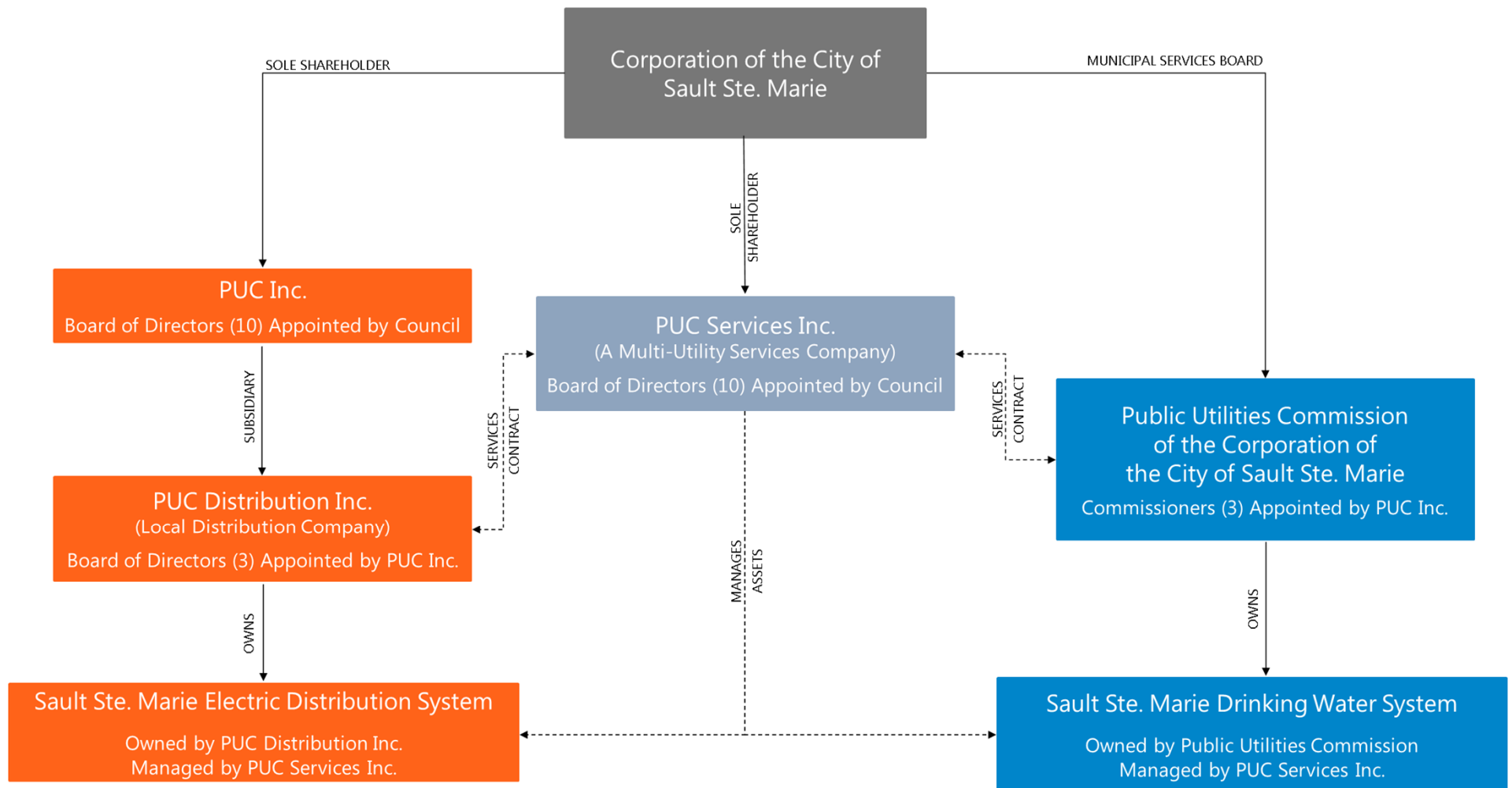




2016 Annual Report To The Shareholder

PUC Inc. • PUC Services Inc.

Corporate Structure



Interest & Dividends

$$\begin{aligned} & \text{\textbf{\$2,545,000}} && \text{(Payments for 2016)} \\ + & \text{\textbf{\$37,130,000}} && \text{(Total payments 2001 to 2015)} \\ = & \text{\textbf{\$39,675,000}} && \text{(Total paid to the City since 2001)} \end{aligned}$$



Income Statement

(Unaudited Consolidated Statement)

PUC Inc. & PUC Distribution Inc.	2015	2016
Energy Revenue	\$89,566,552	\$96,906,351
Cost of Energy	\$73,275,057	\$81,410,411
Gross Margin	\$16,291,495	\$15,495,940
Other Revenue	\$4,320,453	\$4,105,253
Expenses	\$19,766,689	\$19,828,499
Earnings Before PILS	\$845,259	(\$227,306)
Net Income	\$1,009,902	(\$220,165)
Paid To Shareholder (City of Sault Ste. Marie)		
Interest on Long-Term Debt	\$1,935,000	\$1,935,000
Cash Dividend	\$610,000	\$610,000
Total Interest and Cash Paid	\$2,545,000	\$2,545,000



May 29, 2017 - Annual Shareholder Meeting

'External' Service Contracts

PUC Services holds 18 Service Contracts with "external" organizations.

Espanola Contracts	
Espanola Customer Service	Espanola Management Services
Water Treatment Service Contracts	
Blind River	Algoma District School Board
Echo Bay	Huron Superior C. School Board
Desbarats	S.S.M. Airport
Richards Landing	Pointe Des Chenes
Pronto East Subdivision	Prince Township Community Center
Serpent River	Goulais Recreational Center
Northland Trailer Park	Gordon Lake Community Hall
Algoma District Services Administration Board	Crimson Ridge Condominium Corp.



Provincial Bill Comparison

2016 Residential - 750 kWh Monthly Electric Bill

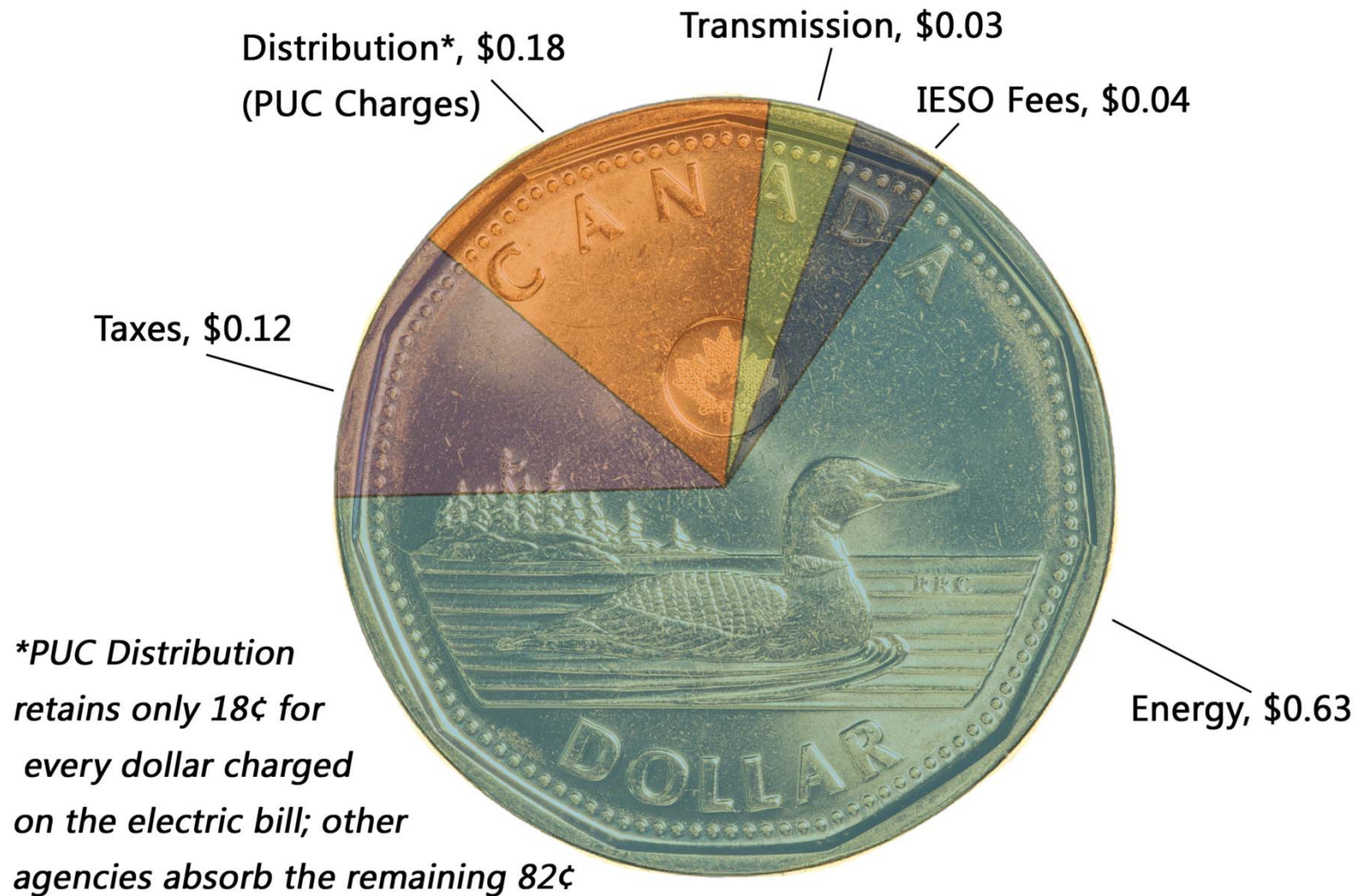
Rank	Utility	Average Bill
1/71	Hydro Hawkesbury Inc.	\$133.31
3/71	SSM PUC Distribution	\$137.47
5/71	Thunder Bay	\$137.93
17/71	Greater Sudbury	\$143.32
71/71	Algoma Power	\$175.15

Data Published by Ontario Energy Board



Average Electric Bill-2016

750 kWh Residential Bill in SSM



2016 Project Spotlight

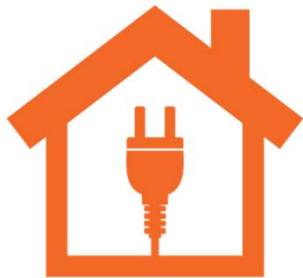
LED Conversion Project

9,050

All of Sault Ste. Marie's HPS Streetlights were converted by early 2017. PUC is pleased to report that this aggressive infrastructure renewal project was completed **under** budget!

\$

This project has a total estimated annual energy and maintenance saving of approximately \$1 million, and as a result this \$8 million conversion project has a payback period of just eight years!



The total annual energy savings from the conversion is enough to power **415** single family homes for a year!



2016 Project Spotlight

Voltage Conversion Project

In 2016 the PUC was busy with a substantial infrastructure renewal project in the; Chapple Street, Willow/Willoughby, Charlotte Drive, and Grand areas.

This upgrade will allow us to provide our customers with a more reliable and efficient supply of power.



Conservation & Demand Management

\$355,192 In IESO Incentives Paid To PUC Customers In 2016

Save On Energy Programs – Commercial

The Save On Energy Lighting Retrofit Program is one of the most popular programs offered through the IESO, by PUC.

Heliene Inc. participated in that program in 2016 and was presented with \$6,628 in incentives to assist with their retrofit project



Conservation & Demand Management

Residential

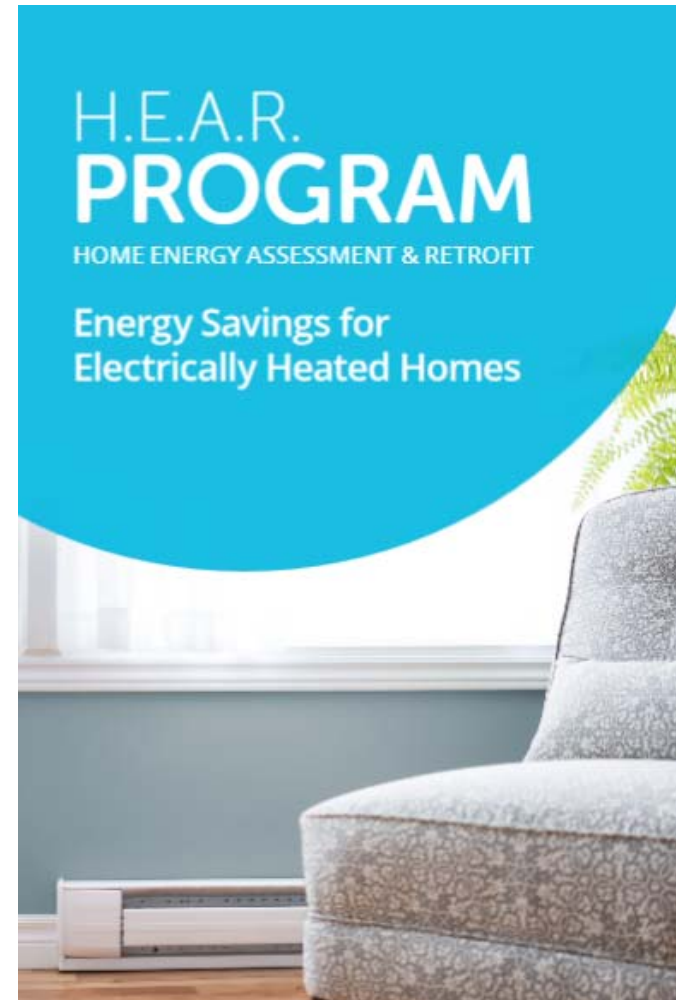
H.E.A.R. Pilot Program

The H.E.A.R. pilot program was designed to specifically help customers with electrically (baseboard) heated homes. The program aims to increase customer's home energy efficiency and help them conserve electricity.

Program participants received:

- Free Home Energy Assessment
- Free installation of Energy Saving Equipment
- A report on their expected energy savings

The local pilot program was very well received, originally the program was looking for 177 participants. By the time the registration period closed – over 300 customers registered!



Ontario's Fair Hydro Plan

The Fair Hydro Plan will reduce hydro bills by approximately 25%, this includes the previously announced 8% reduction. The remaining 17% reduction will be achieved through the following:

1. Refinancing the Global Adjustment (GA) over a longer time period for Time-of-Use (RPP) eligible consumers; including families, farms and small businesses.
2. Helping vulnerable electricity consumers by enhancing electricity support programs like the Ontario Electricity Support Program and conservation programs. Also, transition the funding of those program from the rate base to provincial revenues.
3. Enhancing competitiveness for small manufacturers and industrials by lowering the eligibility threshold for Industrial Conservation Initiative (ICI).
4. Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).



Highlights For 2016

PUC Services Inc.

774 Days free
of any lost-
time incidents
(As of May 29th)

Successfully Completed Annual
Provincial Electrical Safety Audit.
PUC found to be operating in full
regulatory compliance with no
“non-compliances” or “needs
improvement” items identified

All Water &
Wastewater
facilities were
operated in full
regulatory
compliance

Delivered the “Caution and Chance”
electrical awareness program to **24**
area elementary schools
– approx. **1,874** students



2017 Project Spotlight

Sub-Station 16 Rebuild

This electrical distribution station on Third Line just west of Great Northern Road serves 2,500 customers in the growing north end of the city. After delivering power for 52 years, it will be replaced with a new, highly reliable, state of the art facility with 33% more capacity.

Pending approval, this two-year, multi-million dollar infrastructure renewal project could be completed as early as 2019.



Sault Ste. Marie Rates

2016 PUC Bill Impacts

Declined the allowable 1.65% increase in Electricity Delivery charge

- This is the only part of the electricity bill PUC has any control over

Waved the previously announced 10% increase of water rates

- Water rates for 2016 were kept at the 2015 level

City Council reduced sewage rates

- 38% reduction in city sewage charge

"Sault Ste. Marie PUC customers have one of the lowest water rates among municipalities in the province, an independent firm reports. Sault Ste. Marie ranked as the sixth lowest municipality for its water and sewer rates, the 2016 BMA study reveals."



May 29, 2017 - Annual Shareholder Meeting

NEWS LOCAL

PUC customers pay among the lowest for water

By Elaine Della-Mattia, Sault Star
Thursday, March 16, 2017 6:32:07 EDT PM



(Postmedia Network)

f Recommend 0

Twitter Tweet

Sault Ste. Marie PUC customers have one of the lowest water rates among municipalities in the province, an independent firm reports. Sault Ste. Marie ranked as the sixth lowest municipality for its water and sewer rates, the 2016 MBA study reveals.

Provincial Bill Comparison

2016 Residential – 200 m3 Annual Water & Sewage Bill

Rank	Utility	Average Annual Bill
1/101	Brampton	\$442
6/101	Sault Ste. Marie	\$685
63/101	North Bay	\$1,022
65/101	Greater Sudbury	\$1,031
70/101	Thunder Bay	\$1,079
101/101	Middlesex Center	\$1,725

NOTE: % of total bill that is sewage is unknown (i.e. in 2016 SSM sewage was 62% of the water bill)

Data Published by BMA Management Consultants



Drinking Water System Inspection Report

Maximum Question Rating: 774

PUC received its Annual MOECC Drinking Water Inspection Report for Sault Ste. Marie's drinking water system.

We are very pleased to report that PUC has received a **Final Inspection Rating of 100%.**

The inspection found no non-compliance issues and no best practice recommendations.

Inspection Module	Non-Compliance Rating
Source	0 / 26
Permit To Take Water	0 / 12
Capacity Assessment	0 / 42
Treatment Processes	0 / 72
Process Wastewater	0 / 20
Distribution System	0 / 29
Operations Manuals	0 / 42
Logbooks	0 / 30
Certification and Training	0 / 65
Water Quality Monitoring	0 / 160
Reporting & Corrective Actions	0 / 135
Treatment Process Monitoring	0 / 141
TOTAL	0 / 774

Inspection Risk Rating 0.00%

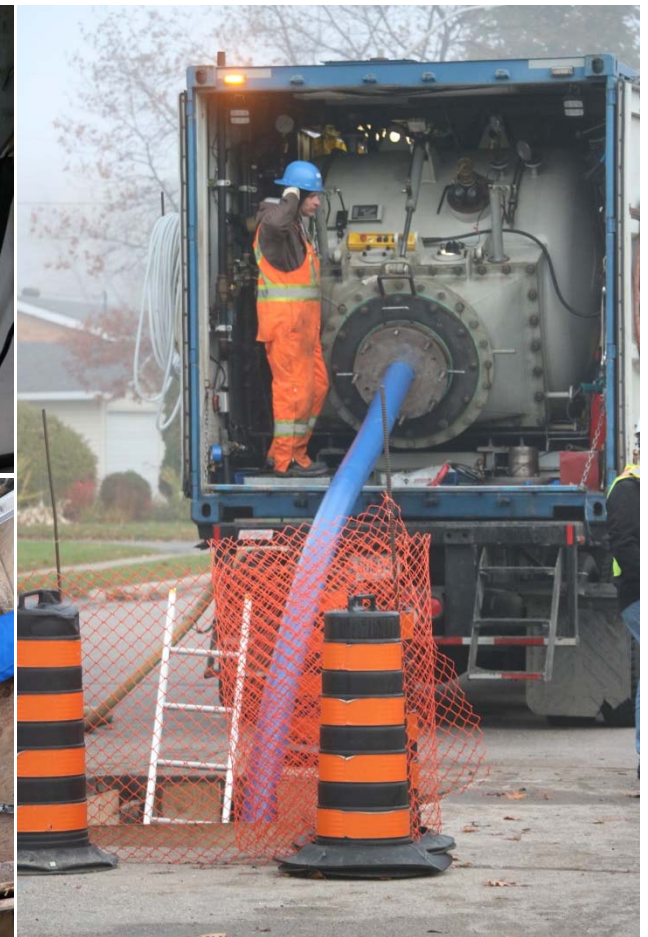
FINAL INSPECTION RATING: 100.00%



2016 Project Spotlight: Watermain Relining

Irwin Avenue and Tuckett Street

PUC undertook a trial relining project in 2016 to evaluate the time, effectiveness, and cost of watermain relining in Sault Ste. Marie's local conditions. The project was a success, and PUC will be developing a long-term watermain relining program.



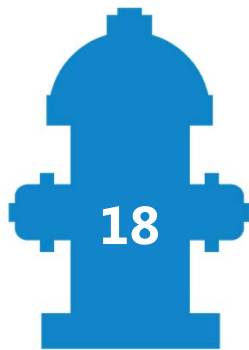
Water Infrastructure Renewal

2016 Traditional Infrastructure Renewal Statistics

2016 Watermain Renewal Projects

Francis Street
Gore Street
Colson Street
Manor Road

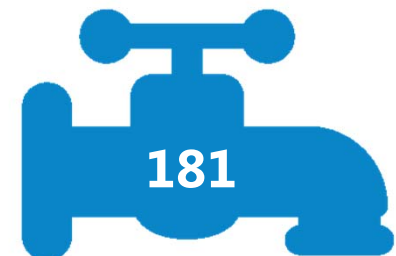
Second Avenue
John Street
Tuckett Street
Irwin Avenue



Hydrants
Replaced
in 2016



Watermain
Replaced or
Relined in 2016



Services
Replaced
in 2016

Outlook For 2017

Water Utility

Water SCADA Upgrade:

PUC is embarking on a 2-year multi-million dollar SCADA system upgrade.

The SCADA (supervisory control and data acquisition) system is a computerized system used to monitor and control the city's entire water treatment and supply infrastructure.

**Invest \$4.7 M
in water
system
infrastructure**

Watermain Relining Project:

With the successful completion of the relining pilot project, and the results of the east end survey, PUC will develop a long-term relining program to be introduced in 2018 and run concurrently with our traditional watermain replacement program



Board Governance

PUC Services Inc. | PUC Inc.



May 29, 2017 - Annual Shareholder Meeting



Thank You.
Questions?



May 29, 2017 - Annual Shareholder Meeting