

PLANNING PROCESS

1.0 INTRODUCTION

Business planning is performed annually and focuses on the development of a five-year plan which comprises a detailed plan for the first three years in the planning cycle and a less detailed outlook for the remaining two-year period. The planning cycle in 2009 pertained to the 2010-2014 period. The results as they apply to 2010 and 2011 (the test years) form the basis for the rate submission.

The annual business planning process consists of five stages:

1. Strategic direction and goals established;
2. Development of economic outlook and forecast assumptions;
3. Investment proposals developed;
4. Prioritization and selection of investment plan; and
5. Development of business plans and work programs;

Figure 1 provides an overview of the planning process:

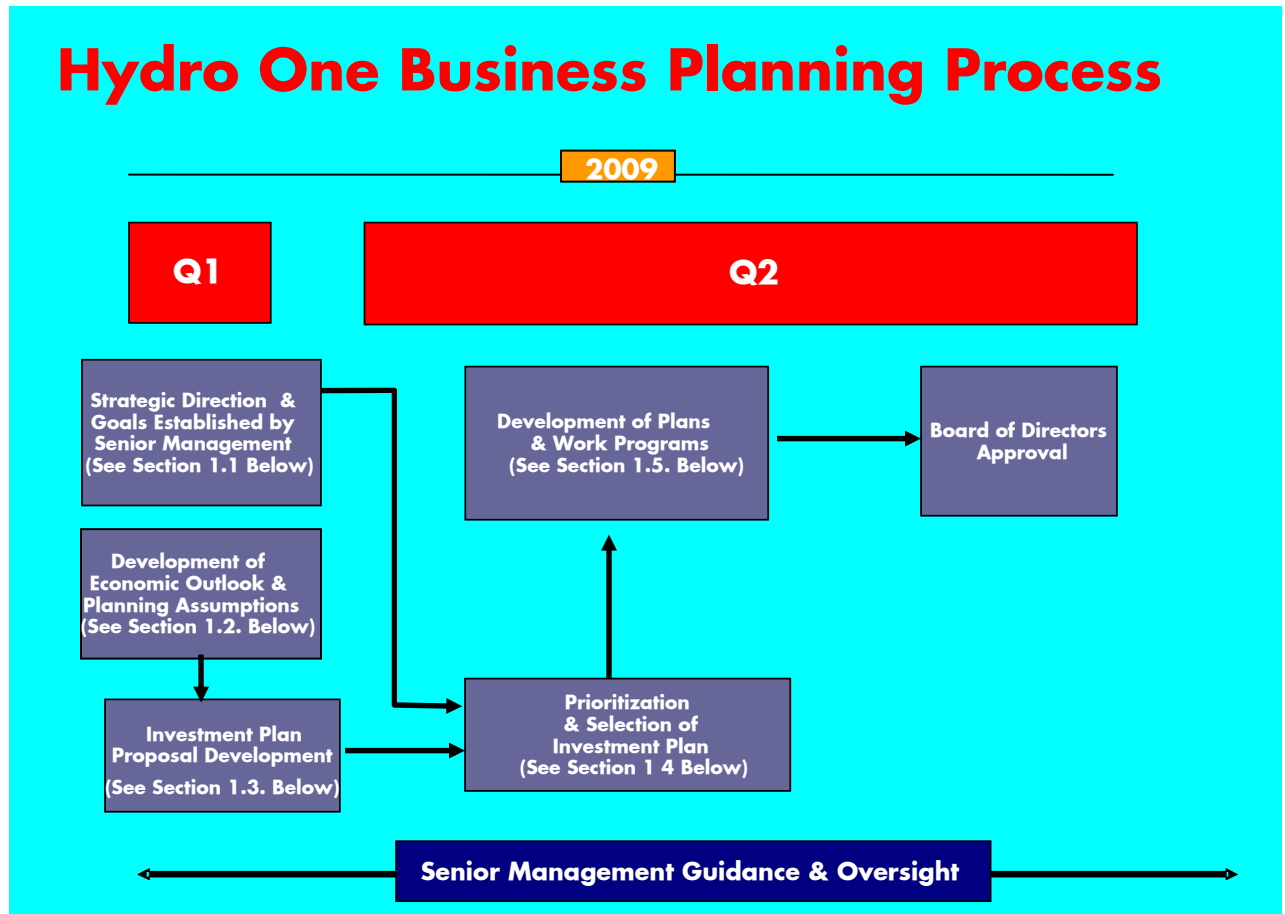


Figure 1

The key dates applicable to the 2010-2014 planning cycle include:

<u>Date</u>	<u>Action</u>
January 2009	Strategic direction and goals established by Senior Management
Q1 2009	Business plan instructions issued
February 2009	Investment proposals developed
May 2009	Investment plan prioritized and selected
June 2009	Hydro One Inc. Board approval of business plan

1 **1.1 Strategic Direction and Goals Established by Senior Management**

2
3 Hydro One Distribution's strategic direction and goals are reviewed and established by
4 the 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. Hydro One's corporate vision and strategic objectives are
7 shown in Exhibit A, Tab 4, Schedule 1.

8
9 **1.2 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, and cost rates for benefits. The assumptions used for the 2010 business plan are
15 attached to this exhibit as Appendix A. A detailed discussion of these variables is filed at
16 Exhibit A, Tab 14, Schedule 3.

17
18 **1.3 Investment Plan Development**

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20 As part of the investment plan development phase, customers' needs (including
21 anticipated load growth and generator connections), criticality of asset, operational
22 performance, and asset age and asset condition are examined in the context of risk to
23 identify areas requiring investments resulting in risk mitigation. Exhibit A, Tab 14,
24 Schedule 5 provides a detailed discussion of the Company's investment planning process.

25
26 **1.4 Prioritization and Selection of Investment Plan**

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28 The individual investments resulting from the planning process go through a risk-based
29 prioritization process. The outcome of the risk-based prioritization process is a list of

1 investments that is consistent with Hydro One Distribution's strategic goals and takes
2 into account levels of investment and associated risk mitigation against such goals as
3 financial, operational, environmental, safety, regulatory and legal considerations. A final
4 investment plan is then endorsed and confirmed by the Hydro One senior management
5 team. The investment plan prepared during 2009 provided the basis for the 2010 and
6 2011 plans. Please see Exhibit A, Tab 14, Schedule 6 for a more detailed description of
7 the work prioritization and selection process.

8 9 **1.5 Development of Plans and Work Programs**

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11 During the planning process, plans and work programs are further refined consistent with
12 the economic and forecast assumptions. As part of this process, sufficient detail is
13 provided to facilitate preparation of the 2010 and 2011 Rate Application. At the end of
14 this process, the Hydro One senior management team provides direction as necessary in
15 order to balance the various factors under consideration including customer service
16 levels, rate impacts and economic considerations.

17
18 The operations, maintenance and administration ("OM&A") budget and the capital
19 budget that result from this planning process are discussed at Exhibit C1, Tab 2 and
20 Exhibit D1, Tab 3 respectively. Refer to Exhibit A, Tab 14, Schedule 7 for an
21 overview of the project approval process for Hydro One Distribution.

22
23 The financial plan is prepared, incorporating OM&A and capital work program levels
24 consistent with the investment plan, as well as forecasts of revenue, cost of power,
25 depreciation and amortization expense, financing charges, income tax, and working
26 capital.

- 1 The resulting plan and underlying assumptions are finalized and presented for approval to
- 2 the Hydro One Inc. Board of Directors.