

BUSINESS PLANNING AND BUDGETING PROCESS

1.0 PURPOSE

The purpose of this evidence is to present an overview of OPG business planning and budgeting process. This process applies to revenues and all expenditures, including capital, operating, and provision-funded expenditures.

2.0 BUSINESS PLANNING AND BUDGETING – PROCESS OVERVIEW

OPG's business planning and budgeting process is a largely decentralized annual process undertaken within a consistent corporate framework. The corporation establishes a consistent framework of corporate strategic objectives, resource guidelines, and costing assumptions. The key elements of this planning framework are identified to the business units through business planning instructions provided by the Financial Planning department in Corporate Finance. Individual business units develop their associated specific strategic and performance objectives, and then identify and plan the work required to achieve these objectives. The key elements of the business planning process are as follows:

- Identification and confirmation of key strategic objectives and priorities by OPG's Senior Management and Board of Directors (see Ex. A1-T4-S1).
- Identification of key operating, economic and other planning assumptions to be used in development and costing of plans, including:
 - Forecast escalation rates and burden rates for labour costing.
 - Foreign exchange rate forecasts.
 - Interest rate forecasts.
- Development by OPG's Energy Markets group of the revenue and sales forecast, along with associated scenarios and sensitivities. This is based on key production inputs from the Nuclear and Hydroelectric business units, water levels, and plant/generation unit availability, including planned and forced outages.

- 1 • Identification of key risks to forecast results and mitigation initiatives, within a framework
2 developed by OPG's Enterprise Risk Management program.
3
- 4 • Communication of the business planning framework, as follows:
5 ○ Communication of key business planning information and the business planning
6 process schedule including key timelines, milestones and activities, through business
7 planning instructions typically issued by Corporate Finance near the end of the
8 second quarter.
9 ○ Communication of the regulatory framework, including variance and deferral
10 accounts, pricing structures, and any incentive mechanisms.
11
- 12 • Preparation of preliminary business plans by the business units.
13
- 14 • Preparation of a consolidated financial outlook by Corporate Finance, based on inputs
15 received from across the organization. Financial Planning develops a comprehensive
16 financial outlook by supplementing the business unit information with the following
17 elements:
18 ○ Forecast depreciation expense based on existing assets and forecasts of new
19 additions to the asset base.
20 ○ Forecast borrowing requirements and associated financing costs, which are reviewed
21 with OPG's Treasury department.
22 ○ Nuclear liabilities, which are based on the lifecycle cost estimates for nuclear waste
23 management and decommissioning programs, and the associated required
24 decommissioning and used fuel fund contributions.
25 ○ Income taxes payable which are forecasted in conjunction with the Corporate
26 Taxation department.
27
- 28 • Depending on the operational and/or financial issues facing OPG at the time, alternative
29 planning scenarios may be identified and are similarly modelled once the base case
30 forecast has been established.
31

- 1 • Financial Planning prepares overviews of the consolidated preliminary results based on
2 the initial submissions, identifying key changes in the financial outlook and their
3 underlying drivers.
4
- 5 • Individual business unit plans are reviewed with the President and Chief Executive
6 Officer (“CEO”) through a series of presentations, typically in late September and early
7 October. Business units incorporate feedback and redirection from these sessions into
8 their subsequent re-submissions, typically in early November.
9
- 10 • The draft consolidated business plan, based on updated November submissions, is
11 reviewed by OPG senior management. The plan is also reviewed with shareholder
12 representatives. The plan is then finalized for submission to the OPG Board of Directors
13 in December for approval.
14

15 **3.0 BUSINESS UNIT ACTIVITIES**

16 Business planning within the business units starts in the spring of the year prior to the period
17 covered by the business plan with internal reviews of the current planning framework and
18 confirmation and updating of business objectives and priorities, the status of operational and
19 performance plans and related capital and OM&A expenditures, as well as identification of
20 emerging issues. This process is supplemented by additional planning direction identified at
21 the corporate level. Out of this process, business unit objectives and priorities are
22 determined. Over the course of the early summer, initial plant and site business plans are
23 developed. Business unit management reviews these proposals and prioritizes projects and
24 expenditures to establish a preliminary business unit plan. This process may include
25 incremental changes from the previous business plan and/or zero-based budgeting,
26 depending on the business unit practices. Further details regarding business planning and
27 budgeting processes within the business units are provided in Ex. A1-T4-S2 and A1-T4-S3.
28

29 The draft business unit business plans are reviewed by business unit management and
30 adjustments are made as required. The respective draft business unit plans are finalized and
31 each is presented to the CEO and Chief Financial Officer (“CFO”) in late September or early

1 October. These presentations identify key assumptions, operational or functional objectives,
2 key risks and uncertainties, resource requirements and analyses of year-over-year changes
3 in requirements, as well as changes from previous plans. During these sessions, the CEO or
4 CFO provides redirection on these plans as required.

5
6 Business units then resubmit their plans, typically in October or early November, and plans
7 are consolidated into a final draft corporate plan. The updated corporate plan is presented to
8 the Board of Directors in December for approval. Once approved, the first year of the plan
9 becomes the basis for operational and financial reporting for the budget year, and the
10 balance of the years serve as a planning reference for the corporation.

11 12 **4.0 INVESTMENTS/PROJECTS**

13 Investments or projects in OPG are classified as capital or OM&A, or charged to provision
14 funds (see Exhibit H). OPG applies the following principles as the basis for determining
15 whether expenditures are classified as capital or OM&A. OPG's treatment is consistent with
16 Generally Accepted Accounting Principles ("GAAP") and the Canadian Institute of Chartered
17 Accountants ("CICA") Handbook.

18 19 **4.1 Classification of Expenditures**

20 Expenditures that are incurred by OPG are classified in accordance with Canadian GAAP as
21 either capital or OM&A, or charges against a previously established liability. Previously
22 established liabilities include the liability for fixed asset removal and nuclear waste
23 management (as discussed in Ex. H1-T1-S2).

24
25 Expenditures that are classified as capital are fixed assets. OPG capitalizes the following
26 types of expenditures:

- 27 • Acquisition and construction of new assets: expenditures related to the purchase, design,
28 development, construction or commissioning of a new asset which will provide benefits
29 beyond the current year and meets or exceeds the defined materiality threshold are
30 capitalized.

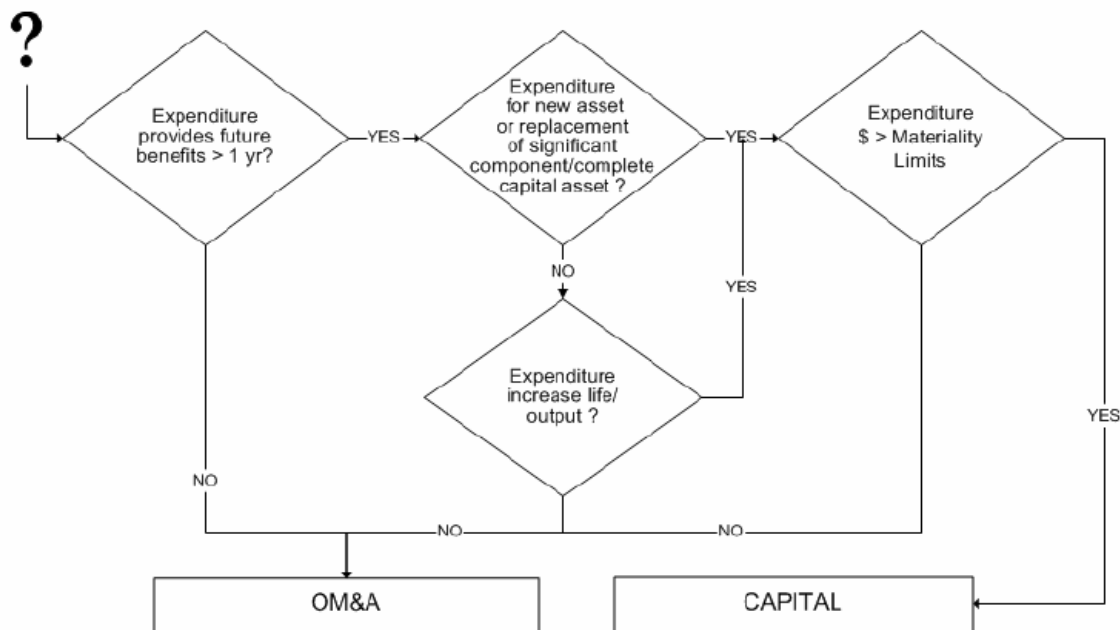
- 1 • Rehabilitation/Improvement/Maintenance of existing assets: expenditures related to
2 existing assets must meet all of the following criteria to be capitalized:
3 o Benefits extend beyond the current year.
4 o Meets or exceeds the materiality threshold.
5 o Either extends the life or increases the output of the asset.
6 • Replacement: expenditures for the replacement of a significant component/complete
7 capital asset are capitalized when the expenditures are expected to provide benefits
8 beyond the current year and meet or exceed the materiality threshold.

9
10 Expenditures that relate to a previously established liability are applied against the liability as
11 incurred. The most significant example of such expenditures relates to nuclear
12 decommissioning and used fuel management.

13
14 OM&A expenditures include general maintenance, repairs (up to and including major
15 disassembly/overhaul), operating costs and other expenditures that do not meet the criteria
16 to be eligible for capitalization and do not relate to previously established liabilities. In
17 addition, project development costs incurred prior to the date of the selection of the
18 alternative to implement are charged to OM&A. The only exception is that payments to obtain
19 an option to acquire property, plant, and equipment are capitalized when the option is
20 exercised. Subject to the capitalization criteria above, project development costs are
21 capitalized once the preferred alternative for a new capital asset or capital improvement to an
22 existing asset is selected.

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24 OPG's capitalization policy is summarized in the decision tree below:
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CAPITALIZATION DECISION TREE



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OPG applies the following thresholds for the materiality assessment included in the decision tree:

- Generating Asset Classes \$200,000 per generating unit
- Administrative/Service Buildings \$ 25,000 per building
- Telecom Equipment \$ 25,000 per item
- Minor Fixed Assets* \$ 25,000 per item
- Software \$200,000 per application

*Minor fixed assets include portable assets used in OPG's administrative, construction, transport or maintenance/service activities unless they are used directly for the generation of energy or form integral components of a building.

It should be noted that the \$25,000 materiality threshold for administrative/service buildings, telecom equipment and minor fixed assets became effective January 1, 2007. Thresholds were \$10,000, \$15,000, and \$2,000, respectively, in 2005 and 2006. This change in

1 accounting policy was applied prospectively to expenditures incurred in 2007. The change
2 makes OPG's capitalization materiality thresholds more consistent with thresholds used by
3 companies of similar size and avoids increases in administrative costs.

4
5 Materiality thresholds are applied on individual items rather than on an aggregated basis.
6 Projects and/or work orders cannot be aggregated to qualify for capitalization. The exception
7 to this principle applies to aggregated identical items purchased for a single generating unit,
8 or items that are part of a capital project where the project as a whole is evaluated against
9 the materiality threshold.

10 11 **4.2 Asset Management**

12 OPG strives to continuously operate its diversified generation assets in a safe, efficient and
13 cost effective manner, while undertaking prudent investments to improve their reliability and
14 predictability. This involves asset management processes and practices to ensure asset
15 related investments are consistent, cost-efficient, effective, and critical to achieving business
16 objectives. These investments are designed to create shareholder value and to protect asset
17 value over the planned life of the asset.

18
19 Specifically, OPG investment programs and initiatives are targeted at:

- 20 • Improving safety performance.
- 21 • Optimizing production.
- 22 • Replacing aging equipment.
- 23 • Automating obsolete control equipment.
- 24 • Reducing forced outages through improvements in plant condition and equipment
25 reliability.
- 26 • Enhancing maintenance practices.
- 27 • Optimizing planned outages to improve availability.
- 28 • Reducing maintenance backlogs.
- 29 • Mitigating technological risks through comprehensive inspection and testing programs.
- 30 • Addressing resource (e.g., labour, equipment, and material) planning issues.
- 31 • Effectively managing costs with focus on production unit energy costs.

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These programs will result in increased generating capacity, extended service lives, improved performance, and reduced long-term operations and maintenance costs.

In addition to improving performance of its existing assets, OPG is also undertaking a number of new supply development initiatives. These development projects are typically larger in size and have higher risk profiles than other projects. As such, new supply development projects are subject to more rigorous internal scrutiny during the approval process and, often, external third party reviews, prior to the decision to proceed.

4.3 Project Portfolios and Supporting Documentation

In support of annual business plan reviews, business units submit project listings that have been prioritized to maximize value and address regulatory requirements while considering risks, corporate business objectives, asset management processes, and preliminary funding guidelines developed early in the business planning process. All projects necessary to meet work program requirements and having cash flows within the business plan time horizon are listed. The total cost for the projects listed must fall within the preliminary project and program budget totals in the corporate business planning guidelines.

The project listing is a snapshot of the project work intended to be done over the business plan horizon, at the time of listing. As time progresses, priorities may be re-set and the project list may change as dictated by the needs of the business. Details regarding the prioritization process are provided later in this exhibit.

4.3.1 Planning Business Cases

“Planning” business cases, or project screening forms in nuclear (beginning in 2007), are required for all major projects (projects with cash flows of at least \$1M during the budget year and/or at least \$4M in any of the future years of the business planning horizon) that are planned to commence over the first two years of the plan. Inclusion of a project in the business plan does not constitute approval to proceed with the project. Request for project approval and release of funds to commence work on a project is a separate process and

1 requires a more comprehensive business case summary (“BCS”). Business case
2 requirements for project release are discussed later in this schedule. Planning business
3 cases are a preliminary and usually more condensed version of the full BCS, which will
4 subsequently be required for project approval.

5
6 Planning business cases are prepared by the project sponsor¹, with assistance and review
7 provided by the local controller. The extent of information provided in planning business
8 cases is commensurate with the nature of the project, the level of expenditure, and its stage
9 of development (and thus the level of information availability) at the time of inclusion in the
10 project listing.

11
12 Key information requirements for planning business cases include:

- 13 • The need for the project.
14 • The project’s contribution to meeting OPG’s business objectives.
15 • Results to be delivered.
16 • Quantifiable benefits.
17 • Alternatives considered.
18 • Cash flow requirements.
19 • Impacts of not proceeding/deferrals.
20 • Other considerations that can be used to establish a relative ranking and to facilitate
21 investment trade-offs as needed.

22
23 4.3.2 Project Categorization

24 Investments must also be categorized according to the type of benefit they are expected to
25 produce. Investments fall within the following three categories established by OPG:

- 26 • Value Enhancing – Discretionary investments that promise value creation or strategic
27 opportunities, such as, added revenues, reduced costs, increased efficiencies, or new
28 business opportunities.

¹ Project sponsor is the individual responsible for issuing a project charter, managing and communicating the on-going business requirements related to the project and ensuring that a post implementation review is conducted as required.

- 1 • Regulatory – Expenditures required to satisfy statutory environmental, safety or other
2 legal requirements to assure continued operation of existing facilities.
- 3 • Sustaining – Required to maintain existing infrastructure and facilities at their current
4 performance level.

5 6 4.3.3 Project Prioritization Process

7 As the business units compile their project lists, the total cost of all initially identified work
8 may exceed funding guidelines and/or the unit's capacity to undertake the work during the
9 planning period. Prioritization processes are applied to assist with selection of the highest
10 priority projects which will remain within the funding guidelines and resource capabilities.
11 Since business units manage different assets, prioritization schemes are also unique to each
12 business unit. However, business unit prioritization schemes have common elements such
13 as value, consideration of risks, and regulatory compliance underpinning their processes.

14
15 The businesses evaluate the need for each project against the business objectives,
16 investment costs and benefits, and the risk of not conducting the work. This information is
17 sometimes used to assist with prioritization and making investment trade-offs amongst
18 business units.

19 20 **5.0 BUSINESS CASE REQUIREMENTS FOR PROJECT RELEASE**

21 Prior to beginning work on a project (development or execution related) approval is required
22 for the release of funds to undertake the work. The documentation for seeking approval
23 consists of a BCS, which provides a detailed analysis of alternatives and the rationale for the
24 recommended alternative.

25
26 Requests for releases of funds are approved in accordance with the OPG Organizational
27 Authority Register. The Organizational Authority Register provides a common framework of
28 delegated authorities and position holders who can exercise those authorities, and defines
29 approval limits for decisions made on behalf of the corporation. Approval requirements for
30 capital and OM&A projects are based on the amount of funds being released, with more
31 restrictive requirements for projects of a strategic nature or unplanned work (projects not

1 identified in the project portfolio during business planning). The Organizational Authority
2 Register also specifies authorities for approval of variances for previously released projects,
3 and for superseding releases where projects must be reconsidered due to significant scope
4 and/or cost changes.

5
6 There is also a process for functional review of the BCS to ensure that it meets the criteria for
7 the quality and completeness of the information required to enable an informed decision to
8 be made regarding approval of the project release.

9
10 The format of the BCS is in accordance with the OPG BCS Guidelines. This ensures
11 consistent development and review of investment proposals.

12
13 Due diligence is exercised by the delegated authorities in conducting their review of the
14 proposed investment. Depending on the dollar amount and strategic significance of the
15 investment, review and sign-off at appropriate management and executive levels are
16 required prior to all approvals.

17
18 Considerations during review and assessment of the proposal generally include the
19 following:

- 20 • Priority of the proposed project relative to other projects in the submitted project portfolios
21 in maximizing asset value.
- 22 • Alignment with business objectives and initiatives.
- 23 • Value contribution to the business.
- 24 • Interdependencies with other projects or outages.
- 25 • Level of definition of project scope and stage of development.
- 26 • Possible alternatives to the proposed alternative, including deferral.
- 27 • Validity of assumptions used in the evaluation of alternatives.
- 28 • Quality of the project cost estimates.
- 29 • Identification, assessment and mitigation of potential risks to ensure project success and
30 management of risks.

- 1 • Proposals for measurement and verification of the claimed project benefits following
2 project completion.

3
4 **6.0 POST IMPLEMENTATION REVIEW PROCESS**

5 The post implementation review (“PIR”) process is used by OPG on a corporate-wide basis
6 to gather additional information on achievements following completion of capital and OM&A
7 projects. Specifically, a PIR is an objective appraisal process designed to assess whether
8 planned results of a given investment have been met following project completion. The two
9 main objectives of the PIR process are to verify whether the benefits stated in the project
10 business case were realized, and to capture the lessons learned from each project so that
11 they can be applied to improve future projects and investment decisions.

12
13 Post implementation reviews follow a simplified or comprehensive format depending on the
14 size and scope of the investment involved.

15
16 Simplified PIR:

17 Focuses on validating if the stated benefits/results are realized as stated in the business
18 case for the project. All projects >\$200K must undergo a simplified PIR as specified in the
19 PIR plan, ideally within six months of the project coming into service. Exclusions are those
20 projects that have been earmarked by senior management to undergo a comprehensive PIR
21 because of high value (>\$25M) or due to other factors.

22
23 Comprehensive PIR:

24 A comprehensive PIR is an independent and broad, “cradle to grave” review of a completed
25 project. It is an intensive exercise requiring an independent multi-disciplinary team to review
26 all phases of a project from inception to benefit realization. It provides detailed feedback on
27 how the project was developed, planned, and executed to help gather lessons for future
28 investments. It is only performed on a small number of projects due to the high resource
29 requirements. Hence, a rigorous screening process is applied to candidate projects to select
30 the most appropriate and feasible projects for a comprehensive PIR.

- 1 In addition to validating the benefits realized, a comprehensive PIR examines the following
2 three aspects of the project:
- 3 • Review of the project intent, plan, and execution for lessons learned and improvement
4 opportunities.
 - 5 • Evaluation of how project risks were mitigated relative to plan.
 - 6 • Review of the business case for the project, assessing results to provide feedback for
7 future decisions.
- 8
- 9 Annual and semi-annual PIR reports are prepared to provide a brief summary of key PIR
10 findings and recommend additional management actions to improve the effectiveness of the
11 PIR process.