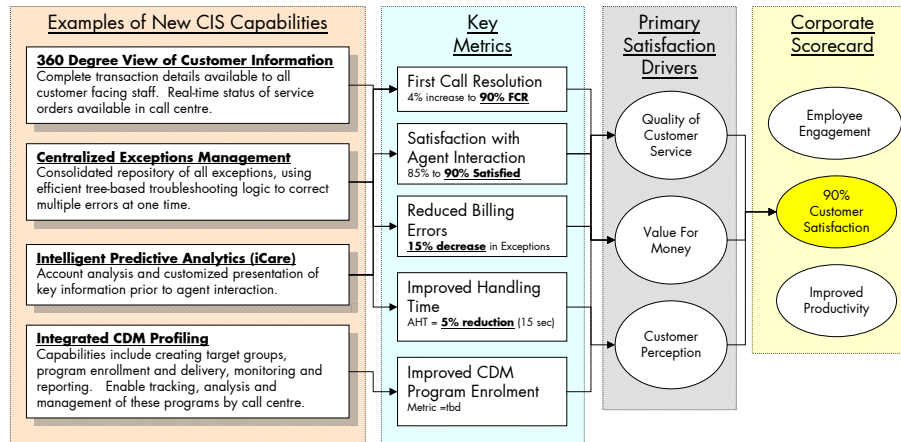
Benefits Evaluation



Benefits Area	New Capability Examples
Best practice processes will produce better customer service outcomes	Using base functionality, upon move in/out, a customer will not get a Final bill, but rather a two-part bill containing the last bill from his old premise, plus the new bill from his new premise. If no final bill is issued, H1 would have greater certainty of bill payment, therefore reducing bad debt exposure. Approx 25% of Residential Final Bill A/R Aging is associated with move in/out activity.
A more flexible platform to meet an accelerated pace of change	Modifications to the legacy CSS to accommodate regulatory change (e.g. low income) are performed through core code changes. These modifications are procured through project spend with Inergi. With the new CIS, these modifications can be configured into the system with business super users, allowing for a simplified, streamlined approach to meet future requirements for regulatory driven changes to service delivery. On-going spend will be in a sustainment program.
Lower IT Run Costs	New CIS will reduce the total number of UNIX and Wintel servers and it will also reduce the infrastructure management and support cost. CIS reduces the skill sets required to support the application and allows some economies of scale.

Linkage to Corporate Goals

Qualitative Value Gains that Link Directly to Corporate Objectives



A new CIS provides qualitative value gains that have a direct linkage to the 90% Customer Satisfaction goal.

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3. Enable a Customer Vision

Eliminate duplication, streamline delivery & improve Customer Satisfaction



CIS enables a future VISION of Customer Service Delivery that includes better service outcomes for customers delivered from a leaner more productive service delivery operation.

Key Points:

- Trusted partner approach with a more customized form of service designed to meet the demands of the utility customer of the future
- Consolidation of back office functions fully leveraging key technology investments (Smart Meter, Smart Grid, Mobile, Geo-spatial Information Systems, CIS)
- Will provide incremental productivity gains over and above direct CIS benefits in the Operations area

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CIS – Relevance to Distributed Generation Customers



- Improved customer relationship management for distributed generation customers
 - New CIS provides agents with access to consolidated customer information including their business relationships as both generator and load customer. Allow improved handling of generator inquiries.
- Improvements to settlement process for distributed generation customers
 - Improved generation payment statement format (more detail on statement)
 - Publish generation statements on-line (not currently available on HONI website today)

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CIS – Relevance to Distributed Generation Customers Cont'd

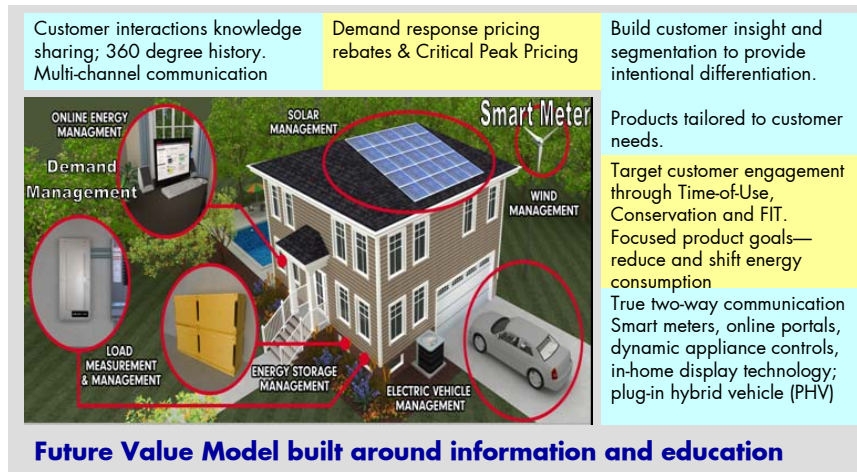


- An improved meter data web portal to replace existing MV-WEB portal
 - Currently available only to large interval metered generators
 - Expand scope to make meter data available to smart metered generators (e.g. microFIT)

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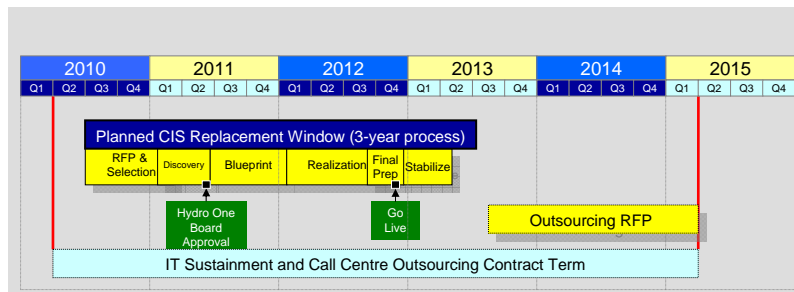
The Customer of the Future

Establishing a Service Delivery Vision to meet the needs of the Utility Customer of the Future



Timeline for Replacement

Implement and stabilize a new CIS within the current Inergi term



Key Points:

- Timeline leaves 18 months post-stabilization before possible transition of Call Centre provider
- Not feasible to conduct CIS Replacement in parallel with Outsourcing Contract RFP. Would not risk a change in supplier mid-stream on the CIS Replacement project.
- Next feasible window: 2016 start for 2019 cut-over. CIS would be **20 years old** at time of replacement

CIS Project Cost Summary



Cost Items	Cost (\$Ms)	% of Project
Labour / Services		
HCL Axon	\$49.1	
Hydro One	\$14.2	
Inergi/Vertex	\$19.7	
Subtotal	\$83.0	46%
Hardware	\$10.0	
Software	\$13.4	
Commissioning and Other Support	\$21.3	
Implementation Subtotal	\$127.7	71%
Contingency (20%)	\$25.5	
Interest & Overhead	\$17.5	
Total Implementation Cost	\$170.7	95%
Discovery Total	\$9.1	
PROJECT TOTAL COST	\$179.8	

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Changes in New System vs. Old



- Green Energy Act Benefit
- Total Hours to make required changes in CSS:
6,650
- Estimated Hours required in new system:
1,600 to 2,200
- Average Effort Reduction:
71%

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