

HYDRO ONE NETWORKS INC.  
STATEMENT OF DIVESTITURE POLICY for LV ASSETS

**Purpose and Scope**

This Policy provides decision rules and key process steps for divestiture of Hydro One Networks Inc. (“Networks”) LV assets as requested in by the Ontario Energy Board in its Decision and Procedural Order No. 6, dated November 16, 2001.

This Policy is based on the following governing principles:

- (a) Comply with all legal and regulatory requirements, including Government direction and Legislation, the OEB Distribution License, and the applicable OEB Codes and Decisions.
- (b) Ensure that Networks’ shareholder(s) and its customers across the province are not adversely impacted.

Networks shall consider divesting distribution facilities serving customers where the divestiture does not adversely impact Networks’ remaining customers, does not adversely impact the interests of Networks’ shareholder(s), and complies with legal and regulatory requirements.

As well, Networks may also divest assets on its own initiative with the objective of enhancing shareholder value, as long as such divestitures do not adversely impact Networks’ customers.

**Decision Rules**

Divestiture of assets shall not shift costs from purchasers to Networks’ remaining customers across the province as this would negatively impact rates paid by these customers.

Divestiture of assets shall not result in material loss of currently available non-discriminatory access to the pool assets by all customers across the province in order to maintain the efficient use of the existing system and not increase future connection costs to other customers. Divestiture of assets shall not result in material loss of currently available system operating flexibility in carrying out load transfers under emergency and planned outage conditions in order to maintain adequate supply reliability and service quality to the other customers.

Any divestiture of assets shall be on a commercial basis that protects the interests of Networks’ shareholder(s). Accordingly, assets shall be divested at market value prices and after taking into consideration Networks strategic considerations .

The market value price of an asset shall be determined on the basis of a discounted cash flow (DCF) analysis over the time horizon extending over the asset’s useful life, the purchaser’s value of acquiring the asset, and market precedents.

The DCF analysis, among other things, shall capture the following factors as appropriate:

- Networks revenue reduction (e.g. revenue from rates, revenue from secondary uses) associated with the divestiture
- changes in Networks' costs and expenses (e.g. maintenance, life sustainment costs) associated with the divestiture
- any Networks revenue reduction associated with load coincidence due to load aggregation that could occur from divestiture of a group of distribution assets
- any Networks loss of revenue growth (e.g. load growth, new load) associated with the divestiture
- any loss in Networks business efficiency (e.g. OM&A, operating flexibility) associated with the divestiture
- any stranding of Networks assets associated with the divestiture; which shall also be calculated at market value
- Networks assessment and transaction costs and expenses (e.g. legal, easements) associated with the divestiture
- any applicable liabilities relating to the asset(s) being divested

### **Policy Implementation**

Networks reserves the right to recover from prospective purchasers the costs and expenses incurred by the Company for carrying out the required studies/assessment associated with divestiture of assets, as these are incremental to Networks' business and specific to the purchasing party.

In response to a written offer to purchase assets, Networks shall if appropriate, submit a cost estimate to the prospective purchaser for carrying out any required studies/assessments with an estimated completion date, and seek the prospective purchaser's agreement.

The prospective purchaser and Networks, upon agreement, shall enter into negotiations of a contract detailing the agreed terms and conditions of the proposed asset divestiture.

Divestiture of assets shall be subject to the Board's review and approval, as necessary.