



*Delivering Value*

*Strategic Direction 2022-2026*

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# Overview of Strategic Direction

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## Introduction

This strategic direction provides a comprehensive overview of Renfrew Hydro Inc.'s business strategy and outlook for the next five years. This five-year strategic direction builds on our core strengths and achievements and establishes our course for the next five years.

Renfrew Hydro has built its strong reputation in the community by delivering a safe, reliable and affordable supply of electricity to the residents and businesses of the Town of Renfrew on a 24/7 basis, for well over a century. Renfrew Hydro values its relationships with its customers and demonstrates this by providing responsive service while keeping our community's best interests at heart.

We are proud of what we have achieved as a company, yet we know that a renewed strategic vision is essential to our ongoing success and business prosperity. As outlined in this document, the environment in which we operate is evolving and we need to evolve with it. Our renewed direction takes into account emerging trends, issues and opportunities that we face in our industry and society, as well as assessing our organization's capability to deliver future results.

## Our Strategy

All of our stakeholders will find this renewed Strategic Direction very familiar, as it is a continuation and primarily a refresh of our previous 2016 - 2021 Strategic Direction.

Our core mission and mandate remains the same:

**Proudly and efficiently delivering electrical energy, safely, reliably, while keeping our community's best interest at heart.**

We have revamped our key areas of focus from five to four. These key strategic pillars make up the foundation of our corporate goals, objectives, and focus:

**Organizational Effectiveness**

**Customer Experience**

**Financial Performance**

**Commitment to the Community**

We are now operating in an environment and strategic context that has evolved substantially since our last Strategic Direction. That said, we have modified our corporate vision to better align with the transformation that is continuing to take place across our sector:

**Powering progress for our community through strategic partnerships and innovations that deliver value to our stakeholders.**

Our strategy for thriving in this emerging landscape is multi-pronged:

- We will achieve performance excellence by cultivating a culture of safety, innovation and continuous improvement.
- We will deliver value to our customers by providing safe, reliable, responsive services, meeting their needs, in a caring manner at competitive rates.

- We will deliver sustainable financial growth by improving productivity and pursuing opportunities that leverage our core strengths – our people, our assets and our business partners.
- We will be responsible stewards of our business and continue to contribute to the wellbeing of our community benefitting all of our stakeholders.

Our goal is to continue to grow our business and shareholder value by leveraging our core areas of strength. In order to continue to grow we will have to reduce our overall cost of capital and long-term debt rates, paving the way for prioritized investments in our distribution system.

## Our Business

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Renfrew Hydro is a private for-profit company that is wholly owned by the Town of Renfrew, and is governed by an independent Board of Directors appointed by its shareholder.

Our company's core business is the distribution of electricity, we deliver a safe and reliable supply of electricity to over 4,300 residential, business, and industrial customers throughout our 12.8 square kilometer service territory. As a condition of our distribution licence, we are required to meet conservation and demand management targets established by the Ontario Energy Board. We also are required to enable overall green-house gas reduction goals by allowing renewable generation and energy storage systems to exist and interact with our distribution system. In addition, Renfrew Hydro maintains the Town of Renfrew's street and traffic light systems.

## Strategic Context

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Renfrew Hydro's Strategic Plan 2022-2026 provides an overview of the changing business climate and trends within Ontario's electricity system—policy and regulations, technological changes, and costs—and how Renfrew Hydro will respond using sustainable business strategies and partnerships, and financial projections for the next five years. Renfrew Hydro's Strategic Plan is centered on meeting our continued commitment to delivering electricity, safely, efficiently and reliably and at an affordable cost to our customers, producing a dividend for our shareholder, and becoming an important partner to sustain and grow the local economy.

The cost of electricity is increasing the pressure on some families and their ability to pay—and Renfrew Hydro staff are responding by providing information on financial support for low-income families, and ways to rethink how electricity is used and how to manage consumption. As part of our licence from the Ontario Energy Board, Renfrew Hydro is responsible for outreach programs to encourage consumers to conserve electricity and manage demand by using less electricity during peak hours—the point at which electricity is most expensive.

The electricity industry has changed and continues to evolve, transforming itself to become more customer centric providing more end user control. The main drivers of this transformation are cost, technology advancements, and government regulation.

## Commodity Cost

Throughout the past several years, Ontario has moved away from coal-fired generation and created new clean and renewable capacity—wind, solar, biomass, and hydro-electricity. It is refurbishing nuclear plants, investing in smart grid infrastructure, and created more reporting to ensure utilities are held accountable. The result has been a doubling of the cost of electrical energy, causing a significant financial impact for all consumers. Although generation supply has been adequate across the province over the past decade, there are new investments required to refurbish our nuclear generators and ensure a reliable supply of clean energy in the future.

The provincial government has mitigated these costs by supplementing the cost of electricity through the tax base with what is called the “Ontario Electricity Rebate” (“OER”). This rebate has been reducing the cost of electricity bills by approximately a fifth.

The age and condition of Ontario’s centralized electricity grid is continuing to drive up overall costs in the province. Older electrical equipment is being replaced at an unprecedented rate and billions of dollars are being invested to refurbish aging infrastructure and modernize the grid.

## Conservation

These increases in costs, coupled with environmental concerns over climate change have been the main driving force behind energy efficiency and conservation. Ontario is placing a major emphasis on energy conservation as the first resource to be considered as means to offset future growth of electricity demands. Its policy states that conservation will be considered first before building new generation and transmission facilities and will be preferred choice where it is cost effective. Increased emphasis will continue to be placed on conservation/demand management using outreach programs to commercial/industrial and institutional and residential customers to help customers conserve electricity and manage their hydro bills, and to ensure that Renfrew Hydro meets the conservation targets set by the Ontario Energy Board.

It is well known across the industry that the cheapest kilowatt-hour is the one that is never needed. The improved efficiency of home appliances have helped to reduce energy consumption and this has been evidenced in Renfrew Hydro’s overall system loading where we have seen a 10% reduction in overall kWhs sold throughout the past decade. Renfrew Hydro has successfully provided their customers with access to several energy reduction programs and we will continue to do so. We are committed to reducing our customers’ energy costs and have proven to be industry leaders in this regard.

## Innovative and Disruptive Technologies

Distributed energy resources such as solar generation, battery storage, and geo-thermal heating are beginning to influence the overall electrical landscape. As these emerging technologies become more affordable customers will increasingly produce a portion of their energy needs on site becoming both sellers and consumers.

Another emerging trend is the electrification of the transportation industry. Governments around the world are promoting Electric Vehicles (“EVs”) as one of the most efficient ways to reduce carbon emissions and reduce the substantial global threat of climate change. Every major auto manufacturer in the world is retooling their facilities to increase their production of EVs.

Electrical utilities are having to transform their existing distribution systems into “Smart Grids”. This convergence of information technology will allow distribution companies to better manage and oversee the

“two way” flow of electrical energy across their distribution assets in a safe and efficient manner. Smart technologies will allow consumers to see their consumption and/or generation in real time, providing them with more visibility and control. Smarter grids will provide utilities with the ability to enhance their asset monitoring and overall asset management capabilities. Our future distribution systems will have sensors, communications, and analytics to provide an immediate response to the ever-changing load, supply and infrastructure conditions of a modern distribution grid. Transforming Renfrew’s distribution grid from its present state to one that is an intelligent, secure operations network will require significant investments.

## Consolidation

In 1996 there were 307 municipal electrical utilities (“MEUs”) serving the customers of Ontario, today there are 60. Consolidation has been a policy recommendation of many industry panels and commissions beginning with the Advisory Committee on Competition in Ontario’s Electricity System in 1996 commonly referred to as “The Macdonald Committee”. These reports highlight a duplication of equipment and facilities amongst utilities as well as the overall cost of regulating so many different entities. Renfrew Hydro needs to keep abreast of developments in this area, as there is a risk that we could be forced into a merger and this has happened to other municipalities and their utilities in the past. The province continues to support mergers and acquisitions in the industry by reducing transfer taxes for municipalities and this favourable environment is in place until January 1, 2023. Even though we appear a lot more efficient than bigger utilities such as Hydro One, it is a very difficult comparison to make given out vastly different customer density and service areas.

## Cyber Security

Electrical distribution grids are considered a prime target for cyber security threats and there have already been cyber-attacks across the North American power sector by terrorists, organized crime and foreign entities. As more IT infrastructure is deployed across our distribution system so too does our cyber risk increase. Adhering to cyber security protocols and other regulatory obligations are increasing both the complexity and cost of running a local distribution company.

## Climate Change

World leaders, and both our federal and provincial governments have put in place plans to reduce greenhouse gas emissions to help stem the tide of global warming. We are witnessing extreme weather more frequently and this has impacted our industry by increasing both the probability and severity of storm damages, resulting higher insurance premiums and power restoration costs for utilities. Mutual assistance agreements between utilities have grown in number over the past few years as a result. Electricity generated in our Town and Province is a very low carbon energy source, and as such, electricity will form part of the solution to reducing our overall emissions. Renfrew Hydro will need to ensure that our infrastructure is capable of handling all of the electrical vehicle chargers that will be deployed across our service territory. We will also be expected to lead by example, reducing our own carbon footprint within our operations.

## Local Growth

For the past twenty years, the growth of the Town of Renfrew has been minimal with the overall population of the town relatively stagnant. Renfrew is anticipating a sharp increase over the next decade with the main catalyst being the completion of Highway 417’s four lanes to the town. Towns such as Carleton Place and Arnprior experienced substantial growth once their Towns were connected to Ottawa via four lane highways. The highway infrastructure improvement, coupled with other factors such as aging population demographics, local cost of living, and society’s transition to less expensive fuels for

transportation will promote growth. There are recent projections that Renfrew could see a 20% growth in population over the next decade, which would increase its population to approximately 10,000.

## Strategic Direction

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### Our Mission

**Proudly and efficiently delivering electrical energy, safely, reliably, while keeping our community's best interest at heart.**

Going forward, Renfrew Hydro will continue to embrace the future as a locally-owned utility, one that balances the needs of its customers with the responsibility to operate a safe, modern, reliable, efficient and cost-effective system, generate a yearly return and serve as an economic partner to retain and grow business in our community. Strategic partnerships, sustainable business practices and opportunities for non-regulated business activities are key goals.

### Our Guiding Principles

Renfrew Hydro remains committed to creating long-term value for its shareholder. We are guided by our commitment to continuous improvement in all areas including corporate governance, customer service, safety, system reliability, and cost management. Above all else, Renfrew Hydro will embrace and uphold our core values in everything that we do, and every employee must lead by example in this endeavour.

### Our Organizational Values

Renfrew Hydro will create an organizational environment that ensures that ethical business conduct is embodied across all staff levels and all of our activities properly reflect our shared core values:

- SAFETY AND WELL-BEING
- INTEGRITY AND TRANSPARENCY
- RESPECT
- ACCOUNTABILITY
- TEAMWORK
- FINANCIAL AND ENVIRONMENTAL SUSTAINABILITY
- CLEAR COMMUNICATIONS

### Our Commitment to Our Stakeholders

Renfrew Hydro respects the interests of all of our stakeholders including employees, customers, shareholder, business partners, and the community and environment in which we operate.

#### Employees

The strength of our organization remains the quality of our workforce. Renfrew Hydro is committed to hire and retain the most qualified people available. We will maintain and promote a safe, secure and healthy work environment that embodies all of our core values. Our staff is our greatest resource and key to Renfrew Hydro's success. We will invest in our staff by providing an employee-oriented, high performance culture that emphasizes empowerment, quality, productivity, and accountability.



## **Customers**

We are committed to delivering value to our customers, and as such, we will strive to ensure that all of our customer interactions enhances their experience and respect for our organization. We will protect our customers by adhering to all legislated standards for health, safety and environmental protection. We will remain honest, fair and hard working in all our customer interactions.

## **Business Partners**

We are honest and fair in all of our business relationships including our suppliers and contractors. We will purchase all of our equipment, supplies and services, based on merit with a preference for local procurement. We require all of our business partners to adhere to our health, safety and environmental standards.

## **Community and the Environment**

We are committed to being a responsible corporate citizen, and will assist to make the Town of Renfrew a preferred place to live and conduct business. Renfrew Hydro will build on its record of providing safe and efficient electrical services, at a significant cost benefit to our community and the customer, through continuous improvement, technological investment and sustainable environmental and business practices.

## **Shareholder**

We are committed to protecting our shareholder's investment and will prudently manage our business and finances to create lasting value for them. We will communicate effectively all business matters of materiality as required through our corporate governance procedures.

## **Our Vision**

**Powering progress for our community through strategic partnerships and innovations that deliver value to all our stakeholders.**

### **Powering Progress**

Going forward, Renfrew Hydro will strive to balance the needs of its customers with the responsibility to operate a safe, modern, reliable, efficient and cost-effective system, generate a yearly return and serve as an economic driver to retain and grow businesses. Renfrew Hydro will continue to explore mutually beneficial partnerships and mergers in an effort to increase both the service levels and value provided to all stakeholders. Strategic partnerships, sustainable business practices and opportunities for non-regulated business investments are key attributes of "powering progress".

### **Strategic Partnerships**

Renfrew Hydro and other LDCs have engaged in co-operative arrangements-sharing resources and knowledge through the co-operative *Cornerstone Hydro-Electric Concepts* and the Electrical Distributors Association. These LDC's have generally scored well in service quality, customer satisfaction including billing accuracy, safety, system reliability, asset management, cyber security, conservation and demand management, and are financially-healthy organizations. Renfrew Hydro continues to seek out cost saving administrative opportunities and is part of groups such as the Utility Collaborative Services Group which has developed a cost-effective billing program with the capacity of accommodating the continuing changes in billing regulations. Renfrew Hydro is continuing to pursue new business partnerships and best management practices that complement our skills and support our business goals.

### **Delivering Value**

Renfrew Hydro will build on its record of providing safe and efficient electrical services, at a very affordable

cost to our community and our customers, through continuous improvement, technological investment and sustainable environmental and business practices while adhering to government legislation and regulations. Through cost sharing, efficiency gains, cost savings, improved reliability, superior customer service, our commitment to safety, and responsible environmental stewardship we will achieve our objective of “delivering value”. Maintaining the local grid through investments in refurbishing and rebuilds at the right time, coupled with running a safe, efficient and effective operation is critical to containing the costs that Renfrew Hydro can control.

## Our Four Key Areas of Focus



The Plan uses an integrated approach and focuses on continual improvement in four key areas:

- 1) Organizational Effectiveness
- 2) Customer Experience – service and value
- 3) Financial Performance
- 4) Commitment to the Community – responsible and engaged corporate citizens

## Organizational Effectiveness Strategies

### Health and Safety

The safety of our employees and the general public will continue to be our top priority. Renfrew Hydro is committed to a top tier culture of health and safety for our employees, customers, and community by employing health and safety training for staff, and educational outreaches to customers of all ages. We will also employ leading indicators to ensure the effectiveness of our safety program. Their safety, the people who work with them, and the safety of our citizens is paramount. We are strongly committed to an accident-free workplace, and our exemplary safety record will be sustained through a strong safety culture within RHI, and a safe and well-maintained electricity grid.

## **Grid Modernization**

Renfrew Hydro will continue to maintain our equipment and assets in safe and reliable working order. We will improve the overall safety, operability and reliability of our distribution system through the modernization of our distribution grid. This grid modernization will involve the deployment of operational technology throughout the distribution system transforming it from its present state to a “smart grid”; we will achieve this transformation in a prudent manner at a pace we can afford.

### **Smart Grid Definition**

*“The smart grid harnesses the power of information technologies to monitor, control, and optimize the use of the electricity system. These efforts are designed to increase efficiency, reduce outages, integrate more renewable forms of generation, and empower customers to more effectively control their energy use.” “Smart grids...redefine the way electricity consumers are connected to the system that serves them..... By connecting the customer to the control room, smart grids open up whole new possibilities – where consumers decide how much to use or sell depending on what the price is.”*

Independent Electricity System Operator (IESO)

## **Safety Training and Awareness**

Renfrew Hydro will continue to promote a strong safety culture and provide safety training that focuses on all workers taking personal responsibility and accountability for their own safety and the safety of their co-workers. We will continue to monitor our performance and enhance our existing abilities by deploying leading indicators to promote proactive responses to potential safety issues. We will leverage our business partners such as Cornerstone Hydro Electric Concepts (CHEC) to keep abreast of industry safety trends and innovations. We will utilize CHEC and our other business partners for ongoing safety training and safety audits, enhancing our safety program and overall training in a cost effective manner. We will remain focused on the overall health and fitness of our employees and provide programs that support overall wellness with a focus on mental health. We will ensure that our business partners and contractors share our passion for safety and implement safety priority requirements in our procurement processes. We will continue to be leaders in our community by providing awareness and knowledge about electrical safety and hazards to the public and local contractors.

## **Service Reliability**

Renfrew Hydro’s “raison d’être” and core focus is centered on meeting our continued commitment to delivering electricity, safely, efficiently and reliably and at an affordable cost to our customers. Renfrew Hydro’s long-term “Distribution Service Plan” has been developed through our ongoing asset management strategy that incorporates condition-based assessment, asset optimization, preventive and predictive maintenance, cost, and overall risk analysis. Renfrew Hydro will continue to adopt technological improvements to modernize the grid, improve its system, and at the same time, maximize the life of system components using scheduled and preventative maintenance without compromising safety or reliability. Ontario’s renewed regulatory framework for electricity carries an expectation that Renfrew Hydro optimizes investments and reflects regional and smart grid considerations.

Renfrew Hydro will continue to evolve our business continuity plans and ensure that our infrastructure has resiliency of facilities and equipment, redundancy and spare capacity, the ability to recover as quickly as possible, and contingencies for services or equipment to ensure Renfrew Hydro can continue to operate in the event of a natural or man-made emergency or disaster.

## **Workforce Capability**

A skilled and knowledgeable workforce is essential for Renfrew Hydro to thrive in the future. As such, Renfrew Hydro will invest in the development of our staff to provide an employee-oriented, high

performance culture of organizational effectiveness that emphasizes empowerment, safety, quality, productivity, goal attainment, and ongoing development of a superior workforce. In addition, Renfrew Hydro will have to procure skills and expertise from other business partners as it is not prudent or sustainable to have in house skillsets to meet all of our future work challenges and demands. That being said, Renfrew Hydro will develop its own staff competencies in overseeing work done by others, enhancing our overall quality assurance capabilities. Overall productivity will improve through the adoption of new technologies and equipment. A focus on productivity and continuous improvement will become embedded into the culture of our organization and become a shared accountability for all staff.

### **Embracing Change and Disruption**

Given the evolving nature of the electricity system in Ontario and the requirement to meet new customer preferences, legislation, guidelines, policies and regulations, we will employ change management strategies to help our staff and stakeholders through changes in our business climate. Change is ongoing and necessary for continuous improvement across our organization. We will embrace new ways of working and develop a resilient and innovative culture so we can thrive in the midst of disruption and take advantage of business opportunities that arise. Developing our change resiliency and change readiness will be a top priority for our organization. We will continue to refine our change management strategies that have been modelled after best practices to help individuals move from how things are done today, to transitioning to how things will be done; it is predicated on five building blocks: awareness, desire to participate, knowledge about how to change, the ability to implement skills and behaviors, and reinforcement. We will support our customers through any transitions so that they continue to receive the highest level of customer experience possible.

### **Customer Experience Strategies**

#### **Building on our Strengths**

Renfrew Hydro has a reputation of providing safe, responsive, effective and professional service to our customers. Renfrew Hydro's strong sense of identity with customer service and the goodwill it generates is one of the cornerstones of our positive reputation within the community. Renfrew Hydro will continue to excel in all aspects of customer service by providing helpful, professional and timely service. Renfrew Hydro interacts with its customers using a multi-channel approach including in person service appointments, by telephone, via our website, by email, on-the-street, and social media.

#### **Leveraging Technology**

Renfrew Hydro will deploy modern technologies to enhance customer service across several customer-facing processes. Renfrew Hydro will increase our customer's self-serve options so that they can do business transactions with us when it is most convenient for them on a 24/7 basis. Renfrew Hydro will promote paperless billing and paperless transactions across all of our business processes. Renfrew Hydro will communicate key information such as outage estimated time of restoration across several communication channels, ensuring customers receive pertinent information in a timely fashion in their preferred choice for receiving information.

#### **Customer Value**

As an essential electricity service provider the fundamentals of customer value inherit with our business are both quality and cost. Renfrew Hydro will continue to deliver safe, reliable services while operating efficiently and effectively to keep our rates affordable. We will focus on improving our entire customer facing processes and enhance our customer communications by keeping everyone well informed of all changes and programs that could benefit them. We will achieve this by continuing to promote and

accelerate programs that help customers manage their hydro costs, focusing on conservation and demand management and other initiatives that will positively affect the customer.

## **Financial Performance Strategies**

### **Capital Structure**

In order to be a valued community asset delivering electricity safely and reliably at the lowest cost; we must lower our borrowing costs to maximize our allowable return on equity and business profitability. Given the significant amount of investment required to meet our future corporate goals we will require further debt financing, and in doing so migrate our debt to equity ratio closer to industry norms. Over time, we will move our debt to equity ratios from 45:55 closer to 60:40. Most important is to keep our long-term debt interest rates at or near our allowable recoverable rate, which at present is 3.72%. In order to achieve financial success we will need to renegotiate and lower our present Promissory Note interest rate with our Shareholder.

### **Rate Application**

Renfrew Hydro's future financial outlook is dependent on a successful cost of service application that will be filed in April 2022 with the Ontario Energy Board ("OEB"). The cost of service application, covering a five-year time frame from 2023 to 2027, consists of a detailed profile outlining how Renfrew Hydro plans to maintain, operate, or replace infrastructure at the end of its life cycle and add new service connections capabilities. As a regulated utility, we are required to have our rates approved by the OEB. Renfrew Hydro is planning to establish a five-year rate increase beginning January 1, 2023 that supports our strategic direction.

### **Business Partnerships**

We will continue to identify and cost out strategic partnerships supported by business plans to increase our efficiency, effectiveness and profitability. We will explore and evaluate potential merger opportunities that are aligned with our stakeholders' interests and mutually beneficial for all parties involved. We will continue to perform "work for other services" such as streetlight maintenance for the Town of Renfrew to help offset our customer rate requirements. We will also explore local cost sharing and cost reduction opportunities with the Town of Renfrew and Renfrew Power Generation such as shared facilities or equipment, building on our vehicle-fueling pilot.

### **Business Growth**

Renfrew Hydro will actively seek new business opportunities and partnerships utilizing the best management practices available to meet or exceed our financial objectives. We will leverage our core strengths of power line construction and street lighting maintenance services. We will explore new services that assist consumers in managing their energy costs, with a focus on enabling the electrification of transportation.

## **Commitment to the Community Strategies**

### **Community Engagement**

Renfrew Hydro has a proud tradition of contributing to the overall quality of life in our town. Renfrew Hydro has built its reputation in the community based on delivering electricity 24/7 safely and reliably at an affordable cost. We will actively participate in community building activities such as parades and remain committed to supporting local businesses and organizations.

## Stakeholder Communications

Staying in touch with our consumers and our shareholder by providing up-to-date information about changes is critical to building on community trust and understanding. We will schedule regular discussions and provide quarterly reports with our Shareholder to provide up-to-date information about Renfrew Hydro's business challenges and performance. We will maintain contact with the provincial government and our local MPP to ensure Renfrew Hydro has the most up-to-date information about contemplated or impending developments. We will engage and support advocacy efforts involving allied stakeholders such as CHEC, EDA and other local LDCs to help shape the future of industry, representing the interests of all our stakeholders.

## Trusted Advisors

We will become a trusted advisor for our customers, maintaining a regular program of communications with them intended to: *Inform, Engage and Involve* them in understanding how the electricity system works, how to manage their hydro bills, and support sustainable changes to the electricity industry. Increased emphasis will be placed on conservation/demand management using outreach programs to commercial/industrial and institutional and residential customers to help customers conserve electricity and manage their hydro bills. We will assist and advise customers as they adopt new technologies such as distributed energy resources and electrical vehicle chargers.

## Environmental Sustainability

Renfrew Hydro is committed to respecting the environment by managing and operating its facilities, services and programs in an environmentally-responsible way, complying with applicable environmental legislation, and developing additional programs to lighten our footprint on the environment. We will continue to review the environmental impacts of our facilities and programs, and identify, assess and develop programs to reduce our impacts. We will reduce our consumption of fossil fuels by using policies such as a no-idling policy and introduce electric vehicles into our fleet. We will expand our rethink, reduce, reuse, and recycle practices currently in place such as recycling poles and turning tree and shrub waste into top soil. We will purchase and utilize assets and equipment that have minimal impact on our environment during their lifecycle.

# Financial Outlook

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## Financial Overview

This financial outlook presents high-level projections for Renfrew Hydro's revenues and expenses, and major capital expenditures that are required to support our business as well as key assumptions and risks that underlie these projections.

Renfrew Hydro's objective is to continue to provide a safe, efficient and reliable electricity distribution services to our customers at affordable and competitive cost while maintaining our profitability. We will achieve this target by continuing to invest in our core distribution assets, increasing our productivity and leveraging our strengths. Our most prominent indicator of successful financial performance is the increased value of our company for our shareholder, and is reflected by annual dividends and growth in our company's equity.

Over the past five years Renfrew has provided \$162,912 of dividends and increased the overall value of our company by \$396,632, after dividend distributions. Our financial projections depicted in this five-year strategic plan show a trend of steady and solid performance with a modest net income growth rate 2.5%.



## Revenue Projections

Revenue growth predictions are modest for RHI even though we are anticipating an increase in the number of residential and small business customers throughout the next five years. The largest portion of Renfrew Hydro's forecast of total revenues is the cost of power, which fluctuates, based on the provincially established commodity price for electricity and is a straight pass through of these rates on our bills. Renfrew Hydro has minimal risk in this flow through arrangement; however, we are responsible for bad debt, which can increase, causing significant cash flow impacts, especially when the commodity rates increase. Our own distribution revenue, the portion that stays with us is approximately 20% of a residential customer's bill, with the balance being the commodity charges, provincially regulated transmission charges, wholesale market charges, and costs attributed to conservation and demand programs. Renfrew Hydro passes through 80% of our revenues collected to a variety of embedded electricity generators (such as Renfrew Power Generation), Hydro One, the provincial government and others.

Throughout the last five years Renfrew Hydro has moved from a primarily volumetric dependent (based on the amount of energy delivered) rate of revenue to a fixed cost revenue (not contingent on the amount of energy delivered) for the majority of our customers. Although some revenue risks have been reduced, so too has our ability to earn higher than anticipated revenues.

Projected Distribution Revenues	2022	2023	2024	2025	2026
	2,057,266	2,160,129	2,214,132	2,269,486	2,326,223

## Cost Drivers

### Bulk Power Purchase

Renfrew Hydro's largest component of its operating expense is the cost of the bulk power purchased from Hydro One and our embedded generators. This cost is fully recoverable through commodity rates that are passed through to the customer. Renfrew Hydro's risk arises from our full responsibility for bad debts and subsequent cash flow impacts as this bulk cost of power is by far our largest monthly expenditure.

### Operating, Maintenance and Administration Costs

The operation, maintenance and administration (OM&A) costs are controllable by Renfrew Hydro to a certain extent—they include labour, direct material, program costs and external service contracts. Renfrew Hydro has a goal of continuous improvement in all areas including safety, reliability, customer service, and cost control. Both productivity improvements and cost containment are necessary to offset the inflationary costs of labour, materials and contracted services. Software deployment and upgrades, matching resources to the work plan to improve efficiencies and optimize the utilization of our staff, program reviews based on quality and quantitative benchmarks and the impact on customers, and reducing line losses are just some of the initiatives Renfrew Hydro will be undertaking to ensure value for our consumers.

## Operations, Maintenance and Amortization

	2022	2023	2024	2025	2026
Distribution	442,858	452,601	462,558	472,734	483,134
Amortization	381,787	390,186	398,770	407,543	416,509
Billing and Collecting General administration	430,333	439,801	449,476	459,365	469,471
	598,295	611,458	624,910	638,658	652,708
	<u>1,853,273</u>	<u>1,894,045</u>	<u>1,935,714</u>	<u>1,978,300</u>	<u>2,021,822</u>

## Capital Expenditures

Renfrew Hydro's aging infrastructure remains an ongoing issue and is an area that needs to be addressed in order to maintain existing service reliability levels. The requirement to invest heavily in our distribution system infrastructure is a substantial cost driver for our organization for the foreseeable future. Renfrew Hydro's performance metrics are contingent on our asset management abilities and our ongoing lifecycle investment programs. Sustaining the reliability of our distribution system requires investments in both station and distribution system rehabilitation and upgrades, expansion of our capacity to accommodate customer growth, and operational technology to modernize our grid to accommodate distributed energy resources. We also have the need to upgrade some over aged vehicles and equipment, the most significant being the replacement of a 21 year old double bucket truck. Renfrew Hydro is intending to reduce their finance charges and we anticipate that our amortization expenses as a result of our capital investments to remain stable throughout this planned period. Renfrew Hydro's investment in capital infrastructure over the last five years has totalled \$3,230,460 and we are projecting a \$3,400,000 investment throughout the 2022-2026 period.

## Capital Expenditures

	2022	2023	2024	2025	2026	Totals
<b>System Access</b>	100,000	100,000	50,000	75,000	50,000	375,000
<b>System Renewal</b>	400,000	350,000	375,000	400,000	500,000	2,025,000
<b>System Services</b>	25,000	25,000	25,000	25,000	25,000	125,000
<b>General Plant</b>	100,000	500,000	150,000	50,000	75,000	875,000
<b>Total</b>	625,000	975,000	600,000	550,000	650,000	3,400,000



## Financial Performance Outlook

Renfrew Hydro's financial outlook is dependent on a successful 2022 rate submission to the OEB. Once approved, these new rates will provide adequate funding to ensure Renfrew Hydro remains profitable and maintain our ability to continue to provide reliable and valued services through to 2027. This combined with enhanced productivity and modest growth in customers enables us to project \$1,159,658 in net income over the next five years.

	2022	2023	2024	2025	2026
Revenues	2,167,248	2,249,338	2,297,361	2,346,464	2,396,672
Expenses	1,960,127	2,020,899	2,062,568	2,105,154	2,148,676
Net income	207,121	228,439	234,793	241,310	247,995

## Risks and Uncertainties

Renfrew Hydro throughout its history and recently during the COVID-19 pandemic has proven that it can manage risk, maintain flexibility, and respond effectively changes in our business environment. Although we remain confident in our assessment of our overall business climate in which we operate, there are a number of factors that could affect Renfrew Hydro's ability to achieve its projected results.

### **Regulatory Environment**

Renfrew Hydro operates in a heavily regulated environment and any significant policy or regulatory change can adversely affect our performance. Regulated changes to our rate structure, the reduction of carbon emissions, the forced consolidation of electrical utilities reduction, and restrictions on allowed services under our licence, all of which could disrupt our plans moving forward.

### **Technology Advancements**

The potential disruption of our existing business model could occur with advances in technologies that trigger the proliferation of distributed energy resources, allowing businesses and homes to go off the grid and manage their own energy needs.

### **Information Technology and Cyber Security**

Renfrew Hydro's business performance is dependent on several complex technology systems, such as customer information systems, business administrative systems, advanced metering and operating technologies. The failure of one or more of these systems or our failure to keep current with our existing information technology could adversely impact our business. Our expanded use and growing reliance on information systems makes our sector more vulnerable to information security threats including cyber security attacks. Any security breach, data corruption or system failure on our systems or those that others provide us would be detrimental to our business.

## Climate Change

Changes to our climate is affecting the severity and rate of occurrence of extreme weather events right across the globe. The impact of a severe weather event could be devastating to our distribution system. The costs of recovery and restoration can quickly spiral and substantially change our businesses financial position. Building a more storm resilient system comes at a significant cost, a price that our society has yet to fully accept and endorse.

## Dependence on Business Partners

Renfrew Hydro has limited ability to operate its business without our existing business partners. The underperformance or failure of any of these partners will have negative impacts on our business. Although cost effective, Renfrew Hydro remains vulnerable to price escalations and the costs of changing service providers given our reliance on others for the delivery of key business processes.

## Economy

The condition of our local, provincial and national economy significantly affects our business through factors such as interest rates, inflation, and customer credit conditions. Increases in any of these aforementioned factors would reduce our net income and slow down the anticipated growth in customers in Renfrew. Our Town's history has shown that a poor economy can cause our local number of businesses to decrease, negatively impacting our financial position and further stagnating growth.

## Conclusion

Renfrew Hydro has been a successful business for over a century and we will continue to provide a safe, efficient and reliable supply of electricity to the residents and businesses of Renfrew at an affordable cost. We will achieve business success by continuing to invest in our core assets (our people and our distribution system) and leverage our strengths while improving productivity. We remain confident that we can effectively manage and respond to any of the aforementioned risks and uncertainties, and continue to provide long-term value to all our stakeholders.

# Governance and Reporting

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Renfrew Hydro Inc.'s Board of Directors exercises leadership and oversight and is guided by the Shareholder Direction issued by the Town of Renfrew. The three-person Board of Directors, along with Executive Management, sets the overall strategic direction. Board members are corporate independent board members, which conforms to the Affiliate Relationship Code. The conduct of the business and the affairs of Renfrew Hydro are detailed in By-Law 1, and Board governance policies.

The day-to-day operations are led by the Management Team, which consists of Renfrew Hydro's President, the Director of Finance, the Billing Supervisor, and the Crew Leader. The President is accountable to the Board and the Management Team is accountable to the President.

The Board will monitor the progress of the strategic plan on a quarterly basis, making adjustments where required. The President will provide quarterly reports, including financial reports and forecasts, to the Board and the Shareholder. The Board and President will present an "Annual Report" to the Shareholder summarizing RHI's strategic plan progress and overall performance including our OEB "utility scorecard" results at the Annual General Meeting.