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BORDEN
LADNER
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January 28, 2008

Delivered by E-mail and Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: EB-2007-0697 – Horizon Utilities Corporation
Application to the Ontario Energy Board (the "OEB") for Electricity Distribution Rates and Charges as of May 1, 2008 – Responses to CCC Interrogatories

We are counsel to Horizon Utilities Corporation ("Horizon Utilities") with respect to the above-captioned matter. Please find accompanying this letter two hard copies of Horizon Utilities' responses to the interrogatories of the Consumers Council of Canada ("CCC") in this proceeding, together with an electronic copy of same.

Please note that Attachments A1 and A2 to Horizon Utilities' responses to the CCC interrogatories are copies of (1) Horizon Utilities' 2008 Budget and Three Year Financial Plan; and (2) a presentation on that 2008 Budget and Three Year Financial Plan made to Horizon Utilities' Board of Directors. Portions of certain tables in those documents appear to be redacted. Horizon Utilities confirms that that is not the case – there are no redactions in these documents. Those portions of the tables were blacked out in the original documents because they contain no data.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Original Signed by James C. Sidlofsky

James C. Sidlofsky

Encls.

Vancouver • Toronto • Ottawa • Montréal • Calgary

cc: Max Cananzi, Horizon Utilities Corporation
John Basilio, Horizon Utilities Corporation
Cameron McKenzie, Horizon Utilities Corporation
Intervenors of Record

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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 May 1, 2008.

HORIZON UTILITIES CORPORATION

2008 ELECTRICITY DISTRIBUTION RATE APPLICATION

RESPONSES TO CONSUMERS COUNCIL OF CANADA ("CCC") INTERROGATORIES

FILED: JANUARY 28, 2008

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EB-2007-0697

HORIZON UTILITIES CORPORATION

2008 ELECTRICITY DISTRIBUTION RATE APPLICATION

RESPONSES TO THE CONSUMERS COUNCIL OF CANADA ("CCC") INTERROGATORIES

INDEX

Responses to CCC Interrogatories

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1. Re: A/T1/S2 Appendix A

Please re-file Appendix A providing a column which sets out existing rates and charge.

Response:

Horizon Utilities has provide its 2007 Approved rates and charges and its proposed 2008 rates and charges in the table below.

2007 Approved Rates And Charges
2008 Proposed Rates And Charges
Effective May 1, of each year

MONTHLY RATES AND CHARGES

Residential		**2007**	**2008**
Service Charge	$	14.81	13.98
Smart Meter Rate Rider	$		(0.42)
Distribution Volumetric Rate	$/kWh	0.0138	0.0141
Regulatory Asset Recovery	$/kWh	(0.0002)	(0.0003)
LRAM and SSM Rate Rider	$/kWh		0.0002
Retail Transmission Rate - Network Service Rate	$/kWh	0.0058	0.0058
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0046	0.0046
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
General Service Less Than 50 kW			
Service Charge	$	26.13	29.74
Smart Meter Rate Rider	$		(0.42)
Distribution Volumetric Rate	$/kWh	0.0067	0.0079
Regulatory Asset Recovery	$/kWh	(0.0004)	(0.0004)
Retail Transmission Rate - Network Service Rate	$/kWh	0.0052	0.0052
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0042	0.0042
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
General Service 50 to 4,999 kW			
Service Charge	$	235.87	269.28
Smart Meter Rate Rider	$		(0.42)
Distribution Volumetric Rate	$/kW	1.3587	1.9290
Regulatory Asset Recovery	$/kW	(0.0587)	(0.2011)
Retail Transmission Rate - Network Service Rate	$/kW	2.0540	2.0540
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.6685	1.6685
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
Large Use			
Service Charge	$	9431.67	11,972.72

Smart Meter Rate Rider	$		(0.42)
Distribution Volumetric Rate	$/kW	0.9236	1.1107
Regulatory Asset Recovery	$/kW	(0.2188)	(0.1589)
Retail Transmission Rate - Network Service Rate	$/kW	2.3464	2.3464
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.9174	1.9174
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
Unmetered Scattered Load			
Service Charge (per connection)	$	2.26	11.75
Distribution Volumetric Rate	$/kWh	0.0024	0.0184
Regulatory Asset Recovery	$/kWh	0.0030	(0.0005)
LRAM and SSM Rate Rider	$/kWh		0.0001
Retail Transmission Rate - Network Service Rate	$/kWh	0.0053	0.0053
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kWh	0.0043	0.0043
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
Standby Power - APPROVED ON AN INTERIM BASIS			
Standby Charge - for a month where standby power is not provided. The charge is applied to the contracted amount (e.g. nameplate rating of generation facility).	$/kW	1.2670	2.2122
Sentinel Lighting			
Service Charge (per connection)	$	1.59	4.50
Distribution Volumetric Rate	$/kW	3.9494	12.5385
Regulatory Asset Recovery	$/kW	3.2926	(0.1149)
Retail Transmission Rate - Network Service Rate	$/kW	1.7068	1.7068
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.3427	1.3427
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
Street Lighting			
Service Charge (per connection)	$	0.36	0.75
Distribution Volumetric Rate	$/kW	1.5142	2.0491
Regulatory Asset Recovery	$/kW	(0.5442)	(0.1824)
Retail Transmission Rate - Network Service Rate	$/kW	1.6171	1.6171
Retail Transmission Rate - Line and Transformation Connection Service Rate	$/kW	1.3091	1.3091
Wholesale Market Service Rate	$/kWh	0.0052	0.0052
Rural Rate Protection Charge	$/kWh	0.0010	0.0010
Standard Supply Service - Administration Charge (if applicable)	$	0.25	0.25
Specific Service Charges			
Customer Administration			
Arrears certificate	$	15.00	15.00
Statement of account	$	15.00	15.00
Pulling post-dated cheques	$	15.00	15.00
Duplicate invoices for previous billing	$	15.00	15.00
Request for other billing information	$	15.00	15.00
Easement letter	$	15.00	15.00

Income tax letter	$	15.00	15.00
Notification charge	$	15.00	15.00
Account history	$	15.00	15.00
Credit reference/credit check			
(plus credit agency costs)	$	15.00	15.00
Returned cheque charge			
(plus bank charges)	$	15.00	15.00
Charge to certify cheque	$	15.00	15.00
Legal letter charge	$	15.00	15.00
Account set up charge/change of occupancy charge			
(plus credit agency costs if applicable)	$	30.00	30.00
Special meter reads	$	30.00	30.00
Meter dispute charge plus Measurement Canada fees			
(if meter found correct)	$	30.00	30.00
Non-Payment of Account			
Late payment – per month	%	1.50	1.5
Late payment – per annum	%	19.56	19.56
Collection of account charge – no disconnection	$	30.00	30.00
Collection of account charge – no disconnection			
-after regular hours	$	165.00	165.00
Credit Card Convenience Charge	$	0	15.00
Disconnect / reconnect at meter – during regular hours	$	65.00	65.00
Disconnect / reconnect at meter – after regular hours	$	185.00	185.00
Disconnect / reconnect at pole – during regular hours	$	185.00	185.00
Disconnect / reconnect at pole – after regular hours	$	415.00	415.00
Install / remove load control device – during regular hours	$	65.00	65.00
Install / remove load control device – after regular hours	$	185.00	185.00
Service call – customer owned equipment	$	30.00	30.00
Service call – after regular hours	$	165.00	165.00
Temporary service install and remove – overhead			
- no transformer	$	500.00	500.00
Temporary service install and remove – underground			
- no transformer	$	300.00	300.00
Temporary service install and remove – overhead			
- with transformer	$	1000.00	
1,000.00			
Specific charge for access to the power poles – per pole/year	$	22.35	22.35
Administrative billing charge	$	150.00	150.00
Allowances			
Transformer allowance for General Service customers			
- per kW of billing demand/month	$/kW	(0.60)	(0.73)
Primary metering allowance for transformer losses			
- applied to measured demand and energy	%	1.00)	(1.00)

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer < 5,000 kW	1.0428	1.0451
Total Loss Factor – Secondary Metered Customer > 5,000 kW	1.0164	1.0168
Total Loss Factor – Primary Metered Customer < 5,000 kW	1.0324	1.0346
Total Loss Factor – Primary Metered Customer > 5,000 kW	1.0063	1.0067

2. Re: A/T1/S15

Please provide a list of all cost savings achieved in each year since the merger. Please indicate expected savings in 2008 related to the merger. Have these been reflected in rates?

Response:

Horizon Utilities has provided the following table which summarizes the annualized recorded cost savings realized in each year following the merger of Hamilton Hydro Inc. ("HHI") and St. Catharines Hydro Utility Services Inc. ("SCHUSI") on March 1, 2005:

Payroll cost savings (53FTEs)	$3.9
Reduced contractor, locates, and related construction costs	0.5
Tree trimming	0.1
Settlement systems costs	0.3
Financing fees and other	0.1
Total annualized savings from merger	$4.9
Allocated:	
Operating expenses	$3.9
Capital expenditures	1.0
Total annualized savings from merger	$4.9

These savings have been reflected in the appropriate USoA accounts included in Horizon Utilities' 2008 Rates Application.

3. Re: A/T1/S17

Please indicate what changes Horizon has made to its conditions of service since its last rate approval process that impact residential customers. Is Horizon seeking OEB approval of the Conditions of Service as filed? If not, why not?

Response:

Horizon Utilities will file a copy of its revised Conditions of Service as required by the OEBs Distribution System Code.

Horizon Utilities is providing the following summary of modifications to existing sections and new sections added, that may impact residential customers.

<u>Section 1 – Introduction</u>

1.2 Related Codes and Governing Laws – *MODIFIED*

The list of governing laws has been expanded to include the Ontario Electrical Safety Code, the Personal Information Protection and Electronic Documents Act (PIPEDA), the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA), and a number of other governing laws.

1.6.3 Liability for Damage – *MODIFIED*

Language has been added to clarify that the Customer is responsible for and will indemnify Horizon Utilities for any claims made by third parties in connection with the construction and installation of the Customer's equipment.

1.7.2 Safety of Equipment – *MODIFIED*

This section has been expanded to require compliance with the Ontario Electrical Safety Code and to permit Horizon Utilities to deal with obstructions by either disconnection or removal. This section now precludes Customers from using or interfering with Horizons' facilities except in accordance with a written agreement.

1.7.3 Damaged Electrical Equipment – *NEW*

The Customer is required to pay for the costs of repair or replacement of equipment owned by Horizon Utilities that has been damaged through Customer negligence or wilful misconduct.

1.7.4 Defective Customer Electrical Equipment – *NEW*

Customers must repair or replace Customer equipment that affects the integrity or reliability of the distribution system.

1.7.6 Customer-owned Physical Structures – *NEW*

The Customer is responsible for the construction, maintenance and repair of all civil works (poles, transformer vaults, underground conduit, etc.) owned by the Customer on private property.

1.7.8 Tree and Vegetation Management – *NEW*

The Customer is responsible for tree trimming and removal around overhead lines on Customer property. On appropriate notice, Horizon Utilities will assist the Customer in this effort by disconnecting and reconnecting the Customer once each year without charge.

<u>Section 2 – Distribution Activities (General)</u>

2.1 Connections – Process and Timing – *NEW*

The overall process that should be followed by a Customer in requesting a connection along with the timelines under which Horizon Utilities will respond.

2.1.5 Relocation of Plant – *NEW*

Requests for relocation and the Customer's obligation to pay for the associated costs.

2.2 Disconnection/Reconnection Processes and Charges – *MODIFIED*

This section has been expanded to include new procedures and requirements for reconnection where a Customer has been disconnected for at least six months or at least one year. The Customer is allowed one disconnect and reconnect per calendar year at no charge for the purpose of maintaining Customer electrical equipment.

2.2.1 Unauthorized Energy Usage – *NEW*

Horizon Utilities' right to disconnect for energy diversion, fraud or abuse, the Customer's responsibilities for costs related to such disconnection, and Horizon Utilities' right to notify the appropriate authorities.

2.3.2 Power Quality – *MODIFIED*

Added to this section is the potential for rotating load cuts imposed by the Independent Electricity System Operator (IESO) as well as additional language to address Customers' requirements for an uninterrupted source of power for life support and Horizon Utilities' obligations in that regard.

2.3.5 Backup Generators – *NEW*

Customers with backup generation are required to advise and consult with Horizon Utilities, and comply with the Ontario Electrical Safety Code.

2.3.6.4 Net Metering for an Embedded Generation Facility – *NEW*

Horizon Utilities will offer a net metering option to Embedded Generation Facilities that meet specific criteria.

2.3.6.8 Faulty Registration of Meters – *MODIFIED*

This section has been revised to clarify Horizon Utilities' obligations to correct billing errors and the period during which a Customer may be charged or credited as a result of incorrect billing.

2.4.4.1 Opening and Closing of Accounts – *NEW*

The process and timeline for opening and closing of accounts, and joint responsibility for an account opened in more than one person's name.

2.4.4.2 Billing Options – *NEW*

Horizon Utilities can accommodate Retailer-Consolidated Billing and Distributor-Consolidated Billing.

2.5.1 Provision of Customer Information to Horizon Utilities – *MODIFIED*

This section now describes Horizon Utilities' obligation to protect personal information and includes information on Horizon Utilities' Privacy Policy.

2.6 General Information – *NEW*

Pole attachments, services over swimming pools and the moving of oversized loads.

<u>Section 3 – Customer Class Specific</u>

3.1.2 Connection – *NEW*

Conditions for service, including the requirement to meet the Ontario Electrical Safety Code and obtain a Service Layout from Horizon Utilities.

3.1.5 Metering – *NEW*

The obligations of Horizon Utilities and the Customer with respect to metering for all Residential classifications, including condominium townhouses and tenant and condominium apartment buildings.

3.1.6 Overhead Secondary Service – *NEW*

The limitations of Horizon Utilities' obligation to provide overhead secondary service, and the Customer's responsibility for the portion of service beyond the ownership demarcation point.

3.1.7 Underground Secondary Service – *NEW*

The obligations of Horizon Utilities and the Customer regarding underground secondary service including underground road crossings and civil work.

3.4 Transformation – *NEW*

Specific provisions for transformers and substations owned by Horizon Utilities or the Customer.

4. Re: A/T1/S13

Please describe, in detail, all activities undertaken by HHSI. Please describe, in detail, all activities undertaken by HESI.

Response:

Hamilton Hydro Services Inc ("HHSI") is a company wholly-owned by Hamilton Utilities Corporation ("HUC"). HHSI presently undertakes the following businesses:

- Hamilton Community Energy, a district energy facility providing electric and thermal energy to customers in the downtown core of Hamilton; and
- Water heater rentals to customers in Hamilton.

Horizon Energy Solutions Inc ("HESI") is a company wholly-owned by Horizon Holdings Inc. HESI presently (as of January 1, 2008) undertakes certain energy services businesses as follows:

- Water heater rentals to approximately 2,800 customers in St. Catharines;
- Management of a street-light maintenance contract for the provision of street-lighting maintenance services within the municipality of St. Catharines; and
- Sentinel light rentals and maintenance to customers in St. Catharines.

5. Re: A/T3/S4/p. 2

The S&P report makes reference to a $2.8 million regulatory cost recovery in 2006. Please explain what the $2.8 million cost refers to and provide a detailed breakdown of the components.

Response:

On August 25, 2005, Horizon Utilities filed an Application to the OEB for Final Recovery of its Regulatory Assets balances ("Regulatory Asset Application") which included Transition Costs representing costs incurred by LDCs to transition to Ontario's new wholesale and retail electricity markets. Such Regulatory Asset Application provided for final recoveries commencing May 1, 2006, being the effective date of Horizon Utilities' 2006 electricity distribution rates (OEB File Nos. RP-2005-0020, EB-2005-0375/0376). Horizon Utilities' Regulatory Asset Application, approved by the OEB on April 12, 2006, provided for the recovery its Regulatory Asset balances including 90% of Approved Transition Costs.

Subsequent to the merger between HHI and SCHUSI, Horizon Utilities separated the Transition Costs and pre- and post-merger recovery amounts specific to each of these former entities. The following table provides the detailed calculations and determination of the post merger amount of $2.8 million of regulatory cost recovery referred to in the S & P Report. The term "QTC" used in the table refers to "Qualifying Transition Costs".

	Pre 01/10/01	Post 01/10/01	Total
Pre-Merger Accounting			
Gross QTC incurred	2,082,930	2,676,236	4,759,166
Prior recoveries applied	(550,738)	(707,611)	(1,258,349)
Net Unrecovered QTCs	1,532,192	1,968,625	3,500,817
Unrecovered Rebate Chq Expense	-	172,959	172,959
Reserved per accounting records	(1,015,259)	(2,658,517)	(3,673,776)
Pre-merger Net Book Value	516,933	(516,933)	-
Recoverable per 2006 OEB Rate Order			
Gross incurred	2,082,930	2,849,195	4,759,166
Disallowed			
Ineligible per OEB filing guidelines	(185,644)	(172,003)	(357,647)
Generic disallowance (10% of eligible QTC)	(189,729)	(250,423)	(440,152)
Total disallowance	(375,373)	(422,426)	(797,799)
Recoverable	1,707,557	2,426,769	3,961,367
Collected in rates	(1,707,557)	(2,426,769)	(3,961,367)
Outstanding collections	-	-	-
Due To Hamilton Utilities Corporation per Merger Participation Agreement			
Pre-Merger Impact to HUC (pre-tax)	1,015,259	2,658,517	3,673,776
Impact of 2001 Reassessment	1,067,673	(1,067,673)	-
Carrying charge disallowance on QTCs	-	(96,522)	(96,522)
Actual disallowance	(375,373)	(422,426)	(797,799)
Recovery due to HUC	1,707,559	1,071,896	2,779,455

6. Re: B1/T1/S1/p. 1

Please provide evidence to support the use of a 15 % working capital allowance. Has Horizon ever carried out a lead-lag study? If so, please indicate when and provide the results of that study. If not, why not?

Response:

Horizon Utilities filed for 15% working capital allowance in accordance with the Filing Guidelines (section 2.3.3 – Allowance for Working Capital). A lead-lag study has not been completed as Horizon Utilities has accepted and applied the OEB's current formula of 15% of the cost of power and OM&A expenses.

7. Re: B1/T1/S1/p. 9

Please provide copies of all materials presented to Horizon's Board of Directors at the time management was seeking approval of the 2008 budgets.

Response:

Horizon Utilities has provided the following material presented to its Board of Directors as Attachments A1 and A2 to these responses.

1. "2008 Budget and Three Year Financial Plan" document and exhibits;

2. "2008 Budget and Three Year Financial Plan" presentation to the Board of Directors.

8. Re: B1/T1/S2

Please provide a schedule which sets out forecast and actual capital budgets for the years 2004-2008.

Response:

The following table sets out Horizon Utilities' actual capital budgets for the years 2004 to 2007 and the 2008 Test Year.

OEB	Description	2004 (HHI only) BUDGET	2005 BUDGET	2006 BUDGET	2007 BUDGET	2008 Test Year
1805	Land - Substations	0	-		187,208	0
1808	Buildings - Substations	0	268,649	44,940		185,530
1810	Leasehold Improvements	0	-			0
1815	Transformer Station Equipment > 50 kV	0	-			
1820	Substation Equipment	0	191,314	157,129	89,047	16,533
1825	Storage Battery Equipment	0	-		300	
1830	Poles, Towers & Fixtures	1,755,386	3,571,995	4,492,440	7,115,147	7,019,043
1835	OH Conductors & Devices	3,449,213	3,313,360	2,064,049	2,682,191	1,754,856
1840	UG Conduit	1,847,809	1,736,688	2,443,620	3,010,481	3,883,844
1845	UG Conductors & Devices	3,930,435	6,013,033	4,286,522	4,401,534	5,421,970
1850	Line Transformers	2,743,456	3,384,839	4,457,952	4,916,874	5,558,831
1855	Services (OH & UG)	2,556,080	1,544,004	1,800,015	993,040	1,350,249
1860	Meters	2,088,162	5,562,318	6,104,118	10,389,585	2,419,914
1861	Smart Meters	0	-			10,573,416
1905	Land	0	15,000			0
1906	Land Rights	0	-			24,000
1908	Buildings & Fixtures	846,100	1,200,000	1,540,200	2,953,856	492,000
1910	Leasehold Improvements	0	-			0
1915	Office Furniture & Equipment	96,956	322,780	393,990	530,400	203,880
1920	Computer - Hardware	1,247,291	816,234			0
1921	Computer - Hardware post Mar 22/04	0	-	415,640	1,144,920	0
1921	Computer - Hardware post Mar19/07	0	-			1,451,645
1925	Computer - Software	336,571	489,179	141,985	560,380	4,157,711
1930	Transportation Equipment	1,136,126	1,470,000	1,647,200	1,783,514	1,904,733
1935	Stores Equipment	10,000	49,000	57,750	79,500	204,350
1940	Tools, Shop & Garage Equipment	238,600	339,887	472,124	446,559	296,526
1945	Measurement & Testing Equipment	86,900	174,000	187,550	152,604	110,604
1950	Power operated Equipment	0	3,000			0
1955	Communications Equipment	27,800	17,000	630,725	568,970	242,506
1960	Miscellaneous Equipment	0	-	88,600	42,000	0
1965	Water Heater Rental Units	0	-			
1970	Load Management controls	0	-	395,000		0
1975	Load Management Controls Utility Premises	0	-			
1980	System Supervisory Equipment	121,500	52,600		108,000	0
1985	Sentinel Lighting Rental Units	0	-			
1996	Hydro One S/S Contribution	0	-			0
1995	Contributions & Grants	(2,050,000)	(1,550,000)	(3,251,760)	(2,854,992)	(3,329,432)
	Total before Work in Process	**20,468,385**	**28,984,880**	**28,569,789**	**39,301,118**	**43,942,709**

9. Re: B1/T1/S2

Please indicate what the approximate impact would be on Horizon's 2008 revenue requirement under the following scenarios: a 10% reduction in the capital budget; a 20% reduction in the capital budget and; a 30% reduction on the capital budget.

Response:

Horizon Utilities reiterates that it has provided the justification for its 2008 Test Year capital projects in its Application. Horizon Utilities cannot support to arbitrary reductions in its capital budget for the 2008 Test Year. For the purposes of responding to this question, Horizon Utilities has prepared the following tables providing the impacts on Horizon Utilities revenue requirement under the three scenarios requested.

Scenario - 10% reduction

Description	**($)**
OM&A Expenses	42,691,233
Amortization Expenses	23,617,205
Total Distribution Expenses	66,308,438
Regulated Return On Capital	27,618,554
PILs	7,500,807
Service Revenue Requirement	101,427,800

Scenario - 20% reduction

Description	**($)**
OM&A Expenses	42,691,233
Amortization Expenses	23,506,720
Total Distribution Expenses	66,197,953
Regulated Return On Capital	27,454,597
PILs	7,622,191
Service Revenue Requirement	101,274,742

Scenario - 30% reduction

Description	**($)**
OM&A Expenses	42,691,233
Amortization Expenses	23,396,235
Total Distribution Expenses	66,087,468
Regulated Return On Capital	27,290,639
PILs	7,743,576
Service Revenue Requirement	101,121,684

10. Re: C1/T1/S2/p. 1

With respect to Other Distribution Revenue for each component please explain how the 2008 forecast was developed. Please include all assumptions. For each of the three components please provide a detailed variance analysis for the 2006 Board approved vs 2006 Actual. Please list all components of the sub-category "Other Distribution Revenue" and indicate how the 2008 forecast was derived for each.

Response:

Horizon Utilities prepared the 2008 revenue forecasts based on the assumptions outlined for each Other Distribution Revenue component as follows.

Late Payment Charge – the revenue derived from the late payment charge is forecasted based on previous history and the assumption that electricity prices may rise, which will increase the amount of the total bill due, making it more difficult for customers to pay by the due date.

Specific Service Charge Revenue is comprised of several categories as provided below.

- SSS Administration Charges – Horizon Utilities' forecast is based on an estimate of the number of customers on SSS.
- Retail Service Revenue - Horizon Utilities forecast is based on historical revenues and an expectation that the trend in the decreasing number of retail contracts will continue.
- Miscellaneous Service Revenue - Horizon Utilities' forecast is based on the average of five years of historical data multiplied by the OEB approved specific service charges. In addition, Horizon Utilities forecasts revenue from scrap and intercompany charges.

Other Distribution Revenue is comprised of several categories as provided below.

- Service Transaction Request Revenue - Horizon Utilities forecast is based on the expectation of a decrease in the number of retail contracts and therefore EBT transactions.

- Rent for Electric Property – Horizon Utilities forecast is based on expected rental income from agreements in place at the time of preparing its Application.

- Interest Income – Horizon Utilities forecast is based on expected levels of cash on hand, which is anticipated to decrease due to its investments in smart meters and its ERP Solution.

Horizon Utilities' other distribution revenue and variance for 2006 Board Approved, which is based on the 2004 harmonized amounts for HHI and SCHUSI, and 2006 Actual revenues for Horizon Utilities, is provided in the table below. An explanation for each variance is also provided in this table.

Other Distribution Revenue	2006 Board Approved	2006 Actual	Variance 2006 Actual to 2006 Approved	Explanation of Variances
Late Payment Charges	728,451	676,300	(52,151)	fewer late payments - not in Horizon Utilities control
SSS Administration Revenue	580,038	580,685	647	based on number of SSS customers - market driven
Retail Services Revenue	229,209	349,191	119,983	based on number of retailer contracts - market driven
Miscellaneous Service Revenue	2,556,464	3,402,381	845,917	Revenue increased $759,000 due to implementation of the new Intercompany Management fees which did not exist in 2004 and therefore were not included in Horizon Utilities 2006 EDR Application. In addition, revenue from scrap increased as Horizon Utilities reviewed its inventory requirements subsequent to the merger.
Specific Service Charges	3,365,711	4,332,257	966,547	
Service Transaction Requests Revenues	2,787	34,265	31,479	increase in retailer contracts - market driven
Rent From Electric Property	1,206,746	1,517,102	310,356	increase in pole and duct rentals plus new rental income from its John St & Stoney Creek offices
Interest Income	0	585,730	585,730	income from interest was not anticipated in 2004 as post merger cash balances were expected to be low
Other Distribution Revenue	1,209,533	2,137,098	927,565	
Total	5,303,694	7,145,655	1,841,961	

11. Re: C1/T3/S2/p. 4

Please explain why the Corporate Management Team Shared Services Allocation is increasing significantly from 2006 to 2008.

Response:

The increase reflects the reallocation of expenses related to the Office of the CEO, which in 2006 was included as part of Operating and Maintenance expenses. In addition, corporate service costs that are specifically related to Horizon Utilities are charged directly to Horizon Utilities. Historically, certain of these costs would have been charged by HUC through a management fee.

In addition, please see Horizon Utilities' response to VECC Question 24 a).

12. Re: J/T1/S4/p. 2

Please provide a detailed explanation of each of the CDM programs launched by Horizon.

Response:

Please see Horizon Utilities' response to VECC Question 44.

13. Re: J/T1/S4/p. 2

Please provide evidence to demonstrate that there is no double counting associated with Horizon's calculation of its CDM savings.

Response:

Please refer to Horizon Utilities' response to OEB Staff Questions 60 and 61 which provide the supporting documentation and calculations for LRAM and SSM.

14. Re: J/T1/S4/p. 2

Please indicate to what extent, if at all, Horizon did not use the assumptions set out in the Board's TRC Guide in calculating its SSM savings. To the extent other assumptions were made please demonstrate the validity of those assumptions.

Response:

Please see Horizon Utilities' response to OEB Staff Question 59 for supporting documentation on two programs which were included in its CDM plans and approved by the OEB, but are not clearly identified in the Assumptions and Measures list in the TRC guide.

15. Re: J/T1/S4/p. 2

With respect to the mass market programs please provide a detailed explanation of each program. In addition, please provide the detailed calculations as to how the LRAM and SSM amounts were calculated. Please include all assumptions.

Response:

For detailed explanations of mass marketing programs, please see Horizon Utilities' response to VECC Question 44.

For detailed calculations as to how the LRAM amount was calculated, please see Horizon Utilities' response to OEB Staff Question 60.

For detailed calculations as to how the SSM amount was calculated, please see Horizon Utilities' response to OEB Staff Question 61.

16. Re: E/T1/S4

Please provide a detailed analysis of all distribution cost savings associated with the Smart Meter Implementation Plan and indicate where those cost savings are expected to occur during the three year period 2008-2010. Please identify explicitly where in the 2008 OM&A and Capital budgets those savings are reflected.

Response:

Horizon Utilities has provided the calculations of savings associated with the Smart Meter Implementation Plan in the table below. Horizon Utilities' forecasted savings are based on the number and timing of smart meters installed. The savings are based on the reduction in meter reading costs. Horizon Utilities has not offset against savings the expected MDM/R transaction costs, yet to be determined.

The 2008 savings are reflected in the total of USoA accounts 5310 and 5340. The difference in the totals of these two accounts for 2007 and 2008, being $6,321,000 and $6,229,000 respectively, includes the projected saving from the implementation of smart meters.

					Projected Savings		
Start Date	Meters Installed	# Reads / Year	Total Reads	Costs	2008	2009	2010
2008	60,000	5	300,000	57,000	57,000	68,400	68,400
2008	80,000	1.5	120,000	22,800	22,800	91,200	91,200
2009	55,000	1.5	82,500	15,675		15,675	62,700
2010	14,000	3	42,000	7,980			7,980
					79,800	175,275	230,280

17. Re: E/T1/S4

Please provide a list of all smart metering costs incurred to date, both capital and OM&A. Please provide a schedule in the same format as that requested above setting out all forecast smart metering costs, both OM&A and capital expected for the duration of the plan.

Response:

Horizon Utilities has provided its smart meter capital and OM&A for the 2007 Bridge Year, the 2008 Test Year and projections for the years 2009 to 2010, in the table below.

Smart Metering Capital & Operational Summary

	2007 Q2 Projection	2008	2009	2010
Total Capital Budget	$7,907,832	$10,962,329	$ 7,880,915	$7,512,177
Operating Costs:				
Provincial MDMR (maintenance / lic)				
Collector Maintenance	-	186,239	211,009	239,073
Community relations expense	125,000	225,000	150,000	100,000
Computer maintenance fees	110,250	173,107	106,910	102,410
Scrap meters	57,607	104,337	50,000	50,000
Special meter reads	132,000	147,600	162,360	178,596
Staff Training	33,552	48,657	10,000	5,000
Phone/Cell Phone Costs	10,596	14,400	14,832	15,277
Consulting	340,160	35,000	25,000	25,000
Management Activities	51,696			-
Maintenance - meters	77,496		-	-
Legal fees	75,000	40,000	40,000	40,000
Safety Programs	7,008			-
Other operating exp variances	22,420	30,600	30,597	30,597
Total Operating Costs	1,042,785	1,004,940	800,708	785,953

18. Re: E/T1/S4

Please explain how Horizon intends to recover all costs related to the MDMR. Has Horizon currently included those costs its 2008 forecast? If so, please identify where.

Response:

Horizon Utilities has not included costs related to the MDM/R in its Application as these cost are unknown. Horizon Utilities has not determined a recovery mechanism for the MDM/R costs at this time and anticipates direction from the OEB on this matter.

19. Re: E/T1/S4

Please file Horizon's Smart Meter Implementation Plan.

Response:

Please refer to Horizon Utilities' response to OEB Staff Question 13.

20. Re: E/T1/S4

Please confirm that all of Horizon's smart metering costs in its application relate to "minimum functionality" as defined by the Board. If not, please explain what expenditures are not related to minimum functionality and provide a business case for those expenditures.

Response:

Horizon Utilities confirms that its capital and OM&A smart metering costs, included in its Application, relate to minimum functionality. Please refer to OEB Staff Questions 25 and 44 g. & h.

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ATTACHMENT A

REFERENCE: CCC QUESTION 7

ATTACHMENT A1

REFERENCE: CCC QUESTION 7

2008 BUDGET AND
THREE YEAR FINANCIAL PLAN
Presented to the Board of Directors
December 13, 2007

STRICTLY PRIVATE AND CONFIDENTIAL

TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY

The 2008 budget and three year plan (the "2008 Financial Plan") for Horizon Utilities Corporation ("Horizon") is presented herein, including attached Exhibits 1 through 7, to the Board of Directors ("Board") for its review and approval at its meeting scheduled for December 13, 2007. All dollar amounts are in millions unless otherwise noted.

Section 5.6 of the Shareholders Agreement governing Horizon requires that Horizon provide reporting to the shareholders which compares its actual results for each year to its Initial Business Plan ("IBP"). The IBP was provided in the document 2005 Budget and Three Year Financial Plan which was approved by the Horizon Board of Directors on May 26, 2005. The IBP incorporates, by reference, the original MergeCo Business Case, which was approved by the respective Boards of Directors of St. Catharines Hydro Inc. and Hamilton Utilities Corporation as the basis for the approval of the merger of the former Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc.

The financial prospects for Horizon provided in this 2008 Financial Plan (summarized in Exhibits 1 and 2) are presented as follows, along with financial results related to those fiscal years included in the IBP:

	Scope of IBP					
Table 1-1 ($MMs)	**2005A**	**2006A**	**2007F**	**2008B**	**2009F**	**2010F**
Net Income						
2008 Financial Plan	13.0	14.9	14.9	**15.4**	17.6	17.9
IBP	9.6	12.4	11.9	**n/a**	n/a	n/a
Difference - *Fav./ (Unfav.)*	3.4	2.5	3.0	**n/a**	n/a	n/a
Dividend Forecast*						
2008 Financial Plan	4.4	9.0	8.9	**9.2**	10.6	10.8
IBP	3.7	7.4	7.1	**n/a**	n/a	n/a
Difference - *Fav./ (Unfav.)*	0.7	2.6	2.8	**n/a**	n/a	n/a
*in respect of the fiscal year						
Capital Expenditures						
2008 Financial Plan	19.4	31.4	41.1	**40.1**	35.6	36.1
IBP	29.3	25.3	25.1	**n/a**	n/a	n/a
Difference - *(Fav.)/ Unfav.*	(9.9)	6.1	16.0	**n/a**	n/a	n/a
Fixed Assets and Working Capital	291.4	301.8	310.8	**324.0**	335.6	346.4
Return on Equity**	9.2%	10.0%	9.6%	**9.5%**	10.5%	10.2%

**Excludes contributed surplus

1.1 Analysis of 2008 to 2010 Forecast Results

The 2008 Financial Plan has been prepared on the basis of the existing businesses of Horizon with the exception of an anticipated purchase of a small portfolio of water heaters for proceeds of approximately $0.65MM.

There is no provision in this plan for additional mergers and acquisitions. The Board will receive a business plan for future mergers and acquisitions opportunities which will include related revised financial plans.

In addition to Table 1-1, Exhibit 2 – Summarized Forecast Financial Information provides summarized financial results and prospects for Horizon for 2007 to 2010. Substantially all of the profitability and investment of Horizon is attributable to its local electricity distribution ("LDC") operations which are regulated by the Ontario Energy Board ("OEB").

Through its application process for electricity distribution charges, the OEB permits LDCs to earn a reasonable rate of return on prudent investments and costs consistent with their regulated business activities. The approval of such charges is on a prospective basis and generally lags certain investments and costs of LDCs, which generally creates some "drag" on profitability.

The costs and investments underlying the 2008 Financial Plan are substantially the same as those provided for in the 2008 electricity distribution rate ("2008EDR") application submitted by Horizon to the OEB in October 2008. The Board has already received from management a presentation, materials, and a report related to the 2008EDR application, including costs and investments included in this 2008 Financial Plan.

The 2008EDR application provides for an additional $8.8MM of Revenue Requirement to compensate rising and new Horizon costs and investments, along with the regulated return on investment, as follows:

Capital and other strategic investments, inflation from December 31, 2004, less prior merger benefits	$4.1MM
Smart Meter Investment Plan (Exhibit 5)	3.3MM
Enterprise Resource Planning Software and related change management and implementation ("Project Fusion")	1.4MM
Total Increase in Revenue Requirement	$8.8MM

It is expected and assumed that distribution rates will be further adjusted in 2009 and 2010 to reflect both i) additional investments in Smart Meters and ii) inflation less a productivity factor.

Despite this increase in Revenue Requirement, effective May 1, 2008, net income is relatively flat in 2008 rising in 2009 and 2010. This trend reflects the "regulatory lag" between the time of Horizon investments in Project Fusion and Smart Meters and their recovery in electricity distribution charges. This notwithstanding, Horizon is expected to provide a return on shareholder equity of 9.5% to 10.5% over 2008 to 2010 which is in excess of the regulated return on equity target of approximately 8.8%.

The 2008 Financial Plan provides for asset growth of approximately $11MM per year which is largely attributable to the Smart Meter Investment Program (“SMIP”) and some modest growth in distribution system project capital for new customer connections and re-investment in aged infrastructure.

The 2008 Financial Plan provides for continued LDC cost control in support of competitive customer rates. However, the average cost per customer (Exhibit 3: Summarized Financial Information – Regulated Distribution Operations) is anticipated to increase by approximately 5.3% in 2008 and, thereafter, by inflation, subject to adjustments for non-recurring items. The increase in 2008 costs principally reflects the SMIP, Project FUSION, the addition of a focused Business Development function in Horizon ($0.5MM annually), and an increase in sustainable investment in forestry ($1.1MM).

Corporate leverage targets remain conservative relative to levels supported by regulated cash flows. Horizon has retained a conservative balance sheet recognizing its relative financial inflexibility with respect to equity capital and contingencies created by regulatory and political uncertainty. This notwithstanding, the adoption of a corporate leverage target of 55% to 60% over the next three years may provide Horizon with total financial flexibility of approximately $50MM to $100MM to effect a strategic investment (**Note that the level of financial flexibility is extremely sensitive to working capital assumptions**).

This financial forecast for Horizon is expected to strongly support sustainable re-investment in infrastructure assets and access to cost effective financial capital consistent with an A-range credit rating. It also continues to provide its distribution customers with a relatively low cost of service.

1.2 Analysis of 2005 to 2007 Actual and Forecast Results to IBP

The actual and anticipated results for the fiscal years 2005 to 2007 reflect three material conditions not included in the IBP:

1. A $34.9MM investment in Smart Meters over the period 2007-2010 (refer to Exhibit 5 for specific financial impacts);

2. An $8.0-$9.0MM investment in Project Fusion: a project to adopt best practices in asset and financial management based on new Enterprise Resource Planning software. This project was approved by the Board of Directors on May 28, 2007;

3. No adjustments to corporate leverage other than regular dividends in accordance with the dividend policy of Horizon. The IBP reflected annual adjustments to achieve corporate leverage targets of 55% debt in total capital.

The favourable income variance over the three year period 2005 to 2007, relative to the IBP, is primarily attributable to:

- an acceleration of re-basing the regulated Revenue Requirement of Horizon by one year effective May 1, 2006 (vs. 2007 in the IBP) and based on a pre-merger test year (2004) which provided additional revenue in 2006 and allowed Horizon shareholders to retain the merger savings for an additional year into 2008;

- a more favourable approach to re-basing the 2006 regulated Revenue Requirement than anticipated in the IBP;

- the anticipated implementation of an interim Incentive Regulation Mechanism ("IRM"), effective May 1, 2007, which adjusted the Revenue Requirement of Horizon, through its electricity distribution charges, by 1% representing inflation less a productivity index;

- operating expenses largely consistent with the IBP other than certain strategic investments in human resources, described in the 2006 Financial Plan, which, along with a shift of CDM expenditures into 2007, contribute to a $2.8MM unfavourable variance in 2007 regulated distribution operating expenses. The shift of CDM expenditures into 2007 is offset by the reversal of a $1.7MM reserve for such which was established in 2006. It is important to note that operating expenses in 2007 are largely consistent with those forecast in the 2006 Financial Plan.

Based on the above analysis, management continues to view the merger of St. Catharines Hydro Utilities Services Inc. and Hamilton Hydro Inc. as a financial success.

2.0 LINKING CORPORATE STRATEGY TO THE FINANCIAL PLAN

2.1 Mergers and Acquisitions Strategy ("M&A Strategy")

The net income reported in the 2008 Financial Plan does not include any costs related to specific merger and acquisition targets.

Horizon is presently incurring costs related to the development of a merger with Guelph Hydro Electric System Inc. ("GHESI"). At this time, and based on the likelihood that this merger will occur, such costs are provided for in the balance sheet in accordance with proper accounting. In the event that the merger is unsuccessful, these costs would be charged against income.

Horizon management also intends to create a borrowing program for Horizon in 2008 that provides it with financial autonomy and liquidity to support the M&A Strategy. The costs of such program are not expected to create significant expense in addition to that provided as interest expense in the 2008 Financial Plan.

2.2 Best Managed Utility Strategy

There are two key initiatives supporting this strategy in 2008:

- Project Fusion

- Asset Management Strategy ("AMS")

Project Fusion

Project Fusion is a project to adopt best practices in asset and financial management based on new Enterprise Resource Planning ("ERP") software. This project was approved by the Board of Directors on May 28, 2007 represents an $8.0MM to $9.0MM investment over 2007 and 2008. Horizon anticipates cost savings and avoidances commencing in 2009 that will largely mitigate the ongoing incremental operating costs of the new ERP software. The specific impacts of Project Fusion on the 2008 Financial Plan are provided in Exhibit 6.

AMS

The AMS will focus on the development of more systematic and coordinated activities and practices through which Horizon can optimally manage its assets; including associated performance, risks, and expenditures over their life cycle for the purpose of achieving customer, operational, wellness, and financial objectives. The 2008 Financial Plan includes approximately $0.2MM in operating and capital costs related to the AMS in 2008 and $0.6MM in each of 2009 and 2010.

2.3 Easy To Do Business With

There are two key initiatives supporting this strategy in 2008:

- Call Quality Program
- Customer Service Ambassador Program

Call Quality Program

Call quality is a top priority for the Customer Services Team. Comprehensive Call Quality programs drive increased customer satisfaction levels and cost containment. Our current Call Quality Program is tracked in a simple access database with minimal reporting capabilities. The 2008 Financial Plan provides for a software upgrade to our current system that will provide robust reporting at the individual Customer Service Representative ("CSR") level, which will further allow the identification of gaps in CSR development and training needs. With consistent monitoring and coaching, our customer care centre will continue to improve call quality, handle times, and increase true calls per hour per agent.

Customer Service Ambassador Program

The Ambassador Program utilizes front-line, non-supervisory staff in a volunteer capacity to assist their peers in delivering higher levels of customer satisfaction. This is done through Ambassador's facilitating six to eight departmental "make-it-happen" sessions with selected topics for discussion. Ambassadors from the Customer Services Team will be selected in early January to complete the facilitation training, with the peer sessions commencing early in the second quarter.

2.4 Great Place to Work

Horizon's Journey to Excellence Leadership Program was developed and successfully delivered in 2007. The initial focus of the program was all managers and supervisors with a reporting function. The Leadership Program will be extended in 2007 to include both new management and existing management without direct reports.

The commitment to enhancing competencies and providing development and learning opportunities continues with an enhanced Education Reimbursement Program; and training skills in the areas of project management and basic and enhanced PC skills.

3.0 RISKS TO ACHIEVING HORIZON FINANCIAL PLAN

The principal continuing business risks to the achievement of the Horizon Business Plan have been classified by management as follows in Table 3-1:

Risk	Likelihood of Realization	Potential Impact
Political/ Regulatory Interference	Certain	Major
Credit Loss	Moderate	Major-Catastrophic
Major Service Interruption	Moderate	Major-Catastrophic
Major Information Systems Failure	Moderate	Major-Catastrophic
Safety (Major Injury - Fatality)		
-Public	Rare	Major-Catastrophic
-Employee	Unlikely	Major-Catastrophic

These risks have been reviewed in the past with the Board and are unchanged from 2006. Management intends to commence a comprehensive Enterprise Risk Management process in 2008 in order to create a program for the ongoing identification and assessment of enterprise risks and development of suitable mitigation techniques.

3.1 Regulatory Uncertainty

The Board has received regular updates regarding the regulatory environment within which Horizon operates. The following regulatory issues may have a material impact on the financial prospects of LDCs such as Horizon:

- *3rd Generation Incentive Regulation Mechanism* ("3G-IRM") - which is expected to utilize cost and service quality benchmarks as bases for adjusting LDC rates in a manner that motivates shareholders to manage costs and service quality in a prudent manner. This mechanism is expected to be punitive to shareholders of relatively poor performing LDCs. 3G-IRM is not expected to be implemented until 2009;

- *Smart Meter Revenue Adjustment Mechanism* ("SMRAM") – the OEB has not yet resolved a methodology for adjusting LDC rates on a timely basis to reflect significant investments in their respective SMIPs. It is anticipated that LDC rates will be adjusted at least annually to reflect incremental investments in Smart Meters. This could be accomplished as a component of IRM or as a separate rate process;

- *Integrated Power System Plan ("IPSP")* – the IPSP of the Ontario Power Authority ("OPA") could be an opportunity for LDCs and/ or their affiliates to invest or otherwise participate in the development of local distributed electricity generation;

- *Conservation and Demand Management ("CDM")* – the CDM programs of the OPA continue to represent opportunities for LDCs to generate additional profitability through the execution of OPA CDM programs.

4.0 ANALYSIS OF 2008 FINANCIAL PLAN

The financial results and forecasts for Horizon comprise the regulated electricity distribution operations (EDO) and Billing and Energy Services (BES) (Exhibits 4-1 to 4-3). The contribution of each of these business units to consolidated financial results is summarized in Exhibit 2.

4.1 Electricity Distribution and Other Regulated Revenue (Revenue Requirement)

Electricity Distribution Revenue comprises regular fixed and variable distribution charges billed to customers. Other Regulated Revenue comprises, among other items, ancillary charges for use of or connection to the distribution system such as late payment and NSF charges, connection charges, disconnection, and other service charges.

These categories of revenue, as reflected in the 2008 Financial Plan (Exhibit 4-1), are regulated by the OEB as Revenue Requirement and computed in such manner that, conceptually, provides Horizon with the regulated Maximum Allowable Return on Equity ("MARE"), which is presently 9.00%.

The MARE is adjusted each year in January based on the forward interest rate yield curve for 10 and 30 year Government of Canada Bonds plus a risk premium. It appears likely that the MARE will fall modestly in 2008 to an estimated 8.80% from its present level of 9.00%. Horizon has assumed an MARE in its 2008EDR application of 8.86%.

The 2008 Financial Plan assumes the following **material** adjustments to regulated LDC revenue:

2008

- The 2008EDR application is approved as filed.

2009

- 3G-IRM yields a 1% general adjustment to electricity distribution rates, effective May 1, 2009;
- An additional $1.4MM of Revenue Requirement related to incremental Smart Meter investments for 2009, effective May 1, 2009 (for a total of $4.6MM of Revenue Requirement related to Smart Meters);

2010

- 3G-IRM yields a 1% general adjustment to electricity distribution rates, effective May 1, 2010;
- An additional $1.1MM of Revenue Requirement related to incremental Smart Meter investments for 2009, effective May 1, 2010 (for a total of $5.7MM of Revenue Requirement related to Smart Meters);

4.2 BES Revenue (Exhibit 4-1)

This revenue stream principally comprises:

- Water meter to cash charges to the City of Hamilton under a five year service level agreement, subject to inflationary price escalation in each year of its term ($3.3MM to $3.5MM);
- Water heater rental revenue ($0.7MM);
- Miscellaneous billing and other charges to affiliates ($0.2MM).

The contribution of BES to net income is summarized on Exhibit 2.

4.3 Operating Expenses

The operating expense trend included in the 2008 Financial Plan is provided in Exhibits 2, 3, and 3-1.

<u>4.3.1 Reconciliation of 2007 Forecast to 2008 Budgeted Operating Expenses</u>

The favourable 2007 operating expense budget variances have been reviewed with the Board of Directors. Forecast 2007 operating expenses reconcile to those provided in the 2008 budget as follows in Table 4-1:

Changes to Regulated Operating Expenses

Salaries and benefits	
Wage and benefit increases (3%)	$0.6
2007 new hires and vacancies	0.4
New FTEs in 2008	0.2
Total salaries and benefits	1.2
Tree Trimming	1.1
OEB regulatory costs and proceedings	0.5
Business development costs	0.4
AMS	0.2
Legal and Consulting Fees – 2008EDR	(0.5)
CDM	(0.3)
Corporate branding and advertising	(0.3)
Other	(0.1)
2008 operating expense variance to 2007 forecast	2.2
2007 Forecast operating expenses (regulated operations only)	37.6
2008 Budget (regulated operations only before Smart Meters and Project FUSION)	39.8
Project Fusion (change of ($0.4MM))	1.3
Smart Meters (change of $0.4MM)	1.4
2008 Budget for Regulated Operations (Exhibit 3)	42.5
BES costs	3.0
Intra-Horizon management fee eliminations	(0.6)
2008 Operating Expense Budget (Horizon Total – Exhibit 4-1)	$44.9

BES costs supporting unregulated water and water heater rental billing activities have increased by $0.9MM relative to the 2007 Forecast which is reconciled as follows in Table 4-2:

2007 FTE vacancies (Director and Supervisor)	$0.3
Water heater rental operating costs	0.3
Wage and benefit increases	0.2
Other	0.1
2007 operating expense variance to 2006 forecast	0.9
2006 Forecast	2.1
2007 Budget	$3.0

Forecast operating expenses in 2009 and 2010 reflect inflationary increases of 2% per year, changes in the level of Smart Meter and Project Fusion expenditures (Exhibits 5 and 6), and are net of other minor non-recurring 2008 expenditures.

4.4 Capital Expenditures (All Exhibits)

The capital expenditures forecast in the 2007 Financial Plan comprises the following:

Table 4-3 ($MMs)	**2007**	**2008**	**2009**	**2010**
Recurring Capital Program				
Distribution Plant Capital				
Customer Demand	5.9	**4.9**	5.0	5.2
Renewal	8.4	**8.8**	9.0	9.2
Security	3.9	**4.9**	5.0	5.1
Capacity	1.1	**2.3**	2.3	2.4
Reliability	0.9	**0.4**	0.4	0.4
Regulatory Requirements	0.0	**0.3**	0.3	0.3
Stations	0.3	**0.2**	0.2	0.2
Total Distribution Plant Capital	20.5	**21.8**	22.2	22.8
Other Recurring Capital	3.4	**2.6**	2.9	3.0
Total Recurring Capital Program	23.9	**24.4**	25.1	25.8
Non-Recurring Capital Program:				
Smart Meter investment	7.9	**11.0**	8.1	7.9
Hydro-One Wholesale Meters	0.4	**1.4**	1.4	1.4
Transportation	1.0	**1.2**	0.0	0.0
Project FUSION	3.8	**0.9**	0.0	0.0
Buildings and Structures	1.9	**0.5**	0.6	0.4
Other	0.5	**0.7**	0.2	0.0
Asset Management	0.0	**0.0**	0.3	0.2
GIS and Outage Management	0.0	**0.0**	0.1	0.3
Telephone/IVR upgrades	0.4	**0.0**	0.1	0.1
CDM	1.3	**0.0**	0.0	0.0
Total Non-Recurring Capital Program	17.2	**15.7**	10.5	10.3
Total Capital Program	41.1	**40.1**	35.6	36.1

4.4.1 Distribution Plant Capital

Distribution Plant Capital represents investment in the "wires" portion of infrastructure including wires, poles, and transformers.

Distribution Plant Capital is planned and prioritized using the Capital Projects Prioritization Model (CPPM) according to the following principles:

1. **Safety** – improvements to plant;
2. **Capacity** – meeting future demand;
3. **System security** – single contingencies/ availability;
4. **System optimization** – efficient operations;
5. **Plant renewal** – end of useful life replacements.

Capital projects related to addressing customer growth, identified service deficiencies, and legal/ regulatory requirements are given immediate priority.

Distribution Plant Capital is further elaborated within the following categories:

Customer Demand Capital ($4.9MM)

Projects in this pool include installations of service wires and transformers to connect new customers to the electrical distribution system, new subdivision development, roadway relocations and upstream/enhancement projects. Horizon is obligated under the *Distribution System Code* ("DSC") to connect new customer services. The work planned for 2008 includes approximately 20 subdivisions comprising 1,400 new residential services in those subdivisions; 30 commercial services under 50 kW; and 26 customer padmount services or customer substations. Subdivision infrastructure includes chambers, ducts, primary, and secondary cables. Residential services in those subdivisions includes installation of service wire to homes.

The work planned for 2008 also includes relocation projects requiring Horizon to relocate its distribution plant to accommodate other utility work or municipal or provincial roadwork. Examples of such work include road widening and closures; bridge re-builds; requests from other utilities; and customer requests for plant relocation, either temporary or permanent.

Renewal Capital ($8.8MM)

These projects involve the replacement of deteriorated or damaged distribution structures and electrical equipment. Renewal projects can involve either the complete rebuilding of deteriorated lines or the selective replacement of line components. Renewal decisions are based on the need to maintain the integrity, safety and reliability of the system. Renewal projects may be done at the existing voltage level or, in the case of 4.16 kV or 8.3 kV plant needing renewal, the plant may be converted to 13.8 kV or to 27.6 kV wherever possible. The work planned for 2008 includes approximately 40 rebuild projects.

Approximately $5.9MM of the Renewal Capital budget is "proactive" based on known infrastructure renewal requirements.

The remaining $2.9MM is "reactive" based on unplanned failures of overhead and underground system components which are corrected to restore service to customers. The budget for "Reactive" Renewal Capital is based on Horizon's historical experience.

Security Projects (4.9MM)

The primary driver for these security projects is that, in certain portions of Horizon's distribution system, the service interruptions caused by equipment failures cannot be restored through switching to alternative feeders or substations, or cannot be restored without unduly overloading and causing harm to other parts of the network. Security projects may involve the complete rebuilding of lines, voltage conversions, installing switching equipment, or the construction of backup loops on the distribution system. Security projects are scored for the purpose of setting priorities based on the risk they present to the reliability of the system. Each project is scored to rank the projects that mitigate the most risk for the least cost. Risk is determined based on the probability of failure and the impact that failure has in terms of its contribution to SAIDI. The contribution to SAIDI is based on the customer base served by the failed asset and the estimated repair time.

The work planned for 2008 includes approximately nine security projects, of which $2.2MM of the $4.9MM budget is targeted for the conversion of the Halson substation feeder, in Ancaster.

Capacity Capital ($2.3MM)

Capacity projects comprise the construction of new feeders, equipment, or conductor upgrades on existing feeders (both overhead and underground), and the installation of sections of feeders to accommodate peak demand growth.

The need to increase the capacity of the distribution system arises primarily due to load growth caused by 1) new customer connections and service upgrades; and 2) incremental growth in the demand of existing customers. Projects in this pool represent increases in distribution capacity that benefit many customers. Capacity increases permit Horizon Utilities to operate equipment within optimal rating parameters and to operate the distribution system according to accepted industry practices, allowing for the improvement or maintenance of service reliability and unimpeded customer growth.

The work planned for 2008 consists of 2 projects, although approximately $2MM of this budget will be consumed by one project to correct for the current overloading of the Mohawk Transformer Station ("TS") by installing a new feeder from the Horning TS into the Mohawk TS service area which will allow Horizon to reduce the load at Mohawk TS. The new feeder will run from Horning TS to the Mohawk Road and West 5th intersection.

Reliability Capital ($0.4MM)

Reliability projects consist of smaller investments made to improve the reliability of specific feeders exhibiting unacceptable reliability. Also included is the addition of switching points on the system to reduce the impact of planned service interruptions to perform equipment maintenance (both overhead and underground).

The work planned for 2008 consists of many small projects yet to be determined.

Regulatory Requirements ($0.3MM)

Horizon currently has long-term load transfer arrangements with Hydro One Networks Inc. ("HONI"), Burlington Hydro, Niagara on the Lake Hydro, and Peninsula West Utilities. The DSC contemplates the elimination of load transfers. The elimination may be implemented through the expansion of Horizon's facilities to the load transfer customers, or the transfer of assets between physical and geographic distributors. If necessary, service area amendment applications would be made to the OEB.

The work planned by Horizon for 2008 consists of nine construction projects to eliminate long-term load transfers involving approximately 150 customers by extending Horizon's distribution system to serve those customers.

Stations ($0.2MM)

Stations projects involve switching and other equipment associated with the receiving and distribution of electricity at terminal stations; as well as the transformation, switching, and other equipment required for stepping down distribution voltages to lower distribution voltages. Typically, all equipment within the confines of the station area that is used from the high voltage feeder through to the low voltage connection outside the station and the substation building and enclosures on the property is included in the scope of this type of project.

Approximately six projects are planned for 2008.

Recurring capital expenditures in 2009 and 2010 have been adjusted to reflect specific priorities and 3% inflation.

4.4.2 Other Recurring Capital

Other Recurring Capital includes fleet, meters, certain recurring facilities, information systems etc.,.

Other Recurring Capital expenditures in 2009 and 2010 have been adjusted to reflect specific priorities and 3% inflation.

4.4.3 Non-Recurring Capital

Non-Recurring Capital generally reflects specific enterprise projects and anticipated refurbishments to facilities. Certain of these projects are further elaborated as follows:

Smart Meter Investment Plan ($11.0MM) (Exhibit 5)

Horizon adopted its SMIP to comply with the energy policy of the Government of Ontario ("GO") which requires the installation of Smart Meters in all residential and commercial buildings by 2010.

Following a successful Smart Meter pilot project of 8,000 installations in 2006, Horizon commenced its mass deployment plan in 2007 with an anticipated 52,000 installations by the end of such fiscal year, representing a capital investment of approximately $8.0MM. Horizon will continue its mass deployment plan in 2008 with an anticipated 82,000 of additional installations, representing a capital investment of approximately $11.0MM. Horizon anticipates completing all 240,000 Smart Meter installations in its current service territory by 2010 at which time its aggregate unamortized capital investment will be approximately $35MM.

Horizon anticipates recovering its investment in Smart Meters, including the related MARE, over a fifteen year period, which is coincident with the expected useful life of these assets. This notwithstanding, the OEB has only provided for the recovery of Smart Meter investments through to the end of 2008, within the 2008EDR application process. The 2008 Financial Plan assumes that the OEB will increase customer rates for incremental Smart Meter investments in subsequent years through either the annual IRM adjustment or a separate annual SMRAM (this is a material assumption within the 2008 Financial Plan).

Hydro One Networks Inc. Wholesale Meter Conversions ($1.4MM)

The *Electricity Act, 1998 (Ontario)* vested the newly formed Independent Market Operator, which has since been succeeded by the Independent Electricity System Operator ("IESO"), with the power to create certain rules governing the conduct of Ontario's electricity industry including the settlement of transactions for the supply and demand of electricity ("Market Rules"). These Market Rules required LDCs such as Horizon to assume the responsibility for data obtained from wholesale meters then owned by HONI.

At the time of the Market Rules changes noted above, Horizon decided to assume ownership of and responsibility for these wholesale meter points. Many of these meters and related equipment are located in HONI substations which are not accessible to Horizon.

The Wholesale Meter Conversion program of Horizon provides for the maintenance, replacement, and refurbishment of the wholesale meters acquired from HONI. These conversions are required as existing meters expire or otherwise require replacement or repair.

The budget for Wholesale Meter upgrades is based on known meter expiration dates provided by the IESO. Horizon is presently non-compliant with the IESO Market Rules for Wholesale Meter Conversions and has recently been sanctioned by the IESO for such. The cause of this non-compliance is due to poor co-operation from HONI in providing access and required construction crews to complete the conversions.

A number of projects originally scheduled for 2007 were deferred to the 2008 calendar year due to other Hydro One commitments thereby resulting in an increase to the 2008 budget. Major wholesale meter upgrade projects scheduled for completion in 2008 are for the Lake, Beach, and Carlton 3 Transformer Stations.

Transportation ($1.2MM)

The non-recurring transportation budget includes the following:

- a Vac truck - $0.380MM;
- two centre-mounted diggers/ derricks at $0.273MM each;
- a 68 foot elevator double bucket for a new truck at $0.279MM.

Project FUSION ($0.9MM)

Project FUSION is expected to be complete in the second quarter of 2008 resulting in an additional $0.9MM of capital expenditure representing software and hardware purchases.

4.5 Corporate Finance

4.5.1 Uses and Sources of Financial Liquidity

Horizon presently requires financial liquidity to support the following:

- net incremental investments in electricity distribution and related infrastructure;
- working capital requirements comprising timing differences between receivables and payables, the disposition of regulatory assets and liabilities, inventory, and employee future benefits;
- strategic investments such as mergers including related monetization of the municipal debt obligations of merger tarkgets;
- dividend policy.

The principal sources of financing presently available to Horizon are:

- Cash flow provided by operations which principally comprises net income plus non-cash income items such as depreciation and employee future benefits expense;
- Modest cash balances, anticipated to be approximately $8MM-$9MM on average;
- $55MM of credit facilities, presently undrawn, available through Hamilton Utilities Corporation (“HUC”) and expiring January 31, 2009;
- Customer deposits for electricity purchases;
- $116MM promissory note payable to HUC and due July 2012;
- Shareholder equity comprising common share capital and retained earnings.

The assumptions in the 2008 Financial Plan regarding financial leverage, rates of interest, working capital requirements, and dividends are consistent with the IBP, 2007 Financial Plan, and corporate finance policy for Horizon.

Within the scope of its current businesses and dividend policy, Horizon has very modest requirements for additional debt capital over the next three years averaging about $6.5MM per year and supported by growth in retained earnings.

However, the reliance of Horizon on HUC for debt capital creates both strategic and liquidity risk, particularly if Horizon continues to realize on its M&A Strategy. For example, a merger with GHESI may create an immediate requirement for Horizon to monetize the $40MM note owed by GHESI to the City of Guelph. Such monetization would require Horizon to raise an additional $40MM of debt capital.

The Board has received and approved a recommendation of management to create a borrowing program for Horizon that will provide it with financial autonomy and flexibility to support business strategy and general corporate borrowing requirements.

Following a merger with GHESI in 2008, it is likely that Horizon will have an immediate need to issue $50MM to $75MM of new debt.

4.5.2 Adequacy of Maximum Allowable Return on Equity and Capital Structure for LDCs

There is wide consensus among the Coalition of Large Distributors and its advisors that the return on equity afforded to Ontario LDCs is quite low compared to other jurisdictions for comparable utilities, which range from 10% to 13%. It is too early to judge whether this creates a false economy for the energy sector in Ontario to attract long-term sustainable investment. Ontario's regulated natural gas distribution sector, which is far more evolved than the LDC sector, has not experienced any financial liquidity issues based on similar MARE to LDCs. In the short-term, and subject to the usual political and regulatory risks, larger rated LDCs such as Horizon have more than adequate financial liquidity and creditworthiness to support their recurring infrastructure investment programs.

In addition, Horizon has sufficient financial flexibility to support anticipated large but non-recurring or infrequent investments such as Smart Meters and Project FUSION.

Medium to smaller sized LDCs are beginning to experience financial pressure in moving towards more aggressive regulated financial capital structures required by OEB regulation and the impacts of certain investments such as Smart Meters. Such financial pressures are expected to contribute to further rationalization of the LDC sector.

4.6 Payments in Lieu of Taxes (PILs) (Exhibit 7)

PILs are computed in accordance with the provisions of the Federal Income Tax Act and the Ontario Corporations Tax Act and comprise the following:

- Income Taxes computed on net income for tax purposes, which represents pre-tax accounting income adjusted for both timing and permanent differences between deductions and income inclusions for tax versus accounting purposes;

- Ontario Capital Tax (OCT) is essentially a tax on corporate sources of financing and certain non-taxable reserves ("Taxable Capital"). OCT is permitted as a deduction from income for tax purposes. The OCT is computed on taxable capital exceeding a certain threshold. The GO intends to phase out this tax over the next several years.

The former Federal Large Corporations Tax, a federal tax similar to OCT but not deductible from income for tax purposes, was eliminated in 2006.

The Federal Government released its Economic Statement on October 30, 2007 which provided for further reductions in the Federal Corporate Tax rate, in addition to those previously announced in its last budget. The Combined Federal and Corporate Income Tax Rate is now forecast to decline from its present level of 36.12% to 29.00% by 2012. Previously, it was anticipated that this rate would decline to 32.50% by 2012. As a result of a minority Federal Government, these changes are not viewed as being substantially enacted from a financial reporting perspective, but represent a contingency in the event of such enactment. In the event these changes are enacted, Horizon and its customers would benefit modestly from such over the next few years. However, the decline in the Federal Corporate Tax rate would also result in an immediate $453 impairment in the Future PILs asset of Horizon, reflecting a reduction in value of certain future tax deductions. Such impairment would be reflected as an increase in Income and Large corporations taxes at the time the changes provided in the Economic Statement are enacted.

The rates of Income Taxes and OCT are provided in Exhibit 7 under the assumption that the changes to the Federal Corporate Tax rate provided in the Economic Statement noted above are enacted effective January 1, 2008.

PILs are remitted to Ontario Electricity Financial Corporation (OEFC), a crown corporation of GO, and directed towards the repayment of “stranded debt” held by OEFC and inherited from the former Ontario Hydro prior to its restructuring into Hydro One and Ontario Power Generation.

Summarized Historical and Forecast Financial Information

(000s)

	Actual		Forecast			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
OPERATING RESULTS						
Net Income (NI)						
Regulated Operations (LDC) NI	$ 12,185	$ 13,848	$ 14,046	**$ 14,814**	$ 16,951	$ 17,140
Billing and Energy Services (BES) NI	836	1,070	836	**580**	683	795
Total NI (all operations)	$ 13,021	$ 14,918	$ 14,882	**$ 15,394**	$ 17,634	$ 17,935
FINANCIAL POSITION						
Balance Sheet						
Actual Regulated Operations (LDC) Rate Base	$ 290,530	$ 301,026	$ 310,123	**$ 322,456**	$ 334,053	$ 344,915
Billing and Energy Services Assets	856	775	638	**1,592**	1,514	1,440
Total Assets	$ 291,386	$ 301,801	$ 310,761	**$ 324,048**	$ 335,567	$ 346,355
Interest bearing debt obligations (IBD)	$ 135,166	$ 137,092	$ 140,100	**$ 147,229**	$ 151,695	$ 155,309
Shareholder's equity (SE)	156,220	164,708	170,661	**176,819**	183,872	191,046
IBD and SE	$ 291,386	$ 301,800	$ 310,761	**$ 324,048**	$ 335,567	$ 346,355
DIVIDENDS AND RECAPITALIZATION ADJUSTMENTS						
Regular Dividends (@ lesser 60% DPR or available cash)						
HUC	$ 789	$ 5,073	$ 7,045	**$ 7,287**	$ 8,348	$ 8,490
SCHUSI	211	1,357	1,884	**1,949**	2,232	2,271
Total regular dividends	1,000	6,430	8,929	**9,236**	10,580	10,761
Recapitalization adjustments:						
In favour of HUC on merger	18,205	-	-	**-**	-	-
In favour of SCHI on merger	8,727	-	-	**-**	-	-
Total recapitalization adjustments	26,931	-	-	**-**	-	-
Total dividends	$ 27,931	$ 6,430	$ 8,929	**$ 9,236**	$ 10,580	$ 10,761
VITAL STATISTICS						
Net income	$ 13,021	$ 14,918	$ 14,882	**$ 15,394**	$ 17,634	$ 17,935
Total Funded Debt	$ 135,166	$ 137,092	$ 140,100	**$ 147,229**	$ 151,695	$ 155,309
Closing equity (less Contributed Surplus)	$ 141,003	$ 149,491	$ 155,444	**$ 161,602**	$ 168,655	$ 175,829
FFO (recurring)	$ 33,269	$ 36,802	$ 37,900	**$ 41,167**	$ 44,822	$ 46,326
Capital Expenditures (excl Goodwill)	$ 19,398	$ 31,425	$ 41,205	**$ 41,459**	$ 35,907	$ 36,379
Return on closing equity (excl. Contrib Surplus)	9.23%	9.98%	9.57%	**9.53%**	10.46%	10.20%
FFO: Interest Coverage	4.62: 1	4.88: 1	4.93: 1	**5.13: 1**	5.38: 1	5.46: 1
FFO: Total Funded Debt	.25: 1	.27: 1	.27: 1	**.28: 1**	.30: 1	.30: 1
FFO: Capital Expenditures (excl Goodwill)	1.72: 1	1.17: 1	.92: 1	**.99: 1**	1.25: 1	1.27: 1
Debt: Capital* (excl. Contributed Surplus)	48.94%	47.84%	47.40%	**47.67%**	47.35%	46.90%

horizon UTILITIES Looking beyond

Exh 2

Summarized Forecast Financial Information

Combined Results

(000s)

	Forecast			
	2007	**2008**	**2009**	**2010**
NET INCOME				
Regulated Electricity Distribution				
Base (Including Wholesale Meters)	14,989	15,773	16,806	16,696
ERP	(1,086)	(877)	127	319
Sub-total	13,902	14,896	16,932	17,015
Smart Meters	57	11	482	716
Leverage adjustment on SM and ERP	87	(93)	(463)	(591)
Total regulated	14,046	14,814	16,951	17,140
Unregulated Billing and Energy Services	836	580	683	795
Net Income	14,882	15,394	17,634	17,935
Forecast Dividends	8,929	9,236	10,580	10,761
RETURN ON EQUITY				
Estimated Regulated Return on Equity	9.00%	8.86%	8.86%	8.86%
Actual (Based on forecast leverage)	9.57%	9.53%	10.46%	10.20%
FINANCIAL POSITION				
Fixed and Working Capital Assets				
Regulated Electricity Distribution				
Base	298,761	300,827	306,689	312,564
Smart Meters	7,550	17,654	24,324	30,246
ERP	3,811	3,975	3,040	2,105
Total Regulated Electricity Distribution	310,122	322,456	334,053	344,915
Billing and Energy Services	639	1,592	1,514	1,440
Total Fixed and Working Capital Assets	310,761	324,048	335,567	346,355
Liabilities and Shareholder's Equity				
Interest bearing debt obligations (IBD)	140,100	147,229	151,695	155,309
Shareholder's equity (SE)	170,661	176,819	183,872	191,046
IBD and SE	310,761	324,048	335,567	346,355
DEBT: TOTAL CAPITAL				
Base	47.34%	42.71%	41.44%	40.22%
Base + Smart Meters	47.34%	46.73%	46.60%	46.35%
Base + Smart Meters + ERP	47.40%	47.67%	47.35%	46.90%
TOTAL FINANCIAL FLEXIBILITY*				
@55% Debt: Total Capital				50,000
@60% Debt: Total Capital				100,000

*Extremely sensitive to working capital assumptions

Summarized Forecast Financial Information

Regulated Distribution Operations

(000s)

	Forecast			
	2007	**2008**	**2009**	**2010**
REVENUE REQUIREMENTS				
Annualized RR (Rate Year)				
Base	89,588	96,525	96,973	97,259
Rate Rider - SSM/ LRAM	-	289	289	289
Rate Rider - Smart Meter Variance Account		(1,170)	139	915
Rate Rider - Regulatory Variances	-	(2,460)	(2,460)	(2,460)
Base RR net of Rate Riders	89,588	93,184	94,941	96,004
Hydro One Wholesale Meters	18	153	341	516
ERP	-	1,352	1,352	1,352
Sub-total	89,606	94,689	96,634	97,871
Smart Meters	1,515	3,481	4,654	5,762
Total	91,121	98,170	101,288	103,634
Percentage RR Increase Year-over-Year				
Base		7.61%	0.46%	0.28%
Base net of Rate Riders		3.95%	1.93%	1.17%
Hydro One Wholesale Meters		0.15%	0.21%	0.19%
ERP		1.48%	0.00%	0.00%
Sub-total		5.58%	2.13%	1.36%
Smart Meters		2.16%	1.20%	1.09%
Total		7.74%	3.33%	2.45%
Regulated Rate Base (Estimate)				
Working Capital	68,813	69,443	69,489	69,822
Fixed Assets (Average)	278,425	295,353	307,518	316,347
Total	347,237	364,796	377,007	386,169
OPERATING COSTS				
Fiscal Year Costs				
Operations	19,504	21,342	22,040	22,623
Billing and collecting	7,788	7,363	7,510	7,660
General and administrative	10,323	11,087	10,975	11,195
Base	37,615	39,792	40,525	41,478
ERP	1,650	1,344	74	(163)
Sub-total	39,265	41,136	40,599	41,315
Smart Meters	985	1,372	1,161	1,168
Total	40,250	42,508	41,760	42,483
Per Customer				
Base	$ 162.16	$ 170.15	$ 171.87	$ 175.39
ERP	7.11	5.75	0.31	(0.69)
Sub-total	169.27	175.90	172.18	174.70
Smart Meters	4.25	5.87	4.92	4.94
Total	$ 173.52	$ 181.77	$ 177.10	$ 179.64
Year over Year % Increase				
Base		4.60%	0.95%	1.99%
ERP		-0.78%	-2.99%	-0.56%
Sub-total		3.82%	-2.05%	1.42%
Smart Meters		0.93%	-0.52%	0.01%
Total		4.75%	-2.57%	1.43%

Results of Operations

(000s)

	Actual		Forecast			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Revenue						
Electricity distribution	$ 79,773	$ 79,609	$ 85,641	**$ 93,224**	$ 97,023	$ 98,635
Billing and Energy Services	3,168	3,293	3,486	**4,169**	4,304	4,445
Other regulated	4,387	6,124	6,659	**4,946**	5,095	5,248
	87,328	89,026	95,786	**102,339**	106,423	108,328
Expenses						
Operating expenses	39,844	36,667	41,860	**44,915**	44,148	44,850
Depreciation and amortization	19,269	19,945	21,522	**24,127**	25,588	26,791
Capital tax	870	890	847	**832**	683	471
Operating expenses and depreciation	59,983	57,502	64,229	**69,874**	70,419	72,112
Income from operating activities	27,345	31,524	31,557	**32,465**	36,003	36,216
Interest income	1,004	1,046	534	**198**	107	107
Interest expense	(9,182)	(9,483)	(9,655)	**(9,966)**	(10,239)	(10,389)
Income before taxes	19,167	23,087	22,436	**22,697**	25,871	25,934
Income and Large Corporations taxes	(6,146)	(8,169)	(7,554)	**(7,304)**	(8,238)	(7,999)
Net income	$ 13,021	$ 14,918	$ 14,882	**$ 15,394**	$ 17,634	$ 17,935

Balance Sheet

(000s)

	Actual		Forecast			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
ASSETS						
Cash	$ 35,629	$ 19,616	$ 13,739	**$ 8,540**	$ 8,540	$ 8,540
Net working capital	(12,077)	4,810	1,460	**4,260**	7,060	9,860
Fixed/ long-term assets	283,092	292,977	311,564	**327,650**	336,769	345,157
Total assets	306,644	317,403	326,763	**340,450**	352,369	363,557
Less: Employee future benefits	(15,258)	(15,602)	(16,002)	**(16,402)**	(16,802)	(17,202)
Total assets funded by debt and equity capital	$ 291,386	$ 301,801	$ 310,761	**$ 324,048**	$ 335,567	$ 346,355
LIABILITIES AND SHAREHOLDER'S EQUITY						
Customer deposits	$ 19,166	$ 21,092	$ 24,100	**$ 24,100**	$ 24,100	$ 24,100
Long-term borrowings	116,000	116,000	116,000	**123,129**	127,595	131,209
Total interest bearing debt	135,166	137,092	140,100	**147,229**	151,695	155,309
Shareholder's equity						
Share capital	138,810	138,810	138,810	**138,810**	138,810	138,810
Retained earnings	17,410	25,898	31,851	**38,009**	45,062	52,236
Total shareholder's equity	156,220	164,708	170,661	**176,819**	183,872	191,046
Total liabilities and shareholder's equity	$ 291,386	$ 301,800	$ 310,761	**$ 324,048**	$ 335,567	$ 346,355
% Funded Debt in Capital Structure	48.94%	47.84%	47.40%	**47.67%**	47.35%	46.90%

Exh 4-3

Statement of Cash Flow
(000s)

	Actual		Forecast			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
OPERATING ACTIVITIES						
Net income for the year	$ 13,021	$ 14,918	$ 14,882	**$ 15,394**	$ 17,634	$ 17,935
Add (deduct) non-cash items:						
Depreciation and amortization	20,248	21,540	22,618	**25,373**	26,788	27,991
Net change in employee future benefits	331	344	400	**400**	400	400
Net change in other liabilities and assets	25,223	(16,887)	3,350	**(2,800)**	(2,800)	(2,800)
Cash provided by operating activities	58,823	19,915	41,250	**38,367**	42,022	43,526
INVESTING ACTIVITIES						
Additions to fixed assets	(38,321)	(31,425)	(41,205)	**(41,459)**	(35,907)	(36,379)
Cash used in investing activities	(38,321)	(31,425)	(41,205)	**(41,459)**	(35,907)	(36,379)
FINANCING ACTIVITIES						
Net change in long-term borrowings	(29,123)	-	-	**7,129**	4,465	3,614
Net change in customer deposits	601	1,926	3,008	**-**	-	-
Contributed surplus on merger	15,217	-	-	**-**	-	-
Dividends to shareholders	(7,991)	(6,430)	(8,929)	**(9,236)**	(10,580)	(10,761)
Recapitalization adjustments	(26,932)	-	-	**-**	(0)	(0)
Cash provided by (used in) financing activities	(48,228)	(4,504)	(5,921)	**(2,107)**	(6,115)	(7,147)
Net increase (decrease) in cash during the year	(27,726)	(16,014)	(5,876)	**(5,199)**	0	(0)
Cash, beginning of period	63,355	35,629	19,615	**13,739**	8,540	8,540
Cash, end of period	$ 35,629	$ 19,615	$ 13,739	**$ 8,540**	$ 8,540	$ 8,540

Exh 5

2008 FINANCIAL PLAN
IMPACT OF SMART METER PLAN
(000s)

			Forecast	
	2007	**2008**	**2009**	**2010**
Income Statement				
Distribution Revenue (Fiscal Year Basis)	$ 1,515	2,826	4,263	5,393
Distribution Revenue (Rate Year Basis)	$ 1,515	$ 3,481	$ 4,654	$ 5,762
Operating expenses	985	1,372	1,161	1,168
Depreciation	355	858	1,447	1,981
Capital taxes	22	50	55	45
	1,362	2,280	2,663	3,194
Income (loss) from operations	154	1,201	1,992	2,568
Interest expense	66	529	882	1,146
Income before taxes	88	672	1,110	1,422
Income and large corporations taxes	31	225	366	455
Net income (loss) (Rate Year Basis)	$ 57	$ 447	$ 744	$ 967
Net income (loss) (Fiscal Year Basis)	$ 57	$ 11	$ 482	$ 716
Aggregate Variance Account Impact				
Revenue recognition	$ 1,515	$ 2,826	$ 4,263	$ 5,393
Collected in rates*	2,685	1,517	3,487	5,673
Difference	$ (1,170)	$ 1,309	$ 777	$ (280)
Cumulative difference	$ (1,170)	$ 139	$ 915	$ 635
*Based on approved/ filed EDR applications				
Investment in Smart Meters				
Number of installations	51,826	82,013	57,390	48,592
Opening	$ -	$ 7,550	$ 17,654	$ 24,324
Current	7,905	10,962	8,117	7,903
Amortization	(355)	(858)	(1,447)	(1,981)
Closing	$ 7,550	$ 17,654	$ 24,324	$ 30,246
Required borrowings	$ 4,530	$ 10,592	$ 14,594	$ 18,148
Required equity	3,020	7,062	9,730	12,098
Total	$ 7,550	$ 17,654	$ 24,324	$ 30,246

Exh 6

2008 FINANCIAL PLAN
IMPACT OF PROJECT FUSION
(000s)

	Forecast			
	2007	2008	2009	2010
Income Statement				
Distribution Revenue (Imputed Annual)	$ 1,754	$ 2,427	$ 1,349	$ 1,017
General and administrative	1,650	1,344	74	(163)
Depreciation	-	701	935	935
Capital taxes	11	11	7	3
	1,661	2,056	1,016	775
Income (loss) from operations	93	371	333	242
Interest expense	40	164	147	108
Income before taxes	53	207	186	134
Income and large corporations taxes	19	70	61	43
Net income (loss) (Imputed Annual)	$ 34	$ 138	$ 124	$ 91
Distribution Revenue (Financial Statements)	$ -	$ 901	$ 1,352	$ 1,352
Net income (loss) (Financial Statements)	$ (1,086)	$ (877)	$ 127	$ 319
Investment in ERP				
Opening	$ -	$ 3,811	$ 3,975	$ 3,040
Current	3,811	865	-	-
Amortization	-	(701)	(935)	(935)
Closing	$ 3,811	$ 3,975	$ 3,040	$ 2,105
Required borrowings	$ 2,287	$ 2,385	$ 1,824	$ 1,263
Required equity	1,524	1,590	1,216	842
Total	$ 3,811	$ 3,975	$ 3,040	$ 2,105

horizon UTILITIES Looking beyond...

2008 FINANCIAL PLAN
FORECAST PILS RATES

	2005	2006	2007	2008	2009	2010
Combined income tax rate	36.120%	36.120%	36.120%	33.500%	33.000%	32.000%
Federal Part III	0.175%	[redacted]				
Federal Part III Capital Deduction	$ 50,000					
Ontario Capital Tax	0.300%	0.300%	0.285%	0.285%	0.225%	0.150%
Ontario Capital Tax Deduction	$ 7,500	$ 10,000	$ 12,500	$ 15,000	$ 15,000	$ 15,000

ATTACHMENT A2

REFERENCE: CCC QUESTION 7

2008 Budget and Three Year Plan

Presentation to

Board of Directors

December 13, 2007

Approach

- Enterprise Level Review
- Focus on financial KPIs
- Strategic implications
- Impact of new investment programs
- Customer and shareholder expectations

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Assumptions

- Estimated Revenue Requirements assuming 8.86% regulated ROE
  - Imputed for Smart Meters and adjusted annually
  - Stranded Meter Assets amortize naturally through rate base
  - ERP investment recovered over useful life
- Re-base 2008 with 1% IRM 2009-10
- 2% inflation in 2009 and 2010
- Payment of regular dividends
- No special dividends

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Summary of Observations

- Overall cost per Dx customer increase of $6 over next three years (~1.2% CAGR)
- Initial Business Plan for previous merger materially overachieved
- Shareholder returns exceed regulated return and consistent with 2007 plan
- Borrowing requirement - ~$25MM to 2010
- Financial flexibility - ~$50MM- ~$100MM

Corporate Results

Profitability/ Return Trend

	Forecast			
	2007	2008	2009	2010
NET INCOME				
Regulated Electricity Distribution				
Base (Including Wholesale Meters)	14,989	15,773	16,806	16,696
ERP	(1,086)	(877)	127	319
Sub-total	13,902	14,896	16,932	17,015
Smart Meters	57	11	482	716
Leverage adjustment on SM and ERP	87	(93)	(463)	(591)
Total regulated	14,046	14,814	16,951	17,140
Unregulated Billing and Energy Services	836	580	683	795
Net Income	14,882	15,394	17,634	17,935
Forecast Dividends	8,929	9,236	10,580	10,761
RETURN ON EQUITY				
Estimated Regulated Return on Equity	9.00%	8.86%	8.86%	8.86%
Actual (Based on forecast leverage)	9.57%	9.53%	10.46%	10.20%

- 2007 includes CDM reserve
- Favourable trend through 2010

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Financial Position

	Forecast			
	2007	2008	2009	2010
FINANCIAL POSITION				
Fixed and Working Capital Assets				
Regulated Electricity Distribution				
Base	298,761	300,827	306,689	312,564
Smart Meters	7,550	17,654	24,324	30,246
ERP	3,811	3,975	3,040	2,105
Total Regulated Electricity Distribution	310,122	322,456	334,053	344,915
Billing and Energy Services	639	1,592	1,514	1,440
Total Fixed and Working Capital Assets	310,761	324,048	335,567	346,355
Liabilities and Shareholder's Equity				
Interest bearing debt obligations (IBD)	140,100	147,229	151,695	155,309
Shareholder's equity (SE)	170,661	176,819	183,872	191,046
IBD and SE	310,761	324,048	335,567	346,355

- Growth principally from Smart Meters and ERP
- All growth internally financed

Financial Flexibility

	Forecast			
	2007	2008	2009	2010
DEBT: TOTAL CAPITAL				
Base	47.34%	42.71%	41.44%	40.22%
Base + Smart Meters	47.34%	46.73%	46.60%	46.35%
Base + Smart Meters + ERP	47.40%	47.67%	47.35%	46.90%
TOTAL FINANCIAL FLEXIBILITY*				
@55% Debt: Total Capital	[redacted]	[redacted]	[redacted]	50,000
@60% Debt: Total Capital	[redacted]	[redacted]	[redacted]	100,000

*Extremely sensitive to working capital assumptions

- Flexibility to lever $50MM-$100MM of strategic investment (acquisition, etc.,.)
- SM and ERP consume $19MM equity capital by 2010

horizon UTILITIES Looking beyond...

Regulated Electricity Distribution Results

Rate Impacts

	Forecast			
	2007	2008	2009	2010
REVENUE REQUIREMENTS				
Annualized RR (Rate Year)				
Base	89,588	96,525	96,973	97,259
Rate Rider - SSM/ LRAM	-	289	289	289
Rate Rider - Smart Meter Variance Account		(1,170)	139	915
Rate Rider - Regulatory Variances	-	(2,460)	(2,460)	(2,460)
Base RR net of Rate Riders	89,588	93,184	94,941	96,004
Hydro One Wholesale Meters	18	153	341	516
ERP	-	1,352	1,352	1,352
Sub-total	89,606	94,689	96,634	97,871
Smart Meters	1,515	3,481	4,654	5,762
Total	91,121	98,170	101,288	103,634
Percentage RR Increase Year-over-Year				
Base		7.61%	0.46%	0.28%
Base net of Rate Riders		3.95%	1.93%	1.17%
Hydro One Wholesale Meters		0.15%	0.21%	0.19%
ERP		1.48%	0.00%	0.00%
Sub-total		5.58%	2.13%	1.36%
Smart Meters		2.16%	1.20%	1.09%
Total		7.74%	3.33%	2.45%

- Driven by growth in investments (SM, ERP, Project and other) and costs (Tree Trimming, OEB, Asset Mgmt Plan)

Cost per Customer Impacts

	Forecast			
	2007	2008	2009	2010
OPERATING COSTS				
Per Customer				
Base	$ 162.16	$ 170.15	$ 171.87	$ 175.39
ERP	7.11	5.75	0.31	(0.69)
Sub-total	169.27	175.90	172.18	174.70
Smart Meters	4.25	5.87	4.92	4.94
Total	$ 173.52	$ 181.77	$ 177.10	$ 179.64
Year over Year % Increase				
Base		4.60%	0.95%	1.99%
ERP		-0.78%	-2.99%	-0.56%
Sub-total		3.82%	-2.05%	1.42%
Smart Meters		0.93%	-0.52%	0.01%
Total		4.75%	-2.57%	1.43%

- Tree Trimming up $1.1MM in ’08 ($4.65/ cust)
- Bus Dev costs ~0.6MM ($2.54/ cust)
- Base Depreciation increase ~$0.8MM/ year

horizon UTILITIES Looking beyond...

CapExp - Recurring

($MMs)	2007	2008	2009	2010
Recurring Capital Program				
Distribution Plant Capital				
Customer Demand	5.9	**4.9**	5.0	5.2
Renewal	8.4	**8.8**	9.0	9.2
Security	3.9	**4.9**	5.0	5.1
Capacity	1.1	**2.3**	2.3	2.4
Reliability	0.9	**0.4**	0.4	0.4
Regulatory Requirements	0.0	**0.3**	0.3	0.3
Stations	0.3	**0.2**	0.2	0.2
Total Distribution Plant Capital	20.5	**21.8**	22.2	22.8
Other Recurring Capital	3.4	**2.6**	2.9	3.0
Total Recurring Capital Program	23.9	**24.4**	25.1	25.8

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CapExp – Non-Recurring

($MMs)	2007	2008	2009	2010
Non-Recurring Capital Program:				
Smart Meter investment	7.9	**11.0**	8.1	7.9
Hydro-One Wholesale Meters	0.4	**1.4**	1.4	1.4
Transportation	1.0	**1.2**	0.0	0.0
Project FUSION	3.8	**0.9**	0.0	0.0
Buildings and Structures	1.9	**0.5**	0.6	0.4
Other	0.5	**0.7**	0.2	0.0
Asset Management	0.0	**0.0**	0.3	0.2
GIS and Outage Management	0.0	**0.0**	0.1	0.3
Telephone/IVR upgrades	0.4	**0.0**	0.1	0.1
CDM	1.3	**0.0**	0.0	0.0
Total Non-Recurring Capital Program	17.2	**15.7**	10.5	10.3