



April 26, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700, P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Dubreuil Lumber Inc.
Notice of Transition; EB-2017-0153**

Please find accompanying this letter, a Notice of Transition to further inform the OEB on a number of items with respect to the above Order and Licence.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (705) 941-5697.

Yours truly,

Original Signed by

Tim Lavoie
Vice President, Corporate Services & Indigenous Relations

Introduction

On April 4, 2017, the OEB issued an order granting Algoma Power Inc. (“API”) an interim distribution licence to operate the electricity distribution system in the Township of Dubreuilville, and requiring Dubreuil Lumber Inc. (“DLI”) to surrender possession and control of the electricity distribution system in the Township of Dubreuilville to Algoma Power Inc. (the “Order”). An interim electricity distribution licence (the “Licence”) accompanied this Order.

The purpose of this notice of transition is to further inform the OEB on a number of items with respect to the Order and Licence, namely:

1. The efforts undertaken to date by API and DLI to comply with the Order and the Licence;
2. That API has, as of the filing of this notice, effectively taken possession and control of the electrical distribution assets in the Township of Dubreuilville, but cannot take possession and control of the business of Dubreuil Lumber Inc., as required by Section 1(e) of the Order, for the reasons detailed herein;
3. Areas of immediate concern to API with respect to compliance with certain aspects of the Order and the Licence;
4. Areas of concern related to the DLI distribution system, including associated regulatory and cost implications, that API believes should be brought to the OEB’s attention in advance of submitting the 60-day status report referred to in Section 1(f) of the Order; and
5. API’s plans to effect an orderly and cost-effective transition, in line with the perceived intent of the Order and the Licence, and in compliance with relevant legislation and codes to the extent possible.

Transition Efforts to Date

After becoming aware of the Order on April 4, API immediately assembled a transition team to begin providing operational support to DLI, and to communicate with DLI’s customers and the township of Dubreuilville. On April 5, API staff met with the Township of Dubreuilville’s CAO-Clerk to begin discussing transition plans, and to provide reassurance that API would provide emergency operational support as required. API also developed an informational letter to the residents and businesses of Dubreuilville, describing how customers could immediately contact API to report power outages, or inquire on customer service related matters. This letter was delivered to all residents and business on April 10.

During the week of April 10, API customer service representatives met with DLI employees to review metering, billing and collection process. API engineering and operations staff met with DLI employees for a high-level tour of DLI’s distribution system, and also accompanied the auditor conducting DLI’s annual Regulation 22/04 audit. On April 13, a number of API representatives attended a regularly scheduled council meeting in Dubreuilville to answer questions, address concerns, provide reassurance that API was developing plans for a smooth transition, and to discuss the possibility and timing of further public town hall sessions.

Going into the next month and the associated billing process, scheduled meetings have been set for API staff to join DLI billing staff to learn the billing processes and associated reporting that DLI has historically done in order to prepare to take over this role going forward. API will also endeavor to schedule public information sessions as soon as is feasible to ensure that all information to customers is communicated in a timely manner.

API's Effective Control of the Distribution Assets

API notes that the business of DLI includes significant non-distribution assets, including a gas station and a lumber mill in Dubreuilville. Where some sections of the Order and Licence refer broadly to the "business" of DLI, API assumes the intended reference is to the "distribution" business and assets of DLI (i.e. the portions of DLI's business that are regulated by the OEB). Both the transition activities completed to date, and the transition plan proposed herein, rely on this assumption.

API confirms that it has taken full possession and control of DLI's distribution assets as of April 27, 2017.

Compliance Issues

Given that the business of DLI is comprised of both distribution assets regulated by the OEB, and significant non-distribution assets and businesses, API is unable to strictly comply with portions of Section 5.5 of the Licence, which requires API to "carry on, manage and conduct the operations of the distribution business in the name of the owner of the distribution assets, Dubreuil Lumber Inc."

Section 5.5, subsections (a) to (c), of the Licence relate generally to the assets and financial matters of the business. Through initial discussions with the owner and employees of DLI, it appears to API that there is currently inadequate separation between the regulated and non-regulated portions of its business. As such, API does not believe that it would be appropriate to manage the financial accounts of DLI, and instead would establish new account related on to the distribution business. The transition plan proposed herein provides detail on how API would manage DLI's distribution system assets, and related financial transactions, including operations and maintenance costs, asset replacement costs, and customer billing.

Section 5.5, subsections (d) and (e), of the Licence relate generally to the management of employees, consultants and counsel. API notes that the employees of DLI who have previously fulfilled operational and administrative roles in relation to its distribution system, are either set to retire or do not otherwise wish to continue with long-term employment arrangements. This appears to be consistent with DLI's inability to provide distribution service, as referenced by the OEB on p.2 of the Order. As such, API intends to fulfill its responsibilities with respect to conducting the operations of the distribution using API employees, and third-party contractors or consultants, as required. The employees of DLI have agreed to answer questions and provide advice or other information as required to effect an efficient transition. In order to fulfill all of its day-to-day obligations under the Order and Licence, and to provide the OEB with sufficient information on status of the distribution system and condition of assets in its 60-day report, API anticipates the need to retain the assistance of several third-party contractors and consultants. Activities for which third-party support is

required include, but are not limited to, asset condition assessments, pole testing, underground locates, and substation equipment repairs (see Immediate System Concerns section below). API anticipates that it will enter into appropriate agreements with the required third parties in the name of DLI, with a clear understanding that the distribution system and asset ownership remains with DLI, and that in entering into the agreement, API is acting merely as an agent of DLI in accordance with the OEB's Order, the Licence, and section 59 (3) of the Act.

API notes the OEB's requirement for DLI to either renew its licence, or dispose of its ownership interest in the distribution system to another licensed electricity distributor. While API has had some preliminary discussion with DLI in relation to this requirement, no formal agreement has been reached as of the filing date of this notice. At the same time, API is not aware of any intention by DLI to apply for a licence renewal or interim extension. Of particular concern to API are issues related to insurance and liability. While Section 9 of the Licence states that API is not liable for anything that results from taking possession and control of the distribution assets of DLI, API is concerned with where any liability may land in the event that DLI fails to renew its licence or otherwise dispose of its ownership interest in the assets. API notes its continued willingness to work cooperatively with both DLI and the OEB to identify an efficient solution with respect to the long-term ownership of the assets, while at the same time protecting API from assuming undue liability.

Finally, through its initial meetings and discussions with DLI, and the development of the transition plan proposed herein, API has noted a number of areas in which DLI is not currently compliant with the various Codes referred to in Section 6 of the Licence. While API will undertake all reasonable efforts to ensure compliance, it notes that additional costs and/or transition time may be required in order to achieve full compliance in some cases. API submits that the transition plan proposed herein addresses the most critical compliance issues with due consideration to associated costs and timing.

Immediate System Concerns

Throughout the initial transition period, through its efforts to become familiarized with the DLI distribution system, API's operations and engineering staff have noted significant safety, environmental, and reliability concerns that it believes should be brought to the OEB's attention in advance of the 60-day report referred to in Section 1(f) of the Order. These issues may require API to incur significant costs during the period covered by the Licence.

From an environmental perspective, API has noted oil stains surrounding the tap changer on a substation transformer, as well as staining on the foundation and surrounding gravel. While API has been informed by DLI that the oil is non-PCB, it has not yet been able to verify this information. This transformer forms part of a three-phase bank, which is already operating in a less than optimal open-delta configuration using this and one other transformer. The third transformer is currently out of service due to a broken bushing. As a result, the possibly leaking transformer with oil stains cannot be taken out of service until the bushing is repaired on the transformer currently out of service. API is in the process of investigating short term options and associated costs for immediate repair, replacement, or an alternate method of supplying load in this area. API will also further investigate the extent of contamination and the requirements for containment or remediation.

From a safety perspective, API has noted that much of the pole-line infrastructure is located rear-lot, and has noted public safety concerns related to electrical clearances. API intends to inspect all rear-lot pole lines to identify and document all such clearance concerns. Wherever possible, API will work cooperatively with property owners to relocate items in proximity to the line where possible. Other short-term options include installation of barriers or improving clearances by temporarily reframing wires and equipment on the poles if possible. API will also discuss electrical safety awareness issues at an upcoming public meeting.

API has also reviewed the availability of spare equipment that may be required in the event of an outage. While API's own material stock can be used for the vast majority of repairs, the voltage level of a small section of the distribution system is 2400 Volts Delta, which is relatively rare. DLI does not have suitable spare transformers to replace certain distribution transformers operating at this voltage in the event of failure. API is consulting with other LDC's and surplus equipment vendors to assess the possibility of quickly accessing replacement transformers if required.

From an unmetered load perspective. API noted above that it has observed from its preliminary information that the DLI system metered load appears to show unexpectedly high system losses. This suggests that there are unmetered loads. Further, the system configuration is such that many of the mill assets are not metered. DLI operated under the assumption that mill assets consumed the balance of the kwhs that were not sold to its metered customers. There are a number of 44kV services that provide electrical service to the DLI mill that will have to be reconfigured and or metered in order to fully separate the utility and mill. The immediate issue of accounting for kwh will be part of the transition plan as well as ensuring all unmetered load are identified.

In assessing the urgency of any repairs from a safety perspective, API will be guided by the requirements of Section 4 of the Electrical Distribution Safety Regulation (i.e. O. Reg. 22/04, s. 4). With respect to overhead lines, the regulation generally requires equipment to operate properly; requires adequate space and/or barriers to prevent contact by equipment, vegetation, or unauthorized person; requires accessible metal parts to be effectively grounded; and requires supporting structures to have sufficient strength to withstand equipment and weather loading.

API will provide the OEB with regular updates on maintenance or repairs completed, and in non-emergency situations, will notify the OEB in advance of incurring any material costs in relation to such work.

Medium to Long Term Concerns

API has also begun identifying concerns that will arise in the medium to longer term (i.e. likely following the 60-day report and/or any formal transfer of asset ownership). While API expects that these concerns will be discussed in more detail in its 60-day report to the OEB, it believes that a brief overview is warranted at this time.

From a cost recovery perspective, API anticipates that as it undertakes additional inspections and condition assessments in support of its 60-day report to the OEB, the need for increased capital, operational, and maintenance expenditures (as compared to historical levels) will become apparent. While the order requires API to track all costs and revenues in a deferral account, it does not contemplate a process for future

disposition. In the event that the costs in this account significantly exceed the revenues, API does not believe that recovering the difference from its existing customer base would be fair or appropriate. At the same time, allocating these costs to the small number of customers in Dubreuilville at a later date may result in unreasonable bill impacts.

In order to preserve continuity in its business processes, settlement processes, and performance reporting measures, API proposes to continue treating the Township of Dubreuilville as an embedded distributor. API would create a monthly bill for the embedded LDC account, to be charged to the deferral account. Likewise, any revenue collected from customers in Dubreuilville would act as an offset to the costs in the deferral account. At the present time, API has noted a discrepancy between the total metered kWh at the supply point meter, and the total loss-adjusted kWh billed to all customers in Dubreuilville. API's plan to monitor and address this issue is described in the Meter Reading, Billing and Collecting section of the Proposed Transition Plan described herein.

Finally, a future consideration that may arise if API is requested to directly acquire the assets and customers of DLI is an impact on its RRRP eligibility. Specifically, as a condition of being able to reclassify its general service customers as residential for the purpose of RRRP eligibility, O. Reg. 445/07, s. 1 (2) (b) requires that the average customer density is less than seven customers per kilometre of distribution line. If it were to directly acquire DLI's assets and customers, API's customer density would increase, but would remain below the eligibility threshold of seven customers per kilometre. While this change would not immediately impact API's general service customers, API is concerned that in the long run, its existing general service customers would be disadvantaged as compared to the status-quo scenario of not directly acquiring DLI's assets and customers. From API's perspective this results in its desire to find an efficient solution to the long-term ownership of DLI's assets being in direct conflict with its obligation to act in the best interests of its existing customers. API is open to finding constructive solutions to this conflict, including discussions with the Ministry of Energy to consider changes to O. Reg. 445/07, or in the alternative, a possible review of how its total line kilometres are considered for the purpose of determining RRRP eligibility under O. Reg. 445/07.

Proposed Transition Plan

As noted previously, after becoming aware of the Order, API immediately assembled a transition team on April 4. In addition to providing immediate support and services in a number of areas, this team has developed a transition plan to transition the day-to-day activities associated with DLI's distribution business. This plan is outlined below, and focuses on the first 60 days of transition (i.e. the period prior to filing a report with the OEB on the status and condition of the distribution system).

Customer Service

As discussed above, API previously developed and delivered an informational letter to the residents and businesses of Dubreuilville, describing how customers could immediately contact API to report power outages, or inquire on customer service related matters. API intends to issue additional letters and notices to residents and businesses in Dubreuilville to re-confirm contact information, to provide updates to billing and collection

processes, and to outline options for bill payment. API also intends to hold public town hall meetings in the community to provide updates to customers and to answer any questions or concerns. API will also use these opportunities to provide additional information related to electrical safety awareness.

Initial meetings with representatives of the Township of Dubreuilville have been quite positive, with the Township welcoming the transfer of control to API, and offering its support and assistance. API anticipates that it will leverage this relationship to provide and/or communicate changes in payment options to customers.

API's emergency call centre will handle all calls related to outages and other emergencies, while its customer service department will handle billing inquiries, service and moving requests, and all other inquiries. Any requests for new services or service disconnections will be received and managed by the customer service department, who will coordinate engineering and operations resources as required.

Operations

API operates a satellite work centre in Wawa, Ontario, located approximately 75 km from Dubreuilville. API intends to have its Wawa line crew support all day-to-day operational activities in Dubreuilville, 24/7 response to outages and other emergencies. Due to the relatively infrequent nature of underground locate requests, and a lack of detailed mapping of DLI's underground infrastructure, API anticipates retaining a third-party contractor to respond to the majority of underground locate requests in Dubreuilville.

System inspections and detailed condition assessments will be led by API's engineering group, based in Sault Ste. Marie. API anticipates retaining the services of third-party contractors and consultants as necessary to complete certain specialized inspections such as pole testing, transformer oil analysis and other specialized testing. Urgent preventative or corrective maintenance activities will be assigned to either API operational staff or third-party contractors, based on availability and qualifications. API's engineering group will also begin proactively formalizing emergency response plans to address situations such as failure of critical equipment.

As previously outlined, for any third-party contracts entered into for the purpose of completing the operational activities identified above, API would enter into the required agreements as an agent of DLI, with the expectation that all associated costs are tracked in a deferral account.

Meter Reading, Billing and Collecting

DLI does not have any Smart Meter infrastructure. Instead, it has continued to manually read and bill using the electrical mechanical style meters. API will implement measures to allow it to continue to read and bill in this fashion. Final meter reads for April consumption will occur as close as possible to the end of the month. These reads will be performed by existing DLI staff, shadowed by API representatives in order to ensure a smooth transition. Final billing for April consumption will be completed as normal between DLI and its customers, using existing DLI systems. April billing and collecting on the supply meter between API's and DLI's distribution systems will also proceed as normal.

Beginning with May consumption, API will manually perform all month-end meter reads. API will continue to calculate a bill for its supply point meter to the DLI distribution system, as these charges have historically

served as the basis for re-calculating the delivery rates that DLI charged to its customers on a monthly basis. These costs will be tracked in the deferral account, with revenue received from billing of customers in Dubreuilville serving to offset those costs. API will use a bank account separate from DLI's existing business for this purpose.

New customer accounts for residents and businesses in Dubreuilville will be created in API's CIS system, and new rate classes will be established for these accounts. API believes that this will simplify future billing and account management and will provide additional customer benefits in relation to security and privacy of customer data as well as improved compliance with the DSC and RSC. It will also streamline the tracking of revenues and costs in a deferral account and mitigate the risks of customer account data being linked to systems in DLI's non-regulated business. The use of distinct rate classes will allow API to comply with the requirement of the Order that "customers of DLI will continue to be billed based on the same charges as have been applicable with DLI".

API confirms that customers in Dubreuilville will be billed on the rates calculated using the same methodology as previously employed by DLI. This includes a monthly re-calculation of delivery and regulatory rates, a loss factor of 8.07%, and commodity charges at RPP-tiered rates. All relevant OESP credits and OREC reductions will also be applied. API will proactively communicate with all customers with respect to any changes to payment processes and options.

As it begins reading DLI's meters, API will note any instances of unmetered load, improper metering configurations, and expired meter seals. Where correction of related deficiencies will involve material cost, API will note this in its 60-day report. It will also allow API to exclude these accounts for the purpose of RRR filings and other reporting requirements.

Appendix A – Summary of Code Compliance Concerns

Distribution System Code (DSC)

API notes that DLI does not have a comprehensive Conditions of Service, nor does it have a formal Customer Complaint and Dispute Resolution Process. In the interest of efficiency, API proposes to extend its existing Conditions of Service and its Customer Complaint and Dispute Resolution Process to the customers of DLI. API will endeavour to interpret any requirements in a manner that is fair and reasonable to DLI's customers, with consideration of historical practices, as well as the requirements and intent of any related sections of the DSC.

The DSC requires that all services are metered, and that meter installation comply with Measurement Canada metering standards. API is aware of the presence of a small number of unmetered/unbilled services in Dubreuilville. API is also aware that Measurement Canada seals on many (perhaps all) metering devices have expired, and does not believe that any records of overall compliance to Measurement Canada standards exist for any complex metering installations. API will note all deficiencies with respect to metering and billing and include an update on these items in its 60-day report to the OEB.

API assumes that Service Quality Requirements ("SQR's") specified in the DSC, will apply to DLI on a go-forward basis. API notes that taking calls from DLI customers through API's customer service department and emergency call centre will temporarily distort some its SQR metrics in relation to phone accessibility and other similar metrics since the systems tracking performance would be unable to distinguish between API and DLI customer calls. API expects that any impact will be minimal, given that the number of DLI customers would represent only approximately 2.5% of the combined API/DLI customer count. API invites further discussion with OEB staff to clarify future expectations and requirements with respect to SQR metrics as well as RRR reporting generally.

Retail Settlement Code (RSC)

API notes that all DLI customers are currently charged commodity rates by DLI according to the RPP-tiered pricing structure, and that no customers are currently enrolled with a retailer. API's plan to establish accounts in its CIS system for DLI customers would eventually allow retailer billing should any DLI customer elect to sign a contract with a licensed electricity retailer.

API also notes that the Order requires that "customers of DLI will continue to be billed based on the same charges as have been applicable with DLI". API assumes that it can continue to apply the methodology previously applied by DLI, whereby the volumetric delivery charge is re-calculated on a monthly basis according to the charges and delivery volumes at the supply point. API also assumes that it will continue to adjust the RPP-tiered prices according to regularly scheduled changes, and that it can apply retailer rates to any customer choosing to enroll with a retailer.