

1 Q. Describe the Capital Budget planning process of Hydro and highlight any
2 changes in that process since the preparation of the 2005 Capital Budget.

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5 A. The Capital Budgeting process within Hydro is very intensive and involves
6 the input of supervisory personnel with budgetary responsibility all the way
7 through each level of Management until finally approved by Hydro's Board of
8 Directors before being forwarded to the Public Utilities Board for review and
9 approval. This process spans several months, from start to finish and
10 involves the review and evaluation of every capital budget proposal that is
11 prepared, to determine if it should move forward for approval to the next level
12 of supervision. All proposed projects are screened using four broad
13 evaluation criteria. The first is safety. If the proposed project is required for
14 public safety or the safety of our employees, it is considered a priority. The
15 second is compliance with environmental regulations which would include
16 legislation, as well as commitments and agreements with Provincial and
17 Federal regulatory authorities. The third criterion is to maintain or to improve
18 reliability and availability of an acceptable level of service to our customers.
19 The fourth criterion is to reduce costs or improve efficiencies. Projects that
20 meet one or more of these criteria will receive approval by Hydro.

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22 The budget process starts with the issuance of budget instructions and a
23 timetable and the commencement of an update to the long term planning
24 load forecast in order to determine the requirement for new generation and
25 transmission projects. Supervisory personnel review their requirements with
26 the regional managers and plant managers to identify potential projects that
27 meet the above noted criteria. Once these requirements are identified, capital
28 budget proposal forms are completed for each project containing project

1 descriptions, justification and cost estimates. The various managers
2 undertake a review of the individual proposals taking into account the criteria
3 and the dollar estimates. These capital plans are prepared to cover the
4 budget year in question as well as preliminary forecasts for four subsequent
5 years. After the managers finish their review and revisions are made, the
6 proposals are further reviewed by the Vice-President of each Division. Then,
7 the Leadership Team does its review and reassesses each proposal
8 according to the criteria listed above, as well as the total amount of the
9 proposed capital budget. The guideline that has been used for several years
10 is that the capital program should not normally exceed cash flow from
11 operations that consists primarily of net income, depreciation and some other
12 non-cash items.

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14 The Leadership Team refers to the four subsequent year preliminary
15 forecasts as an indicator of future dollars to be spent and considers this
16 information in assessing the current capital budget year dollars under review.
17 After the Leadership Team has reviewed and approved the proposed capital
18 budget, it is then submitted to the Hydro Board of Directors for their review
19 and approval. After Board approval is received, the capital budget is then
20 forwarded to the Public Utilities Board for public review and approval.

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22 The Capital Budget planning process has not changed since the preparation
23 of the 2005 Capital Budget.