



Filed: 2014-07-17  
 2015-2016 Tx Rates  
 Exhibit I  
 Tab 5  
 Schedule 1  
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I-1.0-10-CCC-1	I-6.02-11-EP-44	I-4.03-01-Staff-69	I-4.02-09-SEC-32	I-6.04-09-SEC-53
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I-4.02-10-CCC-25	I-2.03-01-Staff-16	I-4.03-01-Staff-71	I-4.02-09-SEC-36	I-3.03-12-SEP-1
I-4.02-10-CCC-26	I-2.06-01-Staff-33	I-4.03-01-Staff-72	I-4.04-09-SEC-37	I-3.03-12-SEP-9
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				I-4.04-06-VECC-73

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- b) The Corporate Staffing exhibit is consistent between the 2 filings. The Compensation, Wages and Benefits exhibit is consistent except for:
- Exhibit C1 Tab 4 Schedule 2 (page 9) Transmission filing has an added section for Short Term Incentive Pay
  - Exhibit C1 Tab 4 Schedule 2 (page 11) reflects the changing work program and regular headcount for the period 2015-2016
  - Exhibit C1 Tab 4 Schedule 2 Attachment 3 shows year end compensation for 2011-2016
- Exhibit C1, Tab 4, Schedule 2 can be found as Exhibit I, Tab 3, Schedule 9 Attachment 1.



# VOICE OF THE CUSTOMER

## 1.0 INTRODUCTION

Hydro One is fully committed to continuing to improve the customer's experience and satisfaction with the services received. Hydro One listens to its customers, analyzes their needs and modifies the work planning and activities to address those needs.

Customers are a major driver of long-term success. Hydro One uses various means to proactively obtain feedback from its customers. Customer survey research (impression and perception) is the largest channel used to evaluate the overall satisfaction of transmission customers and to understand their perception of Hydro One personnel and the services provided. The data collected and used to identify customer issues and priorities to be addressed.

## 2.0 CUSTOMER SURVEY RESEARCH

Surveys are conducted to gain an understanding of the key drivers impacting transmission customer satisfaction. Hydro One considers the results of the survey research in its risk assessment, prioritization and decision-making processes described in Exhibit A, Tab 16, Schedules 1-7 to address satisfaction gaps. Customer oriented investment proposals are developed that span the Sustaining, Development, Operating and Customer Care investment categories, described in Exhibits C1, Tab 2, Schedules 2 through 5.

Formalized Customer Satisfaction Research began at the Company in 1999. The goal of the research is to be timely, representative, unbiased, and conclusive providing the Company with the opportunity to listen, understand and respond.

1 All research is conducted by independent experts ensuring results are unbiased.  
2 **Northstar Research** conducts our Transmission Customer studies. To ensure findings are  
3 representative, Northstar Research ensures the sample size and methodology are  
4 appropriate. The trending of results identifies opportunities to improve satisfaction and  
5 focus investments according to the customers.

6

## 7 **2.1 2013 Transmission Customer Surveys**

8

9 Transmission Customer Surveys are perception surveys that include all Large Industrial  
10 Customers, Local Distribution Companies and Transmission-connected Generators.  
11 Survey work was conducted in two waves; wave one was conducted on April 29, 2013 –  
12 June 12, 2013 and wave two was conducted from October 28, 2013 – November 8, 2013.  
13 Wave 1 started with on-line surveys followed by telephone interviewing, while in the fall  
14 on-line and telephone interviewing occurred simultaneously.

15

16 This survey included a total universe size of one hundred seventy-nine (179). The  
17 primary notification customers received was an e-mail invitation to participate, followed  
18 by two reminder e-mails to non-respondents. Telephone calls were then placed to  
19 customers who did not respond to the web option and for whom a telephone number was  
20 provided. Of the total pool of these customers, a total of one hundred thirty (130)  
21 customers completed the survey (73% response rate), broken down as follows:

22

- 23 • 35 Tx Generator customers;
- 24 • 41 Industrial customers; and
- 25 • 54 LDC customers.

1 An additional 7 respondents were partial completions, answering the overall satisfaction  
2 question. This represents a significant increase over 2012 (46% response rate) and 2011  
3 (36% response rate).

4  
5 These customers are asked about the main issue they would like to see Hydro One  
6 address. Attachment 1 shows the results of this survey research.

## 8 **2.2 Ontario Grid Control Centre (OGCC) Transactional Surveys**

9  
10 The OGCC conducts a transactional survey every two years. The intent of the survey is  
11 to obtain transmission customer feedback on their operating experience. Feedback is  
12 essential in the continuing effort to understand customer needs surrounding the delivery  
13 of a reliable electricity service. Areas the survey focuses on include overall impression  
14 and contact with OGCC staff.

## 16 **3.0 CUSTOMER ENGAGEMENT BEYOND THE SURVEY**

17  
18 Understanding the voice of the customer and their needs and preferences goes beyond  
19 structured customer research processes. The additional channels of customer engagement  
20 facilitated by Hydro One to assist in understanding customer needs are described in this  
21 section.

### 23 **3.1 Customer Account Executives**

24  
25 Hydro One Customer Account Executives are a key part of managing the customer  
26 experience. They interface between Hydro One and transmission customers to manage  
27 the commercial relationship. The Account Executive meets with the customer on an as  
28 required basis to ensure:

- 1 • The diverse customer needs are appropriately investigated and brought to resolution  
2 and communicated back to the customer with a follow up to attempt to satisfy and  
3 ensure the customer understands the situation.  
4
- 5 • The customer has a common understanding and satisfaction with contractual aspects  
6 such as:
  - 7 ○ Feasibility Study;
  - 8 ○ Connection Cost Estimate; and
  - 9 ○ Capital Cost Recovery Agreement. The Recovery Agreement stretches twenty-  
10 five years from the in-service date of the customer.

11  
12 Accounts are usually grouped into customer segments; large industrial customers, LDCs  
13 and transmission-connected generators. Account Executives are assigned to a specific  
14 category of customer. This helps the Account Executive to develop the expertise required  
15 to work with and assist the transmission customers.

### 16 17 **3.2 Customer Advisory Board (CAB)**

18  
19 Hydro One's Customer Advisory Board (CAB) was established in September 2002 to  
20 provide a forum for ongoing communication with customers. The CAB mandate is to  
21 provide advice to the management of Hydro One on how to best provide improved  
22 services to Hydro One customers. The CAB meets up to four times a year to review  
23 company initiatives, work program progress and to understand key customer concerns.  
24 Specific activities include:

- 25
- 26 • Review of the transmission survey in combination with action plans to address any  
27 customer concerns or issues; and
- 28 • Review of proposed asset policies that may affect the transmission customer.

1 The Advisory Board is designed to be representative of Hydro One's customer base,  
2 including both Transmission and Distribution customers. The Advisory Board includes  
3 but is not limited to customers / representatives who are affiliated with the following  
4 associations and groups:

- 5
- 6 • Association of Major Power Consumers in Ontario (AMPCO) Electricity Distributors  
7 Association (EDA)
- 8 • Association of Power Producers of Ontario (APPrO)
- 9 • Consumer's Council Canada (CCC)
- 10 • Ontario Federation of Agriculture (OFA)
- 11 • Canadian Manufacturers and Exporters (CME)
- 12 • Vulnerable Energy Consumers Coalition (VECC)
- 13 • Federation of Ontario Cottagers Associations (FOCA)
- 14 • Small, Medium and Large LDC's
- 15 • End Use Industrial
- 16

### 17 **3.3 Customer Engagement Groups**

#### 18

#### 19 **3.3.1 Power Quality Working Group (PQWG)**

#### 20

21 The Power Quality Working Group consists of Hydro One staff and key account  
22 customers including LDCs and Industrial customer representatives who are normally  
23 engaged in PQ at their own facilities. The PQWG meets on a regular basis and is  
24 involved in collecting information from across the province to identify patterns of power  
25 quality issues for the transmission and distribution systems. After identifying a pattern,  
26 the WG tries to determine the causal factor. An example of a causal factor is site  
27 equipment too sensitive for utility grade power. A resolution might be the installation of  
28 supplemental equipment or new technology to dampen the unwanted effects.



1 The PQWG provides viable solutions for power quality issues to share with others who  
2 may be affected by the same issues.

3

4 **3.3.2 Sarnia Area Reliability Oversight Committee (SAROC)**

5

6 The SAROC consists of Hydro One staff plus industrial and generation-connected  
7 customers in the Sarnia area. The group meets twice a year to identify issues regarding  
8 reliability in the Sarnia Area and to review the proposed investment plans to ensure issues  
9 will be addressed appropriately. The industry in the Sarnia Area is very sensitive to any  
10 type of voltage excursion and can result in health and safety issues such as gas flares.

11

12 **3.4 Meetings and Stakeholder Sessions**

13

14 Hydro One uses other channels such as stakeholder sessions to communicate with  
15 customers.

16

17 **3.4.1 Aboriginal Communities Meetings**

18

19 Hydro One meets with the First Nations Communities for consultation when any new  
20 facilities or maintenance activities are of interest.

21

22 **3.4.2 Export Transmission Service (ETS) Rates Stakeholder Session**

23

24 Hydro One recently held a stakeholder session to present the Elenchus prepared ETS  
25 Cost Allocation Study. This stakeholder session is discussed further in Exhibit A, Tab 19,  
26 Schedule 1.

1    3.4.3   Power Quality (PQ) Stakeholder Sessions

2  
3    Hydro One holds stakeholder sessions with transmission customers to discuss the issue of  
4    PQ. These sessions are held to ensure Hydro One and the customers understand the  
5    impact PQ events have on customers and their production activities and to promote a  
6    common understanding of what a PQ event is. Even small voltage sags or spikes and  
7    wave form problems can disrupt businesses and production processes due to the  
8    sensitivity of installed programmable controllers and computers.

9  
10   **4.0    EXECUTIVE CUSTOMER EXPERIENCE COUNCIL**

11  
12    The Hydro One Executive Customer Experience Council (CE Council) reviews the  
13    prioritized list of customer concerns to determine the appropriate internal processes and  
14    policies to be updated or introduced. This cross-functional executive group assigns  
15    initiatives to internal business units where research analysis has shown opportunities for  
16    customer experience satisfaction improvement.

17  
18    Hydro One's Customer Experience Vision, illustrated in Figure 1, was developed by the  
19    CE council and assists Hydro One in consistently delivering positive customer  
20    experiences and providing focus on customer-centricity. Investing in the CE Vision  
21    assists Hydro One in:

- 22
- 23    • building a trusted relationship with its customers;
  - 24    • implementing low cost communication channels;
  - 25    • driving work efficiencies;
  - 26    • lowering operational costs;
  - 27    • meeting the company's commitments to customers; and
  - 28    • having seamless service delivery.

Figure 1

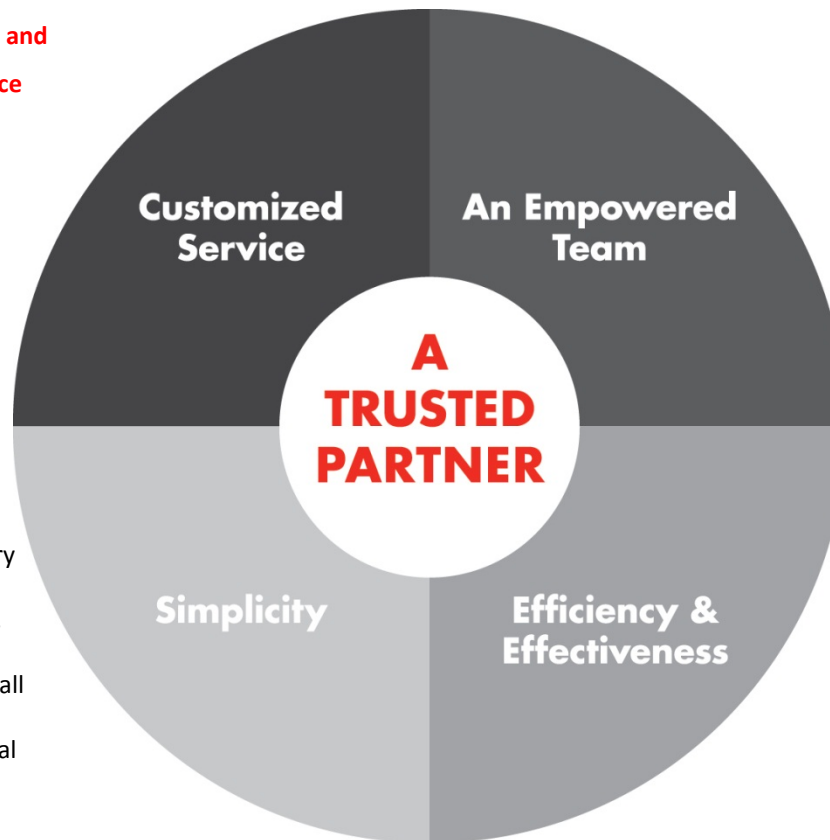
# Customer Vision

## Ability to develop customized solutions and deliver a superior customer experience

- Gather and leverage customer information
- Proactively segment and treat customers individually
- Respect the customer's time and privacy – be responsive and efficient

## Drive for simplicity in our internal processes and systems

- Strive for 'one and done' at every interaction, reduce hand-offs
- Enhance accessibility: in person, on phone, on web
- Ensure effective self-service for all simple transactions
- Drive for simplicity in our internal processes and systems



## Fully connected across Hydro One, enabling seamless service

- Information is consolidated, updated and accessible in real time
- We are engaged and empowered, able to make decisions and get on with the job
- We adapt quickly to changing customer needs

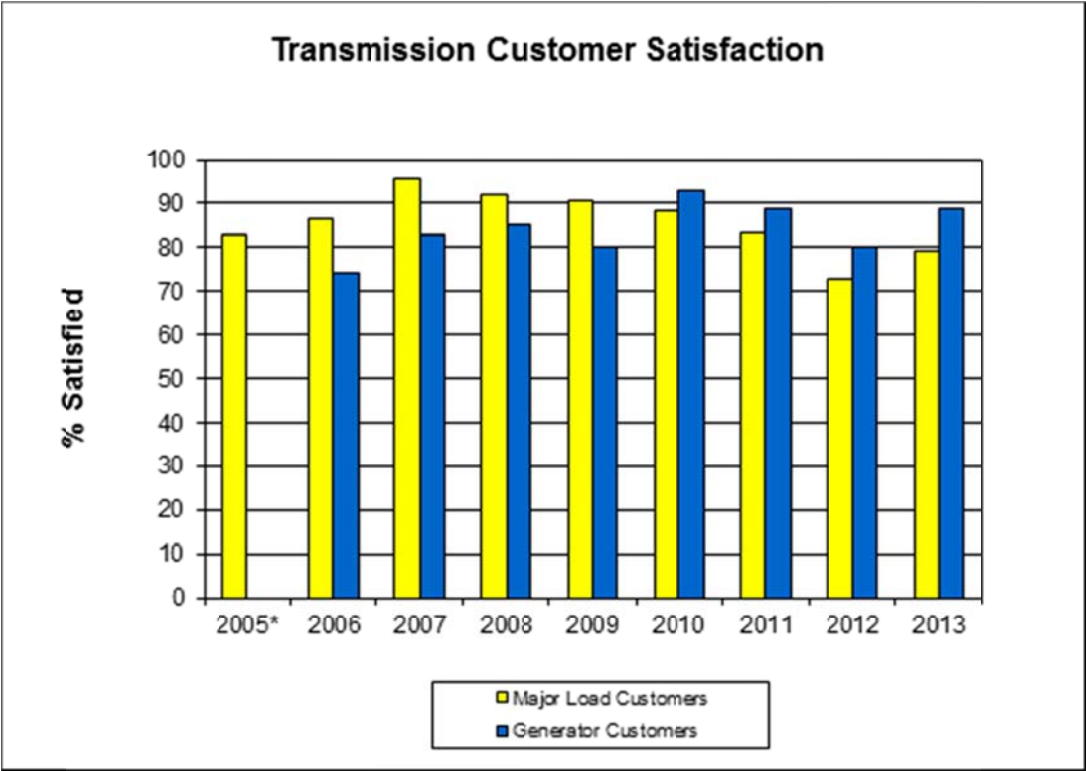
## Driving efficiency & effectiveness through innovating & service delivery transformation

- Exploit Mobile and GIS to simplify field work
- Focus on reducing overhead costs and improving productivity
- Make timely, prudent investments which add value for customers

2 **5.0 CUSTOMER SATISFACTION**

3  
8 As evidenced by the results in Figure 2, Hydro One’s major load customers have  
9 indicated a relatively high satisfaction during the past several years, though a gradual  
10 decline in customer satisfaction in the major load customer sector since 2007 has been  
11 noted. This segment trend has seen its first year of improvement in 2013. This segment  
12 includes industrial customers and Local Distribution Companies (LDCs).

9  
10 **Figure: 2**



11  
12  
15 To find how to continue the upward swing in satisfaction, Large Transmission customers  
16 were asked what main issue they would like to see Hydro One address. In order of  
17 priority, customers concerns were:

- 1 1. Responsiveness / follow up / promptness
- 2 2. Communications / proactive phone calls / accessibility
- 3 3. Reliability / line maintenance / restoration time
- 4 4. Outage planning / outage notifications
- 5 5. Cost / Cost effectiveness

6

## 7 **6.0 ADDRESSING CUSTOMER CONCERNS**

8

9 Hydro One is actively working to address these customer concerns. The following are  
10 some of the initiatives being worked on and developed:

11

### 12 **6.1 Meetings and Workshops**

13

#### 14 **6.1.1 Large Customer Conference**

15

16 Annually, Hydro One hosts a Large Customer Conference for transmission customers;  
17 LDCs, transmission-connected generators and large industrial customers. The conference  
18 gives customers an overview of the Investment Plan and an opportunity to inform the  
19 Investment Plan for Capital and Sustainment investments that affect reliability. This is a  
20 forum for Hydro One and the transmission customers to speak face to face and for the  
21 customer to ask questions or follow up individually with Hydro One staff. The Power  
22 Quality Working Group discussed in Section 3.3 of this exhibit was a result of the Large  
23 Customer Conference.

24

#### 25 **6.1.2 New or Revised Connections Workshops**

26

27 In the past, Hydro One documented connections at a high level and filed the documents  
28 with the Ontario Energy Board (OEB). An opportunity was identified to gather more

1 information on the progress of cycle times, handoffs, timelines, costs, schedule over runs,  
2 etc.

3  
4 In the past eighteen months, Hydro One started hosting workshops that include customer  
5 representatives to develop a new documented process. The Customer Relationship  
6 Management (CRM) tool is used to track customer connection projects and identify any  
7 delays or gaps. To date, there has been a strong internal focus and two workshops with  
8 the customer consultants to ensure customer pain points have been identified. This will  
9 lead to much improved communications being sent out to the customers regarding their  
10 projects. Hydro One has become much better at understanding the tools, processes and  
11 reports needed to better keep the customers informed.

### 12 13 6.1.3 Executive Sponsor Program

14  
15 Hydro One has refreshed and expanded its Executive Sponsor Program whereby large  
16 transmission customers are assigned to a Hydro One executive. The executive will meet  
17 with the customer at their discretion to hear their comments and concerns. The executive  
18 is accountable to have any identified issues resolved and follow up with the customer to  
19 advise them of the status of the resolution and ensure satisfaction. The intent of this  
20 program is to ensure transmission customers know they can communicate with Hydro  
21 One senior management and they have another channel into the company to be heard.

22  
23 This program has received very positive comments from transmission customers.

1 **6.2 Outage Planning and Notifications**

2  
3 6.2.1 The Transmission System Outage Grouping (TSOG) Process

4  
5 The TSOG process is a planning project that is being implemented to better coordinate  
6 the outage process. Its focus is to eliminate multiple outages on the same equipment by  
7 coordinating the various LOBs within Hydro One. This reduces the number of outages  
8 impacting customer facilities. Communication in customer groups or individually is  
9 initiated by the Long Term Planners to coordinate Hydro One work with any work the  
10 customer is planning. This program started in 2013 for the 2014 planning year and has  
11 been well received. Currently the Planners are meeting with the customers to review this  
12 year's program and to obtain any planned work for future years from the customers.

13 Other benefits of the TSOG include:

- 14
- 15 • A bundling feature that will identify customer's planned outages that can be  
16 "bundled" with Hydro One work. (COORDINATION)
  - 17 • Conflict feature will identify customer's planned work that will be in conflict with  
18 Hydro One planned work. (CHURN REDUCTION)
  - 19 • Correspondence; Customers will always receive notification correspondence in a  
20 consistent formatted template throughout the planning phase. (CONSISTENCY)
- 21

22 6.2.2 Upcoming Outage Reports

23  
24 Hydro One has developed a set of SAP reports customized for the transmission-  
25 connected customers that provides a rolling one year outage window of planned outages  
26 that affect their delivery point. The customized report is sent to individual customers  
27 every Thursday and includes information such as outage start and end dates, equipment  
28 involved, purpose, recall time, schedule profile and a column for customer comments.

1 These reports keep Hydro One customers advised of upcoming outages and gives them  
2 an opportunity to capitalize on the outage for their own maintenance or advise Hydro One  
3 of any issues with the outage in the planning timeframe.

### 4 5 **6.3 Programs and Projects**

6  
7 Other programs and projects to improve communication and reliability include the  
8 following:

#### 9 10 6.3.1 Integrated Voice Communications and Telephony (IVCT) System Replacement 11 Project

12  
13 The IVCT is used in 24-hour, seven day operations at the Ontario Grid Control Centre  
14 (OGCC) and the Back Up Control Centre (BUCC). This mission critical system provides  
15 effective voice communication management between the control centres and Hydro One  
16 field staff, connected customers, emergency services and the IESO. The current system  
17 was put in-service in 2003 and is now technologically obsolete. Further details can be  
18 found in Exhibit D1, Tab 3, Schedule 4.

#### 19 20 6.3.2 Fault Location (Distance to Fault) Project (ISD O05)

21  
22 Presently, information regarding a fault's location is communicated verbally to the  
23 OGCC by protection and control staff once they have travelled to the station, interrogated  
24 the devices and performed the necessary calculations manually. This investment will  
25 allow for determination of the likely fault location in nearly real time and enable faster  
26 restoration. Further details are discussed in Exhibit D1, Tab 3, Schedule 4.



1    6.3.3   Telemetry Expansion Program

2  
3    The key deliverables of this program are the splitting of critical bundled alarms and the  
4    addition of more detailed monitoring of transmission equipment. This will enable OGCC  
5    to make an immediate determination of the cause of an alarm and the appropriate  
6    response. This will eliminate the need for unnecessarily removing equipment from  
7    service and urgent costly field staff dispatches to investigate the cause of the alarms.  
8    Further details are discussed in Exhibit D1, Tab 3, Schedule 4.

9  
10   **6.4    Business Investment Planning and Prioritization**

11  
12    Based on customer priorities and customer satisfaction strategies, investment alternatives  
13    are developed and included in the Investment Prioritization Process (IPP) found in  
14    Exhibit A, Tab 16, Schedule 4. Customer focused considerations are evaluated in  
15    conjunction with asset and business needs as well as risks and objectives to guide the  
16    planning activities. The result of the IPP is a balanced work program that is mindful of  
17    cost effectiveness and include customer expectations associated with reliability.

18  
19   **6.5    Other Exhibits to Address Customer Concerns**

20  
21    Current initiatives to address customer concerns regarding cost efficiencies can be found  
22    in the Cost Efficiencies / Productivity exhibit (Exhibit A, Tab 18, Schedule 1).

23  
24    The Transmission Business Performance Exhibit (Exhibit A, Tab 17, Schedule 1) discusses  
25    the reliability trends of the Hydro One Transmission System.

1 **7.0 SUMMARY**

2

3 Hydro One listens to the voice of the customer, analyzes their needs and then modifies or  
 4 creates new work programs to address the customer’s needs. Thorough analysis of the  
 5 customer survey research and other feedback is undertaken using several analytic tools to  
 6 ensure the results are timely, representative and unbiased leading to customer-centric  
 7 business and investment planning. This customer and business outcome focus is  
 8 demonstrated throughout the evidence filed in this application.

9

**Results of the Large Transmission Customer Surveys**

All **Large Transmission** customers are asked about the main issue they would like to see Hydro One address. As shown in the table below, the growing concern regarding follow ups and communication observed in 2012 has continued to strengthen in importance into 2013.

Customers whose RATING were 3 OR LESS:

What issues or concerns were you thinking of when you rated Hydro One?

Large Transmission	2011	2012	2013
Responsiveness/ follow up/ promptness	6%	19%	22%
Communications/proactive phone calls/accessibility	8%	18%	19%
Reliability / line maintenance / restoration time	16%	16%	19%
Outage planning/outage notifications	7%	13%	13%
Cost/cost effectiveness	9%	8%	6%
No issues	15%	17%	16%
Other	6%	14%	11%
Don't Know			2%
n	124	133	135

1 **WORK EXECUTION STRATEGY**

2  
3 **1.0 BACKGROUND**

4  
5 Hydro One's Transmission Work Execution Strategy provides increased work execution  
6 capacity and the necessary flexibility to accommodate any required adjustments to the  
7 transmission work program due to changing priorities. A focus on efficiency, customer  
8 satisfaction and safety continue throughout Hydro One's work planning and execution  
9 activities and processes.

10  
11 The strategy addresses the continuing global business challenges such as material  
12 availability and shortage of qualified personnel to undertake the work. Execution of  
13 Hydro One's transmission work program must be considered jointly with its distribution  
14 work program, as the resources required are part of an integrated workforce.

15  
16 **2.0 MAJOR FACTORS IMPACTING FUTURE WORK PROGRAMS**

17  
18 Transmission system projects and programs are more complex to plan and execute than  
19 in past years due to an increase in the total volume of work required, limited system  
20 outage availability, increasing compliance requirements, aging equipment, material  
21 availability and long lead times, and workforce demographics. Initiatives are being  
22 implemented to address such factors and are discussed in the following sections. A full  
23 discussion of test year capital expenditure requirements is provided in the schedules  
24 found in Exhibit D1, Tab 3.

25

1    **2.0    AGING SYSTEM**

2  
3    An increasing percentage of the system is approaching or has reached its end of service  
4    life (typically 40 or 50 years) and requires or will soon require replacement. Currently  
5    24% of the power transformers connected to the transmission system are over 40 years  
6    old. This vital need for infrastructure re-investment will continue to increase substantially  
7    throughout the decade as discussed further in Exhibit C1, Tab 2, Schedule 2 and Exhibit  
8    D1, Tab 2, Schedule 1. Addressing aging assets will increase reliability in that particular  
9    area and reduce maintenance costs of that unit. The Investment Plan for 2015 and 2016  
10   will not change the average age of the system.

11  
12   **2.1    System Expansion and Growth**

13  
14   Over the past few years, significant transmission investments in the addition or  
15   substantive upgrade of major circuits and stations have been required due to changing  
16   system needs resulting from the retirement of coal-fired generation, the significant  
17   addition of new generation sources and load growth in a number of regions in Ontario.

18  
19   Hydro One's largest project underway is the construction of Clarington Transformer  
20   Station (TS). This station is being built to enable additional 500/230kV transformation in  
21   the East GTA area due to the planned retirement of the Pickering Nuclear Generating  
22   Station. Further details are provided in Exhibit D2, Tab 2, Schedule 3.

23  
24   **2.2    Material, Equipment and Vendor Availability**

25  
26   Material and equipment incorporated into transmission projects and programs account for  
27   approximately 40% of the total cost of work. Rapid growth in work programs at utilities  
28   across North America has resulted in an increased demand for specialized materials and

1 equipment needed to build electrical generation, transmission and distribution facilities.  
2 Manufacturing plants for specialized equipment are reaching full capacity. Supply Chain  
3 initiatives to address this issue are further discussed in Exhibit C1, Tab 5, Schedule 1.  
4

### 5 **2.3 Work Execution Capacity Challenges**

6

7 Although, Hydro One realizes economies of scale and efficiencies by integrating the  
8 workforce for its transmission and distribution businesses, the continuing loss of skilled  
9 staff through attrition has forced Hydro One to review its staffing strategies to  
10 accomplish the work program. Specialized staff such as Protection and Control (P&C)  
11 engineers, field technicians and linemen are more difficult to recruit than in the past, due  
12 to competing needs from other organizations in Ontario and across North America.  
13

14 As the Hydro One work program grows, a greater volume of transmission work is  
15 required to be outsourced. More effective use of the external resources and services is  
16 required to increase the ability to complete the work program.  
17

### 18 **3.0 IMPLEMENTATION OF WORK EXECUTION STRATEGY FOR THE** 19 **2015 - 2016 WORK PROGRAM**

20

21 Hydro One is taking a number of actions to increase the volume of work the Company  
22 completes in future years, of which safety is at the forefront. An increased focus on the  
23 safe execution of work is expected to reduce Lost Time Incidents (LTIs) and result in  
24 greater focus on work and productivity. Hydro One Transmission is now using fully  
25 integrated work planning methods that balance and optimize the use of internal and  
26 external resources, costs, system outages, customer needs and material availability. Key  
27 initiatives to increase work accomplishment include, but are not limited to the following:

- 28 • Work Planning and Management;
- 29 • Material Planning and Management;

- 1 • Work Force Augmentation; and
- 2 • Managing Relationships with Regulators

### 3.1 Work Planning and Management

3  
4  
5  
6 Hydro One continuously focuses efforts on managing work more effectively. The  
7 Company has made changes to the way it prioritizes, plans and releases work, to execute  
8 work more efficiently.

#### 3.1.1 Work Prioritization

9  
10  
11  
12 Hydro One uses an improved investment prioritization process which assesses asset risk.  
13 This process, outlined in Exhibit A, Tab 16, Schedule 4, is a multi-criteria analysis which  
14 quantifies business risks so that objective decisions can be made to achieve the optimal  
15 balance of cost effectiveness, customer expectations, asset and business needs. The asset  
16 risk assessment process outlined in Exhibit A, Tab 16, Schedule 7, is Hydro One  
17 Transmission's methodology to identify current and future asset needs and improve the  
18 decision making process through the systematic evaluation of risk associated with  
19 transmission assets.

#### 3.1.2 Earlier and Multi-Year Work Program Releases

20  
21  
22  
23 Hydro One aims to continually improve project definitions and timelines by which work  
24 is released. Earlier releases allow service groups to plan and execute work more  
25 efficiently, schedule work and outages when site conditions are optimal, and minimize  
26 delays associated with approvals (i.e. environmental approvals, Section 92s, etc.) and  
27 assessments (i.e. Land Assessment and Remediation program).

1 Hydro One is releasing more of the work program early in the year as illustrated in Table  
2 1.

3  
4 **Table 1:**  
5 **Total Work Released to Engineering and Construction (E&C)**

Total Work Released to E&C	Planned (\$M)	Released (\$M)	Released (%)
Total released for 2013, as of January 2013	\$1,099	\$741	67.4%
Total released for 2014, as of January 2014	\$1,018	\$785	77.1%

6  
7 Early and multi-year work releases for Sustainment capital and Operations, Maintenance  
8 and Administration (OM&A) programs are particularly beneficial for the field execution  
9 and commissioning teams as this type of work involves considerable planning for  
10 outages, materials, staff skills, the preparation of new commissioning and maintenance  
11 documents for new equipment, and coordination with other capital or maintenance work.  
12 Earlier and multi-year releases better prepare the field teams for the Sustainment program  
13 in the test years, and allow a more complete work package to be prepared for execution.

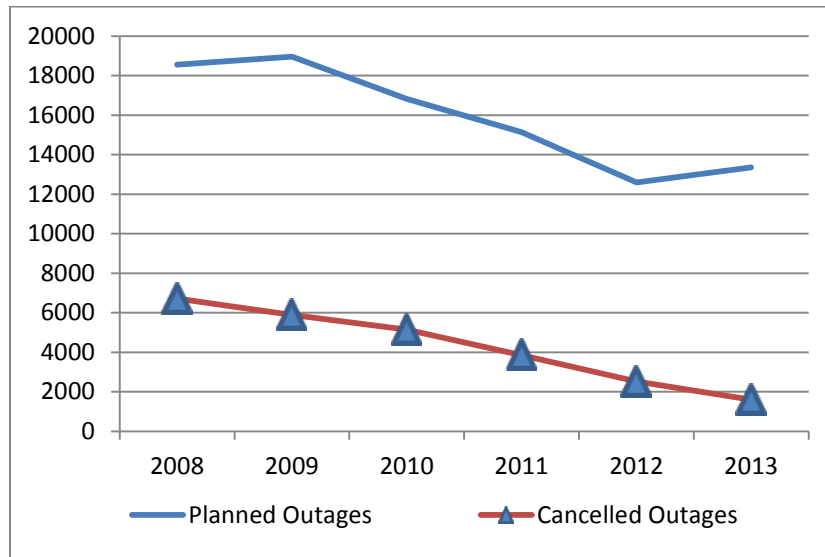
14  
15 **3.1.3 Station-Centric Work Release, Bundling and Outage Optimization**

16  
17 Hydro One is now planning and bundling work at the station level rather than the asset  
18 level for sustainment work. This holistic approach allows the Company to utilize  
19 resources more efficiently and increase work accomplishment. The station-centric  
20 approach results in a reduction of mobilization and demobilization activities, lessens the  
21 number of transmission system outages required, reduces maintenance requirements and  
22 increases the level of safety for field staff at site as they are aware of all work and tests  
23 being performed and the boundaries of the safe work area according to the points of  
24 isolation and de-energization.

1 Hydro One optimizes outages and bundles both capital and OM&A work to decrease  
2 project costs and maximize work accomplishment. By bundling work and outages, work  
3 efficiencies are realized, travel time is reduced for field staff and impact to customers is  
4 reduced. The volume of planned equipment outages processed annually from 2008 to  
5 2013 has decreased on average by six percent per year. The noted decrease is a result of  
6 more work being completed per outage due to bundling initiatives. Over the same time  
7 period, the average volume of cancelled outages decreased by 24%, as shown in Figure 1.  
8 Reductions in cancelled outages can be attributed to a reduction in the number of total  
9 outages and to greater coordination between the Ontario Grid Control Centre (OGCC),  
10 Independent Electricity System Operator (IESO), transmission customers and the  
11 executing Line of Business (LOB). These improvements were realized through the use of  
12 improved outage planning tools and processes.

13  
14  
15

**Figure 1:**  
**Planned and Cancelled Outages Year-Over-Year**



16



1   3.1.4   Continuous Improvement

2  
3   Hydro One is continually introducing new software to optimize processes and leverage  
4   current Enterprise Resource Planning (ERP) tools. One such tool, Primavera (P6), is  
5   being used to ensure alignment of work groups during execution of key deliverables as  
6   well the ability to manage resources during work program planning. Improvements are  
7   also being enabled through the use of new work management reports, and by  
8   incorporating lessons learned into existing processes.

9  
10   **3.2    Material Planning and Management**

11  
12   Hydro One's resourcing strategy leverages collaborative planning, strategic sourcing and  
13   logistics support to increase efficiency by minimizing work delays and lowering costs for  
14   both capital and OM&A work. To realize further efficiencies, Hydro One is using  
15   repeatable designs and investigating the benefits of new technology.

16  
17   3.2.1   Strategic Sourcing

18  
19   Hydro One's strategic sourcing program proactively manages critical materials and  
20   services contracts to ensure work execution needs are being met. Collaborative planning  
21   and strategic sourcing are used to ensure contracts are in place and long lead time  
22   materials are effectively managed. Transmission class insulators and high voltage circuit  
23   breakers are used in most station-related projects, and have lead times that range between  
24   four to six months on average. Long lead times make it important to commit to forecasts  
25   early on to book manufacturing space in the plants to ensure timely delivery of the  
26   material.

1 Strategic sourcing is a significant contributor to Hydro One's cost saving initiatives and  
2 the Company's ability to complete the capital and OM&A work programs. Improvements  
3 incorporated into the strategic sourcing plan allow Hydro One to better negotiate with  
4 manufacturers of specialized materials to ensure a spot in their production schedules for  
5 required materials. Improvements include the following:

- 6 • Bulk purchasing;
- 7 • Negotiation of volume discounts with suppliers;
- 8 • Longer term contracts;
- 9 • Requests for Proposal (RFPs) jointly issued to market with Ontario Power Generation  
10 for safety-related equipment to realize increased volume discounts;
- 11 • Leveraging of Ministry of Government Services' Vendor of Record agreements  
12 where financially beneficial to Hydro One
- 13 • Increased use of Requests for Information (RFIs) to better determine what products,  
14 new technology and services are available in the market, scope business  
15 requirements, and/or estimate project costs
- 16 • Greater use of Requests for Pre-Qualification (RFPQs) to solicit Supplier capabilities  
17 and qualifications, with the intention of creating a list of pre-qualified  
18 Suppliers/VOR, against which future work will be awarded

19  
20 These initiatives enable Hydro One to ensure the required services and materials are  
21 available at the right time and place for the right price in a manner that is fair and  
22 transparent to all stakeholders, in order to meet the requirements of the demanding  
23 transmission work program.

### 24 25 3.2.2 Logistics Support

26  
27 Optimizing the material stocked in the Company's warehouse is an important element of  
28 the Work Execution Strategy. Hydro One is provisioning core materials from stock rather

1 than waiting to purchase these materials after projects have received final approval. This  
2 approach reduces materials bottlenecks associated with vendor lead times. Warehouse  
3 facilities also store emergency and strategic spares such as transformers, bushings,  
4 breakers and an oil farm, in case of existing equipment failure in the electrical system.

5  
6 For OM&A programs, inventories at the Company's warehouse are automatically  
7 maintained. Equipment such as tap changers and breakers have minimum level  
8 requirements. If the inventory reaches the minimum level, an order is automatically  
9 generated for additional parts to top-up the inventory.

10  
11 In the case of large projects, Hydro One has materials delivered to the project site in a  
12 direct shipment. This avoids the handling of the materials multiple times and helps to  
13 decrease warehousing costs.

### 14 15 3.2.3 Introduction of New Technology

16  
17 The original protection and control systems used to monitor and manage the transmission  
18 system have been replaced by new modern technologies. As a result, what a few years  
19 ago would have been a simple like-for-like replacement, now often requires a  
20 fundamental redesign and replacement of the complete system at a location. This renewal  
21 work began several years ago and continues through the test years at a higher level. For  
22 example, Hydro One is removing electromechanical relays and replacing them with  
23 modern digital relays to achieve cost savings and efficiencies. Not only are efficiency  
24 gains seen during the capital installation phase, which utilizes more efficient designs, but  
25 the new designs also use modern computer-based P&C equipment that has the ability to  
26 perform a self-diagnostic check to ensure the health of the relay and requires less ongoing  
27 maintenance.

1    3.2.4   Standards and Repeatable Designs

2  
3    Hydro One uses standards and repeatable designs wherever possible to minimize design  
4    effort and maximize opportunities for strategic sourcing savings. The following are  
5    examples of standardized applications used by the Company:

6  
7    3D Standardized Model-Based Design Applications

8    Integrating three dimensional (3D) design applications in station engineering using  
9    model-based design methodology allows Hydro One to streamline the design process by  
10   automating complex, repetitive design and drafting tasks. This ensures consistent quality,  
11   increases construction safety, and maximizes the efficiency of work execution. The use of  
12   these applications for new load-connecting stations has resulted in the design time being  
13   reduced from six months to one month.

14  
15   Auto-wiring Design Applications

16   Standardized auto-wiring design applications for engineering design projects, as well as  
17   protection, control and telecom, allow teams to produce designs with greater accuracy  
18   and consistency in less time.

19  
20   Standard designs are also beneficial during the commissioning phase of an asset's life,  
21   when field crews must validate functionality. The standard designs allow for common  
22   commissioning processes and procedures to be developed. This also decreases amount of  
23   training and equipment required by field staff.

24  
25   **3.3    Work Force Augmentation**

26  
27   Transmission system work programs are completed by Hydro One resources, external  
28   resources or a combination of both. Internal work capacity represents a challenge to work

1 execution. A significant wave of retirements has begun and is expected to continue over  
2 the next decade. In addition, specialist power sector engineers are more difficult to recruit  
3 than in the past, due to competing needs from other organizations in Ontario, Alberta and  
4 from international organizations. As a result, Hydro One has had to review how to best  
5 utilize internal skilled staff, accelerate required training for Hydro One trainees to attain  
6 qualifications and certifications and how to leverage external resources to assist in the  
7 completion of the work program. A full discussion of the Hydro One staffing strategy  
8 including enhanced internal training programs, educational partnerships and increased  
9 utilization of casual workers and temporary employees is provided in Exhibit C1, Tab 4,  
10 Schedule 1.

### 11 12 3.3.1 Internal Resources

13  
14 The optimal deployment of Hydro One expert internal resources is needed to maximize  
15 work program execution. The Company temporarily re-assigns staff to areas of extreme  
16 work demand (for example, Southwestern Ontario) to optimize resources. A relatively  
17 small group of highly skilled senior engineers oversees the execution of several tasks  
18 performed by various teams. Mentoring by senior engineers facilitates accelerated skills  
19 development and allows projects to be efficiently delivered while ensuring qualified  
20 resource succession.

### 21 22 3.3.2 Outsourcing

23  
24 Hydro One prides itself in having a highly flexible Construction workforce which can  
25 meet the demands of the work program. Although this workforce is scalable, there is a  
26 practical limit to its size defined by the volume of work that can be safely and efficiently  
27 planned and managed by internal staff. The work contracted out, typically greenfield as  
28 well as some major refurbishment projects, is completed using a combination of internal  
29 resources, engineering subcontracts, construction contracts or arrangements contracted on

1 a fixed-price basis. Through a combination of regular staff, casual trades, temporary, and  
2 overtime, both skill sets and cost are optimized.

3  
4 In order to provide greater visibility to our outsourcing requirements to implement work  
5 that is beyond our internal compliment, we are developing resourcing models to identify  
6 allocation conflicts.

7  
8 3.3.2.1 Augmenting Resource Compliment

9  
10 The current work program presents challenges to Hydro One's specialized resources  
11 when work exceeds the Company's internal capacity to meet the demand. To address  
12 these challenges, Hydro One is implementing the following strategic resourcing plans:

- 13 • Outsourcing of drafting and designs:
- 14 ○ Engineering consulting firms are contracted to design and draft station  
15 projects. \$12 million service purchases were made in both 2012 and 2013,  
16 representing an engineering resource capacity expansion of 60 full-time  
17 employees
  - 18 • Establishment of a Purchased Services Agreement (PSA) with the Power Workers'  
19 Union (PWU) to:
    - 20 ○ Enable outsourcing when a skill set required on temporary basis is not available  
21 internally;
    - 22 ○ Free internal resources to complete work for Regulatory requirement compliance  
23 and additional capital and O&M work
    - 24 ○ Ensure efficient execution of the work program; and
    - 25 ○ Address the variation in requirements for specific skills on a weekly basis

1 3.3.2.2 Engineering, Procurement, Construction (EPC) Contracts

2  
3 Where work is integrated with existing facilities, it is managed by Hydro One staff with  
4 support from outsourced specialist engineering or construction services when needed.  
5 This approach is referred to as the Engineering, Procurement, Construction (EPC)  
6 approach. The EPC approach allows Hydro One to increase its resource availability and  
7 is instrumental in accomplishing the work identified in the test years. Outsourcing will be  
8 used strategically wherever the Collective Agreement permits.

9  
10 The EPC approach is used where the execution expertise may be more appropriately done  
11 by contractors, for example: high voltage Gas Insulated Switchgear (GIS) stations and  
12 tunnel boring through the core of Toronto. Work that has sensitive timelines, scope that is  
13 not fully defined, or where there are overlapping engineering and construction  
14 requirements, is typically performed by internal resources, for example, a break-fix  
15 emergency.

16  
17 Where it makes more sense to do so, work can be done externally. Decision factors  
18 whether to execute work internally or externally may include the following:

- 19
- 20 • most technically qualified with the lowest costs;
  - 21 • can achieve the committed In-service date;
  - 22 • work is of a complex nature that will interface with energized Hydro One  
Transmission system elements;
  - 23 • has the expertise and equipment required to perform the work; and
  - 24 • Is this an opportunity to develop the skill set of internal staff;
- 25

26 New business models are being explored to determine how to achieve optimal business  
27 outcomes, which include the Company's ability to accomplish work; the acceleration of  
28 projects into the execution phase; and flexibility in how the Company implements work.

1 The models vary in percentages and type of work being performed internally versus  
2 externally. Models that appear to be best aligned with business outcomes are being tested  
3 on brownfield and greenfield projects to verify their effectiveness, and will be leveraged  
4 for future work wherever possible.

### 6 3.3.3 Utility Work Protection Code (UWPC) Training for Contractors

7  
8 The Utility Work Protection Code is a rules-based procedure that provides guaranteed  
9 safe conditions for work. It governs the submission, review and approval of applications,  
10 provides the means to isolate and/or de-energize equipment to be worked on, co-ordinates  
11 the work and test activities of multiple work groups in a common safe work area, and  
12 defines terminology to be used to ensure a common understanding and safety of all staff.

13  
14 Hydro One has recently started providing project-specific UWPC training to contract  
15 staff. For the first time, contractors who successfully attain those UWPC qualifications  
16 through Hydro One, will be allowed to hold work protection and interface with Hydro  
17 One staff under the same work permit on a specific project. This initiative will provide  
18 Hydro One flexibility of its work force to assist in the completion of the transmission  
19 work program throughout the test years.

## 21 **3.4 Monitoring Regulation and Managing Relationships with Regulators**

22  
23 Hydro One understands the importance of monitoring developing legislation, policies and  
24 procedures at the federal, provincial and municipal levels. Projects are planned to  
25 address all applicable legislation. Agreements are being reached on the content of  
26 approval applications including design standardization that permits improved  
27 timelines. Collaborative workshops and meetings are used to address key project issues,  
28 and to improve working relationships. Hydro One has also recommended changes to



1 policies and procedures to address areas of jurisdictional overlap and uncertainty. For  
2 instance, the Company collaborated with Municipal Affairs when municipalities  
3 requested to make Development Charges a pre-requisite to granting Building Permits. In  
4 this scenario, there was an overlap between the Planning Act, Development Charges Act  
5 and Education Act.

6  
7 Hydro One works closely with the Ministry of Environment, other Provincial Ministries  
8 and agencies, Class EA proponents including the First Nations, Métis communities and  
9 Local Distribution Companies (LDCs) to amend the Class Environmental Assessment  
10 (Class EA) for Minor Transmission Facilities. The Class EA is an approved process for  
11 compliance of transmission facilities under the Environmental Assessment Act. The  
12 Class EA provides an efficient and timely approval relative to the Individual EA  
13 processes under the EA Act.

14  
15 Some local and municipal government agencies seek to implement controls beyond the  
16 Pesticides Act that seek to restrict or prohibit the use of herbicides for selective brush  
17 control. Hydro One continues to work with these bodies to complete its brush control  
18 work programs within the confines of these controls.

#### 19 20 **4.0 SUMMARY**

21  
22 There are many factors changing the volume and characteristics of the future work  
23 program and the key enablers for successful completion of the transmission work  
24 program. The past few years had a large component of Development work whereas now  
25 there is a greater proportion of Sustainment programs. As Hydro One has greater control  
26 over the Sustainment work program, there is an increased chance of achieving the  
27 committed work accomplishments. Together with the items outlined in this exhibit, there  
28 are numerous incremental efficiency initiatives recently undertaken and planned in 2015  
29 and 2016 throughout the business as discussed in Exhibit A, Tab 18, Schedule 1. Hydro

- 1 One's work execution strategy will meet customer needs, improve overall system
- 2 performance and accommodate the expanded work program necessary to meet the
- 3 Company's Sustainment and Development program needs.

## OUTSOURCING

### 1.0 BACKGROUND

Hydro One Networks Inc. (“Networks”) entered into a 10-year master services agreement with Inergi LP (“Inergi”) on December 28, 2001 for services commencing on March 1, 2002 (the “Original Agreement”). Inergi is a limited partnership, a wholly-owned subsidiary of Capgemini Canada (formerly known as Cap Gemini Ernst & Young Canada Inc.) held by Capgemini SA. Under the Original Agreement, Hydro One outsourced its information technology services, customer service operations, settlements, source-to-pay, payroll, and finance and accounting services.

The Original Agreement provided for an optional 3-year extension to the original 10-year term.

Before the initial term of the Original Agreement expired, the parties agreed to amend the underlying business terms, effective as of May 1, 2010, to make them consistent with then current market practices and business requirements. The scope of work remained largely unchanged. Networks and Inergi both agreed to extend the Original Agreement by 3 years. The renewal permitted Networks to benefit from updated business terms earlier, including a 12% average annual reduction in fees over the remaining term of extended Original Agreement (“Current Agreement”).

Leading up to the negotiations, Networks retained EquaTerra Inc. to develop and document expectations for the extended agreement to reflect market comparators, and provide negotiation support. In EquaTerra Inc.’s professional judgment the Current Agreement, taken as a whole, is market competitive. Inergi’s affiliate, Capgemini US LLC, has provided a financial guarantee for payment upon demand of all guaranteed

1 financial obligations, as well as a performance guarantee for the performance of all  
2 obligations under the Current Agreement.

3  
4 The Current Agreement is subject to a *Declaration of the Sole Shareholder regarding the*  
5 *power of the Hydro One Inc.'s Board of Directors to enforce, including any and all other*  
6 *powers related to the Transfer ("Offshoring") of jobs out of the Province of Ontario*  
7 *under the Outsourcing Agreement entered into by Hydro One Inc. with Inergi LP*  
8 *("Inergi") on or about December, 2001 (the "Outsourcing Agreement")* issued on  
9 September 24, 2008. The Current Agreement and the above Declaration will expire on  
10 February 28, 2015.

## 11 12 **2.0 THE CURRENT AGREEMENT**

### 13 14 **2.1 Scope of Work**

15  
16 The scope of work under the Current Agreement is comprised of services ("Base  
17 Services") and project services performed over a finite period to produce a project  
18 deliverable, solution or result ("Project Services"). Base Services are divided into the  
19 following six areas (individually, a "statement of work" or a "SOW"), each of which  
20 relates to a line of business within Networks: (1) information technology services; (2)  
21 customer service operations; (3) settlements; (4) source-to-pay; (5) payroll; and (6)  
22 finance and accounting services. Appendix A contains the descriptions of Base Services  
23 contracted for each SOW.

### 24 25 **2.2 Fees**

26  
27 Under the Current Agreement, Inergi provides Base Services based on a declining fee  
28 structure, except for the Settlements SOW for which the parties settled on a "cost-plus"  
29 pricing model due to the complex nature of the work. The fees for Base Services will

1 decline over time so long as transaction volumes remain within normal volume ranges as  
2 defined in the Current Agreement while meeting or exceeding prevailing service levels.  
3 Additional charges apply if there are higher transaction volumes than the prescribed  
4 volumes. (For example, an increase in the number of Networks' customers may cause  
5 Networks to exceed certain volumes in the customer service operations SOW.)  
6 Conversely, Networks is entitled to fee credits if transaction volumes are lower than  
7 prescribed volumes.

8  
9 For Project Services, Networks pays time-and-material rates. Networks receives an  
10 annual volume discount of up to 15% based on qualifying annual expenditures for Project  
11 Services.

12  
13 All fees are subject to cost-of-living adjustments, using Statistics Canada indices of  
14 compensation for employees in Ontario and of the total number of employees in Ontario.

15  
16 Appendix B to this exhibit sets out the outsourcing fees spent in the historical period  
17 2010 to 2013 and the forecasted outsourcing expenditures for bridge year 2014 and test  
18 years 2015 to 2019.

### 19 20 **2.3 Benchmarking Review of Fees**

21  
22 The Current Agreement provides for optional benchmarking reviews of fees by an  
23 independent third party, the costs of which are borne equally by Networks and Inergi.  
24 The third party analyst ("Analyst") is selected from a predetermined list included in the  
25 Current Agreement. Fees for the Settlements SOW are excluded from the review due to  
26 the unique and complex nature of the services and the absence of comparable suppliers.

27  
28 The sample group in the benchmarking review consists of companies comparable to  
29 Inergi, meaning companies with the same line(s) of business and a comparable ratio of

1 unionized and non-unionized resources. Where the proportion of unionized and non-  
2 unionized differs between companies, the Analyst shall normalize this difference. The  
3 Analyst will compare Inergi's fees with those of the sample group, adjusted for  
4 differences in volumes, scope of services, service levels, cost components and applicable  
5 cost of living increases with the market price.

6  
7 In the fourth quarter of 2013, Networks exercised its right to a benchmarking review of  
8 Inergi's fees under the Current Agreement. The report was completed in February 2014  
9 by TPI Sourcing Consultants Canada Corp, an affiliate of Information Services Group  
10 Inc. In regards to all Base Services excluding Settlements, the report concluded that the  
11 adjusted fees charged by Inergi do not exceed the "benchmark price" as defined in  
12 Current Agreement. As a result, there were no changes to the fees charged by Inergi as  
13 of March 1, 2014.

#### 14 15 **2.4 Royalty Payment and Provision of Facilities**

16  
17 Under the Current Agreement, Inergi makes annual payments to Networks in  
18 consideration of Networks' support of Inergi's broader marketing efforts.

19  
20 Where Inergi staff are located in Networks' facilities, the cost of those facilities and  
21 facility overhead costs (communication services, heating, lighting, consumable goods,  
22 etc.) are borne by Networks.

1 **2.5 Service Quality Assurances and Continuous Improvement**

2  
3 The Current Agreement sets out a methodology to measure Inergi's performance, which  
4 includes defined service levels or performance indicators ("PIs") and client satisfaction  
5 surveys. Inergi's services are measured regularly (monthly, quarterly, and yearly) for  
6 achievement of PIs. The PIs vary based on the nature of the service in question and set  
7 both minimum and targeted service levels. When Inergi fails to meet certain PIs,  
8 Networks is entitled to either: (a) a service credit(s) calculated in accordance with  
9 predetermined formuli, (b) at Inergi's cost, remediation action based on a remediation  
10 plan that Networks has approved, or (c) both, depending on the level of criticality and  
11 frequency of such failures.<sup>1</sup> The PIs are adjusted upwards annually, where applicable, to  
12 drive continuous improvement. In the contract year ending February 2013, Inergi met or  
13 exceeded 97% of all PIs.

14  
15 Inergi performs client satisfaction surveys of Networks' relevant business managers and  
16 internal users. Inergi must address dissatisfaction revealed by the surveys. Together, the  
17 parties are to identify opportunities and strategies for responding to any issues the  
18 surveys reveal. The scores of these surveys have recently been 3.9 out of 5 for Base  
19 Services and 4.0 out of 5 for Project Services.

20  
21 The Current Agreement also prescribes a process whereby Inergi continually introduces  
22 global best practices from Capgemini to Networks. Inergi has generated initiatives which  
23 have resulted in cost savings, primarily across strategic sourcing and infrastructure  
24 storage reductions. The initiatives are presented to and reviewed by Networks.

25  

---

<sup>1</sup> Termination of individual statements of work or any part thereof is allowed under defined circumstances without payment of any penalties or termination charges.

1 The Current Agreement sets out a governing structure to manage the parties' relationship,  
2 which includes the Joint Executive Committee, the Joint Governance Committee, the  
3 Joint SOW Oversight Committee, and the Joint Service Leadership Committee. These  
4 committees meet regularly, at different intervals, to ensure strategic alignment between  
5 the parties, oversee relationship, review Inergi's global business strategies, review  
6 operational performance, change management, business planning, continuous  
7 improvement, and manage and resolve any risks and issues.

## 8 9 **2.6 Protecting against business interruption**

10  
11 There are multiple safeguards against business interruption in the Current Agreement.  
12 Inergi is required to develop, maintain, test and execute business continuity and disaster  
13 recovery plans. Inergi must maintain and exercise these plans in a state of readiness for  
14 execution at all times. If there is a change in the services which impacts the plans, Inergi  
15 must modify the plans and, where necessary, retest them to maintain the state of  
16 readiness.

## 17 18 **2.7 Transition at the end of the Current Agreement**

19  
20 To prepare for the expiration or full or partial termination of the Current Agreement,  
21 Inergi must: (a) provide and maintain a comprehensive termination transition plan at its  
22 own cost, and (b) for additional compensation, provide termination transition services  
23 described therein. The transition plan must lay out all the information required to enable  
24 Networks or a third party to take over provision of the services on a partial or full  
25 termination of the Current Agreement in an orderly, cost-efficient, and timely manner.  
26 This is expected to reduce the risks of transition and operational problems by facilitating  
27 knowledge transfer to the successful supplier(s).



1 The termination transition plan was activated on September 1, 2013 (the “Transition  
2 Plan”), 18 months before the expiry date of the Current Agreement. The plan includes a  
3 number of preparatory activities in the first stage which Inergi is to undertake. Inergi is  
4 required to provide termination transition services until such time as Networks no longer  
5 requires such services up to a maximum of 18 months following the expiry date of the  
6 Current Agreement. The latest end date for transition services is September 1, 2016.  
7 Base Services will continue at the agreed upon rates, and “transition services” will be  
8 provided, in parallel, on a time-and-materials basis.

### 9 10 **3.0 RETURNING TO MARKET**

11  
12 To prepare for the Current Agreement’s expiry on February 28, 2015, a project to re-  
13 tender the services in scope for the Current Agreement commenced in late 2012. The  
14 project is referred to internally as the Outsourcing Agreement Re-tendering (OAR)  
15 project. Networks has retained Information Services Group Inc. as an external advisor to  
16 assist the company through the process. Osler, Hoskin and Harcourt LLP have been  
17 retained as external counsel.

18  
19 Multiple factors are shaping Networks’ foray back into the marketplace. The outsourcing  
20 market has changed significantly since services under the Original Agreement  
21 commenced in 2002; shorter term contracts and multi-supplier environments are the  
22 norm. Networks anticipates that its next outsourcing arrangement may reflect this new  
23 commercial reality. Overall Networks seeks a new contract(s) which reflects market-  
24 based pricing, an improved service delivery model, flexibility for Networks, support of  
25 and access to new technologies and delivery of value to its customers and shareholder.

26  
27 A governance structure has been established to monitor the OAR project and execute  
28 decisions throughout the process. The OAR project team is comprised of representatives  
29 from lines of business, the Outsourcing Services Department, Information Services

1 Group, Inc. and internal and external legal counsel. The OAR project team meets on a  
2 weekly basis to review status of the project. The project team is governed by a Steering  
3 Committee which includes senior management from the affected lines of business, the  
4 Executive Committee and the Board of Directors. On a quarterly basis, the project  
5 director reports on the OAR project's progress to all of the committees noted above. The  
6 procurement process for the OAR project is being monitored by Internal Audit to ensure  
7 that the process is fair and transparent. To date, Internal Audit has determined that the  
8 process has been compliant.

9  
10 Networks has structured its OAR project into three phases: Phase 1 (Development of  
11 Strategy and Commercial Documents); Phase 2 (Supplier Selection and Contract); and  
12 Phase 3 (Transition). These phases are detailed below.

### 13 14 **3.1 Phase 1 – Development of Strategy and Commercial Documents**

15  
16 Any outsourcing arrangement must allow Networks to focus on its core businesses and  
17 meet its strategic objectives. Networks is considering all market options and risks  
18 associated with contract length and number of suppliers. Senior management explored the  
19 risks associated with the outsourcing strategy at two workshops, one held in December  
20 2012 and another held in April 2013. The key risks discussed at these workshops were (a)  
21 the possibility of an inadequate response from the market, (b) the complexity of  
22 managing a multi-supplier environment, (c) challenges in transitioning to the successful  
23 supplier(s), and (d) possible claims by unsuccessful proponents that the procurement  
24 process was not fair and transparent. Key mitigation strategies that Networks has  
25 employed to minimize these risks are actions such as engaging outsourcing advisors,  
26 communicating openly and frequently with potential suppliers, requiring potential  
27 suppliers to address transition challenges, and having Internal Audit conduct an  
28 independent review of the procurement process. The risks are reviewed at the various

1 committees within the governance structure on an ongoing basis to ensure that mitigation  
2 is occurring and is effective.

3  
4 With the results of the workshops and guidance from external advisors and lines of  
5 businesses, the outsourcing strategy was developed. The strategy is based on the  
6 following key objectives:

- 7  
8 (a) continually improve value received for money spent;  
9 (b) reflect current global best practices in the outsourced services;  
10 (c) ensure effective and robust performance management and governance; and  
11 (d) maximize Networks' flexibility to adjust volumes and scope of work and the  
12 technology employed to perform it.

13  
14 All of these objectives reflect Networks' commitment to continuous improvement in  
15 productivity which should drive its overall operational and cost effectiveness. The last  
16 objective also provides Networks the flexibility to respond to customer preferences,  
17 which may change over time.

18  
19 This phase involved formulating clear expectations for the next outsourcing contract(s),  
20 including a contract term of 5 years with 2 one-year extensions at Networks' option.  
21 These expectations have been clearly articulated through the key elements of the  
22 outsourcing strategy:

- 23  
24 a) multi-source different service offerings;  
25 b) issue a Request for Pre-qualification ("RFPQ") to pre-qualify suppliers and gather  
26 market intelligence over "bundling" of services offerings in preparation for a Request  
27 for Proposal ("RFP");  
28 c) issue a RFP to pre-qualified suppliers to down select and negotiate terms and  
29 conditions; and

1 d) request Board of Director approval over new contract(s).

2

3 In early 2013, the Board of Directors approved the above outsourcing strategy.

4

5 The introduction of a multi-supplier environment would require a new governance  
6 structure to monitor and measure the outcomes of the outsourcing contract(s). In this  
7 phase, the project team developed a working service integration and management model  
8 (“SIAM”). SIAM would coordinate and oversee the performance of the outsourced  
9 services in a multi-supplier arrangement. This function will specify the processes and  
10 procedures to be implemented across all of the suppliers and as well ensures adherence  
11 by all suppliers. A multi-supplier arrangement may result in some SIAM work being  
12 outsourced under a separate competitive process.

13

14 Other considerations in formulating the outsourcing strategy is the Shareholder  
15 Declaration and Resolution (the “2013 Directive”) dated September 30, 2013 issued in  
16 October 2013. The 2013 Directive restricts Hydro One Inc.’s Board of Directors  
17 regarding new procurements for provision of services set out in the Current Agreement  
18 upon expiration of the agreement. The Minister of Energy exercised those powers to  
19 require such services be performed by persons who are employed in Ontario to perform  
20 those services and physically located in Ontario at that time they perform those services.  
21 A copy of the 2013 Directive is attached to this exhibit as Appendix C.

22

1 The strategy was further impacted by the Power Worker's Union grievance challenging  
2 Networks' ability to seek another supplier to perform the outsourced services through a  
3 competitive process filed on March 25, 2013. On December 10, 2013 a settlement was  
4 reached between Networks and the Power Worker's Union. The settlement requires the  
5 RFP to be amended such that, all pre-qualified proponents, as a condition of being  
6 permitted to respond, agree to voluntarily recognize the Power Worker's Union as the  
7 bargaining agent for the work and to enter into a Memorandum of Agreement prior to  
8 responding to the RFP. A completed collective agreement must be executed before the  
9 work commences. Networks has also extended this settlement to the Society of Energy  
10 Professionals.

11  
12 The RFPQ was designed to screen possible suppliers based on certain evaluation criteria  
13 and to gather market intelligence on potential bundling options for the outsourced  
14 services. The RFPQ was issued in February 2013. It made no commercial commitments  
15 to any suppliers. As part of the evaluation process, the responses were reviewed and  
16 suppliers were selected to give oral presentations. Upon completion of the evaluation of  
17 the written responses and oral presentations, suppliers were pre-qualified to receive the  
18 RFP.

19  
20 Networks held a common executive alignment session simultaneously with all pre-  
21 qualified suppliers where Executive Management delivered key common messages.  
22 Executive alignment sessions were also held individually with pre-qualified suppliers to  
23 provide feedback on the responses to the RFPQ and to solicit input on the bundles.  
24 Networks also met individually with the pre-qualified suppliers in discovery sessions to  
25 scope out the terms of reference and the bundles for the RFP. These activities were key in  
26 developing the RFP documents to ensure a competitive market response.

1 Based on the responses to the RFPQ, the project team developed a RFP which  
2 provisionally divided the outsourced services into four bundles of work. The proposed  
3 bundles were reviewed with senior management at a third risk workshop held in mid-  
4 2013. In the RFP, Networks' management has retained the right to re-bundle services  
5 based on market response to the RFP. Through the RFPQ process, the project team also  
6 determined that SIAM could be covered in a subsequent RFP once the supplier landscape  
7 has been determined.

8  
9 With the Board of Directors' approval, the RFP was issued in November 2013 to pre-  
10 qualified suppliers.

### 11 12 **3.2 Phase 2 – Supplier Selection & Contract Negotiations**

13  
14 In early December 2013, the project team held individual discovery sessions to provide  
15 the pre-qualified suppliers with an opportunity to seek clarification regarding the RFP.  
16 Responses to the RFP were originally anticipated by February 18, 2014. RFP responses  
17 were deferred to April 10, 2014, pending the clarification of certain matters related to the  
18 Power Workers' Union settlement. After the written responses are reviewed, pre-  
19 qualified proponents will be short-listed to give oral presentations in May 2014.  
20 Following these presentations, the pre-qualified supplier submissions and oral  
21 presentations will be evaluated against each other and against the option of performing  
22 any or all services internally based on a cost and risk assessment. As Networks deems  
23 appropriate, finalists will be selected to proceed to negotiate business terms. The project  
24 team will then make a final business recommendation. The project team anticipates that  
25 Networks will enter into any final contract negotiations in the summer of 2014, and final  
26 contract(s) will be approved by the Board of Directors in the fall of 2014.

1 **3.3 Phase 3 – Transition**

2  
3 Once the supplier(s) have been selected, the next step will be to transition to the  
4 successful supplier(s). Networks will establish a project management office that will  
5 govern the overall transition and ensure that all accountable parties are performing the  
6 activities as agreed to in the transition plans of the successful suppliers and the  
7 incumbent's termination transition plan. The project management office will also  
8 monitor the transition risks to ensure that they have been mitigated through this phase.  
9 The key elements in this phase include:

- 10  
11 a) migration of workload;  
12 b) migration of services;  
13 c) knowledge transfer; and  
14 d) historical data transfer.

15  
16 There will be costs associated with all of these transition activities for all of the parties in  
17 this phase. As well, the costs related to delivery of services under the Current Agreement  
18 throughout the transition phase will continue to be incurred.

19  
20 Appendices

- 21  
22 Appendix A – Base Services outsourced under the Current Agreement  
23 Appendix B – Fees (Historical, Bridge and Test Years)  
24 Appendix C – 2013 Minister Directive

**APPENDIX A - BASE SERVICES OUTSOURCED UNDER THE INERGI  
 AGREEMENT**

<b>Appendix A: Base Services Outsourced under the Current Agreement</b>		
<b>SOW</b>	<b>Domain</b>	<b>Service Description</b>
Information Technology Services	Infrastructure Operations	Services that are required by the user community and that facilitate the operation of shared devices and servers on a corporate level as well as the Services required to engineer and manage the computing network infrastructure.
	End User Support	IT Service Desk and Desktop Support
	Application Development and Maintenance	Services to provide technology platform, operational, quality control and application support services customized to the service requirements and needs of the application.
	Cross Functional Services	Provides general service functions to all other IT domains, including Service Management, Asset Management, Resource Management and Quality Assurance. Services also include project-related responsibilities for all IT domains.
Customer Service Operations <sup>2</sup>	Inbound Call Contact Handling	Provides customer call handling services for billing, customer services, collections, outages and emergencies for residential and small business segment. It includes corporate switchboard, maintain the day-to-day operational configuration of the Interactive Voice Response system, and responding to other contacts such as letters and email.
	Bill Production	Issue electricity bills, including bill print, insert delivery to Canada Post and remittance, managing exceptions, accuracy and timely delivery. Maintain accuracy of customer billing records to enable timely and accurate billing and print, envelope and dispatch bills to Canada Post.
	Credit and Collections	Manage the collection of outstanding customer debts and negotiate

---

<sup>2</sup> Inergi subcontracts the performance of all customer service operations to Vertex Customer Management (Canada) Limited (“**Vertex Canada**”), a wholly-owned subsidiary of Vertex Data Science Limited, a UK-based business process outsourcing company which is held by a consortium of US-based private equity firms.



<b>Appendix A: Base Services Outsourced under the Current Agreement</b>		
<b>SOW</b>	<b>Domain</b>	<b>Service Description</b>
		and collect deposits.
	Business Customer Centre	Selection of services for business customers, including inbound call and contact handling, retail settlements, billing exceptions and manual bills. Also handle contacts regarding Asset Tampering and Measurement Canada Requests.
	Business Support and Sustainment	Provide business support and analysis service pertaining to all business processes, applications, and interfaces related to CSO services, which include day-to-day management and resolution of Break / Fix issues, bill channel changes, and regulatory changes.
	Cross-Functional	Provide the following in support of all other CSO domains: <ul style="list-style-type: none"> <li>• Business process support</li> <li>• Training and communications</li> <li>• Courier and mailroom service</li> <li>• Forecasting</li> <li>• Quality monitoring and assurance</li> <li>• Continuous improvement</li> <li>• Performance reporting</li> <li>• Audits</li> <li>• Maintain quality standards</li> <li>• Incident notification</li> <li>• Implement small discretionary business changes</li> </ul>
Settlements		Wholesale Settlements – Provide settlement and reconciliation services for power procured from the Independent Electricity System Operator and embedded Retail Generators with due consideration to legislative initiatives for fixed energy prices for low volume customers, transmission revenues and inter-utility load transfers, and cost of power reporting.  Retail Settlements – Provide complex billing for interval meter accounts.
Source to Pay	Procurement & Sourcing	Maintain market intelligence of applicable commodities, source commodities and services, manage and develop supply strategies (strategic sourcing), process purchase transactions, monitor spend on all commodities and services.
	Process & Quality	Services supporting the execution of daily transactions, maintenance and development of job aids, training, provision of audit files for compliance, quality checks and records management.

<b>Appendix A: Base Services Outsourced under the Current Agreement</b>		
<b>SOW</b>	<b>Domain</b>	<b>Service Description</b>
	Customer Support	Provision of Order Desk, expediting services, inspection services, general inquiries and transportation.
	Systems Support & Reporting	Provision of support systems, statistical and data reporting.
	Accounts Payable (AP)	Services required for processing disbursements which include: invoice processing, payments management, AP inquiries support, period-end reconciliations, management reporting and special projects.
Payroll	Pay Operations	Services necessary to calculate all pay cycles, remit pay to all staff and pensioners, remit deductions to the appropriate authorities and organizations, and to provide appropriate supporting documentation and filing systems.
	Payroll Accounting	Services necessary to account for the pay cycles and to provide appropriate supporting documentation.
	Inquiries and Application Support	Services necessary to support Pay Operations and Payroll Accounting Domains, including tool support and issue resolution.
	Contingencies	Includes responsibilities to deal with eventualities which disrupt pay, such as system outages and inclement weather.
Finance and Accounting Services	General Accounting	General Accounting – ensuring financial recognition consistent with corporate requirements, accounting adjustments, processing of transactions, and support of financial systems.
	Non-Energy Billing Accounts Receivable (AR)	Services required for processing non-energy miscellaneous billings and AR which include: customer invoicing, customer collections support, applying AR payments and adjustments, AR inquiries support, period end and reconciliation, and management reporting.
	Fixed Assets	Provides fixed assets and project costing transaction processing, transfer of projects to fixed assets, recording sales and retirement of assets, minor fixed assets inventory certification, and depreciation analysis.
	Financial Planning and Analysis	Provide advice, guidance, consultation and project support on routine operating processes and business support initiatives for areas such as Regulatory Accounting, Primary Revenue and Cost of Power, Actuarial Support, and Planning and Budgeting.
	Cross Domain	Provision of Centre of Excellence for analysis and reconciliation of

<b>Appendix A: Base Services Outsourced under the Current Agreement</b>		
<b>SOW</b>	<b>Domain</b>	<b>Service Description</b>
	Accounting	general ledger accounts ensuring appropriate financial recognition according to corporate and legislative requirements. Also support and analysis for accounts that cross into other domains e.g. Vendor Master, Material Master, and Fixed Assets.

**APPENDIX B – OUTSOURCING FEES (HISTORICAL, BRIDGE AND  
 TEST YEARS)**

**Table 1  
 HYDRO ONE NETWORKS  
 TRANSMISSION  
 Summary of Total Outsourcing Fees (\$ Million)**

Description	Historic				Bridge	Test	
	2010	2011	2012	2013	2014	2015	2016
Fees for Base Services	133.3	140.2	134.2	128.3	116.9	116.5	112.9
Volume, Scope & Other	2.6	2.2	10.3	13.1	10.8	5.1	4.5
COLA	4.0	1.3	3.6	6.4	10.7	12.3	14.3
<b>Subtotal Fees for Base Services</b>	<b>139.9</b>	<b>143.7</b>	<b>148.1</b>	<b>147.8</b>	<b>138.5</b>	<b>134.0</b>	<b>131.7</b>
Project Spend (all LOB's)	18.4	34.7	52.0	49.7	30.2	30.2	30.2
<b>Total Payments</b>	<b>158.3</b>	<b>178.4</b>	<b>200.1</b>	<b>197.5</b>	<b>168.6</b>	<b>164.2</b>	<b>161.8</b>

**Table 2 - Allocation of Fees to Transmission (\$ Million)**

	<b>2015</b>	<b>2016</b>
Finance and Accounting	\$ 4.1	\$ 4.0
Payroll	\$ 2.1	\$ 2.0
Information Technology Services	\$ 25.0	\$ 24.3
Accounts Payable	\$ 0.9	\$ 0.9
Settlements	\$ 0.4	\$ 0.5
Customer Service Operations	\$ -	\$ -
<b>Subtotal Fees for Base Services</b>	<b>\$ 32.6</b>	<b>\$ 31.7</b>
Project Spend (all LOB's)	\$ 2.7	\$ 5.0
<b>Total Payments</b>	<b>\$ 35.3</b>	<b>\$ 36.7</b>

[TITLE]

Ministry of Energy

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OCT 16 2013

MC-2013-2347A

OCT 17 2013

Mr. Carmine Marcello  
President and CEO  
Hydro One Inc.  
483 Bay Street  
North Tower, 15th Floor  
Toronto ON M5G 2P5

Dear Mr .Marcello:

I am writing to advise you that I am exercising my powers as the Sole Shareholder of Hydro One Inc. to require that all new procurements by Hydro One Inc. for work currently being done by Inergi LP under its existing outsourcing agreement with Hydro One Inc. include a requirement that the work be performed in Ontario by persons employed and residing in Ontario.

Thank you for your prompt attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bob Chiarelli".

Bob Chiarelli  
Minister

## CORPORATE STAFFING

### 1.0 OVERVIEW

Hydro One continues to face the prospect of a scarcity of skilled and professional staff to operate, sustain and develop its transmission and distribution systems at a time in which a greater number of our employees are reaching eligibility and are in fact, opting to retire. Hydro One's greatest corporate risk with respect to its human resources continues to be an aging workforce and a world-wide scarcity of core skills in the electricity industry, in a highly competitive labour market.

This issue and associated risks are not unique to Hydro One, but apply to the Canadian electricity sector as a whole. In the Canadian electricity industry, the Power in Motion, 2011 Labour Market Information (LMI) Study, states “Between 2011 and 2016, Canada’s electricity and renewable energy industry will need to recruit 45,000 new employees – almost half of the starting workforce, and more than twice the number recruited in the last five years. Of these new employees, 23,000 will be in critical occupations that are specific to the electricity industry. Many will replace a wave of specialized and experienced retirees”.

#### Employee Demographics

“Electricity industry workforce dynamics are notably skewed towards a high and rising number of retirements that will run well above other industries” (Source: *Power in Motion - 2011 LMI Study*).

Table 1 illustrates the trend of an increasing eligibility rate for retirement and an increase in actual uptake in retirement for Hydro One employees.

1  
2  
3  
4  
5  
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7  
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9  
10  
11  
12  
13

**Table 1**  
**Annual Retirements**

<b>Date</b>	<b># of Networks staff eligible to retire</b>	<b># of Retirements</b>	<b>% of eligible staff</b>
December 31, 2009	1,000	105	10.5
December 31, 2010	1,300	137	10.5
December 31, 2011	1,150	166	14.4
December 31, 2012	1,158	192	16.5
December 31, 2013	919	253	28

Table 2 illustrates the forecasted number of eligible retirements up to 2019.

**Table 2**  
**Annual Retirement Forecast**

<b>Date</b>	<b># of Networks staff eligible to retire</b>	<b>Retirements Forecasted</b>
2014	1,085	194
2015	1,322	217
2016	1,536	179

To address this demographic challenge, Hydro One has been proactive by implementing a number of initiatives. These initiatives include implementation of a new People Strategy and the continuation of a staffing strategy for the recruitment and training of new staff. These initiatives are discussed in the sections which follow.



1     **2.0     PEOPLE STRATEGY**

2  
3     The Hydro One Vision is to be an innovative and trusted company, delivering electricity  
4     safely, reliably and efficiently to create value for our customers. To accomplish this, we  
5     require a stable workforce, top talent and highly engaged employees. The newly created  
6     People Strategy provides Hydro One’s management team with a framework to help guide  
7     decision-making, inform policy and program development, and define practices,  
8     procedures, systems and collective agreements, all with a view to ensuring they are  
9     aligned, and consistent with, those of a high-performing corporate culture.

10  
11     **Employee Engagement and Craft of Management**

12     Two key initiatives in support of the People Strategy are employee engagement and the  
13     *Craft of Management*.

14  
15     Employee engagement is a key differentiator in terms of business success, is the extent to  
16     which employees commit to someone or something in their organization. It can influence  
17     how hard they work and how long they stay as a result of that commitment. Engaged  
18     employees provide greater discretionary effort which often leads to increased  
19     productivity and other positive business outcomes. Hydro One continues to monitor and  
20     make improvements to employee engagement.

21  
22     Since 2010, Hydro One has been active in implementing the *Craft of Management*  
23     program throughout the managerial levels. The *Craft of Management* is designed to  
24     introduce managers to a comprehensive and rigorous accountability based performance  
25     management system – a system that is based on clarity of accountabilities and authorities.  
26     The *Craft of Management* will lead to structures which better reflect the needs of the  
27     work and the accountabilities associated with the effective performance of that work,  
28     vertically and laterally within the organization. *Craft of Management* and Engagement  
29     are linked. Good managerial leadership – combined with an organization structure

1 suitable for the needs of the work, with an effective process to allow and encourage  
2 employees to do that work, together will drive engagement.

## 3 4 **2.1 Staffing Strategy**

5  
6 Hydro One has an integrated workforce for its transmission and distribution businesses.  
7 This allows Hydro One to take advantage of economies of scale and efficiencies that  
8 would not be available through separate transmission and distribution operations.  
9 Examples would include a centralized control centre, centralized fleet operations, and an  
10 integrated asset management strategy.

11  
12 Hydro One utilizes a work-based approach to staffing, whereby the Company resources  
13 according to work programs rather than plans the work around the number of internal  
14 resources available. To address the fluctuating and seasonal nature of work programs,  
15 the Company maintains as much flexibility as possible by utilizing a variety of labour  
16 resources, including regular, temporary, hiring hall and contract staff.

17  
18 Matching staff to dynamic work programs requires a rigorous approach to staff planning.  
19 The company must consider the amount of work to be done, the nature of the work and  
20 the skills required, while at the same time looking for the most cost effective means of  
21 acquiring those skills, within the constraints of the collective agreements. Demographic  
22 and skills analyses are conducted annually to ensure that Hydro One retains the  
23 appropriate talent in the present and is positioned properly in the market to attract the  
24 talent needed in the future. In order to more accurately forecast retirements, human  
25 resources has developed a retirement forecasting model that will allow for more accurate  
26 data especially in key hiring classifications.

27 Progress has been made in attaining the optimal number and mix of staff required to  
28 complete the Company's increasing work programs. However, increases in Hydro One's  
29 Transmission and Distribution programs will result in additional challenges, given the

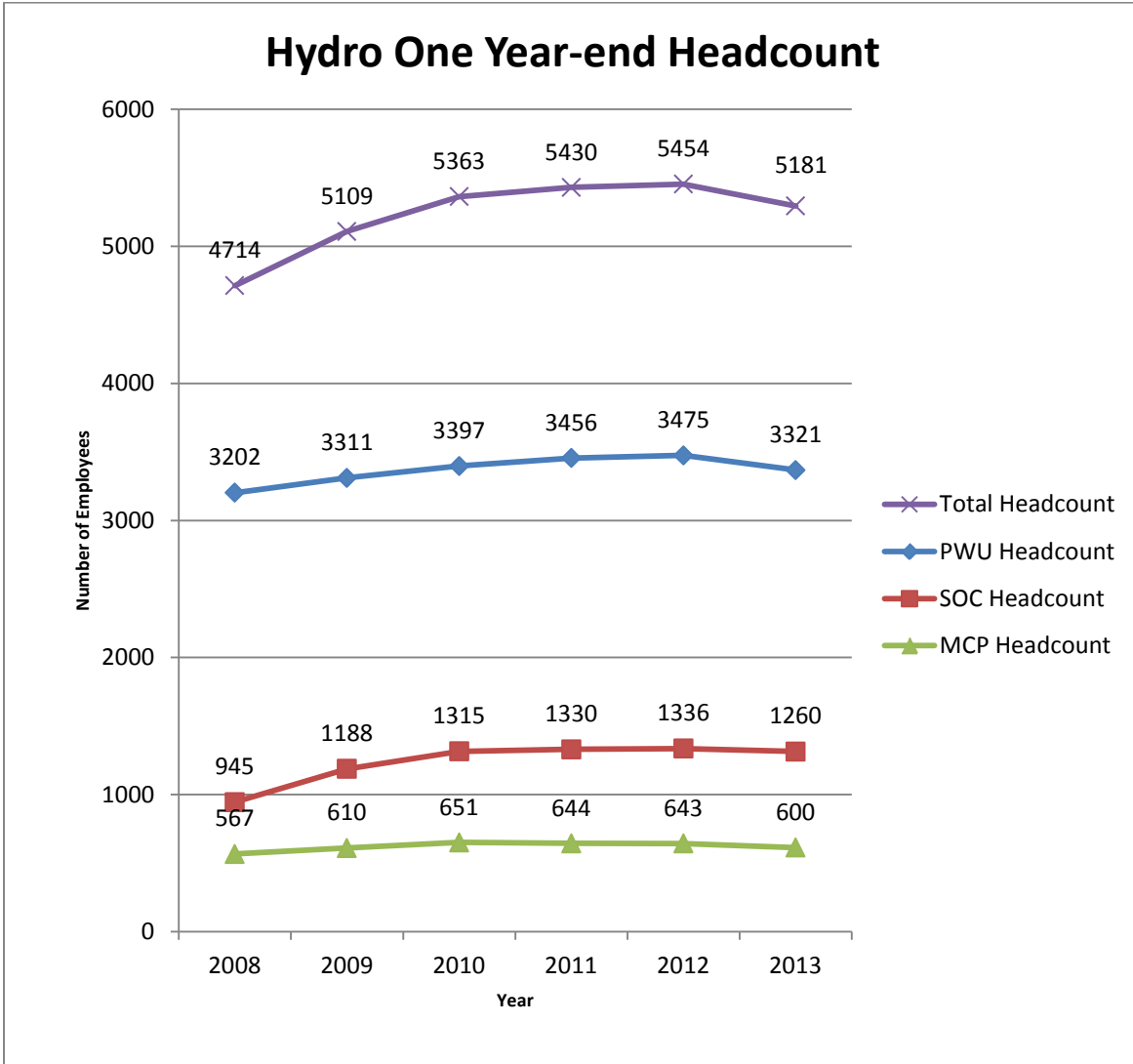
1 tight competition for labour and power system professionals. It is essential that the  
2 Company hires well in advance of expected retirements due to the long learning curves  
3 required for competent performance of Hydro One's highly skilled jobs.

4  
5 Headcount

6 Hydro One recognizes the concerns raised in previous Decisions with respect to  
7 increasing headcount. Increases to regular headcount are tightly managed. Currently, all  
8 requests for additional regular employees must be approved by the Chief Executive  
9 Officer. Table 3 shows the year end headcount from 2008 to 2013 has risen by  
10 approximately 10%. Over the same time period, Hydro One's work program has  
11 increased by 19.5%. Furthermore, regular headcount is trending downwards with 2013  
12 year end regular headcount less than year end 2010 levels. The business plan covering  
13 2014-19 shows that regular headcount will continue to decrease until we reach 5000  
14 employees.

1  
 2

**Table 3**  
**Annual Year-end Headcount**

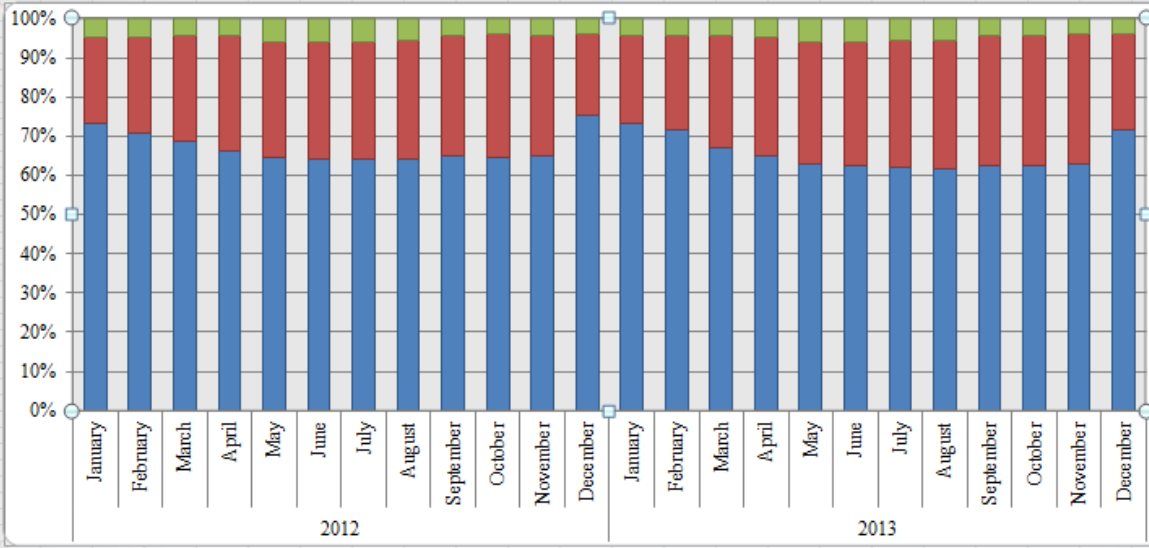


3  
 4

5 In order to complete the rising work program with fewer regular staff, Hydro One uses  
 6 non-regular resources (Power Workers Union Hiring Hall, temporary employees,  
 7 Consultants/Contractors). Table 4 illustrates Hydro One employs a large number of non-  
 8 regular staff throughout the year to assist with its various work programs and match  
 9 fluctuating requirements from month to month.

1  
 2

**Table 4**  
**Staffing Profile**



3  
 4

**3.0 STAFFING**

5  
 6  
 7  
 8  
 9

Critical to the People Strategy and ultimately to the success of Hydro One in meeting our customer needs, is a comprehensive and robust staffing strategy.

10  
 11  
 12  
 13  
 14  
 15

To help address the significant wave of retirements in critical trades, technical and engineering groups, Hydro One continues to hire, albeit at a lesser level than previous years, into its Apprentice and Graduate Training Programs. Since January 1, 2004, 440 graduate trainees have been hired through the Company's on-campus recruitment program. New Graduates bring not only much needed skills but also new perspectives and fresh energy to the work of Hydro One.

16  
 17  
 18  
 19

Hydro One also continues its recruitment into trades apprenticeship and technical training programs and has partnered with universities and colleges to develop curricula that educate students in areas where the Company faces a shortage of skilled professionals

1 and trades people. Hydro One has taken a leadership role in support for power system  
2 engineering programs, assisting in developing on-line power system engineering  
3 programs and providing scholarships to encourage enrolment in key areas where the  
4 Company faces a labour shortage. Hydro One received a Partnership Award which  
5 recognizes the very successful Hydro One College Consortium. Hydro One partnered  
6 with four community colleges and provides support for scholarships, curriculum  
7 development, co-op placements and equipment to educate the next generation of energy  
8 professionals. In 2013, one of the College Consortium members launched an innovative  
9 Women in Electrical Engineering Technology (WEET) program. Hydro One's role in the  
10 WEET program will be to provide work terms for the students between their first and  
11 second year. This will provide a significant cohort of women on-the-job experience in a  
12 utility, and provide them with skills to assist in their employment upon graduation.

13  
14 In addition, Hydro One, with the clear support of the PWU and the Society of Energy  
15 Professionals, has become a corporate participant in Career Bridge – a national, private-  
16 sector, non-profit initiative, which aims to provide internationally qualified professionals  
17 with Canadian work experience in their field of expertise in order to gain entry into the  
18 permanent workforce.

19  
20 Hydro One will also continue its support of the University and College Co-Op Education  
21 Program, hiring approximately 300 co-op students a year. This is a mutually beneficial  
22 process in that Hydro One gains bright, skilled workers trained in the latest theories and  
23 practices for four-month or eight-month work-terms, while the students gain practical and  
24 relevant work experience that can be used to develop their future careers. Hydro One has  
25 also found that the Co-op programs have proven a rich source of talented candidates for  
26 Graduate Trainee positions by offering the Company an opportunity to assess the  
27 student's "fit" and long-term potential with the company. Once hired Hydro One's  
28 experience shows that these former co-op students have a shorter learning curve than  
29 other new hires with no previous Hydro One experience.

1 External recruitment into entry level new graduate or apprentice positions has been  
2 successful. However, Hydro One has had some difficulty attracting more experienced  
3 external candidates into higher rated technical, engineering and management positions.  
4 For these positions, factors such as compensation and head office location sometimes act  
5 as barriers to successful recruitment.

6  
7 Hydro One believes a more sustainable and longer term strategy to deal with large scale  
8 retirements, is to invest in programs where knowledge transfer is the key objective.  
9 Programs such as New Grad and Apprentice Hiring, and knowledge documentation all  
10 contribute to ensuring knowledge is transferred to more junior staff.

## 11 12 **4.0 TRAINING**

13  
14 To address the demographic issue, it is not enough to only hire new staff. Hydro One is  
15 active in developing current staff in order to enhance and/or develop new skills.

### 16 17 **4.1 Trades and Technical Training**

18  
19 Hydro One provides a comprehensive selection of trades and technical training, designed  
20 to target the specific needs of field staff in relation to the work requirements of the asset  
21 base.

### 22 23 **4.2 Leadership and Senior Management Development**

24  
25 The primary objective of this program is to ensure that Hydro One has a systematic  
26 management development framework. This helps ensure the Company retains a  
27 competitive advantage by developing, maintaining, and enhancing those management  
28 competencies deemed to be essential.

1 **4.3 Succession Planning**

2  
3 A Succession Planning Process has been developed for all senior management staff  
4 within the Company. The program's goal is to ensure that for each of the senior  
5 management positions, at least two successor candidates have been identified, and that a  
6 developmental plan for each of the candidates is developed and implemented.

7  
8 Other human resources productivity initiatives are described in Exhibit C1, Tab 3,  
9 Schedule 2.

10  
11 **5.0 HYDRO ONE'S LABOUR PROFILE**

12  
13 As part of Hydro One's strategy to efficiently and economically manage its fluctuating  
14 work requirements, Hydro One utilizes four broad groups of staff: regular employees,  
15 temporary employees, casual workers (the Building Trade Unions -BTU's under  
16 agreements with the Electrical Power Sector Construction Association – EPSCA, the  
17 Labourers' International Union of North America - LIUNA, the Canadian Union of  
18 Skilled Workers - CUSW, and Power Workers Union - PWU Hiring Hall employees)  
19 and contract staff, discussed below.

20  
21 **5.1 Regular Employees**

22  
23 Regular Employees of Hydro One can be placed in three categories:

- 24 i) PWU represented staff: The PWU is an industrial union that represents the trades,  
25 operators, technicians and clerical workers, totaling roughly two thirds of Hydro One  
26 regular staff. They perform line work, forestry, electrical, mechanical, protection and  
27 control, meter reading, stock keeping, system operation, technical and  
28 clerical/administrative work.



1 ii) Society represented staff: The Society is a professional union that represents  
2 engineers, technical, administrative and supervisory staff, totaling about one quarter  
3 of regular staff. They perform engineering, high level technical and administrative  
4 work as well as supervisory functions.

5 iii) Management staff is excluded from representation because they carry out managerial  
6 duties or work on confidential labour relations matters or legal matters.

## 8 **5.2 Temporary Employees**

9  
10 Temporary employees are employees in any of the three categories set out above,  
11 engaged in work that is not of a continuing nature.

## 13 **5.3 Casual Workers**

14  
15 Although the PWU does perform some construction work, the majority is performed by  
16 the PWU Hiring Hall, the Building Trades Unions (under agreements with EPSCA), and  
17 members of the Canadian Union of Skilled Workers (CUSW).

18 i) Hiring Hall Employees (PWU) are utilized to meet fluctuating work demands,  
19 performing primarily supplemental construction and maintenance work on the  
20 distribution system. Non-recurring work peaks and special projects are resourced  
21 through the hiring hall.

22 ii) Fifteen construction BTUs supply a contingent workforce through their hiring halls,  
23 negotiating their collective agreements with EPSCA. These represent the  
24 construction trades employed by Hydro One, with the exception of those represented  
25 by the CUSW.

26 iii) The CUSW represents lines and electrical tradespersons who work on transmission  
27 construction, including the construction of lines over 50kV, transmission stations,  
28 switchyards, substations, system control centres, and associated telecommunications  
29 systems. Construction employees are contingent workers, accessed through the hiring

1       halls to perform specific work programs and then laid off. They are paid a total wage  
2       package (including benefits and pension payments) for each hour worked. This  
3       relationship ensures that workers with the required skill set are hired in the right  
4       location for only the exact duration of the work assignment and that Hydro One has  
5       no on-going obligations with respect to benefits or pension for them.

6

#### 7       **5.4     Contract Staff**

8

9       Contract staff are individuals engaged as independent contractors, not on the  
10       Corporation's payroll. Contract staff are retained for their particular skill sets on  
11       projects, or to perform other work that is not of an ongoing nature. They are engaged at  
12       Hydro One for varying amounts of time and paid varying amounts commensurate with  
13       their skill sets and the market rate for that skill. Contract staff are tracked by work  
14       programs or activities and not by headcount. Where applicable, the procurement of  
15       contract staff is governed by the terms of the collective agreements between the  
16       Corporation and its respective unions.

17

#### 18       **6.0     SUMMARY**

19

20       Attracting, motivating and retaining the right people is key to Hydro One's success.  
21       Despite the Company's efforts to ensure that it has an adequate supply of labour, it  
22       continues to face staffing challenges. Hydro One will continue to utilize a mix of regular,  
23       non-regular and contract staff in order to maintain the necessary flexibility to respond to  
24       this increased workload.

25       In an industry with aging demographics and a highly competitive labour market, Hydro  
26       One needs to be positioned as an attractive employer if it is to succeed in recruiting and  
27       retaining staff with the requisite skills. To do so, it must provide challenging and  
28       rewarding job opportunities and a competitive compensation package. Hydro One

- 1 believes its staffing strategy will allow it the flexibility to respond effectively and
- 2 efficiently to any scenario that will arise over the test years.

## **COSTING OF WORK**

### **1.0 OVERVIEW**

Hydro One Transmission'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 Transmission categorizes its costs into two major classifications - common and direct. Common costs, both OM&A and capital expenditures, are allocated to Transmission 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

1 deploy resources and equipment are accurately and cost effectively distributed to the  
 2 benefiting work.

3

4 On an annual basis, the standard labour rates are derived based on information gathered  
 5 through the annual budgeting process. Resource budgets for each major resource  
 6 category are calculated and categorized into three basic cost components: forecast  
 7 billable (direct charged) hours, forecast non-billable hours and forecast non-billable  
 8 expenses. Total payroll and expense costs along with an assignment of support activity  
 9 costs, divided by the forecast billable hours, create the standard labour rate. Table 1,  
 10 below, shows an example of the composition of a standard labour rate for one category,  
 11 the Regional Maintainer Electrical – Regular Staff, over the period 2011 to 2016.

12

13

**Table 1**

14

**Standard Hourly Labour Rate Composition**

15

**Regional Maintainer Electrical – Regular Staff**

	<b>Historic</b>			<b>Bridge</b>	<b>Test</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Payroll Obligations	73.58	77.56	78.32	79.03	79.63	80.22
Contractual time away from work	9.65	9.10	9.33	9.42	9.49	9.56
Time not directly benefiting a specific Program or Project	8.65	8.30	8.51	8.59	8.66	8.72
Field Supervision and Technical Support	17.18	17.24	18.74	17.88	18.02	18.15
Support Activities	17.94	16.80	18.10	18.07	18.21	18.35
<b>Hourly Rate</b>	<b>127.00</b>	<b>129.00</b>	<b>133.00</b>	<b>133.00</b>	<b>134.00</b>	<b>135.00</b>

1 The cost elements embedded in the standard rate as illustrated in Table 1 are explained in  
2 the pages following, using the position of Regional Maintainer Electrical – Regular Staff  
3 and the 2014 cost composition, as an example.

4  
5 2.1.1 Payroll Obligations (\$79.03)

6  
7 A brief description of the cost elements included in this category is provided below.  
8 Compensation, wages and benefits are more fully explained in Exhibit C1, Tab 3,  
9 Schedule 2.

10  
11 Base Labour and Payroll Allowances (57.4% of Payroll Obligations)

- 12
- 13 • Base Pay: Contractually negotiated and reflected in wage schedules.
  - 14 • Payroll Allowances: Allowances are also contractually negotiated and stated in  
15 collective agreements. Regular staff (PWU) is entitled to travel, footwear, and on-call  
16 allowances. Casual trades are entitled to board and travel allowances where  
17 circumstances require it.

18  
19 Company Benefits (37.6% of Payroll Obligations)

- 20
- 21 • Regular Staff: Comprising pension (30.9% of base pensionable earnings) and current  
22 and post-employment benefits; health, dental, etc. (24.2% of base pensionable  
23 earnings).
  - 24 • Non-Regular Staff (for example, casual trades): Pension and welfare contributions  
25 made on behalf of the non-regular employee. These contributions are significantly  
26 lower in comparison to the Company benefit contributions made on behalf of the  
27 regular employee.

28 Government Obligations (5% of Payroll Obligations)

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22

- 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 (\$9.42)

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 (\$8.59)

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 (\$17.88)

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.

1    2.1.5   Support Activities (\$18.07)

2  
3    Administrative Expenses and Support (70.8% of Support Activities)

4    These costs include administrative expenses such as travel costs, cell-phones and other  
5    miscellaneous expenses that cannot be specifically attributed to a particular program or  
6    project. Also included is an assignment of costs for clerical support activities and other  
7    centralized support to facilitate work management system requirements.

8  
9    Work Methods & Training (15.7% of Support Activities)

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

13  
14   Health, Safety & Environmental Support (13.5% of Support Activities)

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

19  
20   **2.2    Fleet Rate**

21  
22   Hydro One controls and manages approximately 7,300 vehicles and other fleet equipment  
23   to support its work programs and staffing requirements used for both Distribution and  
24   Transmission work. The fleet has grown by 1,600 vehicles and other fleet equipment  
25   since 2009 reflecting an increase in the work program to be executed. Fleet Management  
26   is described in Section 3.0 of this Exhibit.



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

10

11

**Table 2**

12

**Hourly Fleet Rate - Line Maintenance Truck**

	Historic			Bridge	Test	
	2011	2012	2013	2014	2015	2016
Operations & Repairs	35.28	37.43	35.44	35.72	35.99	36.27
Fuel Costs	6.28	7.88	8.78	8.85	8.92	8.99
Depreciation	18.44	18.69	19.78	19.93	20.09	20.24
<b>Hourly Rate</b>	<b>60.00</b>	<b>64.00</b>	<b>64.00</b>	<b>64.50</b>	<b>65.00</b>	<b>65.50</b>

13

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

17

18 Operations & Repair Costs (55% of Fleet Rate)

19 Fuel Costs (14% of Fleet Rate)

20 Depreciation (31% of Fleet Rate)

1 **2.3 Material Surcharge Rate**

2  
3 A standard material surcharge rate, which captures supply chain procurement costs  
4 benefiting a particular program or project, is applied to material costs. A detailed  
5 description of Hydro One's approach to Supply Chain Services is found in Section 4.0 of  
6 this Exhibit.

7  
8 Material costs charged to a project or program is based on the issue cost from Inventory,  
9 which is the Moving Average Price (MAP) or the direct-shipped purchase order price.  
10 On a monthly basis, total monthly material charges are surcharged with a fixed  
11 percentage cost to recover costs associated with purchasing, transportation and inventory  
12 management. The percentages range from 11% to 17%, depending on work program  
13 service requirements. The percentages are derived by assigning the costs of these  
14 activities to the work programs based on an annual assessment of the consumption of  
15 these services divided by the annual forecast of purchased material.

16  
17 The costs recovered in the surcharge are as follows:

- 18
- 19 • Hydro One Costs: Management, demand planning, warehousing and transportation  
20 of material, and investment recovery (comprising approximately 60% of the total  
21 costs); and
  - 22 • Inergi Contract Costs: Procurement (comprising approximately 40% of the total  
23 costs).

24  
25 **2.4 Other Program and Project Costs**

26  
27 Depending on the nature of the work, Hydro One Transmission's program or project  
28 costs also include additional costs beyond the major contributors identified above. These

1 additional costs may include the costs of external contractors and/or miscellaneous job  
2 specific consumables such as travel expenses or the purchase of low value material.

3  
4 In terms of estimating and costing of capital work, there may be circumstances when  
5 removal costs or customer contributions need to be separately identified. In these cases,  
6 the cost of removal work is accounted for as depreciation, and customer contributions are  
7 netted against gross capital costs.

8  
9 Capital work also receives a monthly charge for its share of corporate interest and  
10 overhead costs. The composition of these two cost categories and the annual calculation  
11 are explained in Exhibit D1, Tab 3, Schedule 1, Interest Capitalized and Exhibit C1, Tab  
12 6, Schedule 2, Overhead Capitalization Rate.

## 13 14 **2.5 Standard Rates**

15  
16 When using standard rates, residual costs naturally arise when actual costs incurred differ  
17 from the standards. These variances are accounted for on a monthly basis and assigned to  
18 both capital and maintenance programs. The monthly assignments of residual costs are  
19 made to OM&A and Capital based on the program and project cost activities responsible  
20 for generating the year-to-date variances.

## 21 22 **3.0 FLEET MANAGEMENT SERVICES**

23  
24 Fleet Management Services provides centralized and turnkey services that include  
25 maintenance, administration, vehicle replacement and disposal. Vehicles are maintained  
26 to an optimum level to ensure public and employee safety and compliance with laws and  
27 Ministry regulations, including, but not limited to; CSA 225, the Highway Traffic Act  
28 and the Commercial Vehicle Operator's Registration regulations. Fleet Management  
29 Services also ensures that environmental impacts are minimized and line-of-business

1 productivity is optimized by minimizing downtime and travel time, and by optimizing  
2 technology and continuous improvement opportunities.

3  
4 Fleet Management Services has adapted to the changing needs of its business by:

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

22  
23 **3.1 Maintenance Model**

24  
25 Fleet Management Services has developed a balanced maintenance model for mobile  
26 service delivery and centralized facilities. This model provides for 38 provincial  
27 locations and balances geographical customer requirements, travel time, third party  
28 vendor support and response time. Mobile/satellite repair units minimize costs

1 organizationally by providing timely on-site field support for various nomadic work  
2 programs, such as vegetation control, new construction and off-road tower maintenance.  
3 Services provided to the lines of business meet the rigorous requirements of Fleet  
4 Management Services' agreements and are structured as a mobile and fire hall operating  
5 model to meet customer requirements.

## 6 7 **3.2 Managed Systems**

### 8 9 Fleet Management System

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

20  
21 The benefits of the FMS include:

- 22 • Improved scheduling of preventative maintenance, reduced repair times, travel time  
23 and reduced equipment downtime;
- 24 • Increased access to a number of vendors for fuel, repairs and parts, thus minimizing  
25 cost and downtime;
- 26 • Improved cost and efficiency, through carefully-considered procurement strategies  
27 and economies of scale, including improved volume discounts for fuel, parts and  
28 service;

- 1 • A 1-800 number for repairs, roadside assistance and towing and improved reporting  
2 and data collection; and  
3 • Exposure to best practices for fleet management by similar sector organizations.  
4

5 The FMS uses a variety of linked programs to manage the data and information for all  
6 facets of the business, including internal and external repairs. This takes advantage of  
7 both internal and external intelligence and technology.  
8

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

- 14 • Real time vehicle history;  
15 • Warranty criteria and warranty recovery;  
16 • A work and resources scheduling tool;  
17 • A pending and overdue work information alert system;  
18 • Product information, including vendor-specific information;  
19 • Repair and safe practices manuals;  
20 • Process and policy information;  
21 • Invoice and cost-management details;  
22 • Monthly and ad-hoc reports; and  
23 • Work order management.

1 Telematics

2 In 2009, Hydro One Fleet Services entered into a pilot program to install GPS (Global  
3 Positioning System) into 500 Transportation and Work Equipment (TWE) units as part of  
4 the Hydro One Environmental Plan. From this Pilot Project, Hydro One Fleet Services  
5 recorded a number of lessons learned. These lessons were incorporated in the tender for a  
6 new generation fleet telematics system for 2,700 fleet vehicles that will provide  
7 significant enhancements to operator safety, workplace efficiency and reduction of  
8 environmental impacts. This project is currently scheduled to be implemented by end of  
9 2015. The Telematics initiative will allow for continuous improvements and permit  
10 implementation of best practices through:

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

20  
21 **3.3 Fleet Complement and Utilization**

22  
23 Fleet Management Services controls and manages approximately 7,300 vehicles and  
24 other equipment primarily for Transmission and Distribution work. Inventory levels are  
25 controlled and set by the Hydro One lines of business and Fleet Management Services  
26 within the guidelines set for staffing versus fleet ratio, type and volume of work  
27 programs, geographic locations and utilization targets. The increase in the fleet  
28 complement, therefore, is directly related to the increase in the Company's work on

1 system infrastructure and corresponding staffing levels. Fleet Management Services  
2 maintains 38 facilities to support 17 Forestry locations, 1,007 Distribution Stations, 287  
3 Transmission Stations, and 54 Provincial Lines operational centers.

4  
5 As capital and OM&A investments have been increasing, the options to meet increased  
6 equipment demand include the purchase of new equipment, rental of additional  
7 equipment or increased utilization of existing equipment. The optimum option is to  
8 increase utilization, which minimizes capital investment compared to the option of  
9 additional purchases. Simultaneously, it maximizes the advantage of owned core  
10 equipment versus the additional cost of external rentals, which is 30 percent higher than  
11 owned equipment rates. This assessment is based on an internal comparison of the actual  
12 costs of equipment rentals versus those of owned core equipment.

13 The benefits of improving utilization include:

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

18  
19 Equipment utilization averages have increased from approximately 65 percent in 2001 to  
20 approximately 80 percent in 2013. The 2013 average equipment rate is \$20.77 per hour;  
21 this is established by averaging total annual fleet equipment costs over total annual fleet  
22 utilization hours.



1 **3.4 Fleet Management Services Budget**

2  
 3 Fleet Management Services’ annual budget is developed and managed based on the all-in  
 4 costs of operating the fleet and the following criteria:

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

12  
 13 Table 3 provides total expenditures on the components comprising the fleet rate for  
 14 historic, bridge and test years. These expenditures are distributed among each of the 59  
 15 classes of vehicles.

16  
 17 **Table 3**  
 18 **Fleet Management Services Budget Expenditures**  
 19 **(\$ Million)**

	Historic			Bridge	Test	
	2011	2012	2013	2014	2015	2016
<b>Operations &amp; Repairs</b>	51.5	55.3	57.8	60.5	62.7	63.7
<b>Depreciation</b>	34.9	35.3	35.3	37.3	38.3	39.3
<b>Fuel</b>	28.3	29.1	30.2	30.3	30.8	31.2
<b>Subtotal</b>	<b>114.7</b>	<b>119.7</b>	<b>123.3</b>	<b>128.1</b>	<b>131.8</b>	<b>134.2</b>
<b>Rentals</b>	1.9	1.1	0.9	2	2	2
<b>Total</b>	<b>116.6</b>	<b>120.7</b>	<b>124.2</b>	<b>130.1</b>	<b>133.8</b>	<b>136.2</b>

20 3.4.1 Operations and Repairs

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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 Transmission 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 Transmission'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**

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

4  
5 Hydro One Transmission's fleet management system is an automated web-based system  
6 under which a single credit card captures all operating costs (including fuel, parts and  
7 repairs) for each vehicle. This system is used to measure a variety of targets which  
8 identify opportunities to reduce costs and increase productivity efficiencies through  
9 strategic procurement practices and economies of scale, including improved volume  
10 discounts for fuel, parts and service.

11  
12 Hydro One Transmission has a maintenance program for its fleet of vehicles. Internal and  
13 external service providers are granted access to appropriate information through state-of-  
14 the-art management systems linked to Hydro One Transmissions fleet management  
15 system. This allows for improved work and resource scheduling tools, information alerts  
16 and invoice and cost management details, resulting in avoidable and expensive repairs  
17 and equipment downtime being minimized and improved fleet efficiency.

18  
19 As discussed in section 3.2, the Telematics Initiative will allow Hydro One Transmission  
20 to continuously improve and implement best practices in operator safety, workplace  
21 efficiency and environmental impacts. Operator safety will be improved through  
22 awareness and driver aids. Improvements in productivity efficiencies will include  
23 decreased kilometers driven through route optimization, increased fleet response time and  
24 automated tracking of vehicle condition. Also, with the implementation of telematics,  
25 environmental benefits such as increased fuel efficiency and a reduction of greenhouse  
26 gases will be realized.

#### 27 **4.0 SUPPLY CHAIN SERVICES**

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

4  
5 The forecast 2015 costs for Supply Chain Services are expected to be \$40.5 million and  
6 remain fairly flat through 2016. These services include strategic sourcing (purchase) of  
7 materials and services, storage and distribution of materials; demand planning, inspection  
8 services, transportation, inventory management, and investment recovery of disposed  
9 assets.

10  
11 Supply Chain Services costs are allocated to work programs and projects through the  
12 material surcharge rate.

13  
14 This section describes the budgeted cost levels, followed by a description of the  
15 components of Supply Chain Services.

16  
17 **Table 4**  
18 **Supply Chain Services**  
19 **(\$ Million)**

	Historic			Bridge	Test	
	2011	2012	2013	2014	2015	2016
<b>Total</b>	42.9	40.5	39.2	40.2	40.5	39.9

20  
21 The decrease in supply chain costs between 2011 and 2013 reflects the decrease in costs  
22 related to transportation and outsourcing services.

23 Hydro One Transmission's Supply Chain is a service which has been largely outsourced  
24 to Inergi L.P. The components of Supply Chain Services performed by Inergi include

1 sourcing (purchase) of materials and services, execution of transportation contracts, and  
2 contract management.

3

#### 4 **4.1 Supply Chain Policies and Procedures**

5

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

9

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

13

#### 14 **4.2 Sourcing of Materials and Services**

15

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

18

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

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

### 8 **4.3 Inspection Services**

9  
10 Inergi LP is engaged to provide timely inspection services to assure that products are  
11 manufactured in accordance to specifications established by Hydro One Transmission,  
12 and tracks costs and schedules on a product and project basis.

### 14 **4.4 Storage and Distribution of Materials - Warehousing**

15  
16 Hydro One Transmission's central warehouse operation in Barrie is responsible for the  
17 storage and distribution of materials for the service centres and station locations. This  
18 warehouse services the Operations & Maintenance organization which is further serviced  
19 through 88 field service centres and 21 station locations. The field staff is responsible for  
20 receiving shipments and for storing and ordering material. Deliveries to the service  
21 centres are contracted to a third party transportation carrier.

22  
23 The intent of a consolidated warehouse operation is to realize efficiencies through  
24 focusing on activities such as:

- 25  
26 • Bar coding to improve operating efficiencies such as receipting, cycle counting,  
27 shipping and tracking inventory;

- 1 • Managing and coordinating the delivery of materials on the scheduled delivery date to  
2 the service centres to ensure that the field operation receives the right material at the  
3 right time; and  
4 • Improving receipting efficiency by integrating with the contracted transportation  
5 company to provide visibility into the supply chain and scheduling the inbound  
6 shipment.

7

#### 8 **4.5 Transportation**

9

10 Hydro One Transmission manages its inbound and outbound transportation of materials  
11 through contracts with third party companies. In 2013, Hydro One Transmission entered  
12 into a new transportation contract for material delivery in and out of the central  
13 warehouse.

14

#### 15 **4.6 Investment Recovery**

16

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

22

23 A breakdown of the sale of assets is as follows:

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21

**Table 5**  
**Breakdown of Sales of Assets through Investment Recovery Program**  
**(\$ Million)**

<b>Type of Sale</b>	<b>Recovery 2011</b>	<b>Recovery 2012</b>	<b>Recovery 2013</b>
Vehicle Sales	2.0	1.0	1.5
Scrap Metal	2.4	1.6	1.6
<b>Total</b>	<b>4.4</b>	<b>2.6</b>	<b>3.1</b>

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

#### **4.7 Cost Savings from Strategic Sourcing**

Between 2008 and 2016, due to its collaborative planning and strategic sourcing initiative, Hydro One Networks estimates \$158 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;



- 1 • Reduced total life cycle cost for materials and services – when purchasing equipment,  
2 all aspects are identified to ensure that Hydro One Transmission acquires maximum  
3 value for the life cycle of the equipment. For example, specifications, maintenance  
4 requirements, installation services and warranty services are defined and reviewed to  
5 ensure that business needs will be met, and order and invoice processes, lead time and  
6 inventory requirements, etc. are evaluated to determine where greater efficiencies  
7 may be realized;
- 8 • Improved security of supply through longer-term agreements. To maximize value,  
9 longer-term agreements are established with fixed prices, or formula pricing is  
10 considered to ensure that Hydro One Transmission achieves best value; and
- 11 • Improved and/or consistent quality of material and services.

12  
13 Collaborative planning and strategic sourcing will continue to be a major focus, as the  
14 Company emphasizes cost control and security of supply while demand in the global  
15 utility sector increases.

#### 16 17 **4.8 Recent Productivity Improvements in Supply Chain Services**

18  
19 Hydro One Transmission is interested in continuous improvement, and Supply Chain  
20 Services is one example. This section details some work in progress to provide  
21 effectiveness and efficiency gains.

22  
23 Previously, procurement of material for projects usually occurred after the release of the  
24 project. The supply management process is evolving, however, to consider the broader  
25 work program over multiple years, and obtain quotes for materials required over multiple  
26 delivery dates. This approach assists vendors by allowing them to better plan their  
27 activities, and leads to lower costs and a stronger relationship between Hydro One

1 Transmission and the vendor – which has additional benefits if difficulties arise in the  
2 supply of materials.

3

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

9

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

1 **Society of Energy Professionals (SEP) INTERROGATORY #3**

2  
3 **Interrogatory**

4  
5 With reference to Exhibit A, Tab 18, Schedule 1 “Cost Efficiencies/ Productivity”:

- 6  
7 a) Has Hydro One done a survey of actual annual productivity/cost efficiency savings  
8 included by other Ontario transmission companies and LDC's in their cost of service  
9 applications since 2010? This would be both OM&A and capital expenditures actual  
10 annual productivity/cost efficiency savings as absolute \$ quantities and also expressed  
11 as a percentage of actual OM&A and capital expenditures spent and as a percentage  
12 of revenues earned.  
13  
14 b) Has Hydro One done a survey of forecast test year(s) annual productivity/cost  
15 efficiency savings included by other Ontario transmission companies and LDC's in  
16 their cost of service applications since 2010? This would be both OM&A and capital  
17 expenditures forecast annual productivity/cost efficiency savings as absolute \$  
18 quantities and also expressed as a percentage of approved test year(s) OM&A and  
19 capital expenditures and as a percentage of approved revenue requirement.  
20  
21 c) If Hydro One has not done a) and/or b) why not? Have Board staff provided either a)  
22 or b), and if not, does Hydro One know why not and why did Hydro One not request  
23 this information from Board staff?  
24

25 **Response**

- 26  
27 a) Hydro One has not performed a survey of other Ontario transmission companies and  
28 LDCs for their actual annual productivity/cost efficiency savings.  
29  
30 b) Hydro One has not performed a survey of other Ontario transmission companies and  
31 LDCs for their forecast test year(s) of annual productivity/cost efficiency savings.  
32  
33 c) Hydro One has not performed these surveys as given the size of Hydro One versus  
34 any other transmission companies or LDCs in Ontario a comparison would not  
35 provide any meaningful data. Hydro One has not received any surveys conducted by  
36 Board staff that include this information.

1 **Society of Energy Professionals (SEP) INTERROGATORY #4**

2  
3 **Interrogatory**

4  
5 With reference to Exhibit A, Tab 18, Schedule 1 “Cost Efficiencies/ Productivity”, page  
6 2, Table 1 “Impact to Revenue Requirement Inclusive and Exclusive of Productivity  
7 Savings”:

- 8  
9 a) What are the Total OM&A productivity savings for 2015 to 2016?  
10  
11 b) What is the average annual Total OM&A productivity savings for 2015 to 2016  
12  
13 c) What is the annual average percentage productivity savings of OM&A expenditure  
14 for 2015 to 2016?  
15  
16 d) Using the data provided in Exhibit E1, Tab 1, Schedule 1, page 1 Table 1, what is  
17 Hydro One’s average annual Revenue Requirement less External Revenue for the  
18 period 2015 to 2016?  
19  
20 e) What percentage is the average annual Total OM&A productivity savings for 2015 to  
21 2016 of Hydro One’s average annual Revenue Requirement less External Revenue  
22 for the period 2015 to 2016 [ie the value provided in b) above expressed as a  
23 percentage of the value provided in d) above]?  
24  
25 f) How does the figure calculated in e) compare to the OEB’s productivity analyses for  
26 Ontario LDC's and Transmitters? How does this compare to the productivity target  
27 which the OEB requires LDC's to use in their IRM applications?  
28  
29 g) Please calculate the figures provided in a) and b) above for the Total Capital  
30 Expenditures productivity savings.  
31  
32 h) A general rule of thumb of is that Revenue Requirement increases by roughly 10% of  
33 capital expenditures placed into service in the prior year. Accepting that this rule of  
34 thumb is correct, recalculate the percentage calculated in e) above to include 10% of  
35 the average annual Total Capital Expenditures productivity savings for 2015 to 2016.  
36  
37 i) How does the figure calculated in h) compare to the OEB’s productivity analyses for  
38 Ontario LDC's and Transmitters? How does this compare to the productivity target  
39 which the OEB requires LDC's to use in their IRM applications?  
40  
41

1 **Response**

- 2
- 3 a) Total OM&A productivity savings for Tx is \$95M.
- 4
- 5 b) Average annual OM&A productivity savings for Tx is \$47.5.
- 6
- 7 c) The annual average percentage productivity savings of OM&A expenditure for Tx
- 8 2015 to 2016 is 10.4%.
- 9
- 10 d) Hydro One's average annual revenue requirement less external revenue for the
- 11 period 2015-2016 is \$1,625M.
- 12
- 13 e) The percentage for OM&A only is 2.9%.
- 14
- 15 f) In EB-2010-0379 Rate Setting Parameters and Benchmarking under the Renewed
- 16 Regulatory Framework for Ontario's Electricity Distributors on page 17 it states
- 17 "the Board has determined that... the productivity factor used in the rate-
- 18 adjustment formula to set rates will be set to zero".
- 19
- 20 g) Total OM&A productivity savings for Tx is 42,908,556.
- 21 • Capital productivity savings is \$42.7M
- 22 • Average capital savings is \$21.4M
- 23
- 24 h) The percentage for OM&A and Capital is 3.1%
- 25
- 26 i) See response to f.
- 27
- 28

1 **Society of Energy Professionals (SEP) INTERROGATORY #5**

2  
3 **Interrogatory**

4  
5 With reference to Exhibit A, Tab 18, Schedule 1, “Cost Efficiencies/ Productivity” pg 4  
6 Table 2:

7  
8 a) In Exhibit C1, Tab 2, Schedule 1 “Summary of OM&A Expenditures”, on page 5  
9 Hydro One explains that the underage in 2013 OEB approved OM&A expenditures in  
10 “the Sustaining, Development, and Operations work program spend reflects  
11 Cornerstone savings (both are included in the Board Approved Shared Services and  
12 Other total in Table 2)”. A similar explanation is provided on page 6 for the underage  
13 in 2014 OEB approved OM&A expenditures. Please show where in Exhibit A, Tab  
14 18, Schedule 1, pg 4 Table 2 the Cornerstone savings are included and provide the  
15 annual Cornerstone savings for the period 2011 to 2016.

16  
17 b) In Exhibit D1, Tab 1, Schedule 2 “In-Service Capital Additions”, on page 2 ln 21-24,  
18 it is stated:

19  
20 *The Riverside Junction by Strachan TS underground cable replacement project*  
21 *[which will go into service in 2014], which is expected to be completed for less than*  
22 *the previously approved amount partly due to lower material costs through*  
23 *procurement savings (approximately \$35 million)*

24  
25 Please show where in Exhibit A, Tab 18, Schedule 1, pg 4 Table 2 these procurement  
26 savings are included and provide these annual savings for the period 2011 to 2014.

27  
28 c) Similar to b) above, provide a breakdown of annual procurement savings by major  
29 capital projects and programs, including Midtown Transmission Reinforcement,  
30 Circuit Breaker Replacements, Integrated DESN Replacements, Power Transformer  
31 Replacements and Integrated Station P&C Replacements. Show where these savings  
32 are included in Exhibit A, Tab 18, Schedule 1, pg 4 Table 2.

33  
34 d) Similar to b) above, provide a breakdown of annual productivity savings resulting  
35 from Hydro One “continuing the shift towards completing more Sustaining capital  
36 work in an integrated manner in part to reduce the current problem of projects being  
37 delayed due to outage planning constraints” [as stated in Exhibit D1, Tab 1, Schedule  
38 2 “In-Service Capital Additions”, on page 3 ln22-22]. Show where these savings are  
39 included in Exhibit A, Tab 18, Schedule 1, pg 4 Table 2.

1 **Response**

2  
3 a) Cornerstone savings are included in the Business Systems and Business  
4 Transformation buckets of savings. Please refer to Exhibit I, Tab 4, Schedule 4, Part d  
5 that includes the Cornerstone Benefits Realization Plan for savings in both Tx and  
6 Dx.  
7

8 b) The procurement savings referenced in Exhibit D1, Tab 2, Schedule 1 associated with  
9 the Riverside Junction by Strachan TS underground cable replacement are not tracked  
10 annually and while they are included in the total savings in Table 2 from Exhibit A,  
11 Tab 18, Schedule 1.  
12

13 c) Procurement savings for major capital projects and programs are included in Exhibit  
14 A, Tab 18, Schedule 1 are at the aggregate level across various initiatives. Supply  
15 Chain procurement savings are explained in Exhibit I, Tab 5, Schedule 2, Attachment  
16 5, Section 4.0.  
17

18 d) The quoted statement refers to Hydro One improving the ability to get projects in  
19 service on schedule by reducing the impact of outage cancellations and scheduling  
20 difficulties. Only some of the annual productivity savings related to outage  
21 cancellations and bundling of work is included in Exhibit A, Tab 18, Schedule 1.  
22 Additional savings would be incremental.