SHARED SERVICES CAPITAL – TRANSPORT, WORK AND SERVICE EQUIPMENT

1.0 INTRODUCTION

This exhibit identifies the Transport and Work Equipment ("TWE") and Service Equipment capital expenditures for the period 2007 to 2012.

TWE and Service Equipment provide vehicle and specialized equipment support to the growing levels of the transmission and distribution, sustainment, development, and operations work programs. Some of the high-level activities driving upward pressure on TWE and Service Equipment capital in 2011 and 2012 are:

- The increased focus on the transmission and distribution, capital and OM&A sustainment and development work programs;
- Customer Operations – Additional staffing requirements, driven by the requirements of the Provincial Lines and Forestry Apprenticeship Programs;
- The replacement of core end-of-life Fleet and equipment; and,
- Vegetation Management – Hydro One Distribution is proposing increases in accomplishment levels to move maintenance toward an 8-year cycle. As recently as 2006, maintenance was on a 10-year cycle and efforts to reduce the cycle have been underway since that time. During this cycle transition, the impact on labour and equipment resources is significant.

2.0 TRANSPORT AND WORK EQUIPMENT

The increase in capital expenditures of $13.1 million in 2011 as shown in Table 1, is directly tied to the planned level of activities in the overall work programs, driven by:

core Fleet replacement, additional staffing, changes to the Forestry and Provincial Lines Apprenticeship Programs, as well as supporting the growing levels of the transmission and distribution capital and OM&A sustainment, and development work programs, including the initiatives outlined in the Transmission and Distribution Green Energy Plans. In 2012, capital expenditures decrease by $13.9 million as a result of delays to fulfilling some of the equipment and staffing requirements, as well as Forestry and Provincial Lines Apprenticeship Programs. The majority of these expenditures are associated with the Hydro One Distribution business.

Hydro One has approximately 5,700 units with an original capital value ("OCV") of $400 million. Approximately 500 units are scheduled for replacement. Fleet capital requirements are primarily based on industry standards (manufacturer's recommendations) for life cycle expectancy, the remaining capital value, and operating cost drivers. Light vehicles are replaced after 6 years or 180,000 km, service trucks are replaced after 6 years or 200,000 km, and work equipment is replaced after 8 to 10 years or 330,000 km.

Table 1

Capital Expenditures From 2007 – 2012 ($ Millions)

Description	Historic			Bridge	Test		TX Allocation	
	2007	2008	2009	2010	2011	2012	2011	2012
Total Cost	41.1	52.0	46.5	61.0	74.1	60.2	17.8	14.4

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

program, on an annual basis, is evaluated against the business plan and is subject to the work program prioritization and forecasting process.

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

The TWE Replacement Program reviews:

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

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

The benefits of our replacement program include:

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

2.1 2007 to 2012 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 approximately 5,700 vehicles and other equipment in 2010 to match the work program requirements. TWE expenditures are forecasted to be $ 74.1 million in 2011 and $60.2 million in 2012 based on the number of vehicles and equipment requirements to achieve the planned level of transmission and distribution capital and OM&A, sustainment and development work programs, core end-of-life fleet and equipment replacement, and additional staffing requirements.

The increase in capital requirements in 2008 over 2007 was directly related to the increases in the Forestry and Provincial Lines Apprenticeship Programs in anticipation of regular staff retirements. This will be readjusted when 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 directly 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 $46.5 million, approximately $7.0 million was required to

support the Forestry and Provincial Lines apprenticeship programs and additional staffing requirements, and $37.9 million for core Fleet and equipment replacements. Similarly, TWE capital expenditure is forecasted to be $61.0 million in 2010 based on the planned work program levels ($37.9 million), additional equipment requirements for the Provincial Lines and Forestry Apprenticeship Programs and additional staff ($12.5 million), as well as $10.6 million for the internal Transmission and Distribution work requirements to accomplish the initiatives of the Green Energy Act.

In 2011, the forecasted TWE capital expenditures of $74.1 million includes - $39.7 million requirements for core Fleet replacements, as well as $34.4 million towards the transmission and distribution capital and OM&A, sustainment and development work activities. In 2012, TWE capital expenditures are forecasted to be $60.2 million. This includes $42.0 million for the core end-of-life Fleet and equipment replacement program, and $18.2 million for necessary equipment, and staffing requirements associated with the Provincial Lines and Forestry Apprenticeship Programs.

2.2 Capital vs. Operating Leases

The evaluation of leasing as a financial alternative to the approved capital program has been evaluated in the past. The evaluation included the review of both capital and operating leases and the total operating costs. The risks and benefits generated by leasing were evaluated and it was decided the risks outweighed the modest benefits. The results therefore indicated that leasing was not cost effective.

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

2.3 Procurement Initiatives

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

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

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

2.4 Environmental Management

In 2010, Hydro One received a gold rating for environmental management of its fleet. Canada's Energy Environment and Excellence Group based their gold rating on the reduction of 156,675 KG of carbon dioxide through reduced fleet idling, the tire smart campaign, use of hybrids, buying more fuel-efficient vehicles as well as overall reduced consumption of gasoline and diesel fuel. All aspects of Hydro One's fleet management strategy were reviewed, to ensure the 5,700 pieces of equipment, ranging from ATVs to helicopters, operate with green standards in mind.

3.0 SERVICE EQUIPMENT

Table 2 identifies the expenditures for Service Equipment for the 2007 to 2012 period.

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

Description	Historic			Bridge	Test		TX Allocation	
	2007	2008	2009	2010	2011	2012	2011	2012
Total Cost	7.9	11.7	6.6	12.0	8.8	5.9	3.8	2.5

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

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

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

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

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