EB-2010-0131

IN THE MATTER OF the *Ontario Energy Board Act, 1998,* being Schedule B to the *Energy Competition Act, 1998* S.O. 1998, c. 15;

AND IN THE MATTER OF an Application by Horizon Utilities Corporation to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2011.

HORIZON UTILITIES CORPORATION ("HORIZON UTILITIES")

RESPONSES TO VECC INTERROGATORIES ON THE PRELIMINARY ISSUE

DELIVERED NOVEMBER 8, 2010

Question 1 a

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

Please provide a schedule that sets out the following based on 2008 OEB approved values, 2008 actual values, 2009 actual values, 2010 forecast values and 2011 forecast values:

- Distribution Revenues – separately reporting revenues from customer distribution rates vs. miscellaneous revenues.
- OM&A and Property Taxes
- Amortization
- Income Tax (PILs)
- Interest Expense
- Net Income

- Rate Base – separately reporting average net fixed assets in-service and working capital allowance

Response:

The following table sets out the distribution revenue, OM&A and property taxes, amortization, PILS, interest expense, net income and rate base, based on 2008 OEB approved values, 2008 actual values, 2009 actual values, and 2010 and 2011 forecasted values.

	2008 OEB Approved	2008 Actual	2009 Actual	2010 Forecast	2011 Forecast
Distribution Revenue	86,661	83,081	83,903	85,937	103,226
Miscellaneous Revenue	6,774	6,641	5,360	5,603	5,482
Total Distribution Revenue	93,435	89,722	89,263	91,540	108,708
OM&A & Property Taxes	39,892	41,153	40,008	40,907	47,875
Amortization	22,841	22,177	23,295	25,937	27,371
IncomeTax (PILS)	6,571	6,225	5,496	5,776	6,059
Interest Expense	12,453	9,133	9,901	12,399	12,553
Net Income	11,875	11,034	10,563	6,521	14,849
Rate Base:					
Net Fixed Assets	280,832,772	279,033,671	290,779,112	302,301,149	315,023,558
Working Capital Allowance	65,587,452	62,278,977	60,393,662	66,863,422	61,866,468
Total Rate Base	346,420,224	341,312,648	351,172,774	369,164,571	376,890,026

Question 1 b

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

With respect to page 6 (line 27), please explain what is meant by "calendar year adjusted return on equity".

Response:

The "calendar year adjusted return on equity" ("CAROE") is determined on the following basis:

1. CAROE is computed based on calendar year financial results, which correspond to

the fiscal year of Horizon;

2. CAROE reduces net income for any regulatory recoveries that relate to prior years. Specifically, with respect to 2008 and 2009, net income has been adjusted to reflect regulatory recoveries for OMERS and LRAM/SSM adjustments that relate to prior fiscal years (i.e. OMERS adjustment in 2008 related to fiscal years 2005 and 2006; LRAM/SSM adjustments in 2008 related to fiscal years 2005 and 2006; and LRAM/SSM adjustment in 2009 related to fiscal years 2007 and 2008);
3. The Equity base in the calculation is determined by computing an estimate of rate basis for the related calendar year, based on Board rate-making principles, and applying the deemed capital structure (i.e., Rate Base multiplied by 40% = Deemed Equity);
4. Actual interest is adjusted to an estimated amount that would correspond to a deemed allowance on the estimated rate base computed in 3. The net income used in the CAROE is adjusted for the difference between actual interest and the estimated allowance.

This calculation is appropriate as it provides an estimate of actual ROE on the same basis as such is determined through Board rate-making policy.

Question 1 c

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

Please provide schedules that show the derivation of the return on equity for 2008, 2009 and 2010.

Response:

The following table shows the derivation of the ROE for 2008, 2009 and 2010 (Bridge Year). Please note that there was a typographical error in the ROE figure quoted for 2009. The ROE was quoted as 6.6% and should have been 6.4%.

$000's	2008A	2009A	2010B	
Financial Statement Net Income	**$ 14,439**	**$ 12,156**	**$ 11,199**	A
Canadian GAAP to Regulatory Adjustments:				
OMERS Adjustment (recorded as reduction in 2008 operating expenses)	(1,371)			
LRAM/SSM Recovery 2005-2006 (recorded as distribution revenue)	(868)			
LRAM/SSM Recovery 2007-2008 (recorded as distribution revenue)		(855)		
	(2,239)	(855)	-	
PILs effect (33.5%/33%/31%)	750	282		
	(1,489)	**(573)**	**-**	B
Estimated adjustment to interest expense - net increase in interest expense				
To adjust to deemed debt structure and 6.1% interest rate on long-term debt	(3,643)	(2,935)	(2,778)	
PILs effect (2008 - 33.5% / 2009 - 33% / 2010 - 31%)	1,220	969	861	
	(2,423)	**(1,966)**	**(1,917)**	C
Adjusted Regulatory Net Income	**$ 10,527**	**$ 9,617**	**$ 9,282**	D=A-B-C
Regulated Rate Base (Estimate) - including Smart Meters	363,777	378,155	391,970	
Regulated Deemed Debt (60%)	218,266	226,893	235,182	
Regulated Deemed Equity (40%)	145,511	151,262	156,788	E
Return on Deemed Equity	7.2%	6.4%	5.9%	=D/E

Question 1 d

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

How much of the “reduced” ROE for each year (2008-2010) is due to the rates not being effective until May 1st?

Response:

Please see the following table:

($ thousands)

IMPACT OF MAY 1 VS JANUARY 1 EFFECTIVE RATE DATE

		2008	2009	2010
Foregone Distribution Revenue		($90)	($282)	($13)
PILs Combined Tax Rate		33.50%	33.00%	31.00%
After-tax Income Impact	(a)	($60)	($189)	($9)
Regulated Deemed Equity	(b)	$145,511	$151,262	$156,788
ROE Impact	(c)	(0.04%)	(0.12%)	(0.01%)

(a) Foregone Revenue x (1 - tax rate)
(b) see table in response to part (c)
(c) = (a) x (b)

Question 1 e

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

Please provide a schedule setting out the derivation of the 2.0% to 5.0% range estimated for 2011 ROE (page 7).

Response:

The 2.0% to 5.0% range estimated for 2011 has been based on a “calendar year adjusted return on equity” (“CAROE”), as described in VECC 1c). The original computations were prepared in the early stages of the Horizon Utilities’ 2011 budget process. Such computations provided for a number of assumptions with respect to base distribution revenue as follows: an assumption with respect to rates under IRM for

2011; planned levels of OM&A and capital expenditures; and, estimate of rate base, including working capital assumptions. In addition, the ROE estimate for 2011, as originally computed, included an assumption that Smart Meters were included in rate base.

In response to these interrogatories, Horizon Utilities has taken the opportunity to update the ROE estimates, as originally provided, using the actual 2011 Test Year data from the Application based on the application of the underlying assumptions as follows:

2% ROE

- Distribution revenue computed using IRM rates over 2010 rates of 1%.
- OM&A, depreciation, interest, working capital, and all other variables are as provided for in this application.

5% ROE

- Distribution revenue computed using IRM rates over 2010 rates of 1%;
- OM&A costs have been assumed at the level of 2010 Bridge Year, plus 2% inflation;
- Depreciation, interest, working capital and all other variables are as provided for in this application.

Smart Meter OM&A and Capital have been excluded from this analysis.

The following schedule supports the computation of the range of ROE between 2% and 5% for 2011:

$MMs	2011 (Note 1)	2011 (Note 2)
Base Distribution Revenue - assumes 1% IRM in 2011	87.1	87.1
Other regulated charges and other income	4.9	4.9
Total Revenue Budget	92.0	92.0
Operating costs (including Capital Taxes)	(47.9)	(41.2)
Depreciation	(27.3)	(27.3)
Interest	(12.6)	(12.6)
Income before taxes	4.2	10.9
Income taxes	(1.2)	(3.0)
Financial Statement Net Income	**3.0**	**7.8**
Estimated Regulated Rate Base (Estimate) - excluding Smart Meters	376.9	376.9
Regulated Deemed Equity (40%)	150.8	150.8
Return on Deemed Equity	2%	5%

Notes:
(1) Base distribution revenue - assumes 1% IRM in 2011
(2) Assumes OM&A Expenditures at 2010 budget levels plus 2% inflation

While the computation above yields an ROE for the 2011 Test Year of 2%, such ROE would have been lower if computed using an IRM of 0.18% (which is being applied to 2011 IRM filers, currently). As has been highlighted throughout the Application, there is an urgent need for Horizon Utilities to increase its level of investments in the renewal and maintenance of the electricity infrastructure, and to renew and increase skilled trades in support of growth and change in the electricity distribution business. Without the relief requested, the estimated level of return will not support the amount of investment and OM&A costs provided for in the Application and required to sustain the electricity distribution infrastructure, underlying systems and processes, and customer service delivery in a manner consistent with good and safe utility practice.

With respect to the estimation of the ROE at a level of 5%, as provided above, Horizon Utilities submits that it would be impractical to maintain OM&A at a level consistent with the 2010 Bridge Year, adjusted for inflation.

Horizon Utilities submits that the ROE range under both scenarios provided above is more than 300 basis points lower than the current ROE underlying its rates of 8.57% and the current fair return standard of 9.85%. As such, in the absence of its early rebasing application, Horizon Utilities would meet the off-ramp test for 2011 on a forward test-year basis.

Question 1 f

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

Was the 2011 ROE calculated using existing rates to determine 2011 revenues or were the existing rates adjusted according to the Board's IRM formula? If the former, please re-calculate assuming 2011 rates based on IRM.

Response:

As noted in the response to VECC 1e), the ROE computation assumes that 2011 rates are based on IRM.

Question 1 g

Reference: Exhibit 1/Tab 2/Schedule 1, pages 6 – 7

What is the impact of the May 1st vs. January 1st effective date on the quoted ROE for 2011?

Response:

The impact of the May 1 vs. January 1 effective date on the quoted ROE for 2011 is reduction from 9.85% to 6.75%.

Question 2 a

Reference: Exhibit 1/Tab 3/Schedule 4, Appendix 1-14

The Appendix reports Horizon Holdings Inc.'s current credit rating as "A/Stable/-". Please provide the history of Horizon Holding Inc.'s credit ratings since 2006.

Response:

Horizon Holdings Inc. has been rated by Standard and Poor's since 2009. Prior to such time, the relevant corporate rating on debt within the Horizon Holdings and its subsidiaries has been held by its parent shareholder, Hamilton Utilities Corporation.

	Year	Entity	Rating	
	2006	Hamilton Utilities Corporation	A/Stable	
	2007	Hamilton Utilities Corporation	A/Positive outlook	
	2008	Hamilton Utilities Corporation	A+/Stable	
	2009	Horizon Holdings Inc	A+/Stable	
	2010	Horizon Holdings Inc	A/Stable	

Question 3 a

Reference: Exhibit 1/Tab 2/Schedule 1, pages 8 - 10

With respect to page 8 (lines 29-32), please provide a schedule setting out actual shareholder distributions for 2006-2009 as well as any year to date distribution for 2010.

Response:

A copy of the Horizon Utilities Corporation Dividend Policy is attached Appendix 1.

Table 1 summarizes the dividend payments made by Horizon Utilities during each fiscal year 2006 – 2009, as well as for the year-to-date September 30, 2010:

Table 1:

DIVIDENDS PAID DURING FISCAL YEAR
($ thousands)

2006	6,430
2007	10,451
2008	8,847
2009	9,063
YTD 2010	6,613

The dividend payments summarized in Table 1 by calendar year, include quarterly dividend payments, plus an annual true-up to the full Dividend Payment Rate (“DPR”) level on March 1st.

Table 2 summarizes the dividends paid in respect of each of the fiscal years 2006 through 2009 based on the dividend policy:

Table 2:

DIVIDENDS PAID IN RESPECT OF THE FISCAL YEAR
($ thousands)

2006	8,951
2007	8,847
2008	9,063
2009	8,113
YTD 2010	3,000

The difference between "dividends paid during fiscal year" and "dividends paid in respect of the fiscal year" results from the fact that total dividend payments in relation to a fiscal year are based on the audited financial results of that year. Audited financial statements for a particular year are reviewed and approved by the Horizon Utilities Board of Directors in the February following the end of that year. As such the final dividend payment in respect of such year follows its end (generally March 1st of the following year).

With respect to "dividends paid in respect of the fiscal year", it is important to note that the dividend computation for the legal entity, Horizon Utilities, includes dividends in respect of the non-regulated businesses of Horizon Utilities as follows:

Table 3:

Portion of Dividends Paid in Respect of Non-Regulated Businesses of Horizon Utilities *($ thousands)*

2006	642
2007	579
2008	466
2009	652

Question 3 b

Reference: Exhibit 1/Tab 2/Schedule 1, pages 8 - 10

On page 8, Horizon states that it has been deferring capital and OM&A spending since 2009 so as to manage spending relative to available income. However, on page 9, Horizon describes how it has significantly increased capital spending since 2008. Please reconcile.

Response:

As noted on page 8 of Exhibit 1, Tab 2, Schedule 1 of the Application, in 2009, Horizon

Utilities' made "certain capital and OM&A deferrals" shortly after the 2008 EDR Application decision was issued, in an effort to balance spending levels relative to available income. As indicated in Horizon Utilities' Z-factor application (EB-2009-0332), such deferrals consisted of both distribution and general plant projects. The table below is extracted from Horizon Utilities' response to Board Staff Interrogatory 5 in the aforementioned Z-factor application. Such table identifies the list of projects that were deferred from fiscal 2009 to fiscal 2010 and beyond:

Description	**$ Amount**	**OM&A or Capital**
ERP Implementation – Planning and Scheduling and Field Devices -Productivity Improvement	$295,000	OM&A – Business Process Mapping, Definition, Training and development
Human Resources – New Hires and Filling of Vacant Positions - Skilled Trades/ Apprentices - Finance/HR	$515,000	OM&A
Asset Management Planning	$50,000	OM&A
GIS Technology Strategy	$60,000	OM&A
Repairs and Maintenance - Facilities	$230,000	OM&A
Communications	$100,000	OM&A
Supply Chain Productivity Initiatives	$100,000	OM&A
Various operating expense reductions	$80,000	OM&A
	$1,430,000	**TOTAL OM&A**
Depreciation expense	$60,000	Impact of Capital Reductions
	$1,490,000	**TOTAL OPERATING**
Computer hardware/software upgrades	$173,000	Capital
Facilities upgrades	$185,000	Capital
Other miscellaneous capital	$318,000	Capital
	$676,000	**TOTAL CAPITAL**
Smart Meter – Commercial Customers – Deferred pending approval of Smart Meter Adder	$2,900,000	Other Capital

These deferrals were made in an effort to reduce expenditures relative to reduced income and cashflow. However, the nature and magnitude of distribution capital investments were maintained such that there was no immediate risk to system reliability or customer service.

The increase in distribution capital costs since 2009 has been driven by the completion of some carry-over projects from 2008, as well as a rise in emergency reactive work associated with an increase in failed equipment resulting from cable faults and weather related flood events.

Increased overall capital expenditures since 2008 are associated with Horizon Utilities' broader capital program, in which the utility is committed to the renewal of aging infrastructure consistent with Horizon Utilities' Asset Management Plan ("AMP"), which can be found as Appendix 2-1 Exhibit 2, Tab 3, Schedule 2 of the Application. Horizon Utilities' distribution capital budget is consistent with the AMP, and is necessary to modernize the distribution system to address aging infrastructure and maintain the adequacy, reliability, and quality of electricity distribution service to Horizon Utilities' customers.

Question 4 a

Reference: Exhibit 1/Tab 2/Schedule 1, page 7

Please provide a schedule that sets out the 2009, 2010 and 2011 capital spending for any project where the objective is to increase the capacity/capability of Horizon's distribution system. For each project, please indicate why the spending is required in light of Horizon's declining load.

Response:

As outlined in Horizon Utilities' 2011 EDR Cost of Service Application, a Long Term Load Forecast and Station Feeder Analysis (filed as Appendix D to the Asset Management Plan ("AMP") has been undertaken, which includes a 5-year and 25-year load forecast. The development of such included an evaluation of the capacity and security requirements of the distribution system. The result of the study identifies areas where future capacity is required and where system security issues exist.

In many instances, capital distribution projects associated with capacity or capability are not directly attributed to load growth, but rather associated with the need to maintain security/capability requirements at current levels. Furthermore, although Horizon Utilities' load may be in decline from an overall system requirement, local needs do materialize over time, including load increases, that need to be addressed. The tables below provide a schedule which sets out 2009, 2010, and 2011 capital spending for projects that support enhanced capacity/capability of Horizon Utilities' distribution system. Such projects are required to support capacity in the cities of Hamilton and St. Catharines.

1 **2009**

Project	Year	Cost MM	Rationale for project
1077 Horning M50 Cable	**2009**	$1.5	The Mohawk Transmission Station ("TS") has exceeded the 10-day Limited Time Rating ("LTR"). This means that during peak periods, the transformers are running above recommended levels. A new feeder was constructed in 2008 to bring power from a new breaker position at Horning TS to Mohawk Road and West 5th Street, in order to relieve the load at Mohawk TS. The risk of not performing this work would be a premature failure of the station transformer at Mohawk TS that would result in an interruption to approximately 4100 customers for 168 hours (7 days). Since the installation of the new feeder, Mohawk TS is no longer exceeding the 10-day LTR.
Contribution to Vansickle TS (Multi Year Project)	**2009**	$2.4	Many of the St. Catharines feeders are at capacity,with limited security backup in the event of failure. As such, in 2008, it was determined that it was critical to upgrade the Vansickle TS to provide more capacity to service the St. Catharines area. Vansickle is one of four transmission stations that serves the St. Catharines area. The cost of upgrading this new transmission station is approximately $16,000,000. The Horizon Utilities contribution to this project will be approximately $7,300,000 over 3 years. The first 2 payments were made in 2008, totalling $2,400,000. A payment of $2,400,000 was made in 2009 and the final payment of $2,500,000 was made in 2010. The station upgrade will be completed in late 2010.
	Total	**$3.9**	

2

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2010

Project	Year	Cost MM	Rationale for project
Contribution to Vansickle TS (Multi Year Project)	**2010**	$2.5	Many of the St. Catharines feeders are at capacity, with limited security backup in the event of failure. As such, in 2008, it was determined that it is critical to upgrade the Vansickle TS to provide more capacity to service the St. Catharines area. Vansickle TS is one of four transmission stations that serves the St. Catharines area. The cost of upgrading this transmission station is approximately $16,000,000. The Horizon Utilities contribution to this project will be approximately $7,300,000 over 3 years. The first 2 payments were made in 2008, totalling $2,400,000. A payment of $2,400,000 was made in 2009 and the final payment of $2,500,000 was made in 2010. The station upgrade will be completed in late 2010.
New VSM51 - Feeder Expantion to tie to CTM17	**2010**	$1.4	The completion of the upgrade of Vansickle TS ensures that capacity and security issues are addressed in the southwestern region of St. Catharines. The Carlton CTM17 feeder currently has loading issues during the summer peaks and is not adequately supported by a redundant system. Horizon Utilities is providing network connections for the purpose of backup and off-loading highly overloaded areas.
350MCM to 500MCM Paper Insulated Lead Covered ("PILC") upgrade for Henderson Hospital	**2010**	$0.7	The Henderson Hospital in Hamilton is completing an expansion to its existing facility. The initial discussions with the hospital provided an expectation for a load increase requirement to supply the new building. It was subsequently determined that there was no such requirement, given that a load reduction from the removal of old sections of the hospital would offset the load requirement of the expansion. During the planning process, the consulting firm, Acumen Engineered Solutions International Inc. ("AESI") was engaged to complete a cable capacity study ("Ampacity") within which specific cable feeding the hospital was reviewed. Please refer to the AMP (Exhibit 2, Tab 3, Schedule 2, Appendix 2-1) for further information on the AESI study. The results of the study provided that the cable feeding the hospital was overloaded due to heating caused by the duct configuration and loading. This information provided the justification for renewing and upgrading the cable to the hospital and mitigated the risk of a significant failure at the hospital.
	Total	**$4.6**	

1 **2011**

Project	Year	Cost MM	Rationale for project
Conductor Upgrade - Glen Morris	**2011**	$0.4	This 600 amp main feeder cannot be fully utilized due to a sub-standard conductor along a portion of the feeder which limits it to 300 amps. In a contingency situation, this feeder requires 600 amps. Without the upgrade, this conductor has the potential to fail. In order to provide redundancy to the Glendale M16 feeder, the existing conductors require upgrading in 2011.
Henderson Hospital - 0821x Load Relief	**2011**	$0.3	A series of projects will be completed in 2010 to increase security and reliability for Henderson Hospital feeders. However, additional work is required to secure capacity for the redundancy feed for the hospital. The completion of this project will provide Henderson Hospital with reliable and necessary redundancy able to carry its load. This project is non-discretionary in nature due to the essential service provided by the hospital and to the public.
Vansickle Feeder	**2011**	$1.3	The Vansickle TS upgrade will enable Horizon Utilities to install a new feeder to address capacity, security, and reliability issues. With the additional capacity at Vansickle TS completed in 2010, many feeders from Vansickle, Carlton, and Glendale can be provided proper redundancy. Many feeders operate at 400 amps (525 amps available) during peak conditions. When a failure situation occurs, Horizon Utilities is required to overload the redundant feeders in order to restore customers. Such overload degrades the redundant assets and could lead to further failures. This new overhead feeder will provide additional capacity to existing heavily loaded feeders and will provide additional switching points and ties to other feeders to increase security and reliability.
Stirton Tranmission Station (TS) 8511X Cable Capacity	**2011**	$0.3	The available feeder capacity on the cable from Stirton TS has been reduced due to the extreme heating conditions related to this particular duct structure configuration. Despite a proactive reduction of such capacity to address overheating, this cable has been operating above its normal capacity and temperature ratings. In order to provide full capacity on this cable, it must be upgraded to a larger cable size. Failure to complete this project will inevitably result in a near-term catastrophic failure of the cable, which will result in a lengthy outage impacting over 2100 of Horizon Utilities' customers, including a fire station, local area schools, a sports arena, and a college campus.
	Total	**$2.2**	

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Appendix 1

HORIZON UTILITIES CORPORATION

Dividend Policy

The dividend policy of Horizon Utilities Corporation (Horizon) is predicated on the mandate of the Board of Directors which includes maximizing shareholder value. Such value is generally realized by the shareholder through dividends or the appreciation of shareholder investment. It is the intention of the Board of Directors of Horizon to use its best efforts to declare and pay dividends from available earnings and cash flow, subject to certain conditions precedent outlined below, as follows:

(a) Regular Dividends at a target dividend payment rate (DPR) of up to 60% of annual net earnings;

(b) Special Dividend periodic payments to maintain the approved capital structure of Horizon (currently approved at up to 60% of debt in total capitalization after consideration for any off-balance sheet contingencies);

Conditions Precedent to the Payment of Dividends

Dividends will be paid to the extent that such would not otherwise cause:

(i) non-compliance with relevant statutes and regulations;

(ii) a breach of contract or the immediate or anticipated failure to otherwise meet the terms of financing arrangements;

(iii) an impairment in the operations and maintenance of electricity distribution infrastructure;

(iv) an impairment in financial prudence including capital investment in electricity distribution infrastructure to sustain reliability;

(v) a deterioration in the credit rating of Horizon or otherwise not support an “A” range or equivalent rating from credit rating agencies that rate Horizon and/ or its securities;

(vi) an impairment in the maintenance and growth of approved businesses, or logical extensions of existing or related businesses, in line with a Board approved business plan.

<u>Payment of Dividends</u>

Regular Dividends

Each year, at its meeting to approve the annual budget for the next fiscal year, the Board of Directors will forecast the annual dividend by applying the DPR to budgeted earning for the next fiscal year. Quarterly dividends will, subject to meeting the above criteria, be targeted at $1.5MM and paid March 1st (or shortly following the approval of the annual audited financial statements of the preceding year), June 1st, September 1st and December 1st. The first dividend of the fiscal year, targeted for payment on March 1st, will also include any adjustment to bring the total annual dividend for the preceding year to the full DPR level.

The payment of Regular Dividends is subject, in each instance, to the review and approval of the Board of Directors in accordance with this policy and subject to the Conditions Precedent noted above.

Special Dividends

Each year, at its meeting to approve the annual audited financial statements, the Board of Directors will review the current and forecast shareholder equity requirements of Horizon and compare such to the approved capital structure of Horizon. Subject to the Conditions Precedent, the Board of Directors shall declare and pay a dividend, if any, equal to the excess of actual shareholder equity over that required to support the approved capital structure of Horizon. Where a Special Dividend has been declared, the Board of Directors will endeavour to pay such dividend on March 1st of the year in which the audited financial statements of the preceding year have been approved.

<u>Reporting to Shareholder</u>

In the event that the Board of Directors does not approve a payment of a Regular Dividend, the Board will promptly report the circumstances underlying the non-payment to the shareholder and, thereafter, provide progress reports on a quarterly basis until such time as the payment of Regular Dividends resumes.