

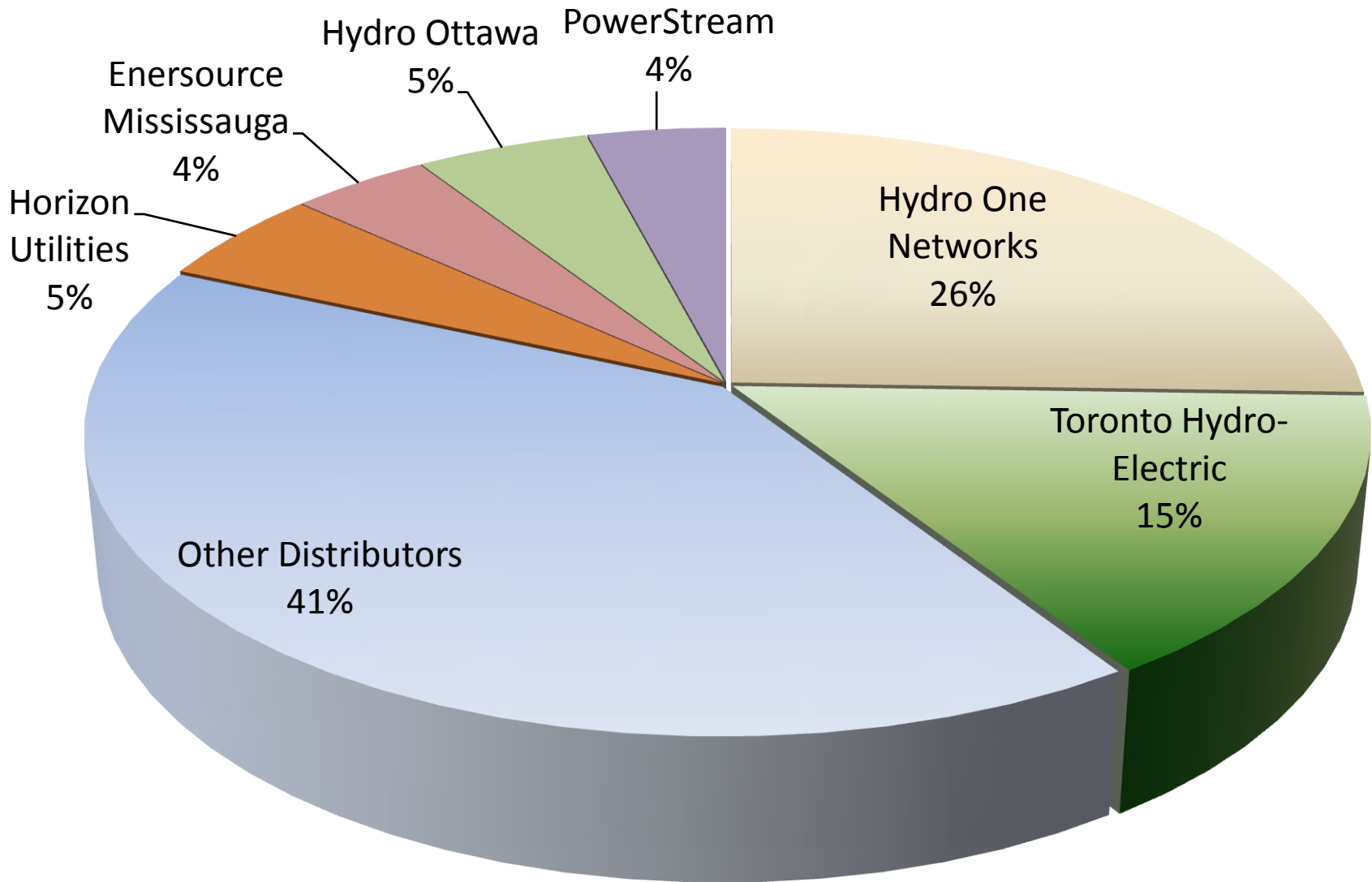
Guelph Hydro/Horizon Utilities Merger Analysis

Guelph Chamber of Commerce represents 825 businesses in Guelph, representing over 40,000 employees

This report has been prepared following :

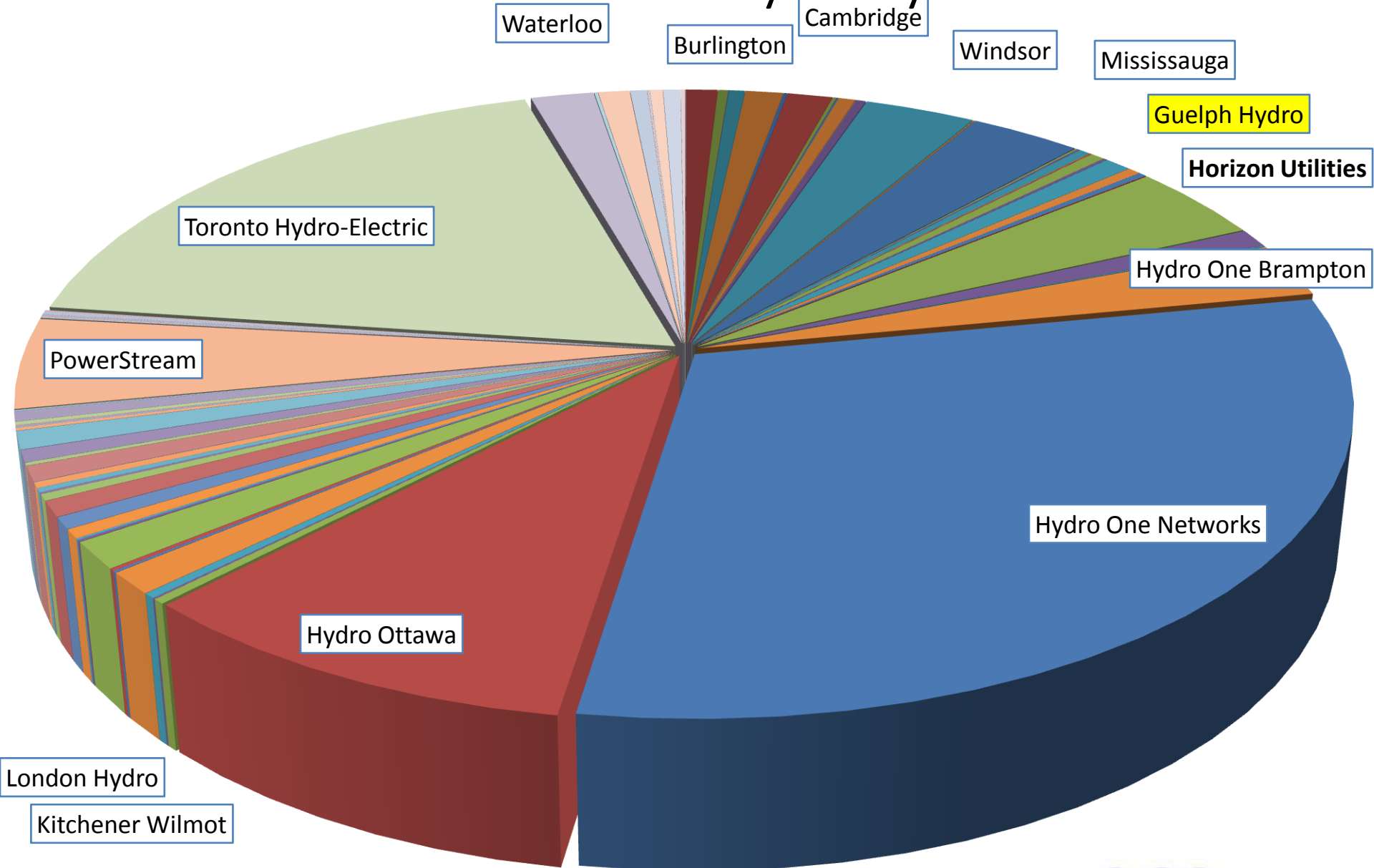
- Consultation by our ten person Advocacy Committee representing retail, industrial, education, legal, personnel, agri-technology, financial, and institutional sectors. Committee members consulted their peers.
- Chambers of Commerce were consulted in St Catharine's and Hamilton regarding corporate citizenry of Horizon, service levels, and meeting forecast revenue and expense targets
- Guelph Hydro Board of Directors were met with twice for clarification of issues
- Guelph Hydro Management was consulted
- The public was polled on our website, including members and non-members
- The Guelph Chamber of Commerce held a public meeting with our members and members of Horizon and Guelph Hydro boards of directors

Utility Customer Base Comparison



Horizon is positioned well in terms of customer base served.

Net Income by Utility



Guelph Hydro is a small player by income, limiting investment.

Utilities Sorted by Asset Size

	Assets	Net Income	ROE	Customers	Residential	% Residential
Hydro One Networks	4,558,756	125,593	8.41%	1,163,961	1,055,204	91%
Toronto Hydro-Electric	2,268,971	75,985	11.08%	678,106	599,080	88%
Enersource Mississauga	582,466	13,301	7.28%	182,596	161,749	89%
PowerStream	575,548	19,482	10.14%	228,471	200,794	88%
Horizon Utilities	393,585	16,561	10.13%	231,499	209,370	90%
London Hydro	250,268	5,800	4.57%	140,007	126,516	90%
Kitchener Wilmot	198,069	4,696	5.26%	80,940	72,866	90%
Burlington Hydro	132,362	4,534	7.99%	60,749	55,007	91%
Waterloo North	124,004	3,761	7.88%	48,777	43,013	88%
Cambridge	117,314	5,362	9.71%	48,619	43,373	89%
Guelph Hydro	106,720	3,241	5.75%	46,276	42,220	91%
Centre Wellington	16,660	152	2.03%	6,158	5,466	89%
Wellington North	5,296	110	5.71%	3,454	2,947	85%

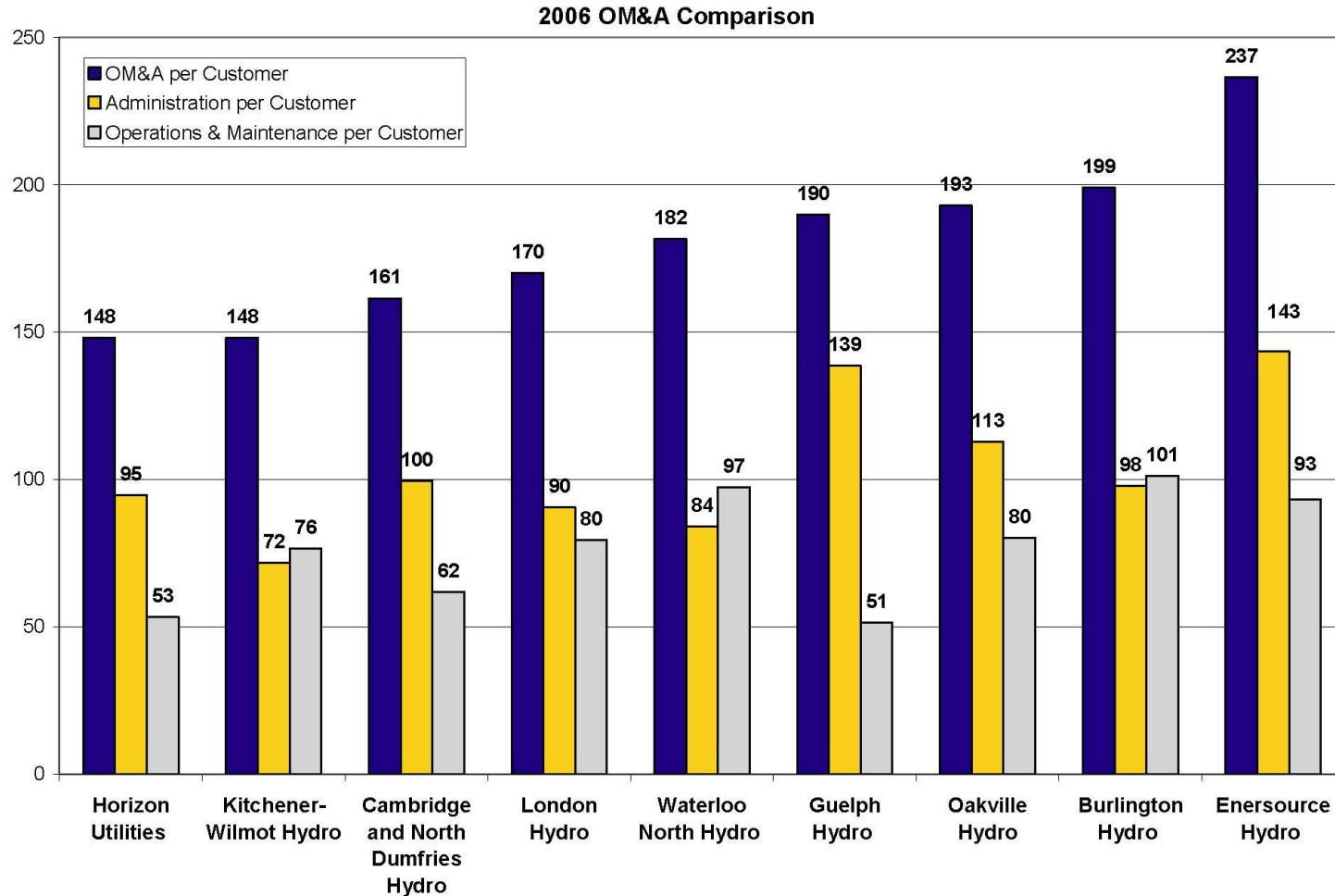
- A merger with Horizon would position Guelph within the top utilities in Ontario in terms of combined customer base, asset size, and income. Horizon has experience in mergers, unlike some of the other local utilities.
- Horizon’s ROE is within the top three in Ontario, combined ROE projections and rate structure would need to be investigated.
- Guelph has the lowest % residential in the province putting pressure on residential rates in the future.

Distribution Rate Comparison

Customer Cost -- 2008 Rate Orders: \$/month – distribution only – with riders*	Residential 1,000 kWh	Small Commercial 13,000 kWh	Light Manufacturing 350 kW, 40,000 kWh	Manufacturing 3,500 kW, 2,000,000 kWh	Heavy Industry 8500 kW, 4,800,000 kWh
Guelph Hydro**	\$32.16	\$238.15	\$1,331.77	\$8,453.68	\$21,611.88
Horizon Utilities**	\$27.81	\$127.07	\$873.88	\$6,316.76	\$20,062.85
Burlington Hydro	\$27.94	\$212.54	\$973.28	\$9,137.45	N/A
Cambridge N. Dumfries Hydro	\$23.45	\$183.10	\$1,276.36	\$10,770.85	\$19,976.20
Enersource Hydro Mississauga	\$23.31	\$168.50	\$1,390.84	\$8,125.18	\$36,329.15
Kitchener-Wilmot Hydro	\$22.36	\$142.67	\$1,464.05	\$12,543.23	\$26,342.75
London Hydro	\$25.27	\$159.97	\$689.56	\$4,756.84	\$25,732.70
Oakville Hydro	\$29.23	\$159.97	\$876.60	\$9,196.78	\$54,995.17
Waterloo North Hydro	\$28.70	\$170.72	\$1,460.08	\$12,886.70	\$30,383.60

- Guelph Hydro has comparatively high distribution costs relative to other utilities, Horizon is more competitive across the range of residential and commercial and industrial users.
- Distribution costs are only part of the comparison, but an important consideration when looking forward.

Efficiency Comparisons: Operations, Maintenance, and Administration per Customer



•Guelph Hydro has comparatively high administration costs relative to other utilities, Horizon is competitive in both administration and in operations and maintenance costs.

Guelph Chamber of Commerce Operational Comments

- **Service and Rates:**
 - The Horizon cost and rate projections have met the projections presented prior to merger in other areas. Cost and rate projections should be made to Council by Horizon. Initial comparisons look favourable.
- **Local Employment Impacts:**
 - Contract talks need to focus on the support of local contractors currently doing civil and other work for Guelph Hydro, based on their local expertise and value.
- **Engineering Support:**
 - Having additional demand management team members will assist Guelph Chamber of Commerce members to take part in cost savings opportunities. Having additional engineering staff will also help our members to identify cost savings programs requiring additional application and monitoring available via the larger administrative staff at Horizon.
- **Conservation and Demand Management:**
 - Guelph becoming the environmental champion for Horizon is the result of our work on the Community Energy Plan, and will offer additional innovation possibilities for our area, as well as research possibilities to make Guelph a centre for excellence of conservation and demand management.
- **Long Term Strategic Plan:**
 - Longer term strategic positioning will give Guelph a competitive negotiation advantage when other utilities in our area look at merging with larger utilities. The additional mass of the merged entity will offer higher returns on equity and financial stability for the City of Guelph and at the same time help to stabilize our utility rates for making local businesses more competitive.
- **Experience in Mergers:**
 - Horizon has a proven track record on concluding successful mergers which should be considered as an advantage in current discussions.

Guelph Chamber of Commerce Strategic Comments

- **Merged Utility Structure:**
 - Management and employee teams from both Guelph Hydro and Horizon have reviewed best practices for each utility. The merger teams have recommended the new corporate structure to management.
 - The merged organization has been structured from the bottom up versus structure being imposed, facilitating the job of joining workforces.
- **Timing of Merger:**
 - Negotiations put Guelph two years ahead of competitive utilities that may consider future mergers.
 - Some manufacturing is feeling pressure from the downturn in the USA economy, and the merge would provide medium and long term relief on utility costs, as well as protecting against rate fluctuations.
- **Regional Advantage:**
 - The merged utility would be an attractive option for nearby utilities, benefiting Guelph's future negotiating position.
 - Rather than joining other local initiatives, Guelph would be leading
- **Attraction of Business:**
 - The excellent financial performance of Horizon, combined with local engineering advantages is a drawing card for businesses looking to locate in Guelph
- **Risk:**
 - Historically the assumption is doing nothing is less risk than changing. History shows not changing and adapting provides the higher risk.
 - Historically opposition is stacked against change, with the most vocal opinions calling for the status quo.

Guelph Chamber of Commerce Recommendations

- 1) The financial presentation shows stronger performance from Horizon than from Guelph Hydro or most other utilities. The financial arguments favour merger.
- 2) The merger provides opportunity for enhanced engineering support, that will benefit Guelph businesses looking for cost savings programs via conservation and new technologies.
- 3) The management preparation of the merged company has been from the bottom up, which reduces the problems inherent in bringing two organizations together.
- 4) The mass of the merged entity will position the utility for changing economic times ahead, providing better opportunity for stabilizing rates and investing in infrastructure.

CONCLUSION

The Board of Guelph Hydro has been charged by the Corporation of the City of Guelph to make recommendations based upon what is best for the City. The thoroughness of the preparations and reports from the Board shows they have acted very well within their mandate and should be congratulated for a job well done. Following our own due diligence, the Guelph Chamber of Commerce supports the recommendations of the Guelph Hydro Board of Directors to merge Guelph Hydro with Horizon Utilities.