

1 **PLANNING PROCESS**

2
3 **INTRODUCTION**

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5 Business planning is performed annually and focuses on the development of a five-year
6 plan which comprises a detailed plan for the first three years in the planning cycle and a
7 less detailed outlook for the remaining two year period. The planning cycle in 2007
8 pertained to the 2008-2012 period. The results as they apply to 2008 (the test year) form
9 the basis for the rate submission.

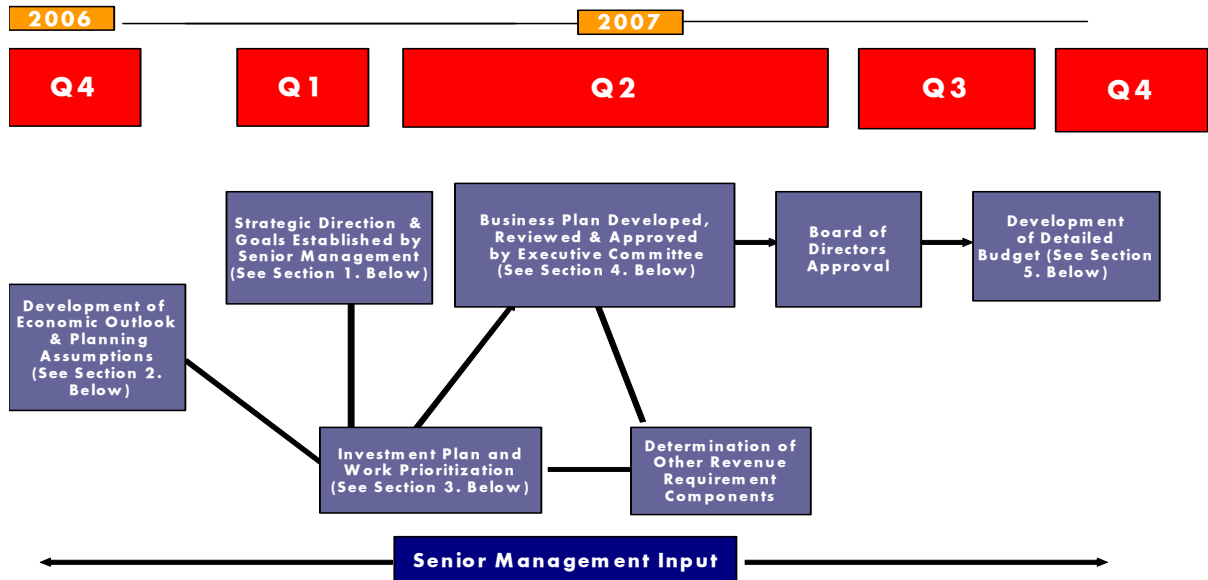
10
11 The annual planning cycle consists of five phases:

- 12
13 1. Confirmation of corporate strategy;
14 2. Development of economic outlook and forecast assumptions;
15 3. Investment plan development;
16 4. Development of plans and work programs; and,
17 5. Refinement of plan into a detailed budget.

18
19 The following chart provides an overview of the planning process:
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1

Hydro One Planning Process



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3 The key dates applicable to the 2008-2012 planning cycle include:

Date	Action
December 2006	Strategic goals confirmed
March 2007	Business plan instructions issued
May 2007	Investment Plan prioritized
June 2007	Lines of business submit business plans to Executive Committee
June 2007	Executive Committee holds business plan review meetings with lines of business vice presidents
August 2007	Hydro One Inc. Board approval of business plan
November 2007	Hydro One Inc. Board approval of detailed budget

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1 **1. Strategic Direction and Goals Established by Senior Management**

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3 Hydro One Distribution's strategic direction and goals are reviewed and confirmed by the
4 CEO and other members of the senior management team. The strategic goals are
5 included in the business planning instructions for reference by planners as the business
6 plan is being developed. Please see Exhibit A, Tab 3, Schedule 1 for a description of the
7 Company's strategic goals.

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9 **2. Development of Economic Outlook and Planning Assumptions**

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11 To facilitate the preparation of the business plan, an economic outlook and customer load
12 forecast is developed and included with the planning instructions issued. This includes
13 forecasts of key economic statistics, interest rates, labour escalation rates, income tax
14 rates, cost allocation percentages, and cost rates for benefits. The assumptions used for
15 the 2008 business plan are attached to this exhibit as Appendix A. A detailed discussion
16 of the economic indicators is filed at Exhibit A, Tab 14, Schedule 2.

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18 **3. Investment Plan and Work Prioritization**

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20 As part of the investment planning phase, a work prioritization is completed to provide
21 assurances as to the level of work accomplishments that should be undertaken to ensure
22 an acceptable level of risk with respect to meeting the strategic goals. Customer needs
23 (including anticipated load growth requiring new system capability), operational
24 performance and asset conditions are examined to identify areas requiring investments.
25 Investments are identified in advance and are included in a set of work or reference plans
26 that are consistent with Hydro One Distribution's strategic goals and take into account
27 customer, financial, operational, environmental, safety, regulatory and legal
28 considerations. These result in an investment plan that is then submitted to Hydro One
29 senior management for review and approval. The investment plan prepared during 2007

1 provides the basis for the 2008 forecast. Please see Exhibit A, Tab 14, Schedule 5 for a
2 more detailed description of the work prioritization process.

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4 **4. Development of Plans and Work Programs**

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6 During the planning process, plans and work programs are further refined consistent with
7 the economic and forecast assumptions. As part of this process, sufficient detail is
8 provided to facilitate preparation of the 2008 Rate Application. At the end of this process,
9 the Hydro One senior management team provides direction as necessary in order to
10 balance the various factors under consideration including customer service levels, rate
11 impacts and economic considerations.

12
13 The operations, maintenance and administration (“OM&A”) budget and the capital
14 budget that result from this planning process are discussed at Exhibit C1, Tab 2 and
15 Exhibit D1, Tab 3 respectively. Refer to Exhibit A, Tab 14, Schedule 4 for an
16 overview of the project and program approval process for Hydro One Distribution.

17
18 The financial plan is prepared, incorporating OM&A and capital work program levels
19 consistent with the investment plan, as well as forecasts of revenue, cost of power,
20 depreciation and amortization expense, financing charges, income tax, and working
21 capital.

22
23 The resulting plan is reviewed by the Executive Committee of Hydro One Inc. As
24 necessary, underlying assumptions are modified and the results finalized and presented
25 for approval to the Hydro One Inc. Board of Directors.

1 **5. Development of Detailed Budget**

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3 The final phase in the planning cycle is the budgeting phase, which focuses on fine-
4 tuning of near-term, detailed information to facilitate plan implementation and
5 monitoring of results for the year immediately following. During the budgeting phase,
6 the cost impacts of any updated assumptions or work program requirements are examined
7 and factored in as necessary.

8

APPENDIX A

2008 BUSINESS PLAN ASSUMPTIONS

1.0 ECONOMICS

	2008	2009	2010	2011	2012
CPI – Ontario (%)	1.9	2.2	2.2	2.0	2.0
Tx cost escalation for Construction (%)	1.0	1.0	1.3	2.0	2.8
Tx cost escalation for Operations & Maintenance (%)	1.5	0.6	0.4	1.2	1.6
Dx cost escalation for Construction (%)	1.9	1.4	1.5	2.2	2.4
Dx cost escalation for Operations & Maintenance (%)	0.9	-1.0	-0.6	1.1	1.6
Exchange Rate (CDN\$/US\$)	1.116	1.107	1.104	1.101	1.101

CPI-Ontario, and US cost escalators forecasts were based on the Global Insight November 2006 forecast. The exchange rate forecast was based upon the Global Insight October 2006 Long-Term Forecast and Analysis.

2.0 INTEREST RATES

	2008	2009	2010	2011	2012
HO1 5-Year Bond Rate (%)	4.77	5.17	5.27	5.27	5.37
HO1 10-Year Bond Rate (%)	5.01	5.41	5.51	5.51	5.61
HO1 30-Year Bond Rate (%)	5.37	5.77	5.87	5.87	5.97
90-Day Banker's Acceptance Rate (%)	4.49	4.60	4.62	4.62	4.62
Interest Capitalized Tx (%)	5.1	5.5	5.6	5.6	5.7
Interest Capitalized Dx (%)	5.1	5.5	5.6	5.6	5.7
Interest Capitalized Common (%)	5.1	5.5	5.6	5.6	5.7

H1 bond rates for 2008 were prepared based on the May 2007 Consensus Forecasts; the remaining years were based on the April 2007 Consensus Forecasts long term forecast. Hydro One credit spreads are based on an average of indicative new issue spreads for April 2007 from the dealers in Hydro One's medium term note syndicate.

1 The 90-Day Banker's Acceptance Rate for 2008 was prepared based on the Consensus
2 Economics May 2007 forecast; the remaining years were based upon the Global Insight April
3 2007 Long-Term Forecast and Analysis.

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5 Interest cap rates:

6 Forecast of Scotia Capital All-Corp Mid-Term Yield (from Treasury – May 31, 2007).

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8 **3.0 LABOUR ESCALATION**

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10 Specific details on annual labor escalation are provided below.

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12 **(a) Society Staff**

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14 1% performance (merit) pay in fiscal 2008. Assume +1% performance (merit) pay in
15 each following year. Anticipate 3% economic increases effective April 1, 2008 and 3%
16 each following year effective April 1st.

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18 **(b) PWU staff**

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20 Anticipate economic increases of 3% effective April 1, 2008. Assume 3% increases
21 effective on April 1st of each subsequent year.

22

23 Step progressions - past experience (i.e. 2005) indicates that 9.9% of PWU receive
24 progressions annually and that progressions result in a salary increase of 4.35% (note that
25 trades progressions are higher than weekly salaried, and due to apprentice hiring over the
26 past few years, the proportion of trades progressions has increased).

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1 (c) **MCP staff**

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 3 4% annual increase per year in base pay for the entire period.
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5 (d) **Incentive Plan Payouts**

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 7 All incentive plans have been discontinued, with the exception of the MCP Short Term
 8 Incentive Plan. Payout under that plan is assumed to be 20% in all years.
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10 **4.0 INCOME & CAPITAL TAX RATES**

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	2008	2009	2010	2011	2012
Federal Tax Rate	20.50%	20.00%	19.00%	19.00%	19.00%
Federal Surtax Rate	NIL	NIL	NIL	NIL	NIL
Provincial Rate	14.00%	14.00%	14.00%	14.00%	14.00%
Total Statutory Tax Rate	34.50%	34.00%	33.00%	33.00%	33.00%
Large Corporation Tax (LCT)	NIL	NIL	NIL	NIL	NIL
Capital Tax Rate	0.285%	0.225%	NIL	NIL	NIL

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 13 **5.0 BENEFIT COSTS RATES (PAYROLL BURDEN)**

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Company	Category	2008	2009	2010	2011	2012
Networks	<u>Non-Regular Staff</u> % of total earnings*	5.6%	5.6%	5.6%	5.6%	5.7%
	<u>Regular Staff</u> % of total earnings* % of base pensionable earnings**	5.6% 37.2%	5.6% 37.0%	5.6% 36.8%	5.6% 36.7%	5.7% 36.5%
	<u>Pension</u> % of base pensionable earnings	29.8%	29.6%	29.4%	29.2%	29.0%

15 *CPP, Emp, Insurance, Emp. Health Tax, Workers' Compensation Schedule 1 Premiums

16 **Health, Dental, Life Insurance, Maternity, Retirement Bonus, Post-Retirement Health, dental, Life Insurance,
 17 OPRB (for Inergi where applicable)

18 Base Pensionable Earnings includes pensionable bonus.

19 Total Earnings includes base pay, bonus, overtime, taxable benefits and taxable allowances.