1.0 OVERVIEW

The Transmission and Distribution businesses are operated using the Asset Management model, which the company adopted in 1998. The model separates the planning, decision-making and approvals associated with customer and asset needs from the engineering design, estimating and asset service functions required to expand and maintain the assets. This separation of functions is a common industry practice in today’s utilities and reflects the different skills required for these functions. By applying this model, Hydro One Networks Inc. can make management decisions involving customer and asset requirements on a consistent basis across its entire service territory. The Asset Management model is further discussed in Exhibit A, Tab 4, Schedule 1.

Asset Management remains focused on ensuring, and being able to demonstrate, that the necessary transmission and distribution assets are planned, acquired, constructed, maintained and operated to deliver the required function and level of performance expected by customers in a sustainable manner. The Asset Management function balances the needs of customers, various economic and operational regulatory bodies, the company’s assets and systems, the shareholder and the people of Ontario in delivering on the following accountabilities:

- Developing an asset plan for the sustainment, development and operation of the Transmission and Distribution system;
- Optimizing the release, bundling and sequencing of the work to ensure the effective delivery of the programs and projects within the plan;
- Redirecting projects and programs in response to new or unforeseen factors and drivers;
• Monitoring, evaluating and reporting upon progress, accomplishments and cost metrics of the various programs and projects;

• Identifying, assessing and scoping system augmentation, load connections, generation connections, and interconnections with neighbouring systems to address issues related to reliability, customer supply security and changes in the province’s generation portfolio;

• Developing, integrating, and implementing asset strategies and investment plans to support corporate objectives, execute OPA programs (such as conservation and demand management, or the Renewable Energy Standard Offer Program), and fulfill government policy (e.g. deployment of smart meters and off-coal program);

• Pursuing business development opportunities, and productivity improvement initiatives; and

• Influencing the business and regulatory environment to ensure customer needs and business objectives (safety, regulatory compliance, environmental performance, etc.) are met in an effective and efficient manner.

Effective delivery of these accountabilities is key to the Company’s success in achieving the balance noted above.
### Table 1

**Asset Management Function ($ Millions)**

<table>
<thead>
<tr>
<th>Function/Service</th>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Strategy &amp; Business Development</td>
<td>6.3</td>
<td>6.4</td>
<td>5.9</td>
<td>6.3</td>
</tr>
<tr>
<td>System Investment</td>
<td>14.0</td>
<td>22.0</td>
<td>22.7</td>
<td>24.0</td>
</tr>
<tr>
<td>Work Program Optimization</td>
<td>2.5</td>
<td>3.6</td>
<td>3.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Business Integration</td>
<td>12.1</td>
<td>16.5</td>
<td>15.5</td>
<td>18.2</td>
</tr>
<tr>
<td>Business Transformation</td>
<td>2.3</td>
<td>2.7</td>
<td>3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Real Estate &amp; Facilities</td>
<td>35.4</td>
<td>38.7</td>
<td>37.5</td>
<td>41.9</td>
</tr>
<tr>
<td>Contracts and Business Relations</td>
<td>2.6</td>
<td>4.9</td>
<td>5.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Asset Management Processes and Policies</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>75.2</td>
<td>94.8</td>
<td>93.8</td>
<td>102.5</td>
</tr>
</tbody>
</table>

* The Asset Management Process and Policies function was part of System Investment prior to 2008.

As shown in Table 1, the 2009 cost of doing Asset Management work is $123.6 million and the 2010 cost is $131.0 million, with the portion of the total cost attributable to the
Transmission business being $76.7 million in 2009 and $81.2 million in 2010. Refer to Exhibit C1, Tab 5, Schedule 1 for further details on the percentages used to allocate costs into Transmission and Distribution components.

Asset Management is one of several work delivery lines of businesses and its focus is the work initiation stage of the work delivery chain. As such, its costs are subject to the same upward cost pressures associated with increased work programs as other lines of businesses in the work delivery chain.

During 2008 costs have increased in Asset Management mainly due to costs associated with supporting the increasing Transmission and Distribution sustainment, development and operations (SD&O) work programs (see Exhibits C1, Tab 2 Schedules 2 to 4 for summaries of changes to work programs). Work program growth requires additional work scoping and planning, project management and engineering design, reporting, and the additional use of consultants and contract staff. Government direction (for example, IPSP, CDM and Smart Meters) and compliance activities (e.g. NERC, NPCC, SEC, OSC, Bill 198) have contributed to increased costs. The Cornerstone initiative has required experienced Asset Management staff to ensure business processes are streamlined to improve business efficiency, and to ensure there will be continuing requirements for staff to support the initiative on an ongoing basis. Costs for employee workspace accommodation have increased, as well as facility rent, utilities and construction-related costs. Further, investments have been required to ensure facilities continue to meet health and safety requirements.
Table 2 provides a summary of Strategy and Business Development functions.

### Table 2
**Strategy and Business Development Functions ($ Millions)**

<table>
<thead>
<tr>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>6.3</td>
<td>6.4</td>
<td>5.9</td>
<td>6.3</td>
</tr>
<tr>
<td>2009</td>
<td>2010</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>9.4</td>
<td>9.7</td>
<td>4.3</td>
<td>4.5</td>
</tr>
</tbody>
</table>

### 2.1 Overview

This area consists of the strategy, conservation, business development and asset management costs. Funding for property insurance and boiler and machinery insurance is also contained within the budget.

In addition to the direct costs above, strategy and conservation, manages OPA-funded CDM programs for which funding is provided of approximately $21M in each of 2009 and 2010. These funds are not included in Hydro One Transmission’s revenue requirement submission.
2.2 Strategy and Conservation and Business Development Activities

The Strategy and Conservation function activities include:

- developing the long term corporate vision;
- leading and supporting the development and integration of strategies that respond to corporate direction, and to changes in the industry environment or government policy (for example, the Conservation and Demand Management initiative);
- supporting opportunities to optimize leveraging of Hydro One Networks Inc.’s assets (such as leveraging the communications network being put in place for smart meters for in-home displays and potentially for load control);
- developing strategies and implementation plans for business improvement initiatives (for example, internal energy efficiency);
- developing strategies that support corporate goals related to the transmission and distribution functions;
- assisting with improving industry efficiencies within the utility sector;
- managing the corporate research portfolio;
- overseeing the operation of the Customer Advisory Board;
- developing innovative conservation and demand management programs that meet the needs of Hydro One Network’s unique customer base;
- initiating and managing the delivery of conservation and demand management customer programs funded by the OPA.

Business Development is responsible for the following activities:

- leading the planning and implementation of the Corporation’s smart meter program;
- planning and implementing business improvement initiatives (for example, smart networks);
• planning and implementing utility industry efficiency initiatives (for example, utility rationalization);
• supporting the development of opportunities to optimize leveraging of Hydro One Networks’ assets (for example, secondary land use, utility rationalization, and utility boundary adjustments);
• coordinating field activities, regulatory-driven activities (e.g. elimination of long-term load transfers) and programming of the distribution business; and
• providing advice and guidance on distribution rates and conditions of service.

3.0 SYSTEM INVESTMENT

The following Table 3 provides a summary of System Investment costs:

Table 3
System Investment Function ($ Millions)

<table>
<thead>
<tr>
<th>Historic</th>
<th>Bridge Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Total Cost</td>
<td>14.0</td>
<td>22.0</td>
</tr>
</tbody>
</table>

3.1 Overview

System Investment develops and scopes transmission and distribution plans to address equipment performance, system reliability, compliance obligations, customer requests and OPA/government initiatives.
System Investment has experienced upward pressure on costs, due to the following:

- An unprecedented number of requests for generation applications, requiring connection impact assessments;
- The need to develop new standards related to configurations or connections to the transmission and distribution networks;
- The need to develop, scope and obtain approvals for transmission plans in response to Government policy decisions related to the province’s generation mix, in consultation with the OPA, and in support of the IPSP;
- The greater number and complexity of Section 92 and Environmental Approvals required for new facilities or expenditures;
- The need to comply with new industry standards and codes; and
- The higher levels of maintenance, refurbishment or replacement required for the aging asset base.

3.2 System Investment Activities

System Investments activities include:

- Identifying, scoping and obtaining approval for projects and programs related to new and existing transmission and distribution assets. Such investments must meet defined needs in an economic and cost-efficient fashion, and be consistent with corporate objectives, regulatory requirements and government policy;
- Obtaining necessary approvals or endorsement of investment plans;
- Redirecting and re-prioritizing projects and programs in response to unforeseen events and work execution opportunities;
- Performing technical studies to assess the viability of proposed connections, alternatives or investment plans;
• Investigating power system disturbances;
• Conducting asset condition assessments;
• Monitoring and managing equipment and network performance;
• Establishing performance standards that establish the foundation for detailed engineering designs;
• Responding to customer requests for new or expanded connections or customer concerns regarding connection security or power quality;
• Advising external agencies and customers of the transmission and distribution impacts of their plans;
• Consulting with affected stakeholders regarding new transmission and distribution facilities;
• Participating in the development of North American or regional reliability standards;
• Supporting regulatory filings; and
• Specifying technical requirements and work for new technologies, such as anti-theft initiatives for copper wire, animal abatement, transformer refurbishment (core heating) and remote monitoring.

4.0 WORK PROGRAM OPTIMIZATION

The following Table 4 provides a summary of Work Program Optimization costs:

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Total Cost</td>
<td>2.5</td>
<td>3.6</td>
<td>3.8</td>
<td>3.4</td>
</tr>
</tbody>
</table>
4.1 Overview

Work Program Optimization focuses on execution planning, integrating and bundling of awarded transmission and distribution work across Hydro One Networks. As shown in Table 4, the 2009 cost for this activity is $3.7 million with $3.1 million allocated to Transmission, and the 2010 cost is $3.8 million with $3.2 million allocated to Transmission. The year over year increases are due to increased work activities that are a direct consequence of an increasing transmission work program on the activities of the function.

Spending in 2008 was slightly lower at $3.4 million, primarily due to reduced work scheduling efforts needed after the roll-out of phase one of the Cornerstone SAP project.

4.2 Work Program Optimization Activities

Activities of the function can be split into three major categories:

- Work Execution Planning, Bundling & Integration - Work closely with functions across the organization to bundle and schedule work in ways that minimize outages, resources, schedule and costs.
- Knowledge Management – Design, implement and support a knowledge management system for all major capital and engineering documentation. The system includes standard document templates and a structured workflow for document creation. Provide a storage and management system to enable searching and retrieval of historic documents to enable knowledge transfer to new staff.
- Scheduling System Administration - Provide administration of the corporate planning and scheduling system (P3E) including the management of any required upgrades,
training and operating requirements and the development of planning standards and templates.

5.0 BUSINESS INTEGRATION

The following Table 5 provides a summary of Business Integration costs:

<table>
<thead>
<tr>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Total Cost</td>
<td>12.1</td>
<td>16.5</td>
<td>15.5</td>
</tr>
</tbody>
</table>

5.1 Overview

The Business Integration function integrates planning, budgeting, releasing, monitoring, reporting, and control of the capital and OM&A work programs and related processes for the major lines of business of Hydro One Networks, including Asset Management, Engineering and Construction Services (E&CS), Grid Operations and Customer Operations. As shown in Table 5, the 2009 cost for this activity is $18.7 million, with $10.7 million allocated to Transmission, and the 2010 cost is $20.0 million, with $11.4 million allocated to Transmission. Cost increases since 2005 are primarily due to increased work programs in the Transmission and Distribution businesses. Additional costs have also been incurred in supporting the Cornerstone initiative.
5.2 Business Integration Activities

Business Integration Activities include:

- Developing multi-year Hydro One Network Business Plans;
- Developing and leading the OM&A and capital Asset Planning process;
- Supporting regulatory processes, such as Transmission and Distribution filings, within Asset Management;
- Performing business analytics, and conducting special studies in such areas as productivity and cost savings management;
- Developing work program costing rates;
- Managing integrated processes for releasing and monitoring program results through common systems;
- Reporting and analysing work program costs and results, and managing necessary program redirection;
- Reporting and analysing Transmission and Distribution system and component reliability;
- Developing and managing financial, customer, and asset information tools and reports;
- Managing corporate asset information and systems (e.g. Power System Database) used in key corporate processes;
- Managing corporate and line of business performance measurement and reporting processes;
- Performing detailed performance benchmarking and productivity studies in support of corporate objectives and regulatory filings;
- Managing corporate time reporting systems and processes;
- Managing distribution rationalization and WEP (Work Execution Program) rollout and implementation; and
• Providing support to Cornerstone Phases 1 and 2, and managing operational readiness of Phase 1 on behalf of Asset Management.

### 6.0 BUSINESS TRANSFORMATION

The following Table 6 provides a summary of Business Transformation costs:

<table>
<thead>
<tr>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Total Cost</td>
<td>2.3</td>
<td>2.7</td>
<td>3.4</td>
</tr>
</tbody>
</table>

#### 6.1 Overview

The Business Transformation function identifies emerging issues, develops appropriate responses, and implements selected time-limited initiatives that change the current operations of the Company and are critical to the future of Hydro One Networks Inc. Opportunities for improvement, and especially projects that require an intensive, integrated approach across Hydro One Networks Inc. are a focus of this function. The total 2009 cost for this function is $3.1 million, with $1.7 million being allocated to Transmission and the 2010 cost for this function is $3.3 million, with $1.8 million being allocated to Transmission. The increase in cost since 2005 is due to increased work activities required to enhance data and systems over this period, and contribution to process change and management of culture change.
6.2 Business Transformation Activities

- Corporate Projects / Business Transformation Activities include:
- participating in the definition and scoping of cross-functional priority projects, or
directly managing and mobilizing resources for large projects;
- managing cross-corporate initiatives to ensure an integrated approach to data,
systems, and processes as well as contributing to change management within Hydro
One; and
- managing Hydro One’s integrated approach to Emergency Preparedness and Business
continuity, including liaison with other industry organizations and various levels of
governments;

Business Transformation’s current priority is planning the replacement of a corporate
core IT systems. The first phase, which went live on June 2, 2008, replaced the existing
purchasing, inventory, work management, labour time entry, and Accounts Payable
modules. The second phase will replace the Financial, Human Resources and Pay
systems (see Exhibit D1, Tab 3, Schedule 7)

7.0 REAL ESTATE & FACILITIES

Table 7 provides a summary of Real Estate & Facilities costs:

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>Total Cost</td>
<td>35.4</td>
<td>38.7</td>
<td>37.5</td>
<td>41.9</td>
</tr>
</tbody>
</table>
7.1 Overview

The total cost for the Facilities and Real Estate function in 2009 is $46.5 million, with $24.5 million allocated to Transmission. The 2010 cost is $49.1 million, with $25.8 million of that allocated to Transmission. The increase in cost over the 2007 through 2010 period reflects primarily new space - accommodation requirements driven by the increasing work programs across the company and expansion of real estate and facilities work programs.

7.2 Real Estate Services (“RES”)

Real Estate Services manages Hydro One’s land rights portfolio across the Province. This involves ensuring that rights across over 200,000 acres of owned transmission corridor, easement and “statutory right” properties are maintained, and that new rights are acquired as necessary to ensure the safe and reliable operation of the transmission system. In addition, Real Estate oversees the management of Hydro One’s rights associated with transmission and distribution lands, stations and other property.

Key work activities include:

- managing acquisition of new real estate rights, including company transmission development project initiatives across the Province;
- managing the Provincial secondary land use program on behalf of the shareholder / Province (such as leasing transmission corridor lands to external parties);
- managing easement and other rights agreements on public/private sector, railway and other lands;
- managing First Nations settlements and First Nations liaison activities;
- managing about 500,000 unregistered, low-voltage, real estate rights agreements; and
• Maintenance of the Geographic Information System (GIS) property record database.

More specific support is provided on a selected project basis. This includes provision of land ownership information, damage claim settlement, road access and other rights acquisitions.

Specialized real estate services are provided as necessary. This includes assessment appeals, payment of property taxes on distribution lands/buildings, and employee relocation services as appropriate.

### 7.3 Facilities

The Facilities function manages all of the building and site facilities across the Company. This includes leasing costs and contract management for Head Office. In addition, it includes costs for administrative and service centres, transmission site facilities and infrastructure and other work locations (for example, the London call centre and the Ontario Grid Control Centre).

The Facilities Program focuses on providing employee workspace at sites across the province including head office, administrative and service centres, the OGCC, and other work locations such as the London Call Centre, and Network Services field centre facilities.

Providing adequate workspace, storage and garage facilities for employees and trades is critical to the effective undertaking of organizational work programs. Equally important is ensuring that new or existing employee workspaces are consistently maintained to a standard that meets current work requirements and complies with all corporate, legislative and other related health, safety and environmental standards.
This Program includes:

- Administration of 46 contract lease agreements for workspace rented from other parties, including contractual obligations undertaken regarding payment of rent, operating expenses and taxes;
- Coordination of activities related to the ongoing management, operation, maintenance and inspection of 82 administrative/service centres;
- Provision of support services for Head Office space, such as provision of office supplies and equipment, coordination of office moves, records management and tenant services.

Providing accommodation strategies and acquiring new employee / trades workspace in line with operational requirements is also undertaken.

The Facilities work program is extensively driven by fixed-cost contractual obligations, as well as by the current regulatory environment (including health and safety and corporate standards) and corporate staff levels.

Fixed cost contractual obligations arise primarily through relationships with external landlords. For example, rent, operating and tax costs are specified in formal lease agreements and opportunities to significantly amend these set costs typically do not materialize until the agreement expires. Other fixed costs are represented by negotiated contracts with internal and external service providers for base level facility maintenance (for example, administrative/service centre building maintenance, janitorial and snow removal, minor repairs, building component inspections) and similar activities. These contracts focus on maintaining facilities in a condition that meets current employee work requirements and corporate/legislative requirements.
Fixed facility cost components (for example, utilities, property taxes, operational costs) are expected to continue to rise. This is due to the anticipated escalation of utility prices in Ontario as a result of electricity price increases and expected increases in natural gas prices. As a result, a consistent approach was adopted in the proposed funding levels to address these changing factors in the operating environment.

8.0 CONTRACTS & BUSINESS RELATIONS

Table 8 provides a summary of Contracts & Business Relations costs:

### Table 8

**Contracts & Business Relations Function ($ Millions)**

<table>
<thead>
<tr>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Total Cost</td>
<td>2.6</td>
<td>4.9</td>
<td>5.1</td>
</tr>
</tbody>
</table>

8.1 Overview

Improving the level of service that the Company provides to customers is a key objective of Hydro One. While it is the role of each employee to ensure they work towards improving customer satisfaction, Contracts and Business Relations focuses its efforts on managing the relationship with the Large Customer segment. This includes Hydro One Transmission-connected industrial customers, Local Distribution Companies (LDCs), and transmission-connected generators.

The objective of Contracts and Business Relations is to maintain satisfaction levels and improve in areas where necessary. The transmission industrial and LDC long term
satisfaction target of 90% was exceeded with a score of 95% in 2007. The transmission
generators score also improved from 74% in 2006 to 83% in 2007.

Core work programs include contract management, program implementation, customer
communications, operational and business support and customer connection project
coordination. Planned long-term initiatives include improving customer communications
through enhanced Web self service, skills training and new database functionality to
increase customer knowledge, and improving commitment tracking and reporting.

8.2 Contract & Business Relations Activities

Contracts & Business Relations activities include:

• Coordinating new and modified connection requests.
• Managing transmission connection agreements.
• Managing the Wholesale Meter Exit program and the Transitional Meter Service Provider (MSP) fee program.
• Managing the Station Access program.
• Implementing and administering a new tracking process for customer contracts.
• Enhancing customer account management and commitment tracking systems to improve customer service and sharing of customer information within Hydro One.
• Meeting with each customer annually to identify any issues and follow up on satisfaction surveys.
• Managing Hydro One’s large customer web services, including annual enhancements to improve customer experience with web access
• Continuing to manage customer programs and communications.
2009 and 2010 spending for Contracts and Customer Business Relations remains at or below spending in recent years. Spending has increased relative to 2005 as a result of expanded business responsibilities and a proportionate increase in staffing complement.

9.0 ASSET MANAGEMENT PROCESSES AND POLICIES

Table 9 provides a summary of Asset Management Processes and Policies costs:

<table>
<thead>
<tr>
<th>Table 9</th>
<th>Asset Management Processes and Policies Function ($ Millions)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Historic</th>
<th>Bridge</th>
<th>Test Years</th>
<th>Allocation to Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>1.3</td>
</tr>
</tbody>
</table>

*Previously performed as part of System Investment function

9.1 Overview

The Asset Management Processes and Policies function is responsible for developing the long-term (10-year) asset plan, developing and improving policies and processes (which includes support of the Cornerstone initiative); coordinating regulatory-related processes within Asset Management, and supporting improvements to market rules and codes.
9.2 Asset Management Processes and Policies Activities

- Asset Management Processes and Policies activities include: Developing a long-term (10-year) asset plan;
- Coordinating Asset Management’s participation in Transmission and Distribution rate hearings;
- Identifying and promoting improvements to market rules and codes, to ensure that they are pragmatic and effective in meeting the needs of customers;
- Acting as a key interface with the Cornerstone initiative, to ensure that asset management processes incorporated into the project represent best practices; and
- Developing related Asset Management and compliance-based policies.