FORTISONTARIO INC.

BOARD OF DIRECTORS' MEETING
FEBRUARY 13, 2008

SAP UPGRADE ANALYSIS AND RECOMMENDATION

SAP is a core technology of FortisOntario and is used extensively throughout the organization and in the management of key functions, including: customer service, operations, finance and regulatory. FortisOntario has invested significantly in SAP since its initial implementation in 1999, and has trained internal staff that operates the system with little reliance on outside consultants. FortisOntario's SAP system delivers a significant amount of automation that has improved productivity and customer service. Extended maintenance on SAP R/3 release 4.6C is scheduled to end December 31, 2009.

KEY OBJECTIVES

- Maintain business continuity including system reliability and integrity;
- Provide capabilities for regulatory initiatives (such as smart meters) and future business growth; and
- Manage capital and support costs associated with the system.

ANALYSIS

The purpose of this section is to provide an analysis of technical alternatives to ensure prudence and timing of future technology investments. In conducting this analysis, the following six alternatives have been considered:

1. **Status Quo:** Maintain the current version of SAP R/3 beyond the contracted maintenance support period by utilizing internal SAP staff in conjunction with external support on a time and materials basis as required.

2. **SAP Upgrade (FortisOntario Project):**

   a) Full Upgrade – Technical and Functional Upgrade: Implement the latest release of SAP's Business Suite ERP (changing the computer codes to the latest release is referred to as a "technical upgrade") with SAP's Industry Solution for Utilities ("IS-U"), and changing business processes as required to re-implement the SAP system within FortisOntario (referred to as a "functional upgrade"). This option includes a technical upgrade, a functional upgrade and an implementation for all business areas (an "enterprise-wide implementation") and can be considered as part of the ongoing lifecycle of managing the SAP system.

   b) Licensing Upgrade – Phased-In Implementation: Revise and renegotiate the SAP licensing support and maintenance agreement. This would provide for a licensing configuration that extends the licensing rights to upgraded core enterprise-wide solutions as well as new utility solutions. Implementation of the technical and functional upgrade would be phased-in.

3. **SAP Upgrade (SAP CODAC Alliance):** Enter an alliance with eight other Ontario LDCs (referred to as the "CODAC Alliance") in conjunction with a System Integrator to develop a standardized template that would fit the business/regulatory requirements of all group members. The current version of SAP would be upgraded to the latest release of SAP's Business Suite with SAP's IS-U upgrade, and business processes would be changed as required and dictated by CODAC to re-implement the SAP system within the customer information service ("CIS") areas of FortisOntario. This option includes a technical, and functional upgrade, and an implementation for CIS only with the CODAC group. The remaining back office functional areas would require a second phase implementation at a later date. All system administration and changes for CIS, subsequent to the upgrade, would be performed by the third-party System Integrator.

4. **Alternative Technologies:**

   a. Outsourcing Technology: Capgemini, a third party technology and hosting service, would provide an Application Service Provider function pursuant to which it would assume all the primary responsibilities related to, customer care and information technology support through a fixed cost per customer (and variable cost component) per year model. SAP would remain the software application; however, there would be no capital cost for the upgrade to the latest SAP release. However, this option would require a complete change of the current business model for customer services, billing, IT, etc.

   b. Alternate Software: Harris Data Systems would provide a completely different software solution for CIS, which would be integrated with a Great Plains back office solution.

Attached as Schedule A is an Assessment of Technical Solution Alternatives including a discussion of pros and cons for comparison purposes. Attached as Schedule B is a spreadsheet setting out the estimated costs of the Technical Solution Alternatives over a five-year forecast period.

RECOMMENDATION

The recommendation is to proceed with the Status Quo alternative. The existing version of SAP R/3 will continue to be utilized until the end of its support period and beyond 2009 with extended maintenance from SAP on a time and materials basis. CNPI will continue to utilize lower cost in-house SAP trained IT staff in conjunction with external backup from SAP consultants as required.

As well, CNPI proposes to enter into discussions with London Hydro to obtain a copy of the new upgraded SAP CIS Ontario template on commercially reasonable terms. This would act as a cost effective approach for a future upgrade. An internal IT process review and documentation exercise will also be implemented to map out the next steps to an upgrade and facilitate the preparation of a scope of work in respect of future technical and functional upgrades. Finally, the decision to upgrade the existing version of SAP and to issue a scope of work for the implementation will be revisited in 2009.

SCHEDULE A

ASSESSMENT OF TECHNICAL SOLUTION ALTERNATIVES

ALTERNATIVE 1 – STATUS QUO

Maintain the current SAP version beyond the contracted maintenance support period.

PROS

i. Minimal Implementation Risk: Staffing and technology requirements remain the same.

ii. Increasing But Stable Licensing Costs: Licensing maintenance costs can be managed while avoiding capital cost of new SAP software upgrade and implementation. Capital costs would be incurred for software improvements.

iii. Ability to utilize existing version, which is stable, reliable and meets all Ontario regulatory requirements.

iv. Flexibility to assess internal/external changes affecting business operations prior to committing to more costly upgrade or technology change.

CONS

i. Increasing Operating Costs: Potentially higher SAP support and consulting if technology is unsupported. This risk can be managed under a support agreement with SAP.

ii. Ongoing Capital Costs: Capital costs will be incurred to maintain and improve existing system.

iii. Regulatory Risk: A significant change in regulatory requirements may be more challenging to support with out-of-date technology.

iv. SAP Support: Resolution to customer specific problems would need to be addressed by consulting services since SAP would not provide regular updates for older versions of software after 2009.

v. Future Upgrades: No guaranteed direct path to the latest version of SAP if existing version falls too far behind.

vi. Succession Risk: Reliance on existing staff to support customizations of older technology must be monitored.

ALTERNATIVE 2 – SAP UPGRADE

a) Full Upgrade – Technical and Functional Upgrade

Implement the latest release of SAP's Business Suite with SAP's IS-U 2005 (Industry Solution for Utilities), and changing business processes as required to re-implement the SAP system within FortisOntario. This option can be considered as part of the ongoing lifecycle of managing the SAP system.

PROS

i. Fully Supported: An upgrade to the most recent release of SAP will provide business continuity and a current technology capable of meeting business needs, which is fully supported by SAP.

ii. Productivity: Potential to achieve productivity improvements in the organization with business process improvements imbedded in the upgraded version of SAP, and potentially reducing ongoing operating costs.

iii. Regulatory Compliance: Latest version of SAP that meets Ontario regulatory requirements. Configured to meet new smart meter initiative in Ontario.

iv. Cost Management: Costs can be managed and forecasted. SAP has offered pricing commitments to be competitive with CODAC and other Fortis companies.

CONS

i. Higher Costs: Higher SAP implementation, operating and capital costs compared to other alternatives; however, these costs can be managed and forecasted through licensing maintenance and implementation agreements.

ii. Project Management Risk: Change in business process procedures and enterprise-wide implementation will require significant operational resources and consultants. Risk that implementation could fall behind schedule and go over budget.

iii. Regulatory Risk: If actual project costs vary significantly compared to budget, there is a risk that the OEB may not allow full recovery of costs through rates.

iv. Additional Staffing: Concern over requirement for more staff to internally support the new upgrade product and new functionality.

v. Cost Uncertainty: Given the risks identified above, cost estimates are difficult to rely upon. Also, substantial additional costs will be incurred for the back office SAP implementation.

b) Licensing Upgrade Only:

Revise and renegotiate the SAP licensing support and maintenance agreement to provide licensing rights to the upgraded SAP version. The implementation could be phased in over a period of time. The new license would involve an initial capital cost; however, a discount has been negotiated on capital cost and reduced operating fees could be negotiated following full implementation.

PROS

i. Potential for Lower Operating Costs: As part of the capital investment for licensing rights to the upgraded version of SAP, licensing and maintenance support fees would reduce following implementation.

ii. Fully Supported: Existing version is supported. Access to an upgraded SAP version, which is also fully supported at locked-in discounted fees.

iii. New Functionality: The licensing rights to new functionality for core operations and new utility solutions would be available, without the requirement to carry out an immediate implementation. The implementation can be phased in after an assessment is made in respect of organic growth materializing, and completion of CODAC SAP implementations and smart meter implementation.

CONS

i. Capital Cost: An initial upfront capital investment is required, although significantly less than a full upgrade. Total capital cost is not significantly different from the upgrade over a five-year term.

ii. Operating Costs: High operating costs prior to implementation without benefit of use of new software technology prior to actual implementation.

iii. Succession Risk: Reliance on existing staff to support customizations of older technology.

ALTERNATIVE 3 – SAP UPGRADE (CODAC PARTNERSHIP)

Enter a coalition with several other Ontario LDCs in conjunction with a third-party System Integrator to develop a standardized CIS template that would fit the business/regulatory requirements of all group members. The current version of SAP would be upgraded to the latest release of SAP's Business Suite with SAP's IS-U, and business processes would be changed as required to re-implement the SAP system within FortisOntario. All CIS administration and ongoing configuration changes, subsequent to the upgrade, would be performed by the CIS third-party System Integrator.

PROS

i. Shared Ontario CIS Template: Potential for lower cost for CIS template as it is being provided by London Hydro to CODAC members.

ii. Competitive Pricing: Competitive pricing from SAP on licensing and maintenance fees. Proposed lower support fees for a shared standardized billing and CIS template. Implementation costs for conversion being provided by Wipro (third-party System Integrator) and shared among CODAC members.

iii. Regulatory Compliance: Latest version of SAP that meets Ontario regulatory requirements. Configured to meet new smart meter initiative in Ontario.

CONS

i. Contractual Risk: There is no contractual arrangement between CODAC and London Hydro in respect of the template. Therefore, there is no remedy for delays or inaccurate CIS template. There are no definitive plans for a back office template.

ii. Governance Risk: CODAC includes nine midsize Ontario utilities who have a non-SAP technology (known as "Advanced"), which goes unsupported in 2009. There is significant risk in the governance of the CODAC group. A final governance document is not ready at this time. The decision making process will be cumbersome and may result in delays and increased costs in making changes to the template to comply with business needs and regulatory changes.

iii. Resources Risk: Joining CODAC will involve a significant resource commitment in terms of labour from FortisOntario's IT department. Work is required on governance issues with respect to the CIS template, committee work, and trouble shooting for other LDCs. These resources would be more efficiently directed towards internal corporate and customer service commitments.

iv. Technology Risk: The technology challenge facing CODAC is significantly different then that facing FortisOntario. CODAC is switching to an entirely new IT system whereas FortisOntario is upgrading an existing SAP solution. Also, CODAC has included in its scope of work functionality which may exceed FortisOntario's business needs. The CODAC conversion requires "interfacing" with non-SAP back office technologies; whereas, FortisOntario requires an upgrade of its existing SAP back office. FortisOntario requires an enterprise-wide upgrade; whereas, CODAC is focusing on an SAP CIS only technology change.

v. Hosting Risk: There is currently a lack of consensus on where the hardware for SAP will be hosted. London Hydro is proposing to have in-house hosting; whereas, the CODAC group is proposing external hosting of a third-party system (i.e., Hewlett Packard). This could result in delays, increased costs and an unsatisfactory level of disaster recovery support.

vi. Implementation Risk: The CODAC members have contracted with Wipro to do the CIS only implementation with a cost that includes a fixed and variable component. It is difficult to forecast the variable component at this point in the project. The current plan is to have the implementations carried out sequentially with London Hydro's implementation going first and the other CODAC members following behind (with a view of being completed by end of summer 2008). FortisOntario's positioning in the proposed sequential schedule would be uncertain and it is uncertain whether FortisOntario could also implement a back office upgrade outside of the CODAC group in time for being used and useful by the end of 2008.

vii. Cost Uncertainty: Given the risks identified above, cost estimates are difficult to rely upon. Also, substantial additional costs will be incurred for the back office SAP implementation.

ALTERNATIVE 4 – ALTERNATIVE TECHNOLOGY

a) Outsourcing Technology – Capgemini

Outsource all key functions within IT and CIS departments to a third-party service provider pursuant to an outsourcing service level agreement with Capgemini. All hardware/software related to SAP would be maintained by Capgemini.

PROS

i. Technology Risk: Risks associated with SAP upgrades and maintenance are assured by third-party service provider pursuant to service level agreements.

ii. Succession Risk Management: Reduces risk related to workforce and skills retention through a services agreement.

iii. Capital Cost: Lower capital costs associated with avoided capital cost of SAP upgrade.

iv. Quickest Conversion: Shortest upgrade implementation duration available to migrate to the most current SAP version.

v. Predictable Pricing: Operating costs are certain and negotiated through service level agreements.

CONS

i. Stranded Assets: Loss of return on stranded SAP assets.

ii. Performance Risk: Performance parameters are governed solely by negotiated service level agreements, as opposed to in-house competency.

iii. Regulatory Risk: While many service levels can be anticipated in advance, not all regulatory changes can be provided for contractually. Accordingly, responsiveness to certain regulatory change may be uncertain.

iv. Long-Term Cost Uncertainty: Cost estimates beyond term of existing service level agreements are difficult to forecast.

v. Organizational Risk: This proposal involves a significant change in the way business is conducted and the delivery of customer service. Further impacts need to be assessed.

vi. Vendor Risk: Capgemini is still relatively new in delivering this type of service in Ontario to smaller LDC's and its long-term viability must be assessed.

b) Alternative Software – Harris Data and Great Plains Systems Software

Carry out a migration of all business functions and record keeping data/processes to the Northstar CIS provided by Harris and Great Plains back office provided by Microsoft.

PROS

i. Proven Technologies: Both the CIS and back office products are proven in the existing state of the Ontario market and financial reporting requirements.

ii. Existing Data Base Technology: Does not require replacement of existing hardware, operating system, or database platforms.

iii. Comparable Costs: Costs are comparable to an upgrade of SAP. Therefore, it is a comparable solution.

CONS

i. Stranded Assets: Loss of return on stranded SAP assets.

ii. New Knowledge Base Required: Significant change in business process and overall structure requiring brand new knowledge base. This new knowledge base would require significant training of all staff and recruitment efforts.

iii. Perceived Performance Limitations: Perceived limits for CIS databases exceeding 350,000 customers and lack of automation for high volume processing such as mass meter read uploading and billing.

iv. Strategic Non-Alignment: Assuming performance limitations occur, this solution does not support long-term business strategy of growth, scalability and customer service delivery.

v. Future Upgrades: Future upgrades of this new technology would still be required and would need to be assessed further.

Schedule B

FortisOntario 2008-2012
ERP Analysis

Over Five Year Period	Status Quo[1]	SAP Upgrade[2] (2008 - 2009)	SAP Upgrade[2] (2010 - 2011)	Capgemni[3]	Harris/Great Plains[4]
Total P&L Expense (excludes Capital Outlay)	1,404,113	1,697,369	1,988,714	(1,598,702)	1,745,005
Total Cost (excludes depreciation)	1,978,708	3,219,169	3,922,914	(1,598,702)	2,250,709

Assumptions:

1. Status quo will continue to require capital investment in order to meet business and regulatory requirements.
2. SAP upgrade implementation cost is assumed to be $2.2 million (incl. software, internal/external labour). This is an estimate, which has not been determined through a formal upgrade assessment.
3. Capgemini proposal may not be comparable to other proposals. There are significant risks associated with this proposal in respect of which a cost has not been determined.
4. Costs associated with a possible write down of SAP stranded assets are associated with the Harris alternative but have not been included in this analysis.
5. Calculations are made on a pre-tax basis. Capital upgrades do have certain tax benefits.

FortisOntario 2008-2012
ERP Analysis

Status Quo (Premium Support - No upgrade with extended support fees for 4.6C)

Description	2008	2009	2010	2011	2012	Total
Capital Expenditures:						
Hardware Component:[1, 2]						
External Labour	0	0	0	0	0	0
Internal Labour	2,000	0	0	0	10,000	12,000
Hardware Material	12,000	5,000	0	0	115,000	132,000
Subtotal Hardware	14,000	5,000	0	0	125,000	144,000
Software Component:						
External Labour	50,000	30,000	30,000	30,000	30,000	170,000
Internal Labour	109,600	100,000	100,000	100,000	100,000	509,600
Software	0	20,000	0	0	0	20,000
Subtotal Software	159,600	150,000	130,000	130,000	130,000	699,600
Total Capital Expenditures	**173,600**	**155,000**	**130,000**	**130,000**	**255,000**	**843,600**
Depreciation - Hardware	2,800	4,360	5,232	6,278	32,534	51,204
Depreciation - Software	15,960	30,960	43,960	56,960	69,960	217,800
Total Depreciation	18,760	35,320	49,192	63,238	102,494	269,004
Incremental Operating Expense:						
External Labour	10,000	10,506	11,038	11,597	12,184	55,325
Internal Labour	0	0	0	0	0	0
Maintenance	198,492	198,492	212,386	227,253	243,160	1,079,783
Total Incremental Operating Expense	208,492	208,998	223,424	238,850	255,344	1,135,108
Departmental Cost (Savings)	0	0	0	0	0	0
Net Incremental Operating Expense	208,492	208,998	223,424	238,850	255,344	1,135,108
Total P&L Expense (excludes Capital Outlay)	**227,252**	**244,318**	**272,616**	**302,088**	**357,838**	**1,404,113**
Total Cost (excludes depreciation)	**382,092**	**363,998**	**353,424**	**368,850**	**510,344**	**1,978,708**

SAP Version Upgrade (2008)

Description	2008	2009	2010	2011	2012	Total
Capital Expenditures:						
Hardware Component:[1, 2]	Upgrade Period					
External Labour	0	0	0	0	0	0
Internal Labour	2,000	10,000	0	0	10,000	22,000
Hardware Material	12,000	40,000	0	0	115,000	167,000
Subtotal Hardware	14,000	50,000	0	0	125,000	189,000
Software Component:						
External Labour	700,000	1,000,000	0	0	0	1,700,000
Internal Labour	60,000	100,000	0	0	0	160,000
Software	418,000	0	0	0	0	418,000
Subtotal Software	1,178,000	1,100,000	0	0	0	2,278,000
Total Capital Expenditures	**1,192,000**	**1,150,000**	**0**	**0**	**125,000**	**2,467,000**
Depreciation - Hardware	2,800	15,600	31,200	62,400	149,800	261,800
Depreciation - Software	0	0	227,800	227,800	227,800	683,400
Total Depreciation	2,800	15,600	259,000	290,200	377,600	945,200
Incremental Operating Expense:						
External Labour	0	0	0	0	0	0
Internal Labour	0	0	0	0	0	0
Maintenance (R/3)	198,492	198,492	0	0	0	396,984
Maintenance (ECC 6.0)	71,037	71,037	71,037	71,037	71,037	355,185
Total Incremental Operating Expense	269,529	269,529	71,037	71,037	71,037	752,169
Departmental Cost (Savings)	0	0	0	0	0	0
Net Incremental Operating Expense	269,529	269,529	71,037	71,037	71,037	752,169
Total P&L Expense (excludes Capital Outlay)	**272,329**	**285,129**	**330,037**	**361,237**	**448,637**	**1,697,369**
Total Cost (excludes depreciation)	**1,461,529**	**1,419,529**	**71,037**	**71,037**	**196,037**	**3,219,169**

SAP License Only (Phased In)

Description	2008	2009	2010	2011	2012	Total
Capital Expenditures:						
Hardware Component:[1, 2]			Upgrade Period			
External Labour	0	0	0	0	0	0
Internal Labour	2,000	0	2,000	10,000	10,000	24,000
Hardware Material	12,000	0	12,000	40,000	115,000	179,000
Subtotal Hardware	14,000	0	14,000	50,000	125,000	203,000
Software Component:						
External Labour	50,000	30,000	700,000	1,000,000	0	1,780,000
Internal Labour	109,600	40,000	60,000	100,000	0	309,600
Software	418,000	0	0	0	0	418,000
Subtotal Software	577,600	70,000	760,000	1,100,000	0	2,507,600
Total Capital Expenditures	**591,600**	**70,000**	**774,000**	**1,150,000**	**125,000**	**2,710,600**
Depreciation - Hardware	2,800	2,800	4,200	9,200	21,700	40,700
Depreciation - Software	144,400	161,900	161,900	186,000	81,500	735,700
Total Depreciation	147,200	164,700	166,100	195,200	103,200	776,400
Incremental Operating Expense:						
External Labour	10,000	10,506	0	0	0	20,506
Internal Labour	0	0	0	0	0	0
Maintenance (R/3)	198,492	198,492	212,386	227,253	0	836,623
Maintenance (ECC 6.0)	71,037	71,037	71,037	71,037	71,037	355,185
Total Incremental Operating Expense	279,529	280,035	283,423	298,290	71,037	1,212,314
Departmental Cost (Savings)	0	0	0	0	0	0
Net Incremental Operating Expense	279,529	280,035	283,423	298,290	71,037	1,212,314
Total P&L Expense (excludes Capital Outlay)	**426,729**	**444,735**	**449,523**	**493,490**	**174,237**	**1,988,714**
Total Cost (excludes depreciation)	**871,129**	**350,035**	**1,057,423**	**1,448,290**	**196,037**	**3,922,914**

Capgemini Outsourcing [3]

Description	2008	2009	2010	2011	2012	Total
Capital Expenditures:						
Hardware Component:						
External Labour	0	0	0	0	0	0
Internal Labour	0	0	0	0	0	0
Hardware Material	0	0	0	0	0	0
Subtotal Hardware	0	0	0	0	0	0
Software Component:						
External Labour	0	0	0	0	0	0
Internal Labour	0	0	0	0	0	0
Software	0	0	0	0	0	0
Subtotal Software	0	0	0	0	0	0
Total Capital Expenditures	**0**	**0**	**0**	**0**	**0**	**0**
Depreciation - Hardware	0	0	0	0	0	0
Depreciation - Software	0	0	0	0	0	0
Total Depreciation	0	0	0	0	0	0
Incremental Operating Expense:						
External Labour	1,325,000	1,325,000	1,325,000	1,325,000	1,325,000	6,625,000
Internal Labour	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0
Total Incremental Operating Expense	1,325,000	1,325,000	1,325,000	1,325,000	1,325,000	6,625,000
Departmental Cost (Savings) - IT	(443,000)	(450,000)	(471,000)	(494,000)	(518,000)	(2,376,000)
Departmental Cost (Savings) - CS	48,000	(1,452,000)	(1,466,520)	(1,481,185)	(1,495,997)	(5,847,702)
Net Incremental Operating Expense (Savings)	930,000	(577,000)	(612,520)	(650,185)	(688,997)	(1,598,702)
Total P&L Expense (excludes Capital Outlay)	**930,000**	(577,000)	(612,520)	(650,185)	(688,997)	(1,598,702)
Total Cost (excludes depreciation)	**930,000**	(577,000)	(612,520)	(650,185)	(688,997)	(1,598,702)

Harris Data/Great Plains System Migration [4]

Description	2008	2009	2010	2011	2012	Total
Capital Expenditures:						
Hardware Component:						
External Labour	10,000	0	0	0	0	10,000
Internal Labour	5,000	0	0	0	10,000	15,000
Hardware Material	0	0	0	0	115,000	115,000
Subtotal Hardware	15,000	0	0	0	125,000	140,000
Software Component:						
External Labour	555,000	0	0	0	0	555,000
Internal Labour	100,000	0	0	0	0	100,000
Software	405,435	0	0	0	0	405,435
Subtotal Software	1,060,435	0	0	0	0	1,060,435
Total Capital Expenditures	**1,075,435**	**0**	**0**	**0**	**125,000**	**1,200,435**
Depreciation - Hardware	3,000	3,600	4,320	5,184	31,221	47,325
Depreciation - Software	106,044	116,648	128,313	141,144	155,258	647,406
Total Depreciation	109,044	120,248	132,633	146,328	186,479	694,731
Incremental Operating Expense:						
External Labour	0	0	0	0	0	0
Internal Labour	100,000	103,000	106,090	109,273	112,551	530,914
Maintenance	103,872	103,872	103,872	103,872	103,872	519,360
Total Incremental Operating Expense	203,872	206,872	209,962	213,145	216,423	1,050,274
Departmental Cost (Savings)	0	0	0	0	0	0
Net Incremental Operating Expense	203,872	206,872	209,962	213,145	216,423	1,050,274
Total P&L Expense (excludes Capital Outlay)	**312,916**	**327,120**	**342,595**	**359,473**	**402,902**	**1,745,005**
Total Cost (excludes depreciation)	**1,279,307**	**206,872**	**209,962**	**213,145**	**341,423**	**2,250,709**

General Assumptions:

Annual Inflation					
External Labour	2.5%	2.5%	2.5%	2.5%	2.5%
Internal Labour	3.0%	3.0%	3.0%	3.0%	3.0%
Maintenance	2.5%	2.5%	2.5%	2.5%	2.5%

Depreciation Schedule
Hardware - 5 years
Software - 10 years

Notes:

1. Existing hardware will remain in place for five years per lifecycle policy.

2. Hardware estimates are for ERP solution only. Does not include hardware for other IT systems (email, file server, etc.).

3. In the Capgemini proposal, severence costs equal to one year's salary have been factored in the calculation of Net Incremental Operating E: The assumption is that a total of 20 FTE's would no longer be required in the Information Technology and Customer Service departments.

4. Choosing an alternative technology such as Harris may result in a stranded asset write down charge of approximately $1M from the abando