



Horizon Utilities Corporation

## Report to Our Communities

Hamilton • St. Catharines • 2005

# Merger Successfully Completed in 22 Weeks!

## Established New Structure Quickly

- Management team in place within one month of merger announcement

## Improved Financials

- \$16.6 million one-time dividend payment to City of Hamilton
- \$8.2 million one-time dividend payment to City of St. Catharines
- \$29 million loan repayment made to St. Catharines Hydro Utilities Inc.
- \$6.5 million of regular dividends paid out in respect of 2005 earnings on a pro-forma basis
- Achieved in excess of \$5 million in savings
- Total assets increased to \$412.2 million
- 2005 net income totalled \$12.5 million
- Strengthened the organization's financial performance and future prospects

## Streamlined Operations

- Amalgamation of billing system completed within one month of merger
- Financial systems integrated within five months of merger

## Enjoyed Stable Labour / Employee Relations

- Unions merged under one collective agreement and new three-year contract signed with no disruption of service

## Achieved an Exceptional Health and Safety Record

- Zero lost time accidents
- Recognized for our excellent safety record by the Electrical and Utilities Safety Association
- Recognized by Hamilton Healthy Living for our efforts to create a healthy work environment

## Enhanced Customer Satisfaction

- Achieved an average rate reduction of 2.6% in 2006
- Expanded emergency service response for St. Catharines customers to 24-hours-a-day, seven days a week
- Improved results on annual customer survey
  - Hamilton – 81% of customers are satisfied with services provided, an increase of 8% over 2004 results
  - St. Catharines – 83% of customers are satisfied with our service
  - Close to 80% of customers rate the company as “efficient”

## Maintained Continued Reliability of the Electricity Distribution System

- 90% of customers report their electricity service is “reliable”
- On average, customers experienced less than 40 minutes of unplanned outages during the year
- \$16.4 million invested to upgrade and expand the electricity distribution network in both communities.
- Volume of electricity distributed increased to 5,837 gigawatt hours



### Expanded Social Responsibility Programs

- Energy conservation initiatives expanded in both communities
- Worked with public school boards in Hamilton and St. Catharines to teach students about Electrical Safety and Conservation
- Supported Share the Warmth as well as various social service agencies and charitable organizations in both communities



Never look down to test the ground before taking your next step; only he who keeps his eye fixed on the far horizon will find his right road.

Dag Hammarskjold (1905 - 1961)

Markings: Excerpts from The Diary of Dag Hammarskjold

## Message from the President



In March 2005, Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. merged to form Horizon Utilities Corporation, which moved into position as Ontario's third largest municipally owned electricity distributor. We now serve 230,000 residential and commercial customers in St. Catharines and Hamilton.

Although mergers can be long-drawn out processes, I am extremely pleased to report that the merger of Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. was accomplished with speed, efficiency, and a minimum of disruption to customers.

We did a lot of things right during this merger. We agreed up front on key merger principles, prepared a sound business plan, and committed ourselves to timelines that ensured a quick transition. Ultimately, we achieved the results expected – over \$5 million in annual savings.

The entire process went so smoothly we suggest that our merger can serve as a model to other utility companies that are contemplating such a move. I am proud of our results and would welcome the opportunity to share our experience.

Helping businesses prosper and providing home comfort to families are important responsibilities – ones that I can assure you are taken very seriously by all of our employees as they perform their duties. I firmly believe our ability to merge these two organizations quickly speaks volumes about the flexibility and dedication of our employees, and certainly bodes well for the future success of Horizon Utilities and for the communities we serve.

We still have lots of challenges and change ahead of us, but certain fundamentals will remain constant. Delivering safe, reliable and cost-effective electricity distribution services, providing unparalleled customer value, and helping to create a culture of energy conservation in Ontario are key goals that form the foundation of our new organization.

We hope you enjoy reading this first-ever Horizon Utilities Community Report and learning about the company and the people who deliver power into your homes and businesses in St. Catharines and Hamilton.

**Max Cananzi**  
President and Chief Executive Officer  
Horizon Utilities Corporation

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# Bringing Together Two Communities

## Merger Successfully Completed

The merger and formation of Horizon Utilities have been a great success! We are very pleased to report to our customers and our shareholders, Hamilton Utilities Corporation and St. Catharines Hydro Inc., the significant financial benefits that have been realized from the merger.

Subsequent to the merger, the City of Hamilton received a one-time dividend payment of \$16.6 million from Horizon Utilities. The City of St. Catharines received a similar payment of \$8.2 million. These one-time payments were made possible due to the reduced level of shareholder investment necessary for one larger, combined utility. In addition, Horizon Utilities delivered payments to shareholders of \$6.5 million of regular dividends paid out in respect of 2005 earnings on a pro-forma basis.

Our customers will benefit from the merger through lower electricity distribution costs than those that would otherwise have been required in the absence of the merger.

These shareholder and customer benefits are available from the immediate and substantial cost savings realized from the merger – in excess of \$5 million of operational savings per annum resulting from improved efficiencies, economies of scale, and reductions in labour costs. For example, by eliminating redundant management and administrative staff, we were able to reduce payroll costs by 15 per cent through a mix of retirements, attrition, and voluntary separation packages. Customers will be pleased to know, however, that construction and maintenance staff will be maintained

in both communities at levels that will continue to provide our usual high level of service and reliability.

In July, ratification of a collective agreement with the International Brotherhood of Electrical Workers (IBEW) successfully brought together the unionized workforce of each of the former utilities under one common contract without any disruption of service. This new three-year agreement features a first-ever, gain-sharing incentive plan for IBEW members.



## Proudly Supporting the Communities We Serve

In 2005, employees at Horizon Utilities joined with employees of Hamilton Utilities Corporation and its operating affiliates to support local charities through payroll deductions. These monies were pooled with a corporate donation and, together, provided support for the United Way and more than 50 social service agencies and other charities in St. Catharines and Hamilton.

“Share the Warmth” benefited from an insert in Horizon utility bills that encouraged customers to make a donation to this not-for-profit organization that purchases heat and energy on behalf of families, seniors, terminally ill individuals, and disabled persons living at or near the poverty level.

## Distributing Electricity to Our Communities

The reliable delivery of electricity and responsive customer service are undoubtedly the key measures of our success. Simply put, when customers switch on a light or computer they expect the electricity needed to be there, instantaneously.



We believe that we have a special obligation in our communities to help educate the public on electricity safety and energy conservation. In 2005, we organized 34 Electrical Safety and Conservation presentations at local schools, and worked with the Children's Discovery Centre of Niagara to provide exhibits and educational materials. We also took our powerWISE® energy conservation message to the public by participating in Santa Claus Parades in Hamilton and St. Catharines, Port Authority Days in Hamilton, the Ribfest in St. Catharines, and the Dundas Cactus Festival Energy Forum.

In 2005, a total of 5,837\* gigawatt hours of electricity were distributed to customers, up from 4,320\*\* gigawatt hours in 2004. Although a tornado touched down in Hamilton and other severe weather systems passed through the area during the year, outages were kept to a minimum and emergencies were dealt with promptly. On average, Horizon Utilities' customers experienced less than 40 minutes of unplanned outages during the year.

Horizon Utilities invested \$16.4 million to upgrade and expand the electricity distribution network in both communities and spent \$6.3 million on maintenance to support reliable supply. The maintenance of our distribution network includes a forestry program initiated to reduce outages and maintain public safety. By 2008, Horizon Utilities will be operating on an industry-best-practice, three-year tree-trimming cycle in both St. Catharines and Hamilton.

Prior to the merger, customers in St. Catharines did not have 24-hour monitoring of the area's electricity distribution network. This service is now available to customers in St. Catharines as a result of the merger including access to a larger and combined Network Control Centre, with operations in both Hamilton and St. Catharines. This means that if a windstorm severs power lines in St. Catharines at two o'clock on a Sunday morning, our Network Control Centre staff will immediately know about it and will be able to dispatch emergency repair crews without delay.

In April 2005, a survey of our customers conducted in Hamilton and St. Catharines revealed that 90 per cent of our ratepayers consider delivery of our service "reliable" and more than 80 per cent are satisfied with our level of customer service. Although we were very pleased with these results we hope to improve them. In 2006 and beyond, we will be strategically investing in infrastructure and advanced information systems that, together, will drive the company to new levels of operational excellence.

We believe the formation of Horizon Utilities showcases the substantial benefits that can be realized when local electricity distribution companies merge to take advantage of economies of scale. We will continue to explore strategic alliances, mergers, joint ventures, and other innovative ways to deliver our services in support of providing the best value to our customers through the safe, responsive and reliable delivery of electricity to their homes and businesses.

\* Two months Hamilton Hydro Inc. plus 10 months Horizon Utilities Corporation

\*\* 12 months Hamilton Hydro Inc.

# Changes in the Energy Industry

## Challenges Ahead

There can be no doubt that Ontario's electricity industry is at one of the most challenging points in its history. For almost 100 years, from the beginning of the age of electricity in the late 1800s up to the mid-1990s, Ontario consumers enjoyed a reliable supply of cheap and abundant hydro-electric power. As a result, Ontario's per capita electricity consumption is among the highest in the world.

Today, however, things are different. The province of Ontario is confronted with a shortfall in electricity generation. As well, energy prices are rising. Two years ago, in response to this situation, the Ontario Energy Board introduced a two-tier energy pricing system that more closely reflects the ongoing true cost of electricity in Ontario. This move is anticipated to bring investment in power generation to Ontario while sending a signal to consumers to conserve electricity.

Horizon Utilities does not produce or retail electricity. However, as a local distribution company, we play a critical role in the process of delivering electricity to homes and businesses in the communities we serve. As the third largest municipally owned distribution company in Ontario, we are proud of the leadership role we are playing in the Ontario energy industry. We represent the interests of our customers on matters of public energy policy through our extensive participation on industry councils.

## Creating an Energy Conservation Culture in Ontario

Energy conservation is vital to a healthy electricity industry and a fundamental strategy in Ontario's energy policy. Horizon Utilities is proud to have been the first licensed user of the powerWISE® energy conservation brand, created by Hamilton Utilities Corporation in 2003. The powerWISE® name has steadily gained recognition in the Hamilton community over the last two years. Soon, this brand will enjoy province-wide recognition, now that five of



## Residential Programs

A mass "Lighten Your Electricity Bill" coupon campaign was held in the fall of 2005 in cooperation with Canadian Tire. Along with their regular bill, customers received a coupon for discounts on the purchase of energy efficient products such as set-back thermostats, compact fluorescent light bulbs, ceiling fans, light emitting diode (LED) Christmas lights, and indoor and outdoor timers. In 2005, 14,920 coupons were redeemed.

The company also initiated a "Kill-a-Watt Meter Lending Program" with public libraries in Hamilton and St. Catharines. Members of the public may borrow these devices to determine the amount of power consumed by their appliances and the cost to run them.

Ontario's other largest utilities, as well as the Ontario Ministry of Energy, have licensed the brand for their conservation initiatives.

Horizon Utilities is also actively testing smart meters, in support of the Ontario Ministry of Energy's objective to have 800,000 smart meters installed in the province by 2007, with full deployment for all electricity consumers by 2010. These meters record electricity consumption in finite periods during each day. They will provide customers with a tool to help them conserve electricity and alter their usage pattern to fit their budgets.

At Horizon Utilities, we firmly believe Ontario residents and businesses need to embrace the idea of electricity conservation through changes in behaviour and the utilization of energy efficient technologies. Over the coming year, you will see us out in the communities we serve working hard to help create a proactive energy conservation culture in Ontario.

Residential, low-income housing, and commercial programs were among the energy conservation initiatives we implemented in 2005. The details are below.



## 2007 Conservation Targets

- Five per cent reduction in peak electricity demand
- 10 per cent reduction in electricity consumption

## Long-Term Target

- Create a conservation culture

Chief Energy Conservation Officer – 2005 Annual Report  
Ontario Power Authority

## Low Income Housing Programs

In 2005, working in partnership with Hamilton Community Housing, crews of summer students installed approximately 33,000 compact fluorescent light bulbs in 3,400 social housing units in Hamilton. This initiative reduced energy consumption in these buildings by four million kilowatt hours. As a result, disabled, elderly, and low-income tenants in these units will be enjoying substantially reduced energy bills.

Horizon Utilities and Green Venture held workshops and seminars to teach people about energy conservation and sign them up for home energy audits.

## Commercial Programs

The powerWISE® Energy Audit Project provides an incentive for customers with a monthly electrical peak load exceeding 50 kilowatts to explore ways to reduce their energy consumption. Successful applicants receive funds to perform electricity audits and feasibility studies to determine potential energy conservation opportunities.

The powerWISE® Business Incentive Program encourages institutional, commercial, and industrial customers to make their workplaces more energy efficient. Qualified businesses with peak demand greater than 50 kilowatts can earn \$150 per kilowatt saved, up to \$50,000, for carrying out pre-approved projects that result in measurable reductions in electrical peak demand.

# Board of Directors

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Robert Cary

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*(Photo l-r) Charles Hantho, Terry Cooke, Peter Routliff, John Bergsma, Joan Prior, Robert Dolan, Robert Cary, Karen Belaire, Ed Minich and Owen Shewfelt.*

*Officers:*

Max Cananzi – President and Chief Executive Officer

John G. Basilio – Senior Vice-President and Chief Financial Officer

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