



Kingston
Hydro

Strategic Plan
2019
2024



Mission:

To distribute electricity in a safe and reliable manner, while keeping rates affordable and providing long-term value to the community. We do this by participating in Kingston's unique multi-utility model.

Vision:

A modern, responsive energy company, building a strong future for communities and customers through stewardship, partnership, innovation and service excellence.



Local infrastructure photos by Paul Wash.

Table of Contents

| | |
|--|----|
| Message from the Chair | 4 |
| Introduction | 5 |
| History | 6 |
| Kingston Hydro Today | 8 |
| Mission and Vision | 8 |
| Structure | 8 |
| Board of Directors | 9 |
| Distribution Facts | 11 |
| Finance | 11 |
| Environmental Scan | 12 |
| Economic Factors | 12 |
| Rate Pressures | 12 |
| Balanced Cash Flow Approach..... | 12 |
| Customers..... | 13 |
| Changing Values | 13 |
| Adding Value for Customers | 13 |
| Measuring Customer Satisfaction..... | 13 |
| Community Goals..... | 14 |
| Technological Factors | 14 |
| Information Technology | 14 |
| Internet of Things | 15 |
| Distributed Energy Resources | 15 |
| Regulatory and Political Environment/Public Policy | 16 |
| Competitive Advantage..... | 17 |
| Competitive Distribution Rates | 17 |
| Economies of Scope | 17 |
| Customer Service | 17 |
| Theme Areas and Strategic Goals | 18 |
| Theme 1: Leveraging the Multi-Utility Model | 19 |
| Theme 2: The Power of Local Hydro | 20 |
| Theme 3: Reliable Infrastructure Management | 21 |
| Theme 4: Customer Service Excellence | 22 |
| Glossary | 23 |



Message from the Chair

Today, Kingston Hydro is a reliable and consistent hydro company that is focused on creating immediate value for its customers and community. Our core business is to deliver power at a competitive rate. We do this by participating in the unique Utilities Kingston multi-utility model for cost and customer service benefits.

In its last strategic plan, the company was successful in achieving 10 goals related to growth, risk management, finance, infrastructure, technology and customer engagement. This current plan continues in a similar direction, but with a few adjustments that will calibrate the course for Kingston Hydro to remain relevant in serving its customers.

Like most local distribution companies in Ontario, Kingston Hydro must evolve for the future. Industry trends to meet changing customer needs mean that utilities must advance experimentation in customer engagement, information and communication technology, data analytics, energy storage, grid automation, microgrids, and more.

As Kingston Hydro developed this strategic plan for 2019-2024, we examined how to drive innovation and find efficiencies for customers, while ensuring reliable power at a fair rate, and increasing value for our community. As a modern energy company, how can we best support community goals for a smart, livable 21st century city and stay ahead of changing customer needs?

We believe the answer for Kingston Hydro lies in one of the biggest innovations in the utilities sector: Kingston's multi-utility model. While it allows us to run a very efficient, customer focused operation, our utility also has a proven track record of innovation to benefit customers and the community.

We will be guided by the Kingston Hydro strategic plan for 2019-2024 to ensure fair rates and a strong future for our customers and community.

Bryan Paterson
Mayor, City of Kingston
Chair, Kingston Hydro



Introduction

Kingston Hydro distributes electricity to approximately 28,000 customers in Kingston, Ontario. The corporation has a long standing history of distributing safe and reliable electricity services, while keeping rates affordable and providing value to its Shareholder, the City of Kingston. Innovation and service excellence are central to its success, and will become increasingly important as the power grid and customer expectations evolve.

A fundamental strategy of the organization is to leverage **economies of scope** by contracting operational management to Utilities Kingston. Through this **shared services model**, Kingston Hydro passes on more than \$1.8 million dollars in annual savings to its customers.

This five-year strategic plan provides a framework to leverage the competitive advantages of the multi-utility model, make more informed operating decisions for the corporation, better serve customers and prepare for a changing future. It answers the following question:

How can Kingston Hydro best meet customer expectations in distributing safe, affordable and reliable electricity over the next five years, while promoting the ‘power of local hydro’, and preparing for changing consumer needs in a modern grid?

Strategies align annual work plans with the achievement of long-term objectives. This strategic plan will facilitate a common understanding of company direction for the workforce, senior leaders, Board of Directors and Shareholder.



History

The Kingston Electric Light Company was incorporated in 1886. This privately-owned company built its first electric light plant in 1888 at the foot of Brock Street.

The plant, primarily used to generate electricity for street lighting, was moved to Queen Street in 1892. This location is still used by Kingston Hydro as a distribution substation (Figure 1). The Public Utilities Commission used this and adjoining buildings as its main offices until 1972, when it moved to 1211 John Counter Boulevard.

The Public Utilities Commission (PUC) operated the electricity distribution system within the former City of Kingston. It provided electricity to the City and also parts of Barriefield and CFB Kingston. On January 1, 1998, the PUC was dissolved as part of the municipal amalgamation that created the new City of Kingston, combining the former City of Kingston, the Township of Kingston and the Township of Pittsburgh. Until 2000, the electricity utility was governed by the Hydro-electric Commission, also the Board of Control at that time.

In 1998, the *Energy Competition Act* required significant changes to electricity utilities in the Province of Ontario. One of these was the establishment of corporate structures for the ongoing management and operations of electricity distribution systems—a requirement that would create a level playing field between privately-owned utilities and those that were retained by their municipalities. Legislation was prescriptive in the way these corporations were to be set up. In particular, municipalities could not continue to distribute electricity, except through a corporation. In addition, employees within a municipally-held electricity distribution corporation could not be significantly involved in any other activities except electricity distribution.



Figure 1: Substation MS1 on Queen Street was the former location of the Kingston Electric Light Company.

This created challenges for the municipal department that operated five utility systems. The City of Kingston determined it would be advantageous to maintain the multi-utility structure. The organization needed a structure that would meet the intent of the legislation, maintain the advantages realized through utility convergence or integration (one call, one crew, one bill) and support the municipality by utilizing shared services (e.g., fleet), where beneficial to both parties.

The proposed solution, which became the current structure, saw the incorporation of three Ontario Business Corporations. The first, Kingston Electricity Distribution Limited (now Kingston Hydro Corporation), holds the assets of the former Hydro Electric Utility Commission. The second, 1425447 Ontario Limited, owns the third, 1425445 Ontario Limited (operating as Utilities Kingston). The latter is home to all the employees of the former municipal department, and holds the assets of the fibre utility, along with some vehicles and tools.

Low rates, local control and superior customer service are just some of the benefits. Through this structure, the company also provides a consistent return on investment to its Shareholder, not only through ongoing dividend payments, but also through fair and balanced user rates and support for economic development.

Today, Utilities Kingston operates multiple utilities through a single service structure, allowing it to deliver cost savings and customer service excellence. The company is unique in Ontario, combining water, wastewater, gas, electricity and broadband networking services in one company.



Kingston Hydro Today

Mission and Vision

The strategic direction of the company is guided by its mission and vision.

Mission:

To distribute electricity in a safe and reliable manner, while keeping rates affordable and providing long-term value to the community. We do this by participating in Kingston's unique multi-utility model.

Vision:

A modern, responsive energy company, building a strong future for communities and customers through stewardship, partnership, innovation and service excellence.

Structure

Kingston Hydro is a for-profit business corporation, incorporated under the *Ontario Business Corporations Act*. The Shareholder is the City of Kingston, represented by the Council of the City of Kingston (Figure 2).

To leverage economies of scope, Kingston Hydro contracts management of the business to its affiliate, Utilities Kingston.

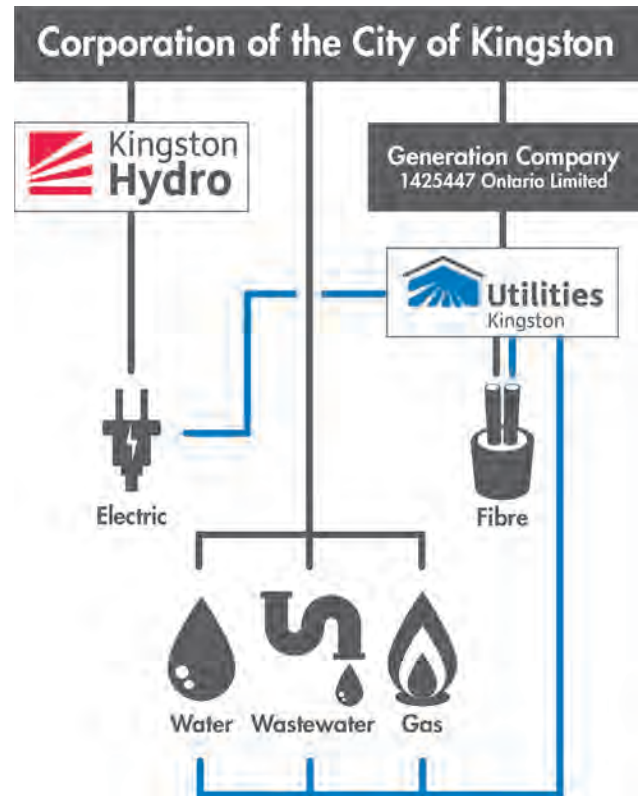


Figure 2: The municipal organizational structure as it stands today. Grey lines show ownership, blue lines show management.



Board of Directors

This 2019-2024 Kingston Hydro Strategic Plan has been approved by the Board of Directors. Board structure is determined by the terms of the Shareholder declaration.

Directors



Bryan Paterson
Mayor, City of Kingston,
Chair



Gerard Hunt
Chief Administrative
Officer, City of Kingston



James A. Keech
President and Chief
Executive Officer,
Kingston Hydro



Arthur Jordan
Independent Director



Barbara Hanley
Independent Director

Officers



James A. Keech
President and Chief
Executive Officer,
Kingston Hydro

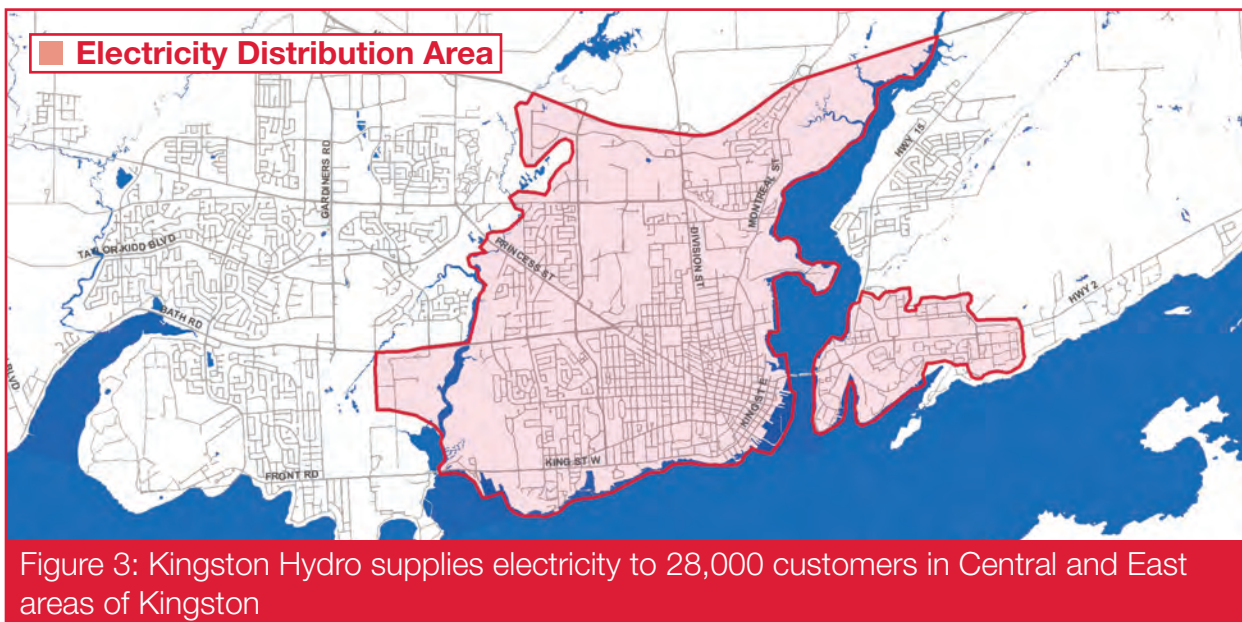


Randy Murphy
Chief Financial Officer
and Treasurer,
Kingston Hydro

Distribution Facts

Kingston Hydro is a registered market participant with the Independent Electricity System Operator (IESO), which is responsible for the day-to-day operation of Ontario's electricity system. As such, Kingston Hydro purchases electricity from the wholesale electricity market, which is managed by the IESO. Electricity is provided to Kingston Hydro through two Hydro One transformer stations: one is located at John Counter Boulevard and Division Street, and another on Gardiners Road.

Seven high-voltage lines feed the City's 16 substations, which in turn supply electricity to 28,000 customers in Central and East areas of Kingston, including Royal Military College, Canadian Forces Base Kingston, the Village of Barriefield and Collins Bay Penitentiary (Figure 3).



Finance

To support infrastructure renewals, since 2010, Kingston Hydro has invested significantly in aging infrastructure. The net book value of its capital assets has doubled since 2010 to the 2018 value of \$57.4 million. This has resulted in increased borrowing over that timeframe in the amount of \$14.1 million to \$33.3 million. Kingston Hydro's deemed debt amount for rate-making purposes is approximately \$33.5 million, indicating the company is properly leveraged.

During the same timeframe (2011-2018), the company paid dividends to the Shareholder totaling \$4.2 million. Future annual dividend payments are expected to increase as the requirement for above average capital reinvestment subsides.

Environmental Scan

The initiatives in this plan are influenced by various social, legal, economic, political and technological factors. Plans consider the shared goal of the City of Kingston and Utilities Kingston to help achieve the community vision of a smart and livable 21st century city.

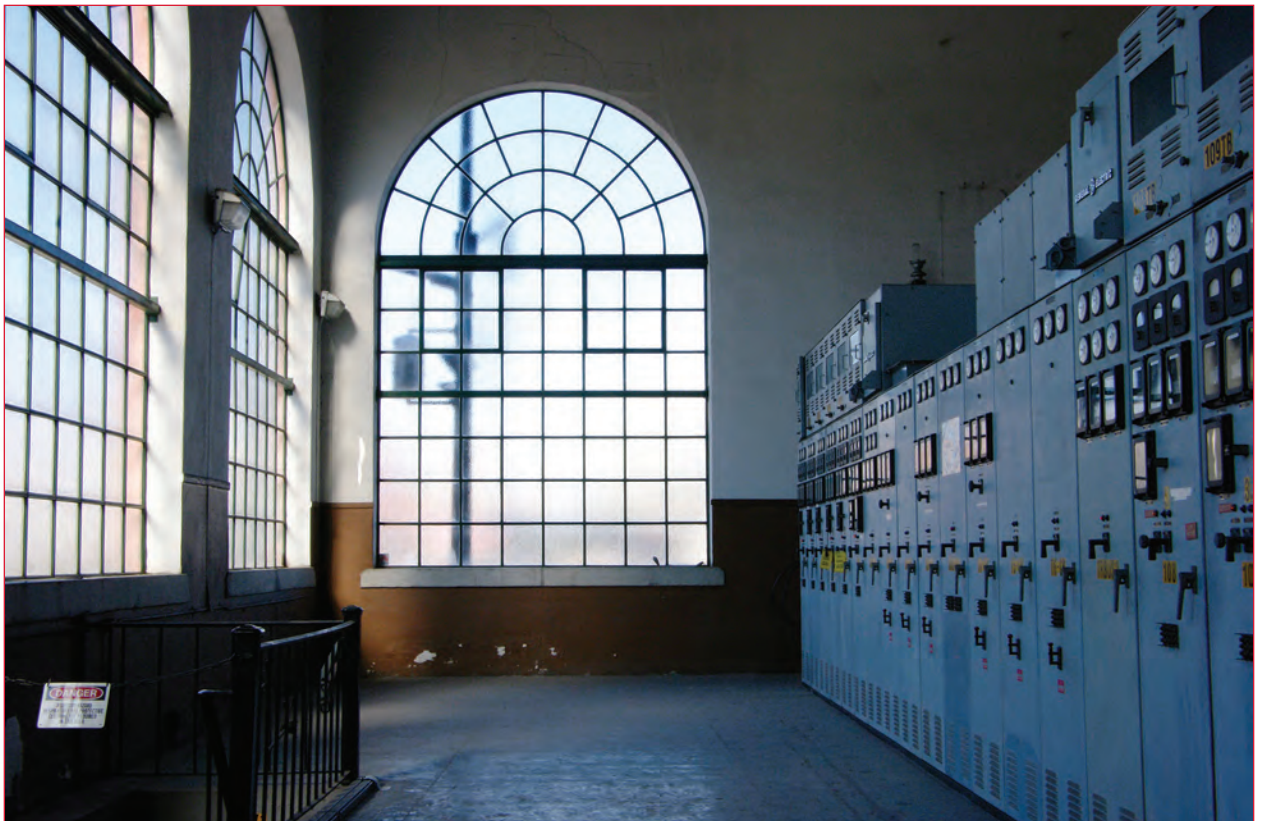
Economic Factors

Rate Pressures

While rate pressures decreased for customers after the *Ontario Fair Hydro Plan Act, 2017* came into effect on June 1, 2017, and electricity bills were lowered by 25 per cent on average for residential customers, consumers continue to express sensitivity to the cost of electricity. The provincial government has promised to cut an additional 12 per cent from electricity bills, although at this time it is unclear how.

Balanced Cash Flow Approach

Kingston Hydro balances various economic pressures. In addition to the rate pressures noted above, management considers a reasonable annual return to its Shareholder, balanced with the long term viability of the business. Additionally, annual capital reinvestment plans must be balanced with system reliability, available cash flow and external financing.



Customers

Changing Values

The traditional power system is centralized; while tomorrow's power grid is decentralized, integrating **distributed energy resources**. It will bring power to and transmit excess power from customers to share with others, creating increased reliability at a lower cost.

Consumer values are changing too. Local distribution companies (LDCs) of the future will have highly involved consumers, with a decreased dependence on the grid. They will have an increased care for the environment wanting to buy "sustainable", with a desire for innovative approaches to revenue generation and technology interfaces.

Like other LDCs in Ontario, Kingston Hydro is aware of rapidly changing customer needs and expectations of their distributor. Driven mainly by rate pressures and the desire to reduce electricity costs by managing their consumption patterns, customers are evolving from reactive to proactive consumers. Customers may soon be looking for more flexibility and control of their energy consumption, as they transform their properties into smart homes and choose to produce their own electrical energy.

Adding Value for Customers

As customer preferences evolve, Kingston Hydro will learn about and adapt to their needs and expectations, with a continued commitment to providing a great customer experience. This could include empowering consumers to manage their energy usage in real time. A recent example that added value for customers is the implementation of a new outage management system, getting faster, more accurate power outage information into the hands of customers. The Kingston Hydro capital program, as another example, considers customer preferences and local streetscapes when installing new poles, and by providing customers with choice when planting vegetation near overhead lines.

Measuring Customer Satisfaction

Through Utilities Kingston, Kingston Hydro surveys its customers to learn how to continually improve satisfaction with the electricity services they receive. In 2017, Kingston Hydro received an 'A' from customers, consistent with the first time this survey was conducted in 2014. The results showed that the company shines – especially when it comes to delivering consistent and reliable electricity services and making safety a priority.



Environmental Scan

Community Goals

Kingston Hydro supports its Shareholder, the City of Kingston, in achieving goals for a smart and livable 21st century city. Among these are a culture of smart innovation that invests in energy efficiency and new technology to benefit citizens; making strategic investments that further economic development; intensifying the downtown core; investing in quality of life by rejuvenating key areas of the city; and engaging citizens and building community partnerships. These shared goals will benefit the community we serve.

The City of Kingston strategic plan is renewed with each term of council. At the time this Kingston Hydro strategic plan was produced, the initial indications for 2019-2022 City of Kingston strategic priorities were as follows:

1. Increase housing affordability
2. Improve walkability, roads and transportation
3. Demonstrate leadership on climate action
4. Strengthen economic development opportunities
5. Foster healthy citizens and vibrant spaces

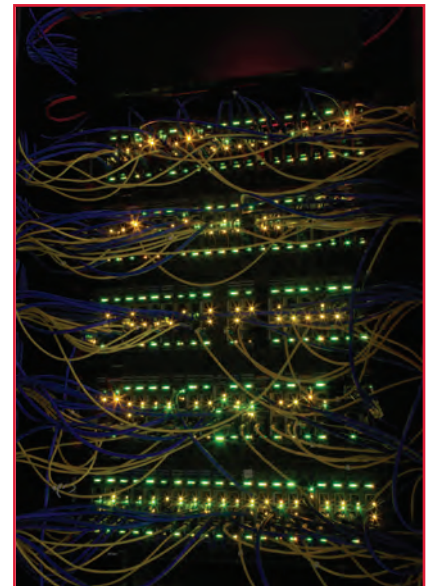
Technological Factors

Technology, and the change it enables, continues to be a factor in the electricity distribution industry. In recent years, the industry has focused on smart meters and small-scale **distributed generation** in the form of roof-top solar.

Several important technological themes are poised to influence the electricity distribution space. Underpinning technological change is a continued focus on cyber-security practices, as the greatest threats could impact the reliability of utility services.

Information Technology

Access to information will continue to gain importance and prominence. The information technology (IT) sector has raised expectations for how readily information is made available. Customers currently have access to consumption data, via the MyUtilities Customer Portal. Increasing expectations around the protection, availability, and granularity of data will generate challenges and opportunities for the industry.



Meanwhile, social media and the way customers interact continue to evolve, driving expectations for business to be ‘always on’.

Internet of Things

The **internet of things (IOT)** and the **industrial internet of things (IIOT)** are shaping up to impact the electricity sector. The IOT can be described as devices (such as smart consumer electronics) connecting to the internet for consumer benefit. The IIOT is similar, but focused on devices and sensors (such as smart city technologies) that help businesses connect to the internet for a benefit.

Kingston Hydro may play a role in providing the required energy data to consumers, while a proliferation of sensors or tools could mean the company benefits from an increased ability to monitor and control the distribution system.

Distributed Energy Resources

Distributed energy resources (DERs) are a broad category of equipment and services. They allow electricity to be generated, stored and used locally, instead of centrally managed (the latter typically far removed from the point of consumption).

Solar panels and battery storage systems are examples of distributed energy resources. By placing an electricity source closer to the consumer and, in some cases, allowing the user to generate electricity, distributed energy resources create a more decentralized electricity system. This will

change the traditional dynamic between local distribution systems and the province-wide transmission system.

While the concept of a **‘Smart Grid’** has lost prominence in recent years, distributed energy resources play an important role in its evolution and are expected to grow in importance to customers.

For the provincial grid, DERs could be helpful in deferring capital costs for building new electricity supply infrastructure that would serve the Kingston Hydro distribution area—contributing to fair and reasonable rates for customers.



Regulatory and Political Environment/Public Policy

Kingston Hydro is a licensed electricity distributor within a defined distribution area. As such, consumers requiring electricity services within this area must be customers of Kingston Hydro—its business is a regulated monopoly.

Kingston Hydro operates within the regulatory construct, as determined by the Province of Ontario. The company remains vigilant in monitoring new proclamations by the provincial government and new requirements as mandated by its regulators, including the Ontario Energy Board, Independent Electricity System Operator and Electrical Safety Authority. Changes from the province have a significant impact on Kingston Hydro's business and are outside its control. Although business decisions are based on the most current information available, the goals and initiatives defined in this strategic plan may be impacted as a result.



An example of a recent development, affecting the business, is the Ontario Energy Board Decision and Order banning licensed electricity distributors from disconnecting homes for non-payment during the winter.

Current developments from the Ministry of Energy and/or the Ontario Energy Board include the following:

- Significant changes announced on March 21, 2019, which impact conservation programs, governance structure of the OEB and future bill increases.
- The Long-Term Energy Plan: Delivering Fairness and Choice, which was introduced by the government in 2017, and then shelved in 2018.
- Enhanced adjudicative process: proportionate review of rate applications—essentially, a more light-handed review process for LDCs that have demonstrated strong performance in relation to OEB “expected outcomes”.
- Activity and program-based benchmarking initiative.
- Review of rate design for commercial and industrial electricity customers.
- Customer service rules review.

Kingston Hydro continues to monitor and respond to changes in the regulatory environment.

Competitive Advantage

Competitive Distribution Rates

Kingston Hydro competes for customer growth opportunities with other distributors, both within the boundaries of the city of Kingston and more broadly.

For example, when new businesses consider the physical location for new commercial and industrial development, hydro rates may be an important factor.

The company continues to monitor rates relative to other distributors. Kingston Hydro's distribution rates are highly competitive: 2017 rates were ranked the fourteenth lowest in Ontario, out of approximately 68 distributors.

Economies of Scope

A fundamental strategy of Kingston Hydro is to leverage economies of scope by contracting operations management to Utilities Kingston. Combining electricity operations with water, wastewater and natural gas operations results in significant cost savings that contribute to the company's competitive advantage.

Through this horizontal integration strategy, the Utilities Kingston shared services model nets more than \$1.8 million dollars in annual savings to Kingston Hydro's customers. In addition, residents and businesses appreciate coordinated response to emergencies, a single utility bill, and reduced disruption during multi-utility construction projects.

Customer Service

Other factors that may be considered in assessing competitive advantage are customer service and the ease by which multiple services can be accessed.

Generally, the responses of Kingston Hydro customers in both of these areas are positive and can be considered an advantage.

Utilities Kingston and Kingston Hydro receive many positive comments from customers on the service provided. Ninety-two per cent of customers surveyed in 2017 said they are satisfied with the electricity services they receive from Utilities Kingston and Kingston Hydro.

However, customer needs and expectations are changing. It will be important for Kingston Hydro to understand and adapt to these expectations.

These key factors help inform the theme areas and strategic goals for our organization.



Theme Areas and Strategic Goals

In its last strategic plan, the company achieved the 10 goals outlined in Figure 4. This current plan continues in a similar direction. Some modest adjustments will calibrate the course for Kingston Hydro to remain relevant in serving its future customers.

The areas of focus for 2019-2024 are as follows:

- Leveraging the multi-utility model
- The power of local hydro
- Reliable infrastructure management
- Customer service excellence

Past five-year strategic goals, 2012-2017

Status Quo vs. Growth

- 1** Continues to pursue all opportunities to increase its customer base.

Risk Management

- 2** Adopts a risk management plan that identifies the principal risks of Kingston Hydro's business and ensures the implementation of appropriate systems to manage these risks.

Finance

- 3** Incorporates its capital investment, operational needs, debt servicing and shareholder dividend requirements into a 10-year financial plan, approved by the Board of Directors.

Infrastructure Investment and Community Sustainability

- 4** Ensures optimized capital investment: all decisions regarding capital investment consider factors such as cost, risk, impact on safety and impact on reliability.
- 5** Identifies and captures any additional savings in the areas of operations, maintenance and administration that can be re-allocated to dividend payments or capital.

Technology

- 6** Leverages its investment in smart meter technology to work toward the development of a smart grid that facilitates distributed generation and storage of electricity.
- 7** Focuses on converting 'data' to 'information' that can be delivered to customers and employees through mobile applications that will improve customer service and operational efficiencies.

Customer Engagement

- 8** Takes steps to ensure the community recognizes the Kingston Hydro brand and the value of its services in distributing safe and reliable electricity.
- 9** Develops and implements a customer service philosophy that is based on customer needs and expectations.
- 10** Actively engages its customers in undertaking conservation measures that will generate savings and achieve the conservation and demand management targets of the company.

Figure 4: Kingston Hydro Strategic Goals, 2012-2017.

Theme 1: Leveraging the Multi-Utility Model

The unique Utilities Kingston multi-utility model delivers measurable benefits in customer service and cost efficiencies to electricity customers in Kingston Hydro's distribution area. In an era of rapid technological change and increasing customer expectations, Kingston Hydro can leverage these advantages and relationships for operating efficiencies, improved convenience for customers, and innovation for a modern grid.

Goal 1: Leverage cross-functional expertise and efficiencies.

Initiative 1

Continue to utilize the multi-utility model to deliver efficient electricity services.

Initiative 2

Maintain one president and CEO for both companies, with Board approval and participation.

Goal 2: Leverage external shared services.

Initiative 1

Increase efficiencies through collaboration and relationships with industry partners and organizations (shared resources, insights and systems).

Initiative 2

Cooperate with other LDCs to explore opportunities to extend the multi-utility model beyond Kingston, where it benefits Kingston Hydro's electricity rate payers.

Initiative 3

Explore every option to acquire all electricity distribution assets in the city of Kingston, through CEO discussions at the political level and monitoring of government direction.



Benefit from Kingston's unique multi-utility model to maintain fair and competitive rates, and deliver customer service excellence.



Theme 2: The Power of Local Hydro

Local distribution companies deliver safe, reliable and cost-efficient power to homes, businesses and public institutions across the province. Kingston Hydro supports its Shareholder, the City of Kingston, in achieving goals for a smart and livable 21st century city. By monitoring and responding to community needs, Kingston Hydro can help create new local economic development opportunities and provide enhanced services for residential, industrial and business customers.

Goal 1: Respond to community priorities.

Initiative 1

Ensure a fair and balanced return to the Shareholder: establish return on equity and dividend projections for 2019 to 2024.

Initiative 2

Review the connection process for new services, and educate customers and stakeholders by implementing a communications plan.

Initiative 3

Review and respond to strategic priorities of City Council (2019-2022).

Goal 2: Maintain fair and reasonable rates.

Initiative 1

Ensure rates remain in the bottom 50 per cent amongst Ontario's electricity distributors.

Goal 3: Promote Shareholder awareness of the asset they hold in Kingston Hydro.

Initiative 1

Promote the community impact of Kingston Hydro as it strives to achieve its vision:

- Annual reporting to the Board and Shareholder on company progress and performance towards the goals and initiatives set out in this plan.
- Promotion of company results to the community (Kingston Hydro scorecard, customer satisfaction survey, annual report).

Initiative 2

Promote the value of local ownership. (CEO report on rates, return and value presented at the Shareholder annual meeting.)



Rates remain in the bottom 50 per cent amongst Ontario distributors.



The community protects the value of local ownership.

Theme 3: Reliable Infrastructure Management

To remain relevant, local hydro utilities must balance the need to renew aging infrastructure for continued reliability, while preparing for the modern, two-way grid that harnesses information technologies to monitor, control, and optimize the electricity system. While electricity providers like Kingston Hydro must ensure continued safe and reliable service delivery for today, preparing for the Future Grid means building partnerships and gaining experience in technological innovation.

Goal 1: Ensure sustainability of infrastructure.

Initiative 1

Complete a five-year distribution system plan to ensure the safe and reliable provision of electricity services.

Initiative 2

Complete a rate application for electricity distribution rates, starting on January 1, 2021.



Electricity distribution rates for 2021 and onward approved by the regulator, allowing the company to achieve its mission and strive towards its vision.

Goal 2: Maximize efficiency of electricity operations.

Initiative 1

Implement data collection systems and processes for identified performance measures.

Initiative 2

Collect data to establish a baseline on performance related to customers and equipment, and the efficiency and effectiveness of internal processes.

Initiative 3

Maximize efficiency of electricity operations. Report on performance measures, against the established baseline.

Initiative 4

Utilize the benchmarks for industry comparisons and target areas of improvement.

Goal 3: Prepare for the Future Grid.

Initiative 1

Stay current with industry and technological trends as related to the distribution system, for example through master plans for 5 kV and 44 kV systems.

Initiative 2

Plan and implement an initiative that will help prepare the company to remain relevant as the grid is modernized.

Initiative 3

Prepare recommendations for the Board on infrastructure investments for 2025-2035, which anticipate the state of the grid in 25-50 years.



Kingston Hydro will respond to opportunities for new services, and the opportunities and challenges provided by disruptive technology.



Theme 4: Customer Service Excellence

As the provincial power grid evolves, consumer values are changing. Their expectations for involvement and service delivery, and appetite for smart technology are rapidly increasing. In a digital age where advancements in technology are bringing about an unprecedented amount of change and transformation, consumer expectations for service delivery are higher than ever.

To meet the needs of the future customer and keep pace with change, Kingston Hydro must develop a clear understanding of which services and technologies customers will come to expect from their hydro utility. An informed, engaged workforce will help to exceed these changing customer expectations.

Goal 1: Maintain excellence in customer service.

Initiative 1

Engage customers to understand evolving needs and document preferences.

Initiative 2

Review how the industry and technologies are changing in relation to customer needs. Document initial understanding of the future of IT, IOT, DER, and the modern grid.

Initiative 3

Identify, implement or adapt customer service initiatives based on identified customer needs and technological trends, and the strengths of the multi-utility model. Implement an internal and external communications strategy.

Initiative 4

Involve Utilities Kingston employees in delivering service excellence, through informing, feedback and recognition.



Maintain an 'A' grade in the 2019, 2021, and 2023 customer satisfaction surveys.

Glossary

| | |
|---|--|
| distributed energy resources (DER) | A broad category of equipment and services. They allow electricity to be generated, stored and used locally, instead of centrally managed (the latter typically far removed from the point of consumption). Solar panels and battery storage systems are examples of distributed energy resources. |
| distributed generation | Smaller generating facilities that are located close to consumers of electricity. |
| economies of scope | An economic theory stating that the average total cost of production decreases as a result of increasing the number of different goods produced (www.investopedia.com). |
| industrial internet of things (IIOT) | Devices and sensors (such as smart city technologies) that help businesses connect to the internet for a benefit. |
| internet of things (IOT) | Devices (such as smart consumer electronics) connecting to the internet for consumer benefit. |
| shared services model | The approach used to share operational functions between multiple utilities in order to achieve economies of scope. |
| Smart Grid | A class of technology used to bring utility electricity delivery systems into the 21 st century, using computer-based remote control and automation. These systems are made possible by two-way communication technology and computer processing that has been used for decades in other industries. They are beginning to be used on electricity networks, from the power plants and wind farms all the way to the consumers of electricity in homes and businesses (http://energy.gov/). |





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