

## **SHARED SERVICES PROJECT**

### **THESL PAID AND SOLD TO AFFILIATES – SUMMARY OF ASSUMPTIONS**

#### **Highlights**

The “THESL Paid to THC” document (Appendix A) summarizes the costs to Toronto Hydro-Electric System Limited for services received from Toronto Hydro Corporation (“THC”).

The “THESL Sold to Affiliates” document (Appendix B) summarizes all costs charged by THESL to THC, and Toronto Hydro Energy Services Inc. (“TH Energy”) for services rendered by THESL.

The “THESL Paid to THC” and “THESL Sold to Affiliates” tables include details of all allocations by fiscal year and functional group and reflect the following information:

- 2008 costs are based on historical information.
- 2009 costs are based on forecast information and represent the current structure (i.e., pre-consolidation).
- On August 17, 2009, the Chair of the Board of Directors of Toronto Hydro Corporation announced that Mr. David O’Brien would retire as the Chief Executive Officer of Toronto Hydro Corporation effective September 30, 2009, and would be succeeded by Mr. Anthony Haines, who would in addition retain his role as President of THESL. Changes in 2010 governance costs may follow from this announcement. However, given the timing of the filing of this Application, it was not possible to reflect any cost changes that may arise in pre-filed evidence. To the extent that any such changes in planned costs become known prior to the end of the hearing, THESL will advise the Board, and incorporate any necessary changes during rate finalization.

- 1       • Currently, THC and THESL are in the process of consolidating their respective  
2       organizations, and this process will be completed by the end of 2009. This  
3       consolidation has arisen from the divestitures of most unregulated activities over  
4       the past few years (Electricity and natural gas retailing, Telecom and rental water  
5       heaters). As a result of this consolidation, substantially all of the remaining  
6       personnel and associated costs involved in shared services from THC to THESL  
7       will be transferred to THESL, as almost all of the tasks performed and costs  
8       incurred are directly related to the business of THESL. Consequently, all costs  
9       presented for 2010 reflect this consolidation, which is effective January 1, 2010.
- 10      • A total of two senior executive members, consisting of the Chief Executive  
11      Officer and the Chief Financial Officer will remain within THC and will continue  
12      to provide services to THESL. The balance of 33 staff members in Finance,  
13      Organizational Effectiveness, Legal Services, and certain other areas will be  
14      transferred to THESL and the services they provide to THESL will be internal to  
15      THESL, and thus not involve sharing of services from THC to THESL.
- 16      • Furthermore, the staff time resources (primarily in the Finance area) which have  
17      been devoted to providing services to THC have gradually been redeployed to  
18      other areas of pressing need, due to increasing governance and financial reporting  
19      requirements.
- 20      • As a result of these anticipated changes, services purchased by THESL from THC  
21      will decrease by \$6.1 million from 2009 to 2010, which is demonstrated in  
22      Appendix A. Consequently, services purchased by THESL from THC will be  
23      \$2.2 million in 2010, comprised of \$1.5 million for strategic leadership,       /C  
24      stewardship and governance, and \$0.7 million for overall finance leadership to the  
25      organization. These services will be performed by the Board of Directors, offices  
26      of the Chief Executive Office and the Chief Financial Officer.
- 27      • Furthermore, services purchased by THC from THESL will decrease by \$2.0  
28      million from 2009 to 2010, which is demonstrated in Appendix B. Consequently,

1 services purchased by THC from THESL will be \$0.1 million in 2010, comprised  
2 of IT and asset management services for the offices of the Chief Executive  
3 Officer and the Chief Financial Officer.

4 As a result of the divestitures of most unregulated activities discussed above, the amounts  
5 that THESL will sell to TH Energy will decrease from 2009 to 2010.

6  
7 As such, the following functional groups will be reorganized and some groups and  
8 activities previously contained in THC will now be transferred to THESL, effective  
9 January 1, 2010, as shown in Table 1 below.

10  
11 **Table 1: Consolidation**

THC 2009	THC 2010	THESL 2010
<b>Governance</b>	→	
<b><u>Finance:</u></b>		
Leadership	→	
Reporting & Planning	→	
Tax	→	
<b>Organizational Effectiveness</b>	→	
<b>Legal</b>	→	
<b>Communications</b>	→	
<b>Environmental, Health &amp; Safety</b>	→	