

About Greater Sudbury Hydro Inc.

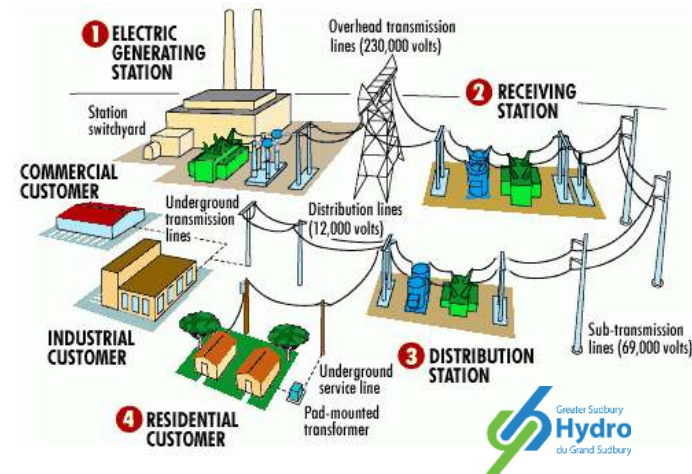
What is Greater Sudbury Hydro Inc.?

Greater Sudbury Hydro Inc. (GSHi) is a local distribution company (LDC) that provides electricity service to over 47,000 customers within the City of Greater Sudbury and the Municipality of West Nipissing.

From its origin as a steam-powered plant, GSHi's distribution system has expanded to include dozens of substations controlled by the latest in computerized equipment. This system supplies reliable electricity service to both residential and commercial customers, ensuring that the communities GSHi serves have the electrical infrastructure they need to grow and prosper. GSHi, like all other LDCs in the province, is regulated by the Ontario Energy Board (OEB). The OEB oversees GSHi's activities and defines the performance standards it must meet.

Does GSHi produce electricity?

GSHi does not produce electricity; it owns and maintains a distribution system of power lines and substations that takes electricity transmitted from generating stations and delivers it in a lower voltage you can use in your home or business.



Source: electricalmaster.com/transmission-of-electrical-energy/

The illustration above shows how electricity is generated **(1)**, transmitted **(2)**, and distributed **(3)** to your home or business **(4)** by GSHi.

2020 Cost of Service Application

What is a Cost of Service Application?

Simply put, a Cost of Service Application is a comprehensive document that all LDCs are expected to submit to the Ontario Energy Board (OEB) every five years to justify the rates it hopes to charge customers to sustain operations.

The OEB conducts a careful review of these applications and either approves or modifies the requests made, based on the strength of the plans and rationale presented.

LDCs must provide a large amount of information about their current operations and future plans in their Cost of Service Applications, including detailed projections, financial reports and well-defined strategic objectives. This information is needed to demonstrate how an LDC's plans make both financial

and operational sense, and how the actions they will take in the years ahead to maintain and upgrade their equipment will help them respond to the evolving needs of their customers.

The OEB requires LDCs to prepare applications that strongly demonstrate their customer focus, financial prudence, adherence to public policy and operational excellence. GSHi believes that the content of its **2020 Cost of Service Application** demonstrates strong alignment with these four desired outcomes.



*GSHi's complete Application, **filename EB-2019-0037**, can be found on the OEB's official website (www.oeb.ca).*

2020 COST OF SERVICE

How are ratepayers involved?

The content of GSHi's Cost of Service Application has been shaped by its values and through direct consultation with its customers. This consultation has included annual customer satisfaction surveys, weekly interviews with customers, as well as surveys created specifically to gather feedback on one of the most important pieces of GSHi's Cost of Service Application—the **2020-2024 Distribution System Plan**.

Details of GSHi's extensive customer engagement activities can be found in **Exhibit 1, Tab 6, Schedule 1 of the Cost of Service Application**.

Distribution System Plan

What is a Distribution System Plan?

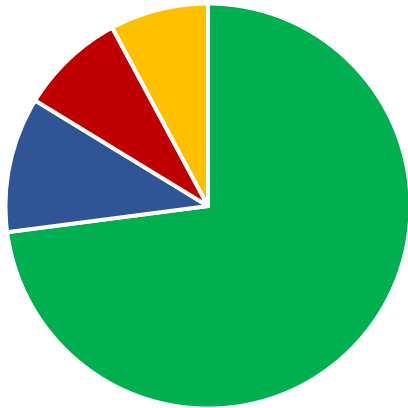
The Distribution System Plan (DSP) describes the current state of the equipment that makes up an LDC's distribution system and explains how the

company plans to care for and invest in its assets to ensure that a reliable supply of power is available to customers.

A complete DSP contains the details of the capital investments required to keep equipment running efficiently and safely. It also considers upgrades that must be made to ensure the distribution system can accommodate the addition of renewable energy resources (e.g. solar panels and wind turbines) as customers become more and more interested in managing their own energy generation and consumption.

GSHi has prepared a DSP that contains its proposed spending levels for necessary capital projects and the ongoing operation and maintenance of its system. **It can be found in Exhibit 2, Tab 2, Schedule 1, Attachment 1 of the Cost of Service Application.** The pie chart below shows the investments GSHi plans to make over the next five years.

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System Access

System Service

General Plant

System Renewal

System Renewal (\$37.2M)

Investments to replace or refurbish parts of the distribution system such as poles, transformers, wires and substations to ensure a reliable supply of electricity.

System Access (\$4.3M)

Investments to accommodate road construction work, connect new residential and commercial customers and maintain electricity meters.

System Service (\$4.0M)

Investments to better monitor system operational objectives and maintain the distribution system's ability to provide consistent service delivery.

General Plant (\$5.5M)

Investments to modify, replace or add non-distribution system assets such as buildings, tools, trucks, and the software used to support day-to-day business and operations activities.

As shown, the most significant investments will be made in **System Renewal**, specifically, replacing aging substations that have reached the end of their service life. These assets—**some of which are well over 60 years old**—no longer offer the reliability required to uphold the standard of service excellence that GSHi has demonstrated in the past.

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Other Cost Drivers

In addition to the investments needed to support system renewal, GSHi's Cost of Service Application includes requests to support its workforce, meet its future goals and deliver consistent service at a reasonable cost to its customers. These Cost Drivers are discussed in greater detail in **Exhibit 4, Tab 2, Schedule 1 of the Cost of Service Application.**

Over the next five years, some of the priorities GSHi plans to invest in include:

- **Succession planning** and **workforce training** to ensure strong leadership is in place to carry out GSHi's vision for years to come.
- **Cybersecurity** to further secure customer data and protect GSHi's networks from threats to ensure the distribution system isn't compromised.

- **Innovation** to improve GSHi's operations across all departments, leading to a more reliable and adaptable distribution system with improved customer service. Customers will benefit from fewer outages, quicker response times, better communication during outage events, and more opportunities to take control of their energy production and management.

Bill Impacts

The base revenue requirement that GSHi is including in its Cost of Service Application is **\$27,396,127.**

What does this mean for customers?

It means customers will continue to enjoy reliable service with minimal outages.

It means customers will have greater opportunities to engage with the energy system and manage their electricity consumption.



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It means customers will continue to have their needs met to the best of GSHi's ability.

But it also means a higher monthly bill.

How much higher?

On average, customers will see the following monthly increases on their bills:

Consumer	Usage	Increase	% Increase
Residential	750 kWh	\$6.43	+6.9%
Small Business	2000 kWh	\$11.20	+5.1%
Large Business	190 kW	\$288.33	+1.9%

As previously mentioned, the OEB approves the distribution rates that LDCs can collect from their customers. Since its last Cost of Service submission in 2013, the revenue GSHi has collected from its customers has fallen below the rate of inflation.

If GSHi had collected revenue at the rate of inflation, customers would have experienced an increase of 1.53% annually in distribution charges since 2013.

For over a decade, the total revenue GSHi has collected to run its business has not increased. For context, according to the Consumer Price Index, the price of goods and services in Canada rose by 18.5% between 2009 and 2019.

GSHi has worked hard to deliver consistent value to customers using the resources at its disposal. Today, given the need to upgrade equipment, ensure reliability of service and keep pace with evolving industry standards, maintaining status quo with its current distribution rate simply isn't sustainable.

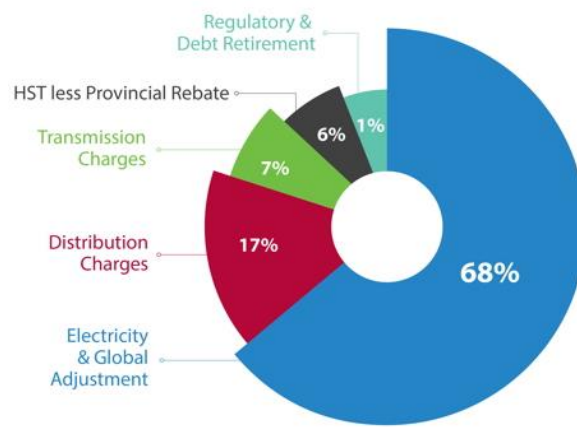
With the increase proposed in 2020 Cost of Service Application, GSHi will return to a level of revenue that is sufficient to continue running its operations to the high standard customers have come to expect.

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It is important to note that GSHi does not have control over all the factors that result in the total charges customers receive on their monthly bills.

GSHi's operations are funded by the *distribution rate* portion of a customer's hydro bill, which, in 2018, was roughly 17% of each dollar collected (see the chart below). GSHi collects and uses these funds to maintain and operate the distribution system.

The remainder of the charges on a customer's hydro bill are collected by GSHi on behalf of other agencies, and flow through to those agencies directly.



Doing the right thing.

GSHi is very conscious of the impact that any increase in cost can have on its customers, and does not approach the task of setting its rates lightly. GSHi firmly believes that the approvals sought in its 2020 Cost of Service Application are just and reasonable.

Deferring vital service improvements and equipment upgrades to help keep costs neutral would be irresponsible. System reliability and public safety would be compromised to an unacceptable degree.

It would not be the right thing to do.

GSHi welcomes further feedback on its Cost of Service Application. To reach GSHi staff, please call GSHi's offices or submit your inquiries online.

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**The Power
of Us**

Frank Kallonen
CEO, Greater Sudbury Utilities