SHARED SERVICES CAPITAL - FACILITIES & REAL ESTATE

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.

2.0 SHARED SERVICES - FACILITIES & REAL ESTATE

Table 1 presents total F&RE capital expenditures for the Historic, Bridge and Test Years as well as the 2011 and 2012 Transmission amounts.

Table 1
Total Facilities and Real Estate Capital Expenditures ($ Millions)

Description	Historic			Bridge	Test		TX Allocation	
	2007	2008	2009	2010	2011	2012	2011	2012
Major	6.5	6.1	16.0	38.0	35.8	29.6	20.0	16.7
MFA	3.1	1.0	1.1	10.4	9.0	5.6	3.9	2.4
Total	9.6	7.1	17.1	48.4	44.8	35.2	23.9	19.1

The primary driver for the increase in costs is the need to provide suitable space to accommodate staff resources and equipment. These expenditures encompass the refurbishment, acquisition and/or development of field facilities, and provide for additional administrative workspace and improvement of head office space.

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.

Key Program work activities include:

- addressing Company accommodation requirements in terms of new buildings, buildings additions and major facility renovations;
- replacement of major building components including roof structures, windows, heating, ventilating and air conditioning ("HVAC") systems and other structural elements and building systems;
- dealing with environmental issues that may arise such as mold;
- water treatment upgrades to improve quality and reliability of water supply, including conversions to municipal supply.

2.1 Field Facilities Accommodations Requirements

Table 2
Total Field Facilities Capital Expenditures ($ Millions)

Description	Historic			Bridge	Test		TX Allocation	
	2007	2008	2009	2010	2011	2012	2011	2012
Major	5.4	5.8	16.0	24.3	22.8	16.6	12.8	9.3
MFA	1.5	0.0	0.8	3.1	3.0	3.0	1.3	1.3
Total	6.9	5.8	16.8	27.4	25.8	19.6	14.1	10.6

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

The capital investment is required for field facilities in order to continue to provide adequate workspace accommodation for various types of staff resources (e.g. regular, temporary) and accommodate lines of business operating requirements. The investment need is driven by the following key factors:

- aging facilities asset base that are near the end of life;
- emerging accommodation needs from lines of business' expanding work programs and changing business requirements.

The Company experiences work program growth across the Province which affects all field facilities. Main factors taken into consideration during investment decisions include: existing facilities' conditions including facilities that are near the end of their life and/or which were historically experiencing operating deficiencies including health and safety issues, facilities that are inadequate for changing, and increasing business needs (this includes providing accommodation for additional staff and/or work equipment). Ultimately the accommodation needs of lines of business are examined in terms of short and long term needs, logistics and geographic proximity to service areas, work sites and corresponding acceptable accommodation alternatives available in the local real estate markets. Based on these considerations decisions are made to build new facilities, conduct major renovations including building additions, or consider limited lease options. In addition, structural and other building improvements are conducted on a priority basis to existing facilities as a result of asset condition assessments. The level of the capital sustainment spending may vary from year to year depending on business circumstances.

The facilities infrastructure base is dominated by buildings and associated systems and components that are at or reaching the end of their asset life cycle. Approximately 40% of administrative and service centre facilities are estimated to be more than 40 years old. The aging facilities asset base, in conjunction with work program demands and operational needs of the business units, requires capital investment in order to continue to provide adequate workspace accommodation. These requirements will be addressed on a priority basis and/or as opportunities emerge at an estimated cost of $25.8 million and $19.6 million in 2011 and 2012 respectively.

2.2 Head Office and GTA Facilities Accommodations Requirement

Table 3

Total Head Office and GTA Facilities Capital Expenditures ($ Millions)

Description	**Historic**			**Bridge**	**Test**		**TX Allocation**	
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2011**	**2012**
Major	1.1	0.3	0.0	13.7	13.0	13.0	7.3	7.3
MFA	1.6	1.0	0.3	7.3	6.0	2.6	2.6	1.1
Total	2.7	1.3	0.3	21.0	19.0	15.6	9.9	8.4

Capital investment of $19.0 million is required in test year 2011 and $15.6 million in test year 2012. This investment will provide for head office accommodation improvements.

Hydro One Networks has completed an eleven year lease renewal for 483 Bay Street in Toronto, effective February 1, 2010, to serve its ongoing head office requirements. Within the recently completed lease renewal, Hydro One was successful in obtaining the commitment of the Landlord to upgrade base building systems/infrastructures, allowances for tenant improvements and swing space to execute improvements over a two year period, which created both the opportunity and incentive to complete head office related improvements at this time.

Leading to the decision to renew the lease for 483 Bay Street through a competitive process, a commercial real estate firm was retained to assist Hydro One with the identification, evaluation and negotiations for office space requirements. The retained firm undertook to directly investigate through a formal RFP process with landlords and real estate brokers leasing opportunities, which included advertisement through a major newspaper, to meet Hydro One Networks' objectives within the Greater Toronto area. Of the eleven office space proposals received, a comparative analysis process was undertaken of five short listed options.

The comparative analysis covered a wide set of criteria which included price; transit access; LEED/environmental accreditation; telecommunications; barrier free access; amenities; floor plate configuration and efficiency; elevators; growth opportunities; security; and building services. Ultimately the process identified two Downtown Toronto options with landlords that were well suited to meet Hydro One Networks' requirements. Hydro One Networks pursued parallel negotiations with the respective landlords including validation of the lease terms and pricing in the market place at that point in time.

The head office capital investment consists of both leasehold improvements and replacement furniture systems which will commence in the bridge year 2010 and are expected to continue throughout the test years and end in 2013. In 2011 the gross leasehold improvements and the furniture systems funding requirements are estimated to be $13.0 million and $6.0 million respectively. In 2012 the gross leasehold improvements are estimated to be $13.0 million and the furniture systems funding requirements are estimated to be $2.6 million. The planned improvements are necessary as major head office building infrastructure elements are now at the end of their life and require replacement. (This includes the raised flooring, which presents a health and safety issue with an increasing number of tripping hazards.) The project costing reflects continuance of the open office environment, completion to standard commercial finishes and commitment to LEED certification. Similarly, furniture systems acquired from the previous tenant and refurbished, are also now considered to be at end of life. The planned tenant improvements are part of the newly negotiated lease agreement.

3.0 MINOR FIXED ASSETS ("MFA")

Office workstations and furniture are beyond the end of their normal service life and need to be replaced. Table 1 shows the estimated MFA expenditures in 2011 and 2012. This includes replacement of furniture and office equipment in conjunction with the head office accommodation that will continue throughout test years 2011 and 2012 and furniture systems related to new and renovated space accommodation requirements.