

Speech by Max Cananzi, CEO – Horizon Utilities

THE HAMILTON CHAMBER OF COMMERCE - "PRESIDENTS' PANEL 2011"

- WEDNESDAY, DECEMBER 1st, 2010, 5 – 9 PM
- MICHELANGELO'S, 1550 Stone Church Road, Hamilton

Format

2 MINUTES	PERSONAL AND COMPANY HISTORY
2 MINUTES	WHAT CHALLENGES AND GOALS YOUR COMPANY HAS FOR 2011 – LOCALLY, NATIONALLY AND INTERNATIONALLY
10 MINUTES	ECONOMIC FORECAST: THIS IS THE KEY SECTION OF YOUR REMARKS (I.E. WHAT WILL HAPPEN IN YOUR BUSINESS SECTOR IN 2011 AND HOW IT MAY AFFECT AREA BUSINESSES AND THE ECONOMY)
1 MINUTE	WRAP UP

Thank you, Demetrius, for the kind introduction.

Good evening, everyone. It's an honour to be here at this esteemed event, and to share the stage with such distinguished community and business leaders.

(((Personal and Company History)))

In the outline provided by the Chamber, I was asked to tell a little about my history and that of my company. I came to Hamilton, in 2003, as President of what was then Hamilton Hydro. My entire career has been focused in the energy sector, primarily with utilities, in a variety of executive roles. A large part of that career was spent with a utility down the highway, which shall remain nameless, but what I will say is that the majority of its employees and customers cheer for the Argos.

I was attracted to Hamilton because I saw a city with great potential, with a long tradition as an economic driver in this province. The more time I spent getting to know Hamilton I came to know it as a city that is not afraid to take on challenges, and a city with a sustainability vision. Most encouraging of all was the strong and impressive Board governance structure at the utility - and a City Council with a reasonable number of councilors - 15 versus the 44 that I had been used to. A big relief and a true blessing I can assure you.

On closer examination of the company and having coming from a much larger utility it became very clear to me that we could be doing a lot more for our customers and our shareholder if we had greater economies of scale. In our business, the business of managing assets, scale is a very important determinant of costs.

Our corporate vision is to be the consolidator. To grow through mergers and acquisition of neighbouring utilities - to deliver better value for our customers and shareholders, to be the most efficient and successful utility in Ontario, and to be headquartered right here in Hamilton.

In 2005 we were given our first opportunity towards this vision. Hamilton Hydro **successfully** merged with St. Catharines Hydro and branded itself Horizon Utilities. As a result of the merger, we now serve a quarter of a million customers and we do so at 20% less cost than it would have cost the two respective communities if we had not merged. We started to realize these savings 12 months after the merger, and we did it with no forced employee layoffs. As a result we now have one of the lowest rates for all customer classes in Ontario without sacrificing financial returns to our shareholders.

Horizon is also a strong believer in making our communities stronger economically, and more sustainable. We obviously focus on strong financial performance, but we also balance that with social and environmental factors. Hence, we deliver value for all our stakeholders. In fact, Horizon was recognized by the Ontario Energy Association for our sustainability efforts, and last year, was honoured with the Company of the Year Award.

(((Company Challenges and Goals)))

Our industry is in the midst of a significant evolution. This is not just confined to Ontario. It's a global shift.

As a highly regulated company, much of what we do is directed by the province, and lately there appears to be no shortage of action on that front, and I'll talk more about that in a moment. But as a business we have additional major challenges.

For 2011, I'd like to outline three key challenges and opportunities facing Horizon.

Firstly, the biggest issue we're facing is the renewal of our aging infrastructure. The good news is that the electric utility has had a long-standing practice of keeping up to date with the renewal of its assets so we are not facing an unwieldy backlog. But, we are at the bottom of a very large, steep upward sloping curve of assets that are coming due, quickly. The bulk of our electrical grid was installed during periods of strong growth and expansion mostly during the 50s, 60s. Over the next decade, we'll be investing over a half a billion dollars to modernize and rejuvenate our end of life assets.

Secondly, as we increase our capital investment, we will be facing a shortage of skilled labour - due in part to the new demands, but like many sectors, also due to our aging workforce demographics. Within ten years, over half of our workforce will be retiring. It's already started. Our workers are retiring at a faster rate than we can fully train. Proficiency takes 5 years to achieve in our industry, which means we need to start now to ensure a smooth transition. The operation of the electrical grid is not a task that we can turn over to novice employees. It requires specific knowledge and training that takes time to build. A challenge? For sure. But also an opportunity for our community in the way of good paying jobs.

Horizon's third area of focus for 2011, is an opportunity to expand and diversify. Our newest venture, Horizon Energy Solutions was launched earlier this year to be able to capture the opportunities in the emerging green economy. As you may know, the province is moving aggressively to be a leader in green energy. We intend to leverage every opportunity offered by the province's initiatives to reap the benefits for our communities – primarily green jobs.

Our target market is southern Ontario. Initially, Horizon Energy Solutions is offering solar electric generation on commercial and institutional rooftops. A win-win situation whereby businesses are converting idle rooftops into revenue generating opportunities.

We intend to expand our product offering to include a broad spectrum of energy solutions primarily for commercial accounts and heavily focused on energy efficiency. Our goal is to deliver savings to our customers while reducing their carbon footprint.

(((Economic Forecast)))

Now for my economic forecast. It would appear that the Province has done my job for me. Recently the provincial government issued its Long Term Energy Plan. In fact it has been difficult to open the newspapers in the past few months without reading about energy prices and energy policy. Rightly so, the stakes are big for the province. To be honest, I'm not sure that any other sector is going to have as much of an impact on the economy and businesses as much as the energy sector in the coming years.

The governments Long Term Energy Plan forecasts that electricity prices will double over the next 20 years. The average annual increases under the plan will be 2.7% for industrial customers and 3.5 % for residential/small commercial. One can argue that these are reasonable figures. However, the real impact to consumers will be within the first 5 years. While the 20 year view smooths these impacts to annual increases of 3.5% or less the annual increase for the first 5 years will be 7.9% increasing the bill by 46% within this time frame.

While Ontario continues to enjoy relatively competitive electricity rates among neighbouring jurisdictions, over the next five years increases in Ontario will be faster.

The Long Term Energy Plan is a big bet. Approximately half of the energy increases are attributable to new, clean renewable energy. If we are not able to capitalize on the emerging green economy and associated green jobs we will have missed a huge economic opportunity at the expense of our future relative competitiveness. The US under the Obama administration alone has earmarked \$150 billion over ten years for clean energy investments.

To be fair any party that is in power after next year's election will face the unenviable task of making difficult decisions on energy that will impact the province for decades to come. We are at a crossroad. Doing nothing is not an option. We have already done that for too long.

Just like in our local poles and wires challenge of aging infrastructure the same issue exists with the provinces generating stations. Coal generating stations, largely built in the 50s and 60s, need to retire or face significant investments. Do we continue to back a fuel with considerable environmental and health impacts? Impacts that don't include economic considerations regarding carbon costs, since North America has not yet priced carbon emissions. But how long will that be? And what will our competitive position be if the US moves forward with a carbon pricing structure? Negotiations are currently underway at the regional and national level internally in the US.

Given global direction on this issue, I don't think as a province we are on the wrong track. My worry, though, is if we are we moving too quickly with the investment level on renewables? 46% increase in electricity bills within 5 years may be too much too soon for business to adjust.

While I fully agree with the need to push forward on replacing old generating stations with more conventional and cleaner fuel sources like natural gas and nuclear the pace of the renewable investment may require a rethink – not an elimination, but simply a review.

We have to have a reliable delivery system. It's critical to our economic well-being and our ability to compete and lead in the global economy.

So in the face of the big changes and the inevitable increase in cost what can you do to mitigate the impacts for your business? Here's what you really need to know.

Conservation is where it's at.

I am not talking about conservation as a feel good or environmental component of your company's social responsibility agenda, but rather as an essential economic tool.

The reality is that Canada, on a per capita basis, is one of the largest users of electricity in the world. And part of that is probably because we've enjoyed some of the lowest rates in the world.

Going forward, conservation will be key to your future competitiveness. The good news is that, as part of the province's Long Term Energy Plan, \$1.4 billion has been set aside over four years to fund conservation measures, with a target of slightly over 1300 MW. Just to give you a sense of how much power that would save – it would be like taking Hamilton and St. Catharines off the grid.

Why has so much money been earmarked for conservation? Because \$1.4 billion is far cheaper than any of the alternatives in building new generation.

It makes economic sense for the province to avoid constructing 1300 MW of energy, given the cost. And, it is one of the few things that will directly improve your bottom line.

Horizon's allocation of the funding is \$75 million over the next four years to deliver conservation programs to our customers, particularly focused on commercial businesses within our community.

In the new year, we will be launching a wide range of new conservation and demand management programs that will make a real difference to your bottom lines. We are also partnering with Union gas and Enbridge so we can look at reducing your total energy costs of your business not just electricity.

I would strongly suggest that if you can get some funding through a government, then, by all means take it.

Here are a few examples of what we've already done within the community:

- We helped Air Liquide Canada, here in Hamilton, secure an Electricity Retrofit Incentive Program rebate of more than \$120,000. More importantly Air Liquide was able to reduce their operating costs for energy by \$500,000 per year on their investment.
- St. Joseph's Healthcare Hamilton is saving almost \$1 million in utility costs per year and realized an incentive rebate of more than \$170,000.
- Hamilton Health Sciences got a cheque for nearly **\$640,000**, the largest rebate rewarded to date, in Ontario. Over ten years HHS will save \$48-million dollars, and significantly reduce its carbon footprint.
- And, for small businesses, Horizon launched an outreach program through the Downtown Business Associations to get the word out about the Ontario Power Authority's Power Savings Blitz, which offers up to \$1,000 for energy efficient retrofits.

We know that when we help you with your energy bill, we are enhancing your competitiveness, and ultimately that is good for the financial health of the region and the province.

((Wrap Up))

Now that I've been in Hamilton for a number of years, I have seen first hand how resilient, creative, and proud this city is. It is a city rich in experience, expertise and enthusiasm. I see so much opportunity and potential. And, more than ever, I want to make sure that Horizon is doing its part. And I can tell you, we are and we will continue to do so.

As I mentioned off the top, one of the key factors in a strong economy, is a reliable and affordable energy supply. And, providing our communities with that economic support is our first priority at Horizon.

Thank you.