

March 28, 2018

RESS & COURIER

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Attention: Ms. K. Walli, Board Secretary

Dear Ms. Walli:

Re: Algoma Power Inc. - Status Report re Dubreuil Lumber Inc. (EB-2017-0153 and EB-2017-0303)

We are legal counsel to Algoma Power Inc. ("API") in connection with the above-referenced matter. On API's behalf, we are providing this update to the Ontario Energy Board (the "Board") in advance of the expiry on April 3, 2018 of the current Interim Electricity Distribution Licence (ED-2017-0153), which was issued by the Board under section 59 of the *Ontario Energy Board Act, 1998* ("OEB Act") for possession and control of the electricity distribution system serving the Town of Dubreuilville.

Background

On April 4, 2017 the OEB issued a Decision and Order requiring API to take possession and control of the distribution system assets in the Township of Dubreuilville, which are owned by Dubreuil Lumber Inc. ("DLI"). The Order also authorized the issuance of an Interim Electricity Distribution Licence (ED-2017-0153) to API for the purpose of operating DLI's distribution system. API filed a notice of transition on April 26, 2017 confirming that it had taken possession and control of the DLI system and began serving the customers of Dubreuilville. The Order and Interim Licence were issued under sections 59(1) and 59(2) of the OEB Act. A licence issued under these sections may not exceed a term of 6 months, unless it is extended by the OEB. In a Decision and Order issued October 3, 2017 in EB-2017-0303, the Board extended the term of the Interim Licence for a further six months to April 3, 2018. API anticipates that the Board is likely to further extend the term of the Interim Licence beyond that date.

Update

Potential Long-Term Solution

API indicated in its April 26, 2017 notice of transition that it was engaged in confidential commercial discussions with DLI. API continues to be engaged in confidential commercial discussions with DLI regarding the potential acquisition by API of DLI's distribution system. If

an agreement with DLI is reached, the parties would expect to file a MAAD application to permit such transaction, along with associated licensing amendments to include the Township of Dubreuilville in API's service territory. It is expected that the agreement will be conditional on receiving the necessary approvals from the Board, on terms that are acceptable to the parties.

Tracking of Costs

In accordance with the October 3, 2017 Interim Licence extension, API is required to record revenues collected from customers within the DLI service area and the costs of operation and maintenance of the DLI system in a deferral account, and to provide the Board with a report on the amounts in the deferral account. API filed a Deferral Account Report with the Board on January 30, 2018, reflecting account balances as at December 31, 2017.

Planned Work

As recently discussed with Board Staff, a number of capital investments required for safety, reliability and compliance have been made or are forecasted to be made by API as the interim/emergency licensed operator of the DLI system. As part of a future MAAD application, it would be API's intention to bring forward a proposal that would enable API to recover the capital costs of those investments over the expected life of those assets. The objective of such proposal would be to better align the recovery of capital costs from the ratepayers of Dubreuilville with the expected useful lives of the underlying assets. This would result in rate treatment similar to other licensed distributors and avoid the rate impacts associated with recovering these costs through disposition of the existing deferral account over a shorter period of time. Additionally, it is expected that API would propose that, should a transaction be approved by the Board, API would integrate medium-term investments required in the Dubreuilville distribution system into its next 5-year distribution plan.

API continues to operate the DLI system and to manage issues associated with its operations in accordance with the terms of the Interim Electricity Distribution Licence. API will continue to inform the Board and Board staff of any significant issues and to obtain guidance as needed to facilitate the Board's ongoing monitoring and review of electricity distribution service in the Township of Dubreuilville.

Should you have any questions arising from this update, please contact Greg Beharriell at 905-871-0330 x. 3278 or by email at greg.bharriell@cnpower.com.

Yours truly,



Jonathan Myers

cc: Tim Lavoie, API
Greg Beharriell, API
Brian Hewson, OEB Staff