



Algoma Power Inc. Facilities Business Case

Algoma Power Inc.
A FORTIS ONTARIO
Company

August 8, 2019





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Executive Summary

Algoma Power Inc. (API) is a wholly-owned subsidiary of FortisOntario (Fortis) and operates in the Algoma District of Northern Ontario, providing electrical service to residents of the Algoma District along the Highway 17 corridor between Thessalon and White River, with the exception of residents of the City of Sault Ste. Marie who are served by the Sault Ste. Marie Public Utilities Commission.

API's head office is located at 2 Sackville Road in Sault Ste. Marie, along with two other operating sites in Wawa and Desbarats. API subleases and shares its Head Office facilities with Hydro One, who purchased Great Lakes Power Transmission from Brookfield Infrastructure in 2016 and currently leases the property from Brookfield. Since then, factors such as space deficiencies, movement to a market rent, safety, and separation issues from sub-lessor, etc. have created the need to examine options for renovated or new space for API. API has requested that Tulloch Engineering Inc. and BDO Canada LLP provide a comprehensive evaluation of potential space options for their Sault Ste. Marie operating facilities, using internal information, as well as third party planning, costing and analysis of options that have been developed over the last 3 years.

API has requested that this analysis be performed with a specific focus on their core values and alignment with the identified options, as well as, best practices/standards for the industry. The options evaluated in this report, are inclusive of the following:

Option #1 (Status Quo): API will continue to operate from its Head Office, located at 2 Sackville Road in Sault Ste. Marie, Ontario and leased from Hydro One, which will remain unmodified, aside from critical capital expenditures of an immediate nature.

Option #2 (Lease Existing): API will relocate its headquarters to leased facilities on an alternate site and potentially incur costs to renovate/retrofit these facilities to suit their needs.

Option #3 (Brownfield): API will continue to operate from its Head Office at 2 Sackville Road; however, a significant investment in renovating and upgrading of the office and building of additional space on a brownfield site adjacent to the existing Head Office will be made. This investment is intended to more closely align API's facilities with current and future space and usage requirements.

Option #4 (Greenfield) API will design and build a new facility and therefore will not renew (long term) its lease of the Sackville Road property. The new facility will potentially be located at a previously identified preferred site. The facility will be designed such that API's current and future space and usage requirements are satisfied.

The analysis below considers the identified space options with quantitative and qualitative evidence to support the business case for a preferred space option. The preferred option is selected such that API be positioned to adhere to core values, provide excellent service to customers, align decision making and operations with industry best practices/standards and achieve financial success through an appropriate allocation of its resources.

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Introduction and Background

Algoma Power Inc. (API) is a wholly-owned subsidiary of FortisOntario (Fortis) and operates in the Algoma District of Northern Ontario, providing electrical service to residents of the Algoma District along the Highway 17 corridor between Thessalon and White River, with the exception of residents of the City of Sault Ste. Marie who are served by the Sault Ste. Marie Public Utilities Commission.

FortisOntario, headquartered in Fort Erie, has operations in electricity distribution and transmission, and meets a peak demand of over 275 MW. FortisOntario is 100% owned by Fortis Inc. of St. John's, Newfoundland.

API's head office is located at 2 Sackville Road in Sault Ste. Marie, along with two other operating sites in Wawa and Desbarats. This allows API to effectively provide service to customers in locations not proximal to its head office. Depending on the time of year, API employs 60-67 individuals throughout this region in supervisory, administrative and labour/technical positions. The Company offers a wide-range of skills and has a constant commitment to meet customers' needs. API has approximately 12,000 customers, the majority of which (65%) are residential, and more than 1,800 kilometers of distribution lines in an area that covers over 14,000 square kilometers. Algoma Power Inc. is responsible in their service area for:

- Building and maintaining the local electric distribution system
- Responding to outage calls 24/7
- Installing electricity meters
- Reading meters
- Producing bills and accepting bill payments
- Handling customer inquiries about the electricity industry and customer concerns

API subleases and shares its Head Office facilities with Hydro One. Hydro One purchased Great Lakes Power Transmission from Brookfield Infrastructure in 2016 and currently leases the property from Brookfield. Since then, factors such as space deficiencies, movement to a market rent, safety, and separation issues from sub-lessor, etc. have created the need to examine options for renovated or new space for API. The report herein analyzes space options for API with quantitative and qualitative evidence to support the business case for a preferred space option.

API Background

API and its predecessor companies have a long history of providing electrical utility services in Algoma. What follows is a timeline of key events in both the history of API and its facilities located at 2 Sackville Road. This chronology provides evidence of the age of some of the major assets, as well as, the shared space issues with Hydro One:

Dates	Information
1966	First record of a building located at 2 Sackville Road
1969	First transformer stand constructed
1980	Expansion of Suite B office building
1984	Possible year of construction of Maintenance and Repair Garage and Stores Building
1993	Stores building roof replacement
1994	Construction of Suite A office building
1997	Transformer stand rebuilt
2001	Stores building improvements
2002	Great Lakes Power Distribution Inc. (API's predecessor company) established an internal forestry crew, beginning with 3 staff
2003	Mezzanine added to electrical shop in Maintenance and Repair Garage
2004	Renovations for electricity market de-regulation
October 2009	Fortis Inc. acquired Great Lakes Power Distribution Inc. from Brookfield Power Inc. for \$75 million and renamed to API
July 2009 to date	API leased facilities at 2 Sackville road from Great Lakes Power Generation Inc./Hydro One
2015/2016	Butler building previously used by API for equipment and fleet storage was declared unsafe and API was forced to move out. The building was torn down in 2017.
October 2016	Hydro One purchased Great Lakes Power Transmission from various entities controlled by Brookfield Infrastructure
December 2016	API retained MGP Architects•Engineer Inc. and KPMG to conduct Feasibility Strategic Planning Study followed by a Master Planning exercise
2018	The Forestry department was forced to move out of the portable trailer, due to deteriorating conditions and were re-

Dates	Information
	located to temporary quarters throughout the facility since this time.
April 2018	Elliott Engineering Inc. was retained by Hydro One and API to provide summary condition review of buildings and general site located at 2 Sackville Road
September 2018	API's consultant (MPG) retained KPMG LLP to provide comments concerning lease rates in Sault Ste. Marie for Class A office space, industrial space and vacant land
December 2018	Strategic Facility Planning Reports completed by MGP (with KPMG input)
March 2019	Master Plan for API completed for new additions and renovated facility for API at 2 Sackville Road
December 2019	Current lease at 2 Sackville Road ends

Project

API has requested that Tulloch Engineering Inc. and BDO Canada LLP provide a comprehensive evaluation of potential space options for their Sault Ste. Marie operating facilities, using internal API information, as well as third party planning, costing and analysis of options that have been developed over the last 3 years. API has requested that this analysis be performed with a specific focus on their core values and their alignment with the options. Accordingly, this report has been prepared with the following core values in mind:

- **Respect For People** - Treat others as you would have others treat you. Honesty, integrity and ethics are never compromised.
- **Safety and the Environment** - Demonstrate a personal, unrelenting commitment to safety and environmental excellence. Protect yourself, your fellow employees, the public and our environment.
- **Financial Success** - Produce solid earnings, with dividends that meet the expectations of shareholders. Grow shareholder value through prudent equity investments and business partnerships. Ensure that debt obligations are always met in a timely manner and to the satisfaction of our creditors.
- **Customer Service** - Everyone has customers. Determine your customer's needs by listening. When you can meet these needs; do so. When you cannot, tell them that you cannot; or tell them who can. When in doubt about how to treat a customer, do what you believe is right. When serving customers, be pleasant, courteous and accurate; smile, act professionally and enjoy yourself. Attitudes are contagious.
- **Productivity** - The old saying holds true. Teamwork is key. Working smarter produces more gains than working harder. Mistakes are costly; get it right the first time. Job security comes from doing your job well, not from what job you do. Remember... if you have a better way to do something; just do it.

- **Community Involvement** - Each of us has an obligation to support the communities that support us. This means time as much as money. Success is measured by the reaction of community leaders and the opinions expressed by community residents.

Identification of Options

The options for API's future headquarters, evaluated in this report, are inclusive of the following:

Option #1 (Status Quo): API will continue to operate from its Head Office, located at 2 Sackville Road in Sault Ste. Marie, Ontario and leased from Hydro One, which will remain unmodified, aside from critical capital expenditures of an immediate nature.

Option #2 (Lease Existing): API will relocate its headquarters to leased facilities on an alternate site and potentially incur costs to renovate/retrofit these facilities to suit their needs.

Option #3 (Brownfield): API will continue to operate from its Head Office at 2 Sackville Road; however, a significant investment in renovating and upgrading of the office and building of additional space on a brownfield site adjacent to the existing Head Office will be made. This investment is intended to more closely align API's facilities with current and future space and usage requirements.

Option #4 (Greenfield): API will design and build a new facility and therefore will not renew (long term) its lease of the Sackville Road property. The new facility will potentially be located at a previously identified preferred site. The facility will be designed such that API's current and future space and usage requirements are satisfied.

Scope of Work

API, through Tulloch Engineering has requested advisory services from BDO Canada LLP to prepare a facilities business case with respect to its future operating facilities. The following phases have been completed in consultation with API in order to determine a preferred option:

Phase I - Information Assessment and Consultation

- Information Assessment
 - Conducted a review of information provided;
 - Provided an assessment of the existing information and detailed information gaps.
- Consultation
 - Discussed information gaps with API personnel and determined sources of additional information;
 - Provided API with a draft outline of quantitative and qualitative items for evaluation and agreed upon the scope of work.

Phase II - Draft Business Case

Based on the information obtained in Phase I, a draft facilities business case document was provided to API for initial consideration.

Phase III - Final Report and Consultation

Phase III is optional and will be completed subsequent to API's initial consideration of the draft facilities business case and would include additional edits and meetings.

Scope of Review

Documentation provided by API was utilized to draw conclusions and assist in the analysis of facility options. Below is an outline of all documents and sources that have been used. External reporting is included in the appendices at the end of this document for reference purposes.

Third Party Documents

Following is a listing of external reporting, obtained by API as part of its due diligence procedures:

- Facility planning reports prepared by MGP Architects•Engineer Inc. (Appendix C)
 - Master Plan for Algoma Power Inc. - New Fully Integrated Facility, December 2018
 - Strategic Facility Planning "A", December 2018
 - Strategic Facility Planning "B", December 2018
 - Master Facility Plan for Algoma Power Inc. - New Additions & Renovations Facility for Algoma Power Inc. at 2 Sackville Road, March 2019
- Building condition reports prepared by Elliott Engineering Inc. (Appendix D)
 - Buildings Condition Summary Review General Site Conditions - Phase 1, May 2018
 - Buildings Condition Summary Review 'Stores' - Phase 1, May 2018
 - Buildings Condition Summary Review Suite 'A' - Phase 1, May 2018
 - Buildings Condition Summary Review Suite 'B' - Phase 1, May 2018
 - Buildings Condition Summary Review, General Conclusions - Phase 1, May 2018
 - Building Renovations and Costing - Phase 2, May 2018
 - Drawings:
 - General Site Plan
 - Washroom Renovations
 - Suite A, Option 1 & 3
 - Suite B, Option 1 & 2
 - Customer Service Renovations
- Market lease rate correspondence from KPMG on September 10, 2018 and April 18, 2019 (Appendix E)

- Correspondence from Pelican Woodcliff Inc. regarding construction cost premiums in Northern Ontario relative to Southern Ontario (Appendix F)

API Internal Documents

Following is a listing of internal documents and analysis prepared by API as part of its due diligence procedures:

- API values and policy statements
- API leasing information, including:
 - Sublease and License of Occupation, dated July 1, 2009
 - Amending Agreement #1, dated March 10, 2011
 - Extending and Amending Agreement, dated December 22, 2014
- History of API at 2 Sackville Road
- Customer and employee counts from 2012 to 2019
- Assessment of temporary locations, to which API could potentially re-locate from the date of its lease expiry with Hydro One (December 31, 2019) and the occupancy date of its new facility (TBD)
- Listing of facilities deficiencies and associated costs
- Needs assessments by department
- Comparator electrical service provider data and analysis
- Miscellaneous review and analysis of facilities options
- Detail of current rent at 2 Sackville Road
- Analysis of required capital expenditures

Situation Analysis

Current Facilities

API is headquartered at 2 Sackville Road in Sault Ste. Marie, Ontario, on a property which is owned by Brookfield, then leased to Hydro One who in turn subleases to API.

Property

The property's total size is 13.5 acres occupied as follows:

- 6 acres consists of unutilized space and grass area with transmission lines;
- 1.3 acres is used for lay down pole storage (shared 50/50 with Hydro One)
- 6.2 acres is comprised of:
 - General Parking Areas

- Fleet/Equipment Parking and Outdoor Storage
 - Office Suite A (API)
 - Office Suite B (Hydro One)
 - Maintenance and Repair Shop
 - Stores Building
 - Single Wide 60' Portable Trailer
 - Single Wide 20' Mobile Trailer
 - Several C-Cans
 - Fenced in Substation (Hydro One)
- API currently occupies or shares all of the above facilities, short of the Hydro One office space (Suite B) and the Hydro One substation.



API Facilities

Following is a brief description of the facilities currently occupied by API, obtained from the MGP and EEI site and facilities assessment documents.

Parking Facilities

API shares a dedicated asphalt parking lot consisting of 147 general parking spaces for staff, visitors, clients and individuals with barrier free requirements.

Presently most of API's service vehicles are parked outdoors within a fenced compound, shared with Hydro One, with Administrative Staff fleet vehicles located in the main open parking area. API has seven pole/line/lift trucks and 9 pickups, plus all-terrain vehicles, chippers etc. API's parking is primarily open-air gravel surface parking, located along the south and east limits of the compound fencing. The Hydro One fleet is parked adjacent to their administration office building and next to Hydro One substation enclosure.

Administrative Office

The API Administration offices are presently housed in a leased three level (two above grade) office building, referred to as "Suite A". The total net functional area is 19,698 square feet (sf) across the three levels. API's administrative office is connected to the adjacent Hydro One office building by ground level and basement level corridors.

Since the building was constructed in 1994, there have been several capital investments into the facility, including an interior renovation in 2001, during which, electrical and mechanical upgrades were performed, a second interior renovation in 2011, which mainly consisted of superficial changes, and finally a roof replacement in 2011/12.

While, the Administration office at 19,698 sf is technically larger than required to meet the current and future administrative needs of API, the space is not designed such that an efficient allocation is easily achieved and further, any surplus space has been temporarily reallocated to the Operations, Electrical/Metering and Forestry departments by necessity. Accordingly, there is no material unused space in the administration building.



Aside from the desired renovation to improve the functionality of the Administration building, there are immediate issues that must be addressed, described in detail below, but briefly:

- Elevator repair or replacement;
- Exterior cladding repair to remedy water penetration issues;
- HRV unit replacement.

Storage Facilities

The Central Stores building, located within the compound, is a pre-engineered structure of approximately 2,800 sf, used for storage and management of materials, tools, equipment and receiving. The building is an uninsulated metal skin structure and used primarily for cold storage. Additionally, equipment and materials are being stored in multiple other locations, scattered within the compound, outdoors, in C-Cans and in the Repair Garage. Previously, some equipment and inventory was housed in a Butler Building that was torn down in 2017 due to deteriorating condition.

The amount and positioning of storage facilities is generally considered to be inadequate and presents challenges to efficient operations.

Maintenance and Repair Shop

The maintenance and repair garage is a pre-engineered building constructed in 1980, with 4,410 sf occupied by API, as follows:

- Ground floor:
 - 4 truck bays:
 - 1 wash bay
 - 2 repair bays
 - 1 truck bay which is used for Electrical/Metering, Lines, Forestry and Stores activities
 - Parts and tools storage
 - Mechanics office

The remaining area of the ground floor is dedicated to repair/storage and is occupied by Hydro One, including a shared male and female washroom.

The maintenance and repair garage also has a partial second floor and mezzanine area, which is fully occupied by API and consisting of the following:

- Partial mezzanine used by Line Operations for equipment, tool storage and change lockers for field clothing, as well as storage for Forestry.
- Partial second floor area used by Line Operations for crew quarters.
- The second floor is only accessible by staircases and provides no barrier free accommodations.

Portable Trailer

API previously occupied a 60' x 11' construction trailer, which was originally purchased in 2003 and is located onsite within the fenced compound area. The trailer is currently utilized by the Forestry Department; however, is considered to be inadequate due to its small size, poor layout, ongoing roof leakage issues, and damage to interior finishes and presence of mold, which collectively results in a poor working environment and endangers employees.

Due to these conditions, the Forestry group has been temporarily relocated to the basement of the API administrative building, in space shared with Electrical/Metering. This has resulted in inadequate working area and generally poor working conditions for these employees.

Total Area Occupied

To summarize the above, API currently occupies the following total area on the Sackville Road Site:

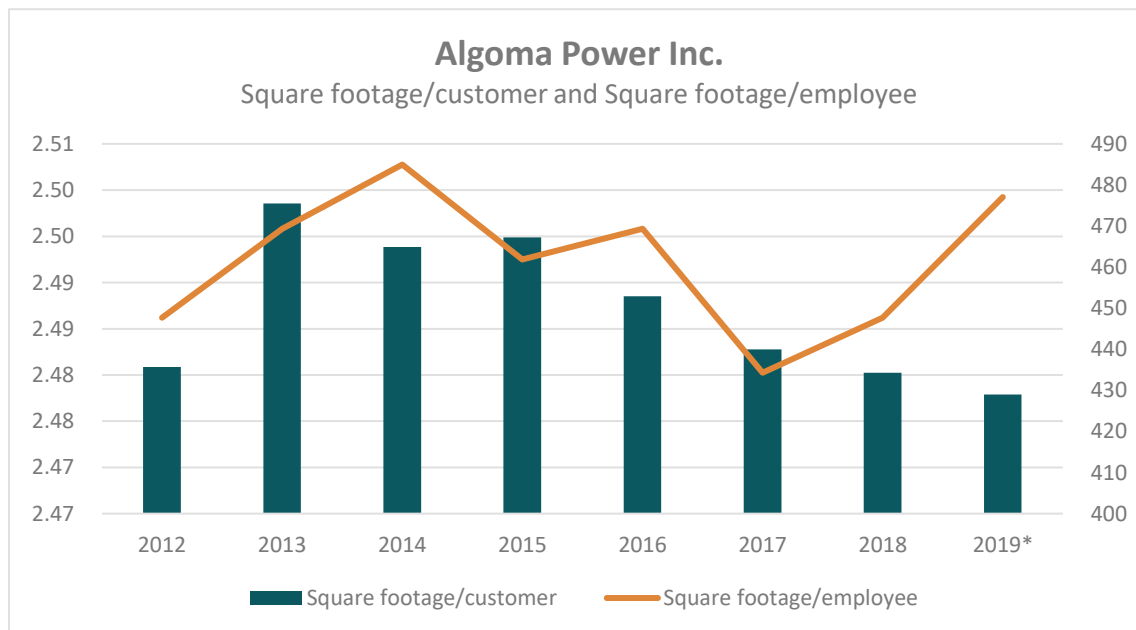
- Land - 2.03 Acres
- Building (sf):
 - Administration Building 19,698
 - Stores Building 2,800
 - Maintenance and Repair Shop 4,410
 - Total 26,908

Employee and Customer Trends

The table below illustrates that, from 2012 to 2019, API has not experienced growth in terms of customers and employees. While the table shows fluctuation in employees from 2016 to 2018, this relates mainly to summer positions and contract work. Per discussions with API management, no significant change to these historical patterns is expected in the future.

Year	Number of Customers	Number of Employees (FTE)	Number of Customers per FTE
2012	11,729	65	180
2013	11,646	62	188
2014	11,668	60	194
2015	11,663	63	185
2016	11,693	62	189
2017	11,720	67	175
2018	11,732	65	180
2019	11,743	61	193

The table below illustrates API's square footage per customer and employee. As indicated above, this has largely remained unchanged in the most recent 8 years. Customer statistics show minimal change, only resulting in a 0.3 sf per employee difference from 2012-2019. However, the information is useful for comparison purposes with other distribution utilities as illustrated below.



Distributor Comparison

As indicated in the table below, API currently has less square footage per employee relative to 7 of the 8 service providers below, which have all recently constructed or acquired new facilities.

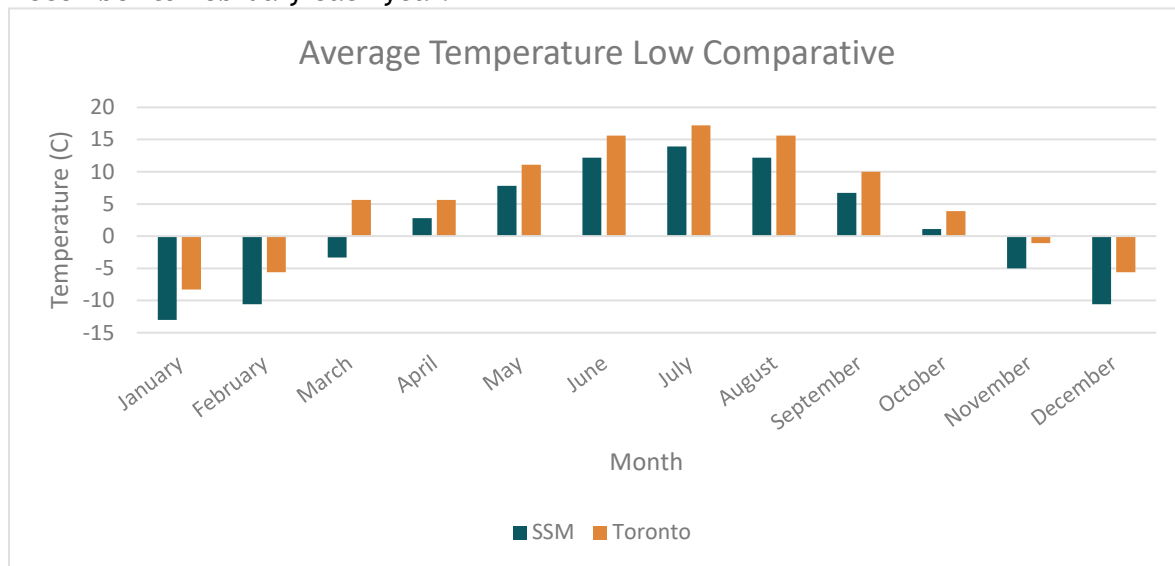
Data	Power Stream	Waterloo North	PUC	Ener-source	Innisfil	Hydro Ottawa	Milton	Five Nations	API
In-Service Date	2008	2011	2012-13	2012	2014	2016	2015	2013	1994
Total Square Feet	92,000	104,000	110,382	79,000	36,172	351,000	91,828	7,500	29,098
FTEs	250	117	87	150	40	622	62	11	61
Square Feet / FTE	368	889	1269	527	904	564	1481	682	486
Square Feet / FTE Variance	118	-403	-783	-41	-418	-78	-995	-196	

Couple this information with the fact that API shares space with Hydro One, a transmission entity, further supports the need to achieve operating space that not only provides this separation, but works toward the best practice/standards of the industry and the core value goals of API.

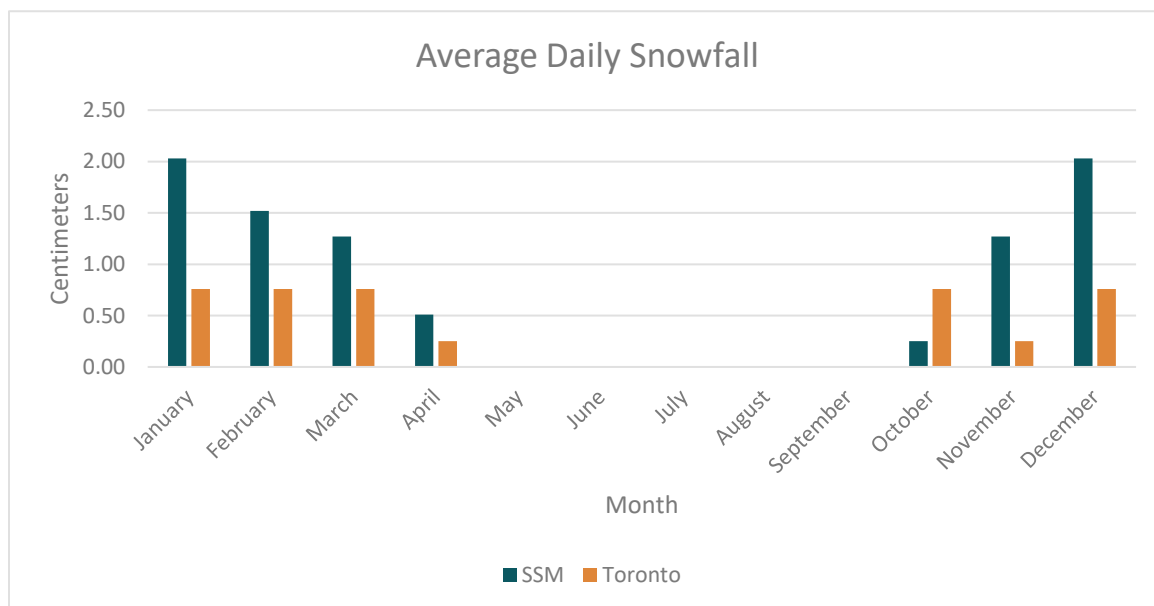
Climate Conditions

While, the majority of API's comparators are located in Southern Ontario, API services the north and as such must contend with the more harsh weather conditions, which tend to impact both the efficiency of personnel and the performance of equipment.

These harsh weather conditions are illustrated in the table below, based on average conditions from 2010-2018. This graphic shows that compared to Toronto (where many of the comparators are located), Sault Ste. Marie is on average 5 degrees colder from December to February each year.



Further to the above, the table below illustrates that compared to Toronto, Sault Ste. Marie on average experiences double the daily snowfall (0.74 cm vs. 0.36 cm). The most notable differences are in December and January, where Sault Ste. Marie sees a daily average snowfall of 1.27 centimeters more than Toronto.



Identification of Options

Following is a detailed breakdown of the identified options with respect to API's Sault Ste. Marie headquarters.

Option #1 - Status Quo

In Option #1, API will continue to operate from its Sackville Road office, which will remain unmodified, aside from critical capital expenditures of an immediate nature.

Required Capital Expenditures

While API would not undertake substantial changes/renovations to its existing facilities in the Status Quo scenario, per the building condition reports of Elliott Engineering, certain capital expenditures are considered to be non-optional and must be performed in the short term. Following is a summary of these required expenditures:

Expense Item	Years to Replacement	Estimated Replacement Cost	Comment
Parking Lot Asphalt	< 5	\$210,000	Parking lot is 25 years old and while it is not considered to be in extremely poor condition, is likely to be reaching the end of its useful life.
Exterior Cladding	< 5	\$200,000	Ongoing leaking issues with existing aluminum panel system and caulking.
HRV Units	< 5	\$48,000	2 Units in Suite A & B - each in working condition, but have exceeded the useful life for similar units.
Garage Roof	Immediate	\$225,000	40 years old and in need of immediate replacement
Garage HVAC	Immediate	\$60,000	Existing unit is 40 years old. Ceiling heaters to be replaced with new rooftop unit with both heating and cooling feature.
Stores Roof	Immediate	\$70,000	40 years old and in need of immediate replacement
Elevator	Unknown	Unknown	25 years old and recently experienced a major failure

Current Lease Expense

Due to the fact that API (previously Great Lakes Power Distribution Inc.) and Hydro One (previously Great Lakes Power Transmission Inc.) were previously part of the same entity, API has historically benefitted from non-arm's length rental terms. Following is a breakdown of API's occupancy costs from 2014 to 2018:

Expense Item	2014	2015	2016	2017	2018	2019 (est.)
Rent	\$163,440	\$163,440	\$165,461	\$167,472	\$169,272	\$171,100
Operating Costs	\$368,332	\$382,137	\$414,513	\$416,760	\$433,983	\$442,700
Municipal Tax	\$65,490	\$69,574	\$72,359	\$73,973	\$73,968	\$74,000
Total	\$597,262	\$615,151	\$652,333	\$658,205	\$677,223	\$687,800

Expected Market Lease Expense

Based on preliminary discussions with Hydro One, following the expiration of the current lease on December 31, 2019, the lease will be renegotiated at market rates/terms. After discussions with API personnel and using the KPMG market rent analysis, API's 2020 estimated occupancy costs are as follows:

Expense Item	2020
Rent	\$401,121
Operating Costs	\$451,600
Municipal Tax	\$74,000
Total	\$926,721

See Schedule R1 of Appendix A for a summary of historical rent and occupancy expenditures and detailed calculations of the 2020 amounts.

Option #2 - Lease Existing Facility

In Option #2, API would locate and potentially renovate an existing property and enter into a long term lease with the property's owner. However, as at the date of this report, API has failed to identify any properties available in Sault Ste. Marie, which would align with API's needs per the facility planning reports prepared by MGP.

Accordingly, Option #2 is not considered to be a viable option and was therefore eliminated from consideration.

Option #3 - Brownfield

In Option #3, API will continue to operate from its head office at 2 Sackville Road; however, a significant investment will be made, in order to more closely align the facilities with API's current and future space and usage requirements.

Per the facility planning reports of MGP, following is a summary of the changes to be made to the Sackville Road property:

- Renovations to the Administration Building and new builds for shop/stores and fleet storage. Following completion of renovations, API would retain the office space currently leased, as well as the open space areas currently used for storage. API would relinquish control of the Stores Building as well as the portion of the Garage Building that they occupy.
- Administration Office Building:
 - Renovations would be limited to the ground floor and basement. While certain cosmetic changes to the second floor may occur, the expense associated with these changes is expected to be minimal;
 - Ground Floor:
 - Customer service area would be redesigned in order to provide an appropriate level of privacy and segregation of the customer service area from the main office area;
 - Office area redesigned for a more efficient use of the space.
 - Basement Level:
 - New male and female change rooms, lockers and washrooms added. This will allow for separation from Hydro One, given that these facilities are presently located in the basement of Hydro One's office building.
- Addition of a new combined maintenance garage and stores facility of 15,747 sf;
- Addition of a new fleet storage garage of 12,280 sf.

Capital Costs

The total estimated cost of the Brownfield option is \$ [REDACTED], broken down as follows:

• Renovation of Administration Office	\$ [REDACTED]
• New Maintenance Garage and Stores Building	[REDACTED]
• New Fleet Storage Garage	[REDACTED]
• Design & Construction Contingencies (10%)	[REDACTED]
• Site Development*	[REDACTED]
• Total Capital Cost	\$ [REDACTED]**

* Note: there exists some uncertainty with respect to possible soil contamination of the Sackville site. The above site development costs do not consider incremental costs related to site remediation.

** Note: the cost of renovation of API's current facilities is inclusive of a Northern Ontario building premium of 15% to 20% relative to Southern Ontario. See Appendix F for correspondence from Pelican Woodcliff in this regard.

Operating Costs

In addition to the capital costs outlined above, the Brownfield option will result in the following ongoing changes to API's operating costs:

- Per API discussions with Hydro One, given that API will pay for all capital costs associated with the new builds, Hydro One will not charge API rent on the newly added space. Accordingly, API will eliminate the rent they currently pay for the Stores Building as well as the portion of the Garage Building that they occupy;
- API will be responsible for all operating costs associated with the new maintenance garage and stores building; however, for simplicity, the assumption is that operating costs will remain similar to API's historical expenses;
- API will be responsible for all operating costs associated with the new fleet storage garage, which are expected to be minimal and considered in the historical cost amount.
- API will be responsible for any increase in municipal taxes associated with the new construction over and above the current expense. It is assumed this expense to be approximately \$570,000 in 2022, increasing for inflation thereafter.

See Schedule R2 of Appendix A for detailed calculations of API's projected market rent and occupancy costs in the Brownfield option.

Option #4 - Greenfield

In Option #4, API will engage a professional firm to design and build a new facility and therefore will not renew its lease of the Sackville Road property. The facility will be designed such that API's current and future space and usage requirements are satisfied.

Site Identification

Per the MGP facilities planning documents, a total of 13 Sault Ste. Marie properties were identified, with assistance from Century 21 Realty, as being a) for sale; and b) potentially suitable for API's needs.

Site Evaluation Criteria

MGP, in consultation with API developed a site evaluation framework, in order to narrow the list of available properties to only those sites that would meet API's requirements. The evaluation criteria were as follows:

- Site Size - Properties should have a total area of minimum 6 to 8 acres, with 8 to 9 acres being optimal.
- Road Access - Properties should have ease of access to major arterial networks. Entrance to the site should not be restricted by limiting factors such as proximity to controlled intersections.

- Zoning - Properties should be zoned as M2 (Medium Industrial) or M3 (Heavy Industrial).
- Underground Services - Properties should have access to three phase power, water and sanitary sewer.
- Overhead Encumbrances - Properties should be free of overhead encumbrances that would limit development (e.g. power lines).
- Ground Encumbrances - Properties should be free of underground encumbrances that would limit development (e.g. drainage, water bodies, utility easements, proximity to residential areas).

Site Selection

Of the 13 sites evaluated, only one satisfied each of the above criteria. This preferred development site was selected due to the following key characteristics:

- Vacant parcel of land ready for development and centrally located
- Zoned M2 (Medium Industrial)
- [REDACTED] acres, which can potentially be severed to meet the size needs of API and will allow for future growth and expansion
 - Severance would likely leave the land owner with remaining land of limited use. Therefore, this may not be desired and could impact API's ability to secure the property.
 - API may be able to negotiate with the land owner for a lower price, as there are likely not many purchasers vying for the land.
 - Of all sites considered, the preferred development site carries one of the lowest overall costs, when site servicing costs are considered in addition to acquisition costs.
- Site has access to major arterial networks, as per previously identified criteria
- Site appears to have all appropriate services (water, sanitary, storm sewer, power) available

Facilities

API, in consultation with MGP, has developed a preliminary plan for construction of a new head office on the Greenfield site identified above. Following are the expected characteristics of the facility:

Parking

In total, approximately 42,750 sf (just under an acre) will be dedicated to outdoor parking facilities, as follows:

- Office and Customer Parking 60 Stalls
- Outdoor Fleet Parking 30 Stalls
- Mechanic Repair Area 5 Stalls

Building

During the due diligence period, the overall facility size and content has gone through several iterations, as API has attempted to design a facility that will meet their current and future usage needs while being as space efficient and cost effective as possible.

The total required space was originally estimated at 52,771 sf with consideration to an amalgamation of the Sault Ste. Marie and Desbarats workforces. This further included an allotment of space for the entire API Fleet, including pickup trucks.

The original estimate was then reduced to account for the minimum requirement for fleet storage (i.e. to house all large fleet vehicles and specialty equipment indoors). A further reduction was realized when it was decided that API would continue to employ a multi-use space strategy, in that Fleet Vehicles will continue to be stored in maintenance and wash bays. This reduced the overall square footage to the current estimate of 41,703 sf, broken down as follows:

- Area A (Office Space) 13,676 sf
- Area B (Shop and Stores) 15,747 sf
- Area C (Fleet Storage Garage) 12,280 sf

Outdoor Equipment and Inventory Storage

Approximately 66,300 sf (1.5 acres) will be dedicated to outdoor storage for pole bunks, transformer stand, reel racks, and scrap metal storage, PCB waste storage and general inventory stores outdoor storage.

Capital Cost

Per the MGP facilities planning documents, the total capital cost associated with the Greenfield option totals \$[REDACTED], broken down as follows:

- Administration Office \$[REDACTED]
- Operations and Shops [REDACTED]
- Fleet Storage Garage [REDACTED]
- Site Development, Land Acquisition and Design/Construction Contingencies [REDACTED]
- Total Capital Cost \$[REDACTED]*

* Note: the cost of construction is inclusive of a Northern Ontario building premium of 15% to 20% relative to Southern Ontario. See Appendix F for correspondence from Pelican Woodcliff in this regard.

Operating Cost

In addition to the capital costs outlined above, the Greenfield option will result in the following ongoing changes to API's operating costs:

- All rental expense will be eliminated upon opening of the new facility.

- Based on preliminary discussions with Hydro One, there appears to be a willingness to grant API a short term lease extension at market rates while the new facility is being designed and constructed. Due to the fact that API and Hydro One were previously part of the same entity, API has historically benefitted from non-arm's length rental terms; however, this will not continue subsequent to the lease expiry on December 31, 2019. Accordingly, base rent for the assumed 2 year construction period has been estimated at \$401,121 in 2020 and \$409,143 in 2021.
- Given that the facility will be newly constructed and energy efficient, it is probable that total facility operating costs per sf will decrease; however, this may be offset by the fact that API will occupy a larger space than they currently utilize (41,703 sf vs. 26,908 sf). While the difference in square footage appears substantial, it should be noted that 12,280 sf is dedicated to fleet storage. Accordingly, for purposes of this analysis it has been assumed that total operating costs of the facility will not change significantly from the current expense of approximately \$451,600 per year (2020 \$).
- Given the total cost of land acquisition and construction of \$██████████, it is likely that the current municipal tax cost of approximately \$74,000 will increase substantially post construction. It is estimated this expense to be approximately \$690,000 in 2022, increasing for inflation thereafter.

See Schedule R3 of Appendix A for detailed calculations of API's projected market rent and occupancy costs in the Greenfield option.

Options Analysis & Evaluation

Following is an analysis of the identified options and their perceived fit with API's future needs and objectives. The identified options have been evaluated based upon the following main criteria:

- **Core Values:** Does the option align with API's core values?
- **Service Level:** Will the option allow API to achieve excellence in terms of the level of service offered to its customers?
- **Best Practices:** Does the option align with best practices or standards of the industry and comparable organizations?
- **Appropriate Allocation of Resources:** Is the capital/operating investment an appropriate use of API's finite resources and indirectly, the finite resources of the Northern Ontario electricity consumer?

Option #1 - Status Quo

As discussed above, Option #1 is a status quo scenario, in which API remains in its current location without alteration, short of certain capital expenditures, which are considered to be non-optional.

While API's facilities in their current state do align with their requirements in some ways, generally the deficiencies of the space greatly outweigh any benefits that may exist and in some cases, the deficiencies are considered to be irreparable.

Following is discussion and analysis of the conditions supporting and those in opposition to the Status Quo scenario.

Conditions Supporting the Option

Parking

The current site provides for a reasonable amount of parking, with sufficient space to satisfy the needs of both API and Hydro One:

- 137 general parking spaces
- 4 barrier free parking spaces
- 6 parking spaces in a separate parking area which are dedicated to Hydro One
- Fenced parking consisting of 30 spaces for passenger vehicles and 10 spaces for large service vehicles

Somewhat mitigating the above, is the fact that the main parking area, which is original to the 1994 construction, is in need of asphalt replacement at an estimated cost of \$210,000. In a traditional, arm's length landlord/tenant arrangement, this expense would be the responsibility of the landlord; however, historically API has borne approximately 50% of capital upgrades and maintenance expenses as per the current lease agreement. It is not currently known whether the sharing of capital expenses will continue in the future, should a revised lease agreement be negotiated.

Office Space

Currently API's total office space (19,698 sf) exceeds that which has been allocated to office space in the new facility plan prepared by MGP (13,676 sf). Somewhat mitigating this is the fact that API's current space is not designed efficiently, resulting in a significant amount of wasted space.

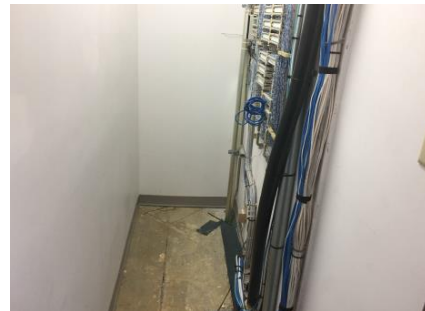
Expansion

From 2012 to 2019, API has not had any growth of customers and employees. Per discussions with API management, this trend is expected to continue in the future. Therefore, expansion related to the growth of the business may not be required in the future.

Conditions Opposing The Option

API-Hydro One Linkages

Potentially the most significant deficiency associated with API's current facilities is the current linkages with Hydro One due to their previous affiliation as divisions of the same entity. The linkages that exist could in some cases be considered to be contrary to regulations and in addition may violate labour laws. The nature of these linkages is discussed below.



IT Integration

The IT infrastructure for both the API and Hydro One offices runs through a single room located on the second floor of the API office. Therefore the computer networks of API and Hydro One theoretically have a direct connection and could be accessed via the API IT room. While it may be possible to sever this connection, it would likely come at great expense.

Change Rooms & Lockers

Male and Female locker rooms and shower facilities for all API and Hydro One employees are located in the basement of the Hydro One Administrative building. This is inconvenient, as it often makes for long walking distances for office and compound personnel. It is also inappropriate in the long term, as staff are forced to share a very personal and private area with employees of a separate organization, who are not managed or controlled by API. There is an immediate and future liability risk the longer the issue is acknowledged, but not rectified.

Shared Lunchroom, Kitchen and Meeting Room

These facilities, used by all employees are located in windowless rooms in the basement of the API office building and are shared by API and Hydro One. This has historically been inconvenient and the scheduling of training and gathering times has been an issue,

as each organization must contact and consult with the other to schedule events, and negotiate scheduling conflicts.

Connecting Walkways

There are walkways in the basement and main floor of the API office building, connecting it to the Hydro One office building; however, key card scanning devices prevent travel from one office to the other.

Shared Parking

Presently most API service vehicles are parked outdoors within the fenced in compound and shared with the fleet parking of Hydro One. Winter snow clearing poses concerns and restricts available parking space, both in the compound and where the administrative fleet is parked in the main parking lot.

Barrier Free Accessibility

Generally speaking, there are barrier free aspects to the API facilities; however, while further investigation would be required it can likely be assumed the facility would not meet current Ontario Building Code requirements for accessibility.

Following are accessibility issues, which may/will inhibit API in its effort to provide a friendly environment to those with barriers to ambulation:

- While there is a properly sloped ramp at the main entrance of the Administration building, other entry/exit points are not barrier free, as they have steps.
- For Male and Female washroom groupings on each floor level of the Administration building and at the link connecting to the Hydro One office building, the travel is somewhat convoluted and doesn't allow for easy access or movement.
- The main locker and change rooms used by both API and Hydro One are not barrier free accessible. Further, the toilets and shower stalls are not barrier free compliant.
- The second floor of the Maintenance and Repair Garage is only accessible via stairs and is therefore not considered barrier free.

Efficiency, Productivity and Lost Time

Operating productively is a core value of API. Unfortunately, in its current state, API's facilities do not allow for productive operation in a variety of instances, outlined briefly below.

Multi-Use Spaces

API's wash bay and its two repair bays presently double as after hour enclosed fleet parking for pole and line trucks, as space allows. This situation creates conflicts with use of the Repair bays for servicing vehicles, as well as competition for use as parking between the Lines and Forestry crews and disrupts use of the wash bay. This situation negatively impacts the workflow between crews and use of the Repair Garage.

The Electrical/Metering department currently occupy one bay of the repair and maintenance shop. This space would generally be adequate in size for this department, but the space is overcrowded and shared with Line Operations, Forestry, and Stores. This limited space produces a cross contamination of equipment, materials and functions, and conflicts with time scheduling for use, creating inefficiencies in all departments. Sensitive equipment must be covered when not in use, and extra safety precautions must be implemented during required testing to control access of the multiple departments utilizing the space. Due to the multi-use nature of the space, storage of certain Electrical/Metering equipment and inventory has been re-located to a temporary space in the basement of the API administrative office building, outside the compound. This lack of continuity in the department, creates significant inefficiency.

Separation of Departments

Due to insufficient space, and/or health and safety issues with current facilities, the Operations, Electrical/Metering and Forestry departments have temporarily relocated certain personnel to space in the Administrative office building. With exceptions, this has generally entailed the separation of management personnel of each department from the field staff they manage. While this relocation was done out of necessity, it has created issues, in that, management personnel are not able to effectively track and manage their employees and are therefore not in a position to extract their best effort on a daily basis.

Storage

The existing “Stores Building” is disjointed and too small in size to meet the requirements of API. Because of this, equipment and materials are being stored in multiple locations, scattered within the fenced compound. Some equipment and materials are being kept in a number of C-Cans, and in the Repair Garage within the space occupied by Electrical/Metering, as well as outdoors. Much of the equipment currently being stored outdoors, or in cold indoor areas was formerly housed in a Butler Building which was torn down in 2016 due to its deteriorating condition.

The disjointed nature of API equipment and inventory storage tends to have a negative impact on its efficiency and financial performance, due to the following:

- The various storage locations makes inventory and equipment difficult to account for. Increased effort is required for adequate inventory management.
- Inventory and equipment are subject to degradation and access challenges due to their exposure to the elements. Due to the lack of central storage space, live line equipment, rubber gloves and other moisture sensitive equipment is also being stored in various outdoor C-Cans in the compound.
- Inventory and equipment are occasionally stolen due to storage in locations with inadequate security.
- The sharing of storage space amongst departments creates difficulties in terms of workflow. Line Operations share storage and work space in the Electrical/Metering department, which overlaps with Stores, Forestry and the Repair Garage.
- The distances separating storage areas from employees creates inefficiencies, as employees spend a significant amount of time travelling around the compound to

locate stored items and often have to search in multiple locations before finding the items.

Due to a general lack of indoor or sheltered space available, the fleet of pole/line/lift and pickup trucks (aside from those stored in wash/repair bays) are parked outside year-round. The exposure to the elements, specifically during winter months negatively affects the boom hydraulic components of the pole/line trucks, creating lost time repairs and delays in commencing work.

Climate Related Issues

Due to the often severe winter conditions in Northern Ontario (see weather analysis above), losses of time, efficiency and actual tangible expenditures occur in winter months due to vehicle warm up, snow removal and dead battery maintenance. It is not uncommon for field employees to spend the first 20-30 minutes of each day in an unproductive fashion due to the outdoor storage of their vehicles and equipment.

Employee Health & Safety

Due to the constraints presented by the inadequacies of the current API facilities, in certain instances employee health and safety has been compromised out of necessity. Examples of this are as follows:

- The 60' portable trailer, which historically housed the Forestry Department, in addition to being generally inadequate for the department's needs, was found to have the presence of mold in the trailer's interior. Due to these conditions, the Forestry group were temporarily relocated to the basement of the API administrative building, in space shared with Electrical/Metering. This has resulted in insufficient working area and generally poor working conditions for these employees.
- While certain items have been removed from the API facilities under a "Control Program" that was implemented for items such as lead paint, asbestos, etc., it is possible that these hazardous substances continue to exist in the building.
- Due to frozen drainage issues and improper grading in front of the bay door of the Stores building, the floor is covered in ice for the latter portion of the winter months. This presents an obviously significant liability issue, but more importantly a safety issue which is completely inappropriate.
- Employees are often forced to climb to obtain items and physically digging out equipment during the winter months. Each of these acts presents an opportunity for injury.



Customer Service

The ground level API entry and lobby of the administration building is extremely small and is congested with conflicting traffic patterns between visitors, customers and API staff. This presents issues in terms of customer interaction, as service staff are often distracted by API employees and visitors entering the building. Further, the level of privacy is insufficient and does not meet minimum customer service requirements, especially when multiple customers are present at a given time.

Facilities Expansion

Several issues exist that may prevent a future facilities expansion:

- Due to the transmission line towers and substation on the site, there are easements and aerial clearance issues that may limit any future permanent expansion of buildings on the Sackville site.
- There is uncertainty with respect to environmental issues associated with the land itself. There is concern that the property may be contaminated with oil and will potentially create project delays and cost overruns should a facilities expansion be attempted.
- There is uncertainty with respect to the API office building as, it is possible that items such as asbestos may exist in the building and create project delays and cost overruns should a renovation be attempted.

Capital Deficiencies

As discussed in the 'Identification of Options' section above, certain capital deficiencies exist which must be rectified in the short term if the Greenfield option is not selected; In a traditional, arm's length landlord/tenant arrangement, this expense would be the responsibility of the landlord; however, historically API has borne approximately 50% of capital upgrades and maintenance expenses as per the current lease agreement. It is not currently known whether the sharing of capital expenses will continue in the future, should a revised lease agreement be negotiated.



Hydro One Lease

As discussed above, API's lease with Hydro One expires on December 31, 2019. Further, due to the fact that API and Hydro One were previously part of the same entity, API has historically benefitted from non-arm's length rental terms, which will cease on expiry of the lease. While the terms of a new lease are not currently known, based on API's discussions with Hydro One it is anticipated that a market rent will be required. This report assumes ongoing rent will increase from \$171,100 (2019) to \$401,100 (2020), for a total increase of \$230,000.

Given the considerable deficiencies associated with the space as outlined above, it would be difficult to justify remaining at the current location and paying a market rent without significant renovations and upgrades.

Conclusion

Considering the above, the Status Quo scenario was eliminated from consideration as a realistic option for API moving forward. Briefly put, there are deficiencies existing with API's current facilities that are significant and unresolvable in a Status Quo situation. In regards to the evaluation criteria, the Status Quo option does not satisfy any of the metrics identified, as follows:

- Core Values:
 - Barrier free access to facilities, while present in certain areas, is not absolute.
 - Employee safety is often compromised.
 - Financial success is limited due to operational inefficiencies caused by:
 - Lack of or inappropriate storage space.
 - Shared facilities amongst departments.
 - Multi use spaces (i.e. repair and wash bays also used for indoor parking).
 - Avoidable weather related delays.
- Service Level
 - The customer service area does not meet minimum customer service requirements for privacy and separation from API office area.
 - Due to facilities related inefficiencies, ability to service customers in the field may be compromised.
- Best Practices
 - Linkages with Hydro One is not an industry best practice and must be addressed. The sharing of IT infrastructure, locker room, washroom kitchen, meeting space, in addition to having walkways between the two office spaces is not appropriate and may be in contradiction to operating standards and labour laws.
- Appropriate Allocation of Resources
 - Given the facilities deficiencies, continuing to invest resources into its operation, repair and maintenance, would not be an appropriate allocation of this organization's finite resources.

Option #2 - Lease Existing

As discussed above, API attempted, but was unsuccessful at locating any space available, or potentially available for lease in Sault Ste. Marie, which would satisfy the criteria utilized in determining a new facility site and building composition. Accordingly, given that the Lease Existing scenario was eliminated as a viable option early on in the due diligence process, no analysis has been performed in this regard.

Option #3 - Brownfield

As discussed above, Option #3 has been identified as the “Brownfield” scenario, in which API would remain at its current location; however, would perform extensive renovations to its facilities in an attempt to align the spaces with the evaluation criteria detailed above.

Following is a discussion and analysis of the conditions supporting and those in opposition to the Brownfield scenario.

Conditions in Support of Option

Per the documentation reviewed and in discussions with API staff, the Brownfield scenario does address many of the deficiencies identified in the Status Quo scenario above, as follows:

- **API-Hydro One Linkages:** the renovation provides for the addition of locker room, change room and wash room facilities for API staff separate/distinct from Hydro One.
- **Barrier Free Access:** the renovation will resolve many barriers to the access of API’s facilities, including:
 - Barrier free maintenance and stores facility
 - Barrier free fleet storage
 - Barrier free locker and change rooms
- **Multi-Use Spaces:** the issue of shared spaces amongst API departments will be partially resolved, as shared storage facilities will be separated in the new storage building. Further, shared work areas will be to some degree eliminated with the renovations to the main office space.
- **Storage:** the issue of shared and/or inadequate storage will be partially resolved through the renovation, as the new stores building will provide adequate storage space for equipment currently stored indoors and other sensitive equipment currently stored in C-Cans. The new stores facility should also address the difficulties in tracking equipment and inventory, as sufficient space will exist to organize the items. Further, damage to inventory, equipment and fleet will be largely resolved through the stores building and new fleet garage.
- **Employee Health & Safety:** two significant deficiencies with the current facilities will be resolved through the renovation. The ice build-up on the floor of the stores building will be addressed in the construction of a new facility and safety issues surrounding the use of the portable trailers will be resolved, as these will no longer be utilized post-renovation.
- **Customer Service** - given that the current customer service area will be completely renovated to provide the appropriate level of privacy and separation from the API office area, the Brownfield alternative will largely resolve customer service area deficiencies.

On an overall basis, an expenditure to renovate the Brownfield site will be a large step towards addressing the deficiencies with current facilities and will allow API to operate

more efficiently; however, it will not be able to address all deficiencies outlined above. These required omissions are discussed in detail below.

Conditions Opposing Option

Per the documentation reviewed and in discussions with API staff, unfortunately, the Brownfield option would not and could not address many of the deficiencies identified in the Status Quo scenario above. The deficiencies which will remain post-renovation will be as follows:

- **API-Hydro One Linkages:** because the facility was designed with one entity in mind, there continue to exist linkages, which now cannot be removed at a minimum without considerable expense and potentially not at all.
 - Due to the fact that the IT infrastructure is completely integrated into the facility, it would be extremely difficult, if not impossible to cut the ties between the two organizations.
 - Due to building space constraints and limitations on the expansion of the office building, API and Hydro One will continue to share lunchroom, kitchen, meeting room and parking facilities post renovation.
- **Barrier Free Accessibility:** adding barrier free ramps to all entrances to the office building, currently accessed via stairs is not part of the renovation concept.
- **Multi-Use Spaces:** while a new fleet storage garage will be constructed as part of the renovation, in an effort to be cost effective, the wash and maintenance bays will continue to serve as an after-hours fleet storage garage post renovation.
- **Separation of Departments:** while the Brownfield option will improve the cohesiveness of departments; due to the constraints associated with the design of the current office building and expansion thereof, it will remain difficult to ensure management and staff of each department are located in close proximity of each other. The existing space was simply not designed with efficiency and workflow in mind.
- **Storage:** due to constraints on additions to the main office building through expansion to other areas of the property (both special and cost concerns) final design of such additions will be challenged in producing adequate workflow to improve interactive efficiency. Further, outdoor storage will continue to be utilized for certain inventory, equipment and fleet, though the cost is thought to outweigh the benefits in this regard.
- **Employee Health & Safety:** While the renovation will certainly create a healthier and safer working environment for employees, deficiencies will remain due to existing constraints:
 - It is possible that items such as asbestos will continue to exist in API's main office building and employees may therefore be exposed to these materials.
 - Due to the ongoing requirement of outdoor storage of certain inventory, equipment and fleet, employees will continue to risk injury while digging to access items during winter months.

Capital Deficiencies: the capital expenditures below will not be addressed in the contemplated renovation. Based on the terms of the existing lease, we understand API

will bear approximately 50% of such costs; however, it is not currently known whether the sharing of capital expenses will continue in the future, should a revised lease agreement be negotiated.

- Parking Lot Asphalt - \$210,000
- Exterior Cladding - \$200,000
- HRV Units - \$48,000
- Elevator - to be investigated

In addition to the unaddressed deficiencies outlined above, the reader should note the following additional considerations with respect to the Brownfield scenario:

- **Core Values:** given that the Brownfield option does not address all existing issues with employee safety, barriers to ambulation, efficiency and financial success, the alternative does not perfectly align with API's core values.
- **Hydro One Lease:** as indicated above, subsequent to the renovation, API will not incur rental expense on the stores building or the maintenance garage; however, the rent on the office building and land space occupied will be converted to a market rent, considerably higher than the current expense. Due to the expense associated with the renovation, in addition to the ongoing cost of a market lease, the Brownfield scenario may be cost prohibitive, considering that the facilities will continue to be deficient in certain respects. Further, investing \$10M in facilities which are not owned would be difficult to justify, considering there will be no residual value associated with these facilities, should API ever decide to relocate.
- **Environmental Concerns:** there exists uncertainty with respect to environmental issues present at the brownfield site. There is concern that the building site may be contaminated with oil and will potentially create project delays and cost overruns should expansion/construction be attempted. These costs are not factored into the estimated project cost of \$10M.
- **Expansion Constraints:** there exists uncertainty with respect to existing power lines which may need to be relocated in order to proceed with site expansion plans. This could potentially create construction delays and cost overruns. These costs are not factored in to those presented above.
- **Disruption to Operations:** because the renovations to current facilities will be so extensive and are expected to be performed over a long time period, there may be a disruption to operations. While attempts will be made to minimize disruption by securing off hour work, relocating employees and performing work in segments, it will likely be impossible to eliminate the disruption and further, mitigating measures may come at an additional cost.

Financial Analysis

Based upon the ongoing operating and one time capital costs associated with the Brownfield option, presented above, we have prepared a high level, 20 year present value analysis.

Our analysis has revealed a total cash outflow, over the 20 years considered, of approximately \$41,990,000 and a net present value of total cash outflows of \$29,260,000.

See Schedule NPV2 of Appendix B for detailed calculations and notes.

Option #4 - Greenfield

As discussed above, Option #4 has been identified as the “Greenfield” scenario, in which API will engage professionals to design and build a new facility and therefore will not renew its lease of the Sackville Road property. Based on the due diligence efforts of the staff of API, as well as the consultants it has engaged, a preferred site has been selected and a preliminary facility design has been prepared. The site and facility design were selected such that API’s current and future space and usage requirements will be satisfied.

Following is discussion and analysis of the conditions supporting and those in opposition to the Greenfield scenario.

Conditions in Support of Option

Per the documentation reviewed, from discussions with API staff and in consideration to the evaluation metrics identified, the Greenfield scenario addresses all of the deficiencies identified in the Status Quo scenario above and further aligns with all evaluation criteria. Following is a summary of the key conditions supporting the Greenfield scenario:

- While the initial capital outlay of nearly [REDACTED] is significant, it is an “investment” into a positive future through:
 - Ensuring appropriate measures are being taken to ensure the health and safety of all employees;
 - Providing a barrier free environment that can be accessed with ease by employees and customers alike;
 - Achieving operational efficiency in terms of:
 - Workflow due to appropriate storage facilities and separate spaces for each department;
 - Proximity of management to the staff they manage;
 - Ability to efficiently track and access inventory and equipment;
 - Protecting valuable inventory, equipment and vehicles from the harsh winter conditions faced in Northern Ontario.
 - Achieving financial success through reduction of annual occupancy related costs and efficiencies gained, as well as residual value of the property and facilities, which can be realized in the future should API choose to do so.

- API will be put in a position to achieve excellence in terms of the level of customer service/experience provided.
- The Greenfield option allows for a necessary cutting of ties with Hydro One, allowing API to operate as a standalone entity, as it is required to do.
- Due to the ability to design a facility from scratch, the Greenfield scenario provides API the flexibility to expand any/all facets of its operation in the future.
- The Greenfield option is an immediate recognition of a guaranteed future requirement, in that, relocation or radical redesign of the Sackville Road property will be required at some point in the future regardless. While this can be delayed for a time (at a cost), the requirement cannot be eliminated.

Conditions Opposing Option

Given that the Greenfield alternative is a new build, it remedies all deficiencies with API's current facilities, aside from that of fleet storage, which we understand has been substantially reduced in order to provide a more cost effective solution. This continuing deficiency is not anticipated to be a major limiting factor in the future and because the facility will be designed with expansion in mind, a future addition may be tabled at a later date.

While initial discussions with Hydro One regarding a temporary extension of the Sackville Road lease during the design and construction of the new facility have been positive, it is possible that API may be asked to vacate prior to the occupancy date of the new facility. For this eventuality, API staff have investigated potential options for temporary leased space. We understand that this investigation produced no viable options in terms of a facility that would accommodate the entire organization and accordingly, should this issue arise the operations and administration functions would need to be temporarily relocated to separate leased spaces. This would be less than ideal and would certainly impact efficiency and financial performance of API during the temporary relocation period.

From a quantitative perspective, the only opposing factor may be the significant capital and operating investment, which will be required to bring the Greenfield scenario to reality. This is discussed further in the financial analysis section below.

Financial Analysis

Based upon the ongoing operating, one time capital costs and sustaining capital reinvestment associated with the Greenfield option presented above, we have prepared a high level, 20 year present value analysis.

Our analysis has revealed a total cash outflow, over the 20 years considered, of approximately \$30,840,000 and a net present value of total cash outflows of \$26,160,000.

See Schedule NPV3 of Appendix B for detailed calculations and notes.

Selection of Preferred Option

Based on the qualitative and quantitative factors outlined above, it has been determined that Option #4 (Greenfield) is the preferred scenario, which will best address the operational needs of API in the future.

In arriving at this conclusion, we summarize the factors which we feel were most critical to our analysis and weigh most heavily in this conclusion:

Core Values

Core values are the fundamental beliefs of an organization. By defining core values, an organization provides a roadmap for how people are expected to conduct themselves on a daily basis as well as how the organization as a whole is expected to function. By definition, organizational goals will not be achieved through a misalignment of core values and operational actions. Given that the Greenfield scenario is the only option that perfectly aligns with all core values of API, it should be regarded as the only path to future success.

Service Level

API is responsible to achieve excellence in terms of customer service, both to align with its core values and because in a customer service world, excellent service is expected as the norm. While, the Brownfield scenario would allow API to improve its customer service significantly, the Greenfield scenario provides API staff with the best tools to achieve service excellence.

Best Practices

API's close connection with Hydro One is unique in the industry and is understandable considering the history of both organizations. Further, given the unique circumstances, it is possible for these connections to continue in the short term without being addressed. However, because API is currently at a cross roads with respect to aspects of its facilities, which do not align with its requirements, now is the ideal time to address and rectify these linkages.

Appropriate Allocation of Resources

API's financial resources are finite and are indirectly related to the financial resources of the Northern Ontario energy consumer. Accordingly, it is the responsibility of API to allocate these finite resources appropriately to ensure funds are not wasted. It is our opinion that the Greenfield option provides the most reasonable allocation of resources due to the following.

- Per our net present value analysis on Schedules NPV1 to NPV3, the present value of cash outlays over the next 20 years are lower by \$3,100,000 in the Greenfield scenario (\$26,160,000) versus the Brownfield scenario (\$29,260,000).
- To spend \$■■■■, in addition to ongoing operating expenses, on an existing facility that can never fully meet the requirements of the organization and is already over 25 years old would be in essence chasing bad dollars with good.

- Further, to invest \$[REDACTED] in facilities that are not owned would not be prudent. For this significant investment, API will realize no residual value of the assets it is paying for.

Other

In addition to the above, it should be noted, while employees have been patient with the challenges presented by their current working environment, there is a growing frustration and perceived lack of commitment of API as a whole to achieving organizational goals. Per management, there is legitimate concern that a failure to fully address the obvious issues at hand will affect the current 'friendly' atmosphere of the organization and further compromise API's ability to operate efficiently.

Summary

We have enjoyed working with the staff of API and thank you for the input we received in completion of this assignment. We hope that this report will help guide your organization in its decision-making efforts on space to ensure API continues to: adhere to its core values; provide excellent service to customers, align its operations with industry best practices/standards and achieve financial success through an appropriate allocation of its resources.

Thank you for choosing the Advisory Services practice of BDO Canada LLP Sault Ste. Marie to assist you in these endeavors.

Sincerely,

BDO Canada LLP

Chartered Professional Accountants and Advisors
Sault Ste. Marie, ON

August 8, 2019

APPENDICES

Appendix A - Analysis of Rental and Occupancy Expenses

Analysis of Historical and Market Rent and Occupancy Expenses

Option #1 - Status Quo

	<u>Notes</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
		<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>
Base Rent		\$ 163,440	\$ 163,440	\$ 165,461	\$ 167,472	\$ 169,272	\$ 171,100	
- Office Space	Note 1							
> Above Grade	Note 2							\$ 267,893
> Basement	Note 3							66,973
- Industrial Space	Note 4							54,075
- Land Use	Note 5							12,180
Operating Costs	Note 6	368,332	382,137	414,513	416,760	433,983	442,700	451,600
Municipal Tax	Note 7	65,490	69,574	72,359	73,973	73,968	74,000	74,000
Total Occupancy Costs		<u>\$ 597,262</u>	<u>\$ 615,151</u>	<u>\$ 652,333</u>	<u>\$ 658,205</u>	<u>\$ 677,223</u>	<u>\$ 687,800</u>	<u>\$ 926,721</u>

► Notes:

- 1 Per API management, we understand rent will be converted to a market rate subsequent to the current lease expiry on December 31, 2019.
- 2 Per the facilities planning reports prepared by MGP with KPMG's assistance, we have assumed the market net rent (i.e. excluding operating costs), on above grade space, will be \$17.00/sf. Per API we understand the facility has approximately 15,758 sf above grade.
- 3 Per the facilities planning reports prepared by MGP with KPMG's assistance, we have assumed the market net rent, on basement space, will be equivalent to that of the above grade space, or \$17.00/sf. Per API we understand the facility has approximately 3,940 sf below grade.
- 4 Per the facilities planning reports prepared by MGP with KPMG's assistance, we have assumed the market net rent, on industrial space, will be \$7.50/sf. We understand the facility has approximately 7,210 sf of industrial space. Please note, this does not include approximately 600 sf of additional storage space, as API owns and therefore would not pay rent on C-Cans used for storage.
- 5 Per the facilities planning reports prepared by MGP with KPMG's assistance, we have assumed the market net rent, on total land occupied will be \$500/acre/month. Per the MGP facilities reports, we understand API occupies approximately 2.03 acres of land.
- 6 We have assumed historical operating costs will increase with inflation in 2019 and 2020. We have utilized an annual inflation rate of 2%.
- 7 Given that municipal taxes did not increase from 2017 to 2018, we have assumed they will hold constant in 2019 and 2020.

Analysis of Projected Market Rent and Occupancy Expenses

Option #3 - Brownfield

	<u>Notes</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
	Note 1										
Base Rent											
- Office Space											
> Above Grade	Note 2	\$ 267,893	\$ 273,251	\$ 278,716	\$ 284,290	\$ 289,976	\$ 295,775	\$ 301,691	\$ 307,725	\$ 313,879	\$ 320,157
> Basement	Note 2	66,973	68,313	69,679	71,072	72,494	73,944	75,423	76,931	78,470	80,039
- Industrial Space	Note 3	54,075	55,157	-	-	-	-	-	-	-	-
- Land Use	Note 4	12,180	12,424	12,672	12,926	13,184	13,448	13,717	13,991	14,271	14,556
Operating Costs	Note 5	451,600	460,632	469,845	479,242	488,826	498,603	508,575	518,746	529,121	539,704
Municipal Tax	Note 6	74,000	74,000	570,000	581,400	593,028	604,889	616,986	629,326	641,913	654,751
Total Occupancy Costs		\$ 926,721	\$ 943,775	\$ 1,400,911	\$ 1,428,930	\$ 1,457,508	\$ 1,486,658	\$ 1,516,391	\$ 1,546,719	\$ 1,577,654	\$ 1,609,207
		<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>	<u>2036</u>	<u>2037</u>	<u>2038</u>	<u>2039</u>
Base Rent											
- Office Space											
> Above Grade	Note 2	\$ 326,560	\$ 333,091	\$ 339,753	\$ 346,548	\$ 353,479	\$ 360,548	\$ 367,759	\$ 375,115	\$ 382,617	\$ 390,269
> Basement	Note 2	81,640	83,273	84,938	86,637	88,370	90,137	91,940	93,779	95,654	97,567
- Industrial Space	Note 3	-	-	-	-	-	-	-	-	-	-
- Land Use	Note 4	14,847	15,144	15,447	15,756	16,071	16,393	16,721	17,055	17,396	17,744
Operating Costs	Note 5	550,498	561,508	572,738	584,193	595,877	607,794	619,950	632,349	644,996	657,896
Municipal Tax	Note 6	667,846	681,203	694,827	708,723	722,898	737,356	752,103	767,145	782,488	798,138
Total Occupancy Costs		\$ 1,641,391	\$ 1,674,219	\$ 1,707,703	\$ 1,741,857	\$ 1,776,694	\$ 1,812,228	\$ 1,848,473	\$ 1,885,442	\$ 1,923,151	\$ 1,961,614

► Notes:

- Rent and occupancy costs in 2020 are based on those estimated for the Status Quo scenario on Schedule R1 and the 2021 expenses are reflective of those in 2020 adjusted for inflation. To be conservative, we have assumed a total approvals, design and construction period of 2 years.
- See Notes 2 and 3 to Schedule R1. It has been assumed that the net rent on the administration building will not increase post renovation, as API will pay for all renovation related expenditures. We have, however, adjusted rent in each future period to reflect inflationary increases of 2% per year.
- Subsequent to the construction of the new storage and maintenance building, API will relinquish control of the existing structures and thus will eliminate these rental expenses.
- See Note 5 to Schedule R1.
- For simplicity, we have assumed operating costs in the Brownfield scenario will be similar to the historical expense. While, API's square footage occupied will increase from approximately 26,908 sf to 47,725 sf, it is expected that operating costs per square foot will decline significantly, due to cost efficiencies related to the new buildings. Further, 12,280 sf is related to the fleet storage building, which is expected to carry minimal cost of operation. We have adjusted operating costs in each future period to reflect inflationary increases of 2% per year.
- Due to the new building additions and renovations to the existing administration building in the Brownfield scenario, it is anticipated that Municipal taxes will increase significantly post construction. This increase in 2022 has been estimated below. The expense in subsequent years has been increased for inflation of 2% per year.

Municipal Tax (current)	\$ 74,000	Renovation/Construction Costs (Brownfield)	\$ [REDACTED]
Stores/Maintenance Building Component	37% (27,086)	[REDACTED]	[REDACTED]
Municipal Tax Related to Administration Building	<u>\$ 46,914 A</u>	Estimated Incremental Assessed Value	[REDACTED]
		Property Tax Rate - Occupied/New Construction	[REDACTED]
		Estimated Incremental Municipal Tax	<u>\$ 520,100 B</u>
Total Ongoing Municipal Tax Expense (rounded)	<u>\$ 570,000 C = A + B</u>		

Analysis of Projected Market Rent and Occupancy Expenses

Option #4 - Greenfield

	<u>Notes</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
	Note 1										
Base Rent											
- Office Space											
> Above Grade	Note 2	\$ 267,893	\$ 273,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
> Basement	Note 2	66,973	68,313	-	-	-	-	-	-	-	-
- Industrial Space	Note 2	54,075	55,157	-	-	-	-	-	-	-	-
- Land Use	Note 2	12,180	12,424	-	-	-	-	-	-	-	-
Operating Costs	Note 3	451,600	460,632	469,845	479,242	488,826	498,603	508,575	518,746	529,121	539,704
Municipal Tax	Note 4	74,000	74,000	690,000	703,800	717,876	732,234	746,878	761,816	777,052	792,593
Total Occupancy Costs		\$ 926,721	\$ 943,775	\$ 1,159,845	\$ 1,183,042	\$ 1,206,702	\$ 1,230,836	\$ 1,255,453	\$ 1,280,562	\$ 1,306,173	\$ 1,332,297
		<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>	<u>2036</u>	<u>2037</u>	<u>2038</u>	<u>2039</u>
Rent	Note 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Costs	Note 3	550,498	561,508	572,738	584,193	595,877	607,794	619,950	632,349	644,996	657,896
Municipal Tax	Note 4	808,445	824,614	841,106	857,928	875,087	892,589	910,440	928,649	947,222	966,167
Total Occupancy Costs		\$ 1,358,943	\$ 1,386,122	\$ 1,413,844	\$ 1,442,121	\$ 1,470,963	\$ 1,500,383	\$ 1,530,390	\$ 1,560,998	\$ 1,592,218	\$ 1,624,063

► Notes:

- 1 Rent and occupancy costs in 2020 are based on those estimated for the Status Quo scenario on Schedule R1 and the 2021 expenses are reflective of those in 2020 adjusted for inflation. To be conservative, we have assumed a total approvals, design and construction period of 2 years.
- 2 Given that API will be the property owner in the Greenfield scenario, no rent on office space, industrial space, or land use will be payable.
- 3 For simplicity, we have assumed operating costs in the Greenfield scenario will be similar to the historical expense at Sackville Road. While, API's square footage occupied will increase from approximately 26,908 sf to 41,703 sf, it is expected that operating costs per square foot will decline significantly, due to cost efficiencies related to the new build. Further, 12,280 sf is related to the fleet storage building, which is expected to carry minimal cost of operation. We have adjusted operating costs in each future period to reflect inflationary increases of 2% per year.
- 4 Due to the expected value of the new construction in the Greenfield scenario relative to the Status Quo, it is anticipated that Municipal taxes will increase significantly post construction. This increase in 2022 has been estimated below. The expense in subsequent years has been increased for inflation of 2% per year.

Building Construction Costs	\$	
Less: 30% to Consider Non-Incremental Value		
Estimated Building Value		
Add: Land Acquisition Costs		
Estimated Incremental Assessed Value		
Property Tax Rate - Occupied/New Construction		
Estimated Incremental Municipal Tax (rounded)	\$	

Appendix B - Net Present Value Analysis

Net Present Value of Option Costs

Comparison of Brownfield and Greenfield

	Brownfield		Greenfield		Variance	
	20 Year Cash Outflow	Net Present Value	20 Year Cash Outflow	Net Present Value	20 Year Cash Outflow	Net Present Value
Land Acquisition	\$ -	\$ -	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Construction/Renovation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Rent	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Operating Costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-	-
Municipal Tax	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Sustaining Capital Reinvestment	-	-	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Residual Value	-	-	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Total (rounded)	\$ [REDACTED]	\$ 29,260,000	\$ [REDACTED]	\$ 26,160,000	\$ 11,150,000	\$ 3,100,000

Net Present Value of Option Costs

Option #3 - Brownfield

	Notes	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Construction/Renovation	Note 1	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	Note 2	334,866	341,563	348,395	355,362	362,470	369,719	377,114	384,656	392,349	400,196
Industrial Rent		54,075	55,157	-	-	-	-	-	-	-	-
Land Use		12,180	12,424	12,672	12,926	13,184	13,448	13,717	13,991	14,271	14,556
Operating Costs		451,600	460,632	469,845	479,242	488,826	498,603	508,575	518,746	529,121	539,704
Municipal Tax		74,000	74,000	570,000	581,400	593,028	604,889	616,986	629,326	641,913	654,751
		\$ [REDACTED]	\$ [REDACTED]	\$ 1,400,911	\$ 1,428,930	\$ 1,457,508	\$ 1,486,658	\$ 1,516,391	\$ 1,546,719	\$ 1,577,654	\$ 1,609,207
Present Value Factor	Note 3	0.957	0.915	0.875	0.837	0.801	0.766	0.733	0.701	0.670	0.641
Discounted Cash Outflow		\$ [REDACTED]	\$ [REDACTED]	\$ 1,225,972	\$ 1,196,108	\$ 1,166,972	\$ 1,138,546	\$ 1,110,812	\$ 1,083,754	\$ 1,057,355	\$ 1,031,599
		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Office Rent	Note 2	\$ 408,200	\$ 416,364	\$ 424,691	\$ 433,185	\$ 441,849	\$ 450,686	\$ 459,699	\$ 468,893	\$ 478,271	\$ 487,837
Industrial Rent		-	-	-	-	-	-	-	-	-	-
Land Use		14,847	15,144	15,447	15,756	16,071	16,393	16,721	17,055	17,396	17,744
Operating Costs		550,498	561,508	572,738	584,193	595,877	607,794	619,950	632,349	644,996	657,896
Municipal Tax		667,846	681,203	694,827	708,723	722,898	737,356	752,103	767,145	782,488	798,138
		\$ 1,641,391	\$ 1,674,219	\$ 1,707,703	\$ 1,741,857	\$ 1,776,694	\$ 1,812,228	\$ 1,848,473	\$ 1,885,442	\$ 1,923,151	\$ 1,961,614
Present Value Factor	Note 3	0.613	0.587	0.561	0.537	0.513	0.491	0.470	0.449	0.430	0.411
Discounted Cash Outflow		\$ 1,006,471	\$ 981,954	\$ 958,035	\$ 934,698	\$ 911,930	\$ 889,716	\$ 868,044	\$ 846,899	\$ 826,270	\$ 806,143
Sum of Discounted Cash Outflows		\$ 29,264,506									
Less: NPV of Residual Property Value	Note 4	-									
NPV of Brownfield Option (rounded)		\$ 29,260,000									

► Notes:

- 1 To be conservative, we have assumed a total approvals, design and construction period of 2 years. Accordingly, we have split the total cost of construction/renovation of [REDACTED] over the 2020 and 2021 years.
- 2 See Schedule R2 for detailed calculations of these expenses.
- 3 We have estimated the present value factor using a discount rate of 9.3%, consistent with API's allowed return on equity, per the Fortis Investor Presentation, 2nd Quarter 2019.
- 4 Given that API will not own the property in the Brownfield scenario, there will be no residual value associated with the facilities at the end of the projection period.

Net Present Value of Option Costs

Option #4 - Greenfield

	Notes	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Land Acquisition	Note 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction/Renovation	Note 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rent		401,121	409,143	-	-	-	-	-	-	-	-
Operating	Note 3	451,600	460,632	469,845	479,242	488,826	498,603	508,575	518,746	529,121	539,704
Municipal Tax		74,000	74,000	690,000	703,800	717,876	732,234	746,878	761,816	777,052	792,593
Sustaining capital replacement	Note 4	-	-	238,366	243,133	247,996	252,956	258,015	263,175	268,438	273,807
		\$ -	\$ -	\$ 1,398,210	\$ 1,426,175	\$ 1,454,698	\$ 1,483,792	\$ 1,513,468	\$ 1,543,737	\$ 1,574,612	\$ 1,606,104
Present Value Factor	Note 5	0.957	0.915	0.875	0.837	0.801	0.766	0.733	0.701	0.670	0.641
Discounted Cash Outflow		\$ -	\$ -	\$ 1,223,608	\$ 1,193,802	\$ 1,164,722	\$ 1,136,351	\$ 1,108,671	\$ 1,081,665	\$ 1,055,317	\$ 1,029,610

		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Rent		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating	Note 3	550,498	561,508	572,738	584,193	595,877	607,794	619,950	632,349	644,996	657,896
Municipal Tax		808,445	824,614	841,106	857,928	875,087	892,589	910,440	928,649	947,222	966,167
Sustaining capital replacement	Note 4	279,283	284,869	290,566	296,378	302,305	308,351	314,518	320,809	327,225	333,770
		\$ 1,638,226	\$ 1,670,991	\$ 1,704,411	\$ 1,738,499	\$ 1,773,269	\$ 1,808,734	\$ 1,844,909	\$ 1,881,807	\$ 1,919,443	\$ 1,957,832
Present Value Factor	Note 5	0.613	0.587	0.561	0.537	0.513	0.491	0.470	0.449	0.430	0.411
Discounted Cash Outflow		\$ 1,004,530	\$ 980,061	\$ 956,188	\$ 932,896	\$ 910,172	\$ 888,001	\$ 866,370	\$ 845,266	\$ 824,677	\$ 804,588

Sum of Discounted Cash Outflows		\$ -
Less: NPV of Residual Property Value	Note 6	\$ -
NPV of Greenfield Option (rounded)		\$ -

► Notes:

- Land acquisition costs are estimated at \$ - and are assumed to be recognized immediately on project approval.
- To be conservative, we have assumed a total approvals, design and construction period of 2 years. Accordingly, we have split the total cost of construction of \$ - over the 2020 and 2021 years.
- See Schedule R2 for detailed calculations of these expenses.
- We have accounted for capital replacement costs based on an assumed 50 year useful life of the property and the cost of construction of \$ -.
- We have estimated the present value factor using a discount rate of 9.3%, consistent with API's allowed return on equity, per the Fortis Investor Presentation, 2nd Quarter 2019.
- The residual value of the property and facilities have been estimated as follows:

	Land	Building	Total
Acquisition/Construction cost	\$ -	\$ -	\$ -
Estimated Non-Incremental Value	0%	30%	28%
Discounted Value	\$ -	\$ -	\$ -
Inflation Gross Up Factor	1.49	1.49	1.49
Residual Value of Property	\$ -	\$ -	\$ -
Present Value Factor	0.411	0.411	0.411
NPV of Residual Property Value	\$ -	\$ -	\$ -

Appendix C - MGP Facility Planning Reports

Algoma Power Inc.

A FortisOntario Company

Master Plan for Algoma Power Inc. New Fully Integrated Facility

December 2018



MGP ARCHITECTS • ENGINEER INC.



Table of Contents

MASTER PLAN FOR ALGOMA POWER INC. - FULLY INTEGRATED FACILITY

RECOMMENDATIONS	PAGE 1 & 2
SK-1 PARTIAL SITE PLAN GROUND FLOOR	PAGE 3
SK-2 FULL SITE PLAN	PAGE 4
SK-3 PARTIAL SITE PLAN SECOND FLOOR	PAGE 5
FINAL MASTER PLAN CONCEPTUAL DESIGN-CONSTRUCTION ESTIMATE	PAGE 6 & 7

MASTER PLAN FOR ALGOMA POWER INC. - FULLY INTEGRATED FACILITY

RECOMMENDATIONS:

The program of building areas needs for API has been established at 41,703 square feet, for Administrative Offices, Operations Shops and Fleet, and a Fleet Storage garage.

The site size requirements to suit the development needs of API operations have also been identified and recommended to be in the range of 8 to 9 acres of land.

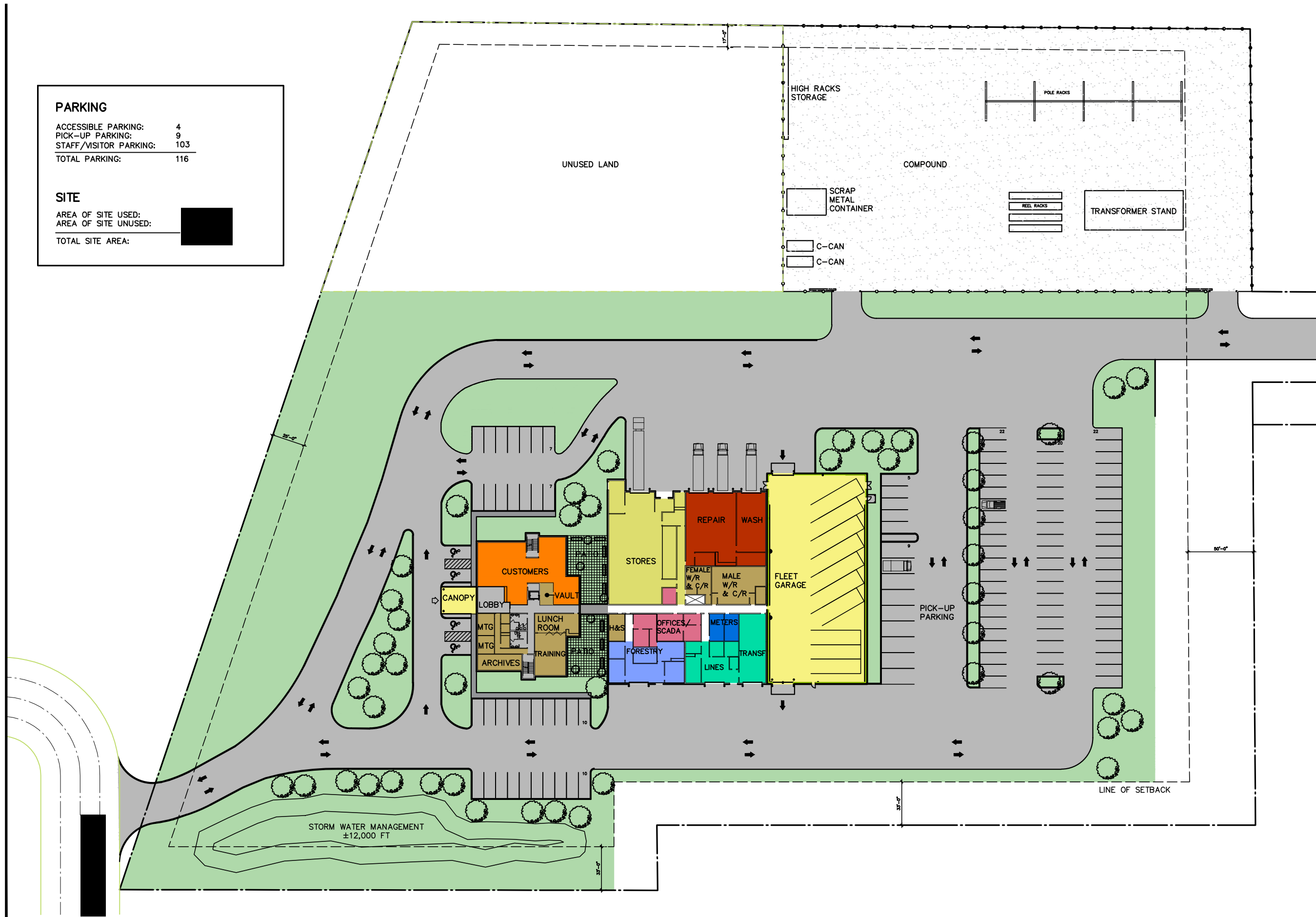
Thirteen potential and available sites within Sault Ste Marie were presented to the API management group which identified a list of benefit and draw back comparisons on each property, relative to suitability for API needs.

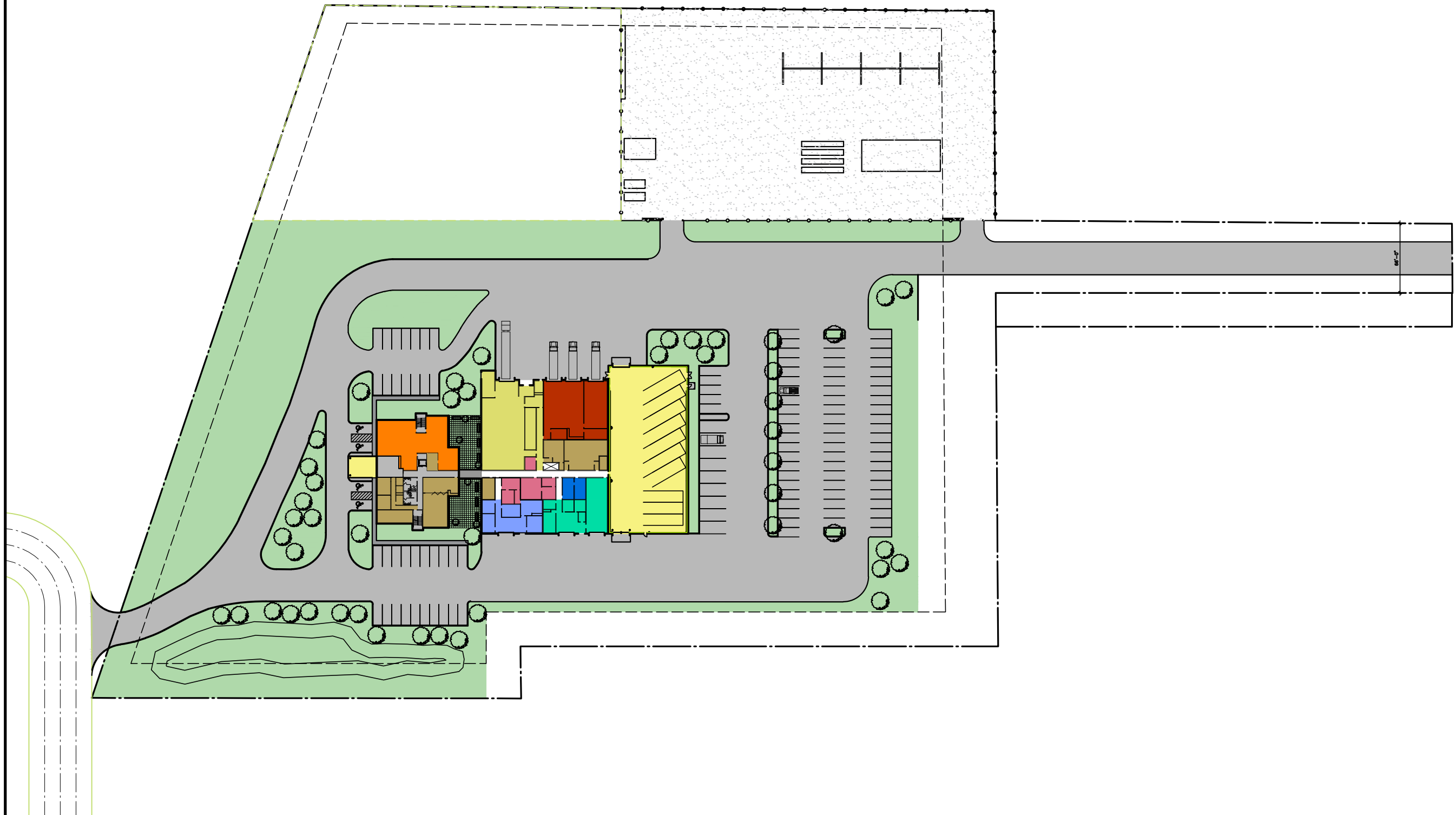
The preferred and recommended building site, of the 13 properties proposed, is identified as **Site No.1** located at [REDACTED]. This vacant site seems to represent and reflect the most suitable characteristics needed to meet the functional and operational goals of API, for the following reasons:

- This is a vacant parcel of land located centrally, in the city of Sault Ste Marie's Industrial Park District.
- Zoning and Land use in this district and for this property is all **M2 – [Medium Industrial Zone]**, which is a compatible and a permitted use for API.
- This available parcel of land is [REDACTED] acres in size and can be severed in size to meet the needs of API.
- On this parcel, the land owner can provide access to both [REDACTED], to the east and [REDACTED] to the west. This provides good transportation route access to API's service points, to the north and east of Sault Ste Marie.
- Due to the configuration of this [REDACTED]-acre parcel of land, a severance of [REDACTED] acres with desired access provided from both [REDACTED] and [REDACTED]. This severance will likely leave the present land owner with limited usable land in this M2 Medium Industrial Zone, for further development. There might be an opportunity for API to negotiate with the land owner, the purchase of the total [REDACTED]-acre parcel at a lower price. This [REDACTED] parcel would enable API to have the best possible use and flexibility of property, for master planning of the site, as well as allow for future expansion and growth.
- [REDACTED]
- [REDACTED]
- Land cost at \$125,000 per acre, appears in line with recent market costs of other properties located in [REDACTED].
- Preliminary investigations on site services to this parcel of land [water, sanitary, storm sewer, power] appear all adequate, to service the needs of API. The parcel can be

serviced from either access street. In general, this site appears to be readily and easily developable with minimum risk of cost escalation during the design phase beyond that which is considered "normal" development costs

- Soils appears to be glacial till with bearing capacity for conventional spread footing foundations expected.





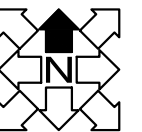
1 SITE N.T.S.
SK-2



MGP
ARCHITECTS
ENGINEER
INC.

123 east street, sault ste. marie
P6A 3C7 ontario
tel. 705.942.9494 fax. 705.942.7454

NEW FACILITY FOR
ALGOMA POWER INC.
SAULT STE. MARIE, ON



#	revision	date
1		
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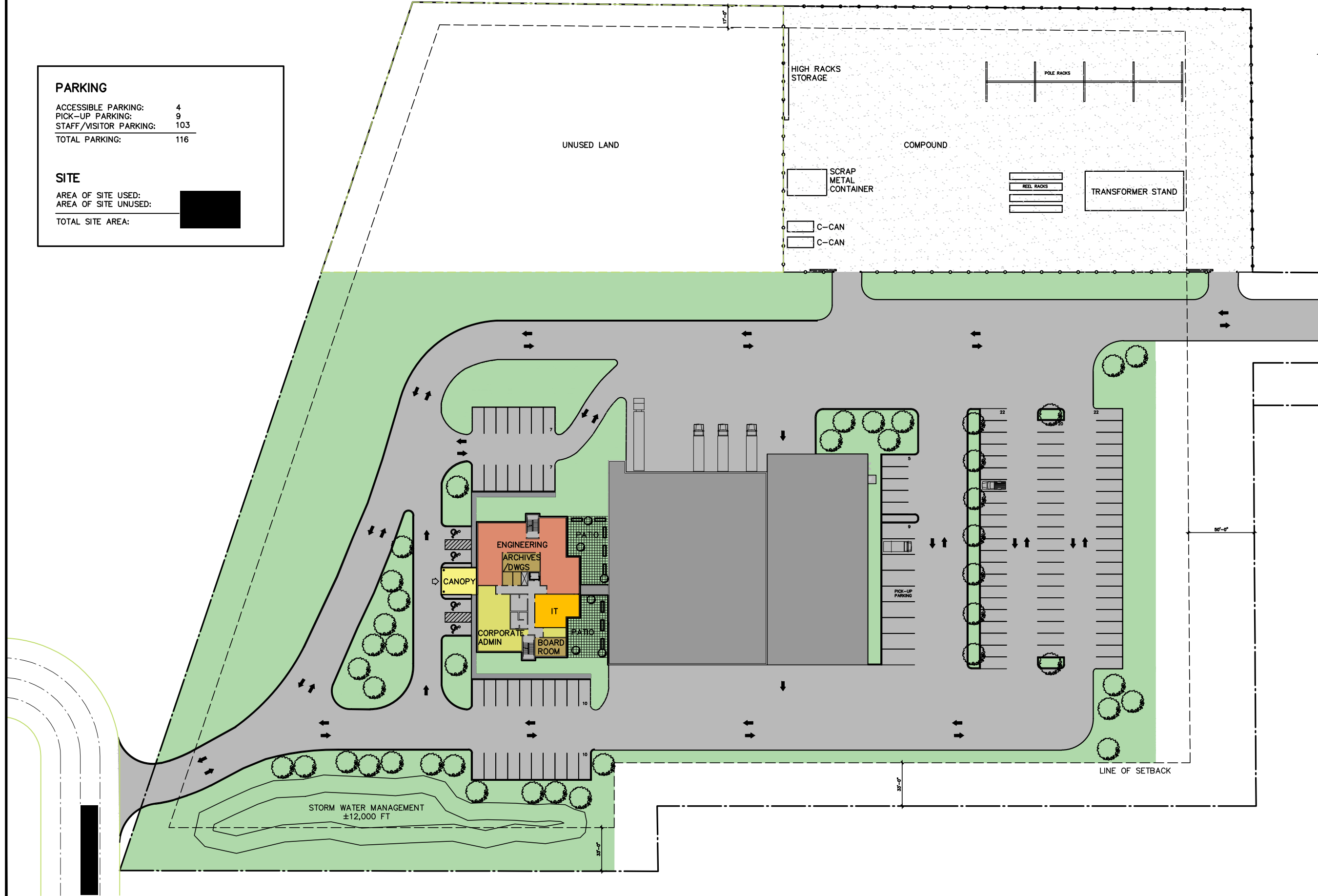
revisions

PROPOSED SITE PLAN

scale	:	N.T.S.
pic	:	
design	:	
drawn	:	MF
date	:	JANUARY 2019
plotted	:	
printed	:	

number
10000 10000A010

SK-2



New Facility for Algoma Power Inc.

Final Master Plan Conceptual Design Estimate

Revised

Mar-19

Project #18061

		COST	%	Unit Cost /GFA
A. PROGRAM AREAS				
A1 Corporate / Administration / Offices	13,676 square feet			
A2 Operations /Shops	15,747 Square feet			
A3 Fleet Storage Garage	<u>12,280 square feet</u>			
Total Program Area	41,703 square feet GFA [gross floor area]			
B. BUILDINGS				
B1 - Corporate Administration / Offices				
B2 - Operation/ Shops				
B3 - Fleet Storage Garage				
TOTAL B1/B2/B3 -EXCLUDING SITE SERVICES				
C. DESIGN & CONSTRUCTION CONTINGENCY ALLOWANCES				
C1 - Design Contingency	5%			
C2 - Construction contingency	5%			
TOTAL C1 & C2-				
TOTAL ESTIMATED CONSTRUCTION COST (EXCLUDING SITE)				
D. SITE DEVELOPMENT				
D1 - Soft and Hard Landscaping				
D2 - Civil Services				
D2.1 Sanitary Sewer				
D2.2 Stormwater Management & Sewers				
D2.3 Water Works				
D2.4 Gas				
D2.5 Electrical Transformer				
D2.6 Roadways and Asphalt Paving & Gravel Compound				
D2.7 Geotext 6				
D2.8 Storm Sewers				
D2.9 Sidewalks				
D2.10 Curbs				
TOTAL ESTIMATED CONSTRUCTION COST			plus HST	

**New Facility for
Algoma Power Inc.****Final Master Plan Conceptual Design Estimate****Revised****Mar-19****Project #18061**

MAIN EXCLUSIONS, ASSUMPTIONS & NOTES

Main Exclusions

The enclosed estimate does not account for the following items. If required, the owner should budget for these costs separately.

1. Professional Fees
2. HST
3. Loose furniture, fittings and equipment (modular furniture, storage units, hangers etc
4. Costs associated with security escorts, etc. if required
5. Building Permits and Fees etc.
6. Geotechnical soil and Environment investigations
7. Legal Surveys and topographical surveys
8. Owner moving expenses
9. Fast tracking of the work
10. Phasing and Staging Premium
11. Work Outside normal working hours
12. Professional Fees (Architects, Engineers, Project Managers)
13. Kitchen and Break Room, coffee shop equipment and appliances etc
14. Exterior building signage
15. Cost associated with abnormal site conditions (water, rock, contamination, lead, asbestos etc.)
16. Fleet carwash equipment
17. Window washing equipment
18. Waste disposal equipment and bins, etc.
19. Testing and commissioning of the works
20. Cost escalation beyond December 2019

Main Assumptions

1. Work will be procured on the basis of a competitively bid stipulated sum form of contract
2. Bids will be received from a minimum of five general contractors
3. Bids will be received from a minimum of three sub-contractors for each trade
4. All work will be carried out during normal working hours.
5. Normal foundation conditions assumed on original clay soils

Estimate Notes

This estimate has been predicated upon the following criteria

1. Prices are based upon tender levels current at August 2019
2. HST is not included
3. All rates are based on I.C.I. Union Labour.
4. Lack of competitive bidding will impact the cost estimate herein

Algoma Power Inc.

A FortisOntario Company

Strategic Facility Planning "A"

December 2018



MGP ARCHITECTS • ENGINEER INC.



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ALGOMA POWER INC. - STRATEGIC FACILITY PLANNING

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As part of the Strategic Planning Study, MGP Architects Engineer Inc. carried out a research and develop investigation of all the present and future operational needs of Algoma Power Inc. in Sault Ste Marie.

This phase of the work included the investigation of the present site conditions at Sackville Road and the conditions of the buildings and spaces presently occupied or shared with other tenants.

This review entailed the following tasks:

- interviewing department managers and staff
- recording of space needs both present and future
- report on present deficiencies relative to site and building - circulation /flow, relationship between departments, inefficiencies, usage and restriction, frustrations and any health and safety concerns.
- Identify loss of productivity and efficiency.

The end result of this review was to provide Algoma Power Inc. with a final Program of Space needs for new site and building layout, to efficiently streamline operations in a cost-effective manner, going forward.

The following was documented:

General Site Description:

The site presently occupied by Algoma Power Inc. [API] at 2 Sackville Road Sault Ste Marie is owned by Brookfield Renewable Energy Group [Brookfield] with the buildings and site leased to Hydro One Sault Ste Marie [Hydro One], who in turn sub - lease to API. Both API and Hydro One are in the distribution and transmission of electrical power locally, and share the site and buildings.

The total site is approximately 13.5 acres to which 6 acres is unutilized green field, with transmission lines [pole structures] which bisect the property running north to south. Approximately 1.3 acres is presently used for lay down pole storage [located outside of the present secure compound enclosure] which is shared 50/50 with Hydro One. The remaining site is taken up by parking lots, two office buildings, a workshop / maintenance and mobile repair service building, a Central Stores building, a separate fenced in substation [Hydro One], gravel drives and fleet and equipment parking and storage areas. There is a single 60-foot portable trailer and one 20-foot-long mobile trailer. Several Sea Cans are located in various locations on site for storage by various departments with separate racks for wire & cable, pole top transformers and power transformers. Running along the east property line is a 34Kv distribution line. There are also two additional 115kv transmission lines that run to the inner compound Hydro One substation and then north, essentially bisecting the unutilized green space, to the west.

Parking/Yard /Drives:

Office building 'A' [API] and Office building 'B' [Hydro One] share a dedicated asphalt parking lot for 147 general parking spaces for staff, visitors, clients and barrier free. There are 3 primary entrances to the parking off Sackville Road. There is an additional gravel entry off Sackville which allows direct access to the fenced in compound and the second entry and exit that passes through adjacent private property, to the east. Within the compound, secured by fencing, there are additional non-delineated gravel parking spaces for small vehicles [approx. 30 vehicles] and space for approximately 10 larger vehicles [pole and line trucks].

See Appendix 'A' Sackville Road Site Plan – 'Land Use'

See Appendix 'B' Sackville Road Site Plan – 'API Separation by Department'

API Purchasing & Stores

The Central Stores building located with-in the compound, is a pre-engineered structure of approx. 1250 s.f. used for storage and management of materials, tools, equipment and receiving. The building is an uninsulated metal skin structure and used primarily for cold storage. Currently the area is disjointed and too small in size to function to the requirements of API. Due to this fact, equipment and materials are being stored in multiple other locations, scattered within the fenced in compound. Some equipment and materials are being kept in a number of exterior Sea Cans, and in the Repair Garage within the space occupied by Electrical/Metering, as well as outdoors. The various locations, and the distances traveled to and from conflicts with other departments, and makes materials and equipment difficult to inventory and handle efficiently. These conditions are contributing to lost time, lost items, equipment damage, lack of security, and health and safety issues [climbing and digging out]. Storage in cold exterior conditions [Sea Cans] makes it difficult to get to and find equipment, which is being subjected to moisture and damage. Other sensitive equipment requiring recertification and regular inspections is also being compromised under these conditions. Some of this material was formerly housed in a Butler Building that was torn down in 2016 due to deteriorating condition; further fracturing the areas where items are stored.

Total functional area present occupied by Stores in various locations on the Sackville site. is approx. 2,000sf. in various locations.

Total proposed Functional Program area required by Stores is 4,877 sf.

API Forestry:

The Forestry Department currently occupies various locations on the Sackville site. Their primary location for field offices, and crew work / meeting space, is out of a temporary freestanding 60 x11 foot construction trailer [constructed in 2003], located within the fenced in compound. This trailer is

substandard in size and layout. The general condition of the trailer is poor with reported, on going roof leaks, damage to interior finishes and the development of mould. Due to these conditions, the Forestry quarters have been temporarily relocated to the basement of the API administrative building, in space shared with Electrical/Metering. The result is limited crew meeting space and inadequate space for locker room storage.

Change rooms and locker space for the crew is located in the basement level of the Hydro One office building, a distance walk away. Due to the lack of space, Forestry tools are inconveniently stored in Sea Cans, scattered within the compound. Maintenance and testing space for this group is located as well, in Electrical/Metering, within the Repair Garage. Unfortunately, the space is also used by Stores, the Repair Garage and Line Operations departments. This space is undersized and overly congested and inadequate to handle a mix of functions, all at the same time.

Parking for Forestry all-terrain vehicles, chippers, trailers, and Lift Trucks is located in open gravel parking space, within the compound.

Total functional area presently occupied by Forestry on the Sackville site is approx.1,400 sf. [in various locations]

Total purposed Functional Program area required by Forestry is 1,684 sf [excludes parking of forestry vehicles and equipment.

API Line Operations:

The Lines department currently occupies and utilizes various locations; primarily working out of the Repair Garage. Crew leaders, crew meeting rooms and work areas are located in a partial second floor level, an area of 1120 sf. Line Operations storage of equipment, tools and staff lockers for field clothing are stored in an adjacent upper mezzanine portion of this building, an area of 1,200 sf. Again, Line Operations change rooms and lockers are inconveniently located in the basement of the Hydro One office building and are shared with Hydro One staff. Due to the lack of central storage space, live line equipment, rubber gloves and other moisture sensitive equipment is also being stored in various outdoor Sea Cans in the compound . As well, Line Operations share storage and work space In the Electrical/Metering department which overlaps with Stores, Forestry and the Repair Garage.

Total functional area presently occupied Line Operations is approx. 1,300 sf. [in various locations]

Total proposed Functional Program area required by Line Operation is 1,400 sf.

API Electrical/Metering:

Electrical/Metering repair and maintenance take up one original bay of the Repair Garage; an area of 740 sf. This space would generally be adequate in size for this department but the space is overcrowded and shared by Line Operations, Forestry, and Stores. This limited space produces a cross contamination of equipment, materials and functions, and conflicts with time scheduling for use, making for

inefficiencies for all departments. Sensitive equipment must be covered when not in use, and extra safety precautions (ie. flagging off areas) must be implemented to control access by the multiple work groups utilizing the space. Due to the lack of space and by necessity, additional Electrical/Metering storage and maintenance has been located to temporary space in the basement of the API office building, outside the compound.

Total functional area presently occupied by Electrical/Metering is approx. 500 sf. [in various locations]

Total proposed Functional Program area required by Electrical/Metering is 1,920 sf.

API Fleet Repair Garage:

The Repair Garage is a pre-engineered building [constructed 1980] with a ground floor area of 7,870 sf and a portion of second floor and mezzanine, an area of 2340 sf. On the ground floor API occupies an area of 3,890 sf, made up of 4 truck bays. One is a wash bay, 2 are hoist repair bays and the fourth is used for Electrical/Metering, Lines, Forestry and Stores activities. Fleet Repair parts / tool crib storage and a mechanics office are located adjacent the repair bays. The remaining area of the ground floor is Repair / Storage, occupied by Hydro One, with a male and female washroom. The second level is made up partial mezzanine of 1,200 sf, used by Line Operations for equipment, tool storage and change lockers for field clothing [wet], as well as storage for Forestry. The remaining portion of enclosed second floor and area of 1,120 sf is used by Line Operations [crew quarters]. The second floor is only accessed by staircases - no elevator or other barrier-free accommodations.

It has been reported from a recent condition study on this building, that there are issues with roofing and heating and ventilation systems. Heating and ventilation systems appear to be original [circa 1980] and are generally in poor working condition. The existing roofing has also been reported as being original, with reports of on-going leaks and maintenance. Both roofing and heating and ventilation system are beyond life expectancy and in need of replacement.

Total functional area presently occupied by API fleet repair is approx. 2,800 sf.

Total proposed Functional Program area required by Fleet Repair is 3,600 sf

API Fleet Parking:

Presently all API service vehicles are parked outdoors within the fenced in compound and shared with the fleet parking of Hydro One. API has seven pole / Line and Forestry Lift trucks and 9 pickups, plus all terrain vehicles, chippers etc. API's parking is primarily open-air gravel surface parking, located along the south and east limits of the compound fencing. Hydro One fleet is parked adjacent to their administration office building and next to Hydro One substation enclosure. The one wash bay and the two repair bays of the Repair Garage presently doubles as after hour enclosed fleet parking for 3 pole/ line trucks, as space allows. This situation creates conflicts with use of the Repair bays for servicing vehicles, as well as competition for use as parking between the Lines and Forestry crews and disrupts use of the wash bay. Vehicles are being juggled and it negatively impacts the flow and use of the Repair Garage. With limited shelter space available, the remaining fleet of pole / line and pickups are parked outside year-round. The exposure to the elements especially during winter months affects the boom hydraulic components of the pole / line trucks. Also, time is lost during vehicles warming up and for

snow removal, dead battery maintenance is increased, security is compromised [vehicle damage and stolen equipment has been reported] and general vehicle degradation and depreciation are apparent as a result.

As an example of lost time and cost:

The lost time during winter months for vehicle warm up time, gas usage, snow removal, per pole / line or Forestry Lift truck is estimated to be 20 to 30 minutes each day. Assuming a cost of \$100 per day in lost wages, [for a two-man crew] for 5 months [November to March] the cost is estimated to be \$10,000 per truck X seven trucks = \$70,000 - in lost wages and production time per year.

It is recommended that API consider the construction of a heated Fleet Storage Garage for the seven pole / line and Forestry Lift service trucks, plus smaller seasonal equipment [all terrain vehicles, chippers etc]. The less vulnerable 9 pickup trucks could be left outside, but parked adjacent to a fleet garage wall with provided exterior power for block heaters.

Total Function Program area required for a new Fleet Storage Garage is 12,280 sf.

API Administration Office Building:

The API Administration offices are presently housed in a leased three level office building. [constructed 1994]. The building has two storeys above grade with a full basement level below. Total net functional area is 19,698 sf on three levels. This building is connected to an adjacent Hydro One office building by a pedestrian ground level and basement level corridor link.

With information taken from a recent condition study on the API building, there is evidence of ongoing water penetration issues, within the exterior metal panel wall assembly. The cladding is from the original 1994 construction. Moisture damage is visible at interior window heads/sill and drywall jamb returns, and is evident in various locations around the buildings exterior wall envelope. Further investigation and research into this issue would be necessary, to determine the cause and what remedial work that would be required to correct the problem. Roof and HVAC units are also reported to be from the original 1994 installation. Presently the systems are working, but after being in place for 25 years, they have reached the end of the life expectancy for such equipment. It is likely these units will require replacement in the near future.

The current leased API Admin Office building is 19,698 s.f. in functional area, on three floors. The building is larger in size for both the present Admin Office needs and the newly developed Program Area needs of 13,676 s.f. This surplus of area has now been occupied on a temporary basis, by the Operations - Electrical/Metering and Forestry departments by necessity. Both departments have a present shortage of space needs to function efficiently. These temporary relocations add to the inefficiencies and physical separations of the respective departments.

Ground Floor Level:

The ground level API entry and reception Lobby is extremely small, congested with conflicting traffic patterns. There is no private separation or space between visitors, customer service and

API staff. There is access to an elevator off the lobby, serving the three levels, but it is rarely used, since staff prefer the use of the lobby adjacent stairwell, which is quicker and more convenient to use.

The **Customer Service Department** space is inadequate for interfacing with customers. Customer interaction is impeded by other traffic from the lobby and staff are distracted by other employees and visitors entering the building. Office space and file storage is limited and unsatisfactory. The Customer Service counter needs to be larger with expanded space for a customer breakout room as multiple customers may be present at a given time and interactions may require a measure of privacy. The existing meeting room is too small and very confined and needs expansion room to seat 6-8 persons.

Total functional area presently occupied by Customer Service is 1,200 sf

Total proposed Functional Program area required by Customer Service is 2,044 sf.

Engineering presently occupies an area of 1,422 sf and needs expansion space for more offices, central filing, drawing files and Library space .

Total proposed Functional Program area for Engineering is 2,128 sf.

Department Supervisory Offices for Forestry, Purchasing, Line Operations, Safety and Environment, Electrical/Metering and Clerical presently occupy 1,800 sf on this level, but there is a need for a more efficient layout.

Total proposed Functional Program area for supervisory offices is 2,016 sf

Second Floor Level:

The second floor is occupied by offices for Corporate, Finance, Human Relations, support staff, a main board room and other smaller meeting spaces. Other services such as IT Services, server room, training room and mail / storage, occupy the remaining floor areas. The floor layout, size and spatial relationship are generally satisfactory. In a new building configuration, the staff and other usage in this area is projected to require less space than what is currently occupied.

Basement Floor Level:

A large portion of the basement level is occupied by Lunch Room, Kitchen and a Training/ Meeting Room combination. These windowless rooms are separated by an operable wall, to facilitate larger group gatherings, and are shared by all API and Hydro One staff. For many, especially those other than office staff, the travel distance from the compound facilities are a considerable inconvenient walk. With the two tenant user groups sharing a same space, scheduling time and use has been inconvenient. The remaining spaces in the basement level [being not conducive for offices], is used primarily for general storage, vault/ archival storage for drawings and the building's Mechanical / Electrical equipment and service rooms . Since space for Electrical/Metering within the compound Repair Garage is not sufficient, Electrical/Metering

occupy (as a temporary use) available basement area, for a work area and storage for equipment.

As well, Forestry quarters has recently moved from their compound trailer on a temporary basis, to the Admin Office basement and are sharing space occupied by Electrical/Metering.

API Locker and Change Facilities

As stated earlier in this report, Male and Female Locker rooms / shower facilities for all API employees, as well Hydro One staff, share common quarters, located in the basement of the Hydro One Administrative Office building. Again, the scattering of departments on the Sackville site makes for long inconvenient walking distances, for both office and compound personnel.

Barrier Free Accessibility:

Generally, barrier free accessibility is in place in API 's office building. There is a properly sloped ramp at the main entrance which would have adhered to the Ontario Building Code [OBC] back when the building was constructed. Other exit points from the building are not barrier free, as they have steps leading from the exits.

For Male and Female washroom groupings on each floor level of the API building and at the link connecting to the Hydro one office building, the travel is somewhat convoluted and doesn't allow for easy access or movement.

We are of the opinion that the API building would have been constructed to the requirements of the OBC at the time of the original 1994 construction. The latest OBC requirements for barrier free design is considerably more restrictive today. Therefore, it is unclear if current conditions are compliant. Confirming compliance would take a full code review of the building.

The main Locker and Change rooms used by both tenant groups, located in the basement of the Hydro One building, are not barrier free accessible. The toilets and shower stalls are non-compliant or usable . We understand that this portion of the Hydro One building was constructed prior to 1994, likely in the late 60, or early 70's. Modifications were made to this building in 1994, along with the construction of the API building, but these locker rooms and change rooms appear unchanged and to be original.

Designated Substances Survey:

It is our understanding a report on designated substances was completed in 2009 by Golders Associates, which among other reporting, included the office buildings for API and Hydro One. Environment Engineering does not fall under MGP Architects Engineers Inc. expertise and as such is beyond the purview of this report. We have been advised that some materials have been removed under a "Control Program" that has been implemented for items such as lead paint and asbestos etc. These substances may still be located in the building. If renovations or repairs are contemplated, further environment reporting and monitoring will be necessary.

Summary:

In follow up to MGP's investigations and observations of all present API operations at Sackville Road, along with direct interview with department managers and staff, a Functional Program of needs was developed, both for present and future requirements for API in Sault Ste Marie.

See Appendix 'C' - API Functional Program

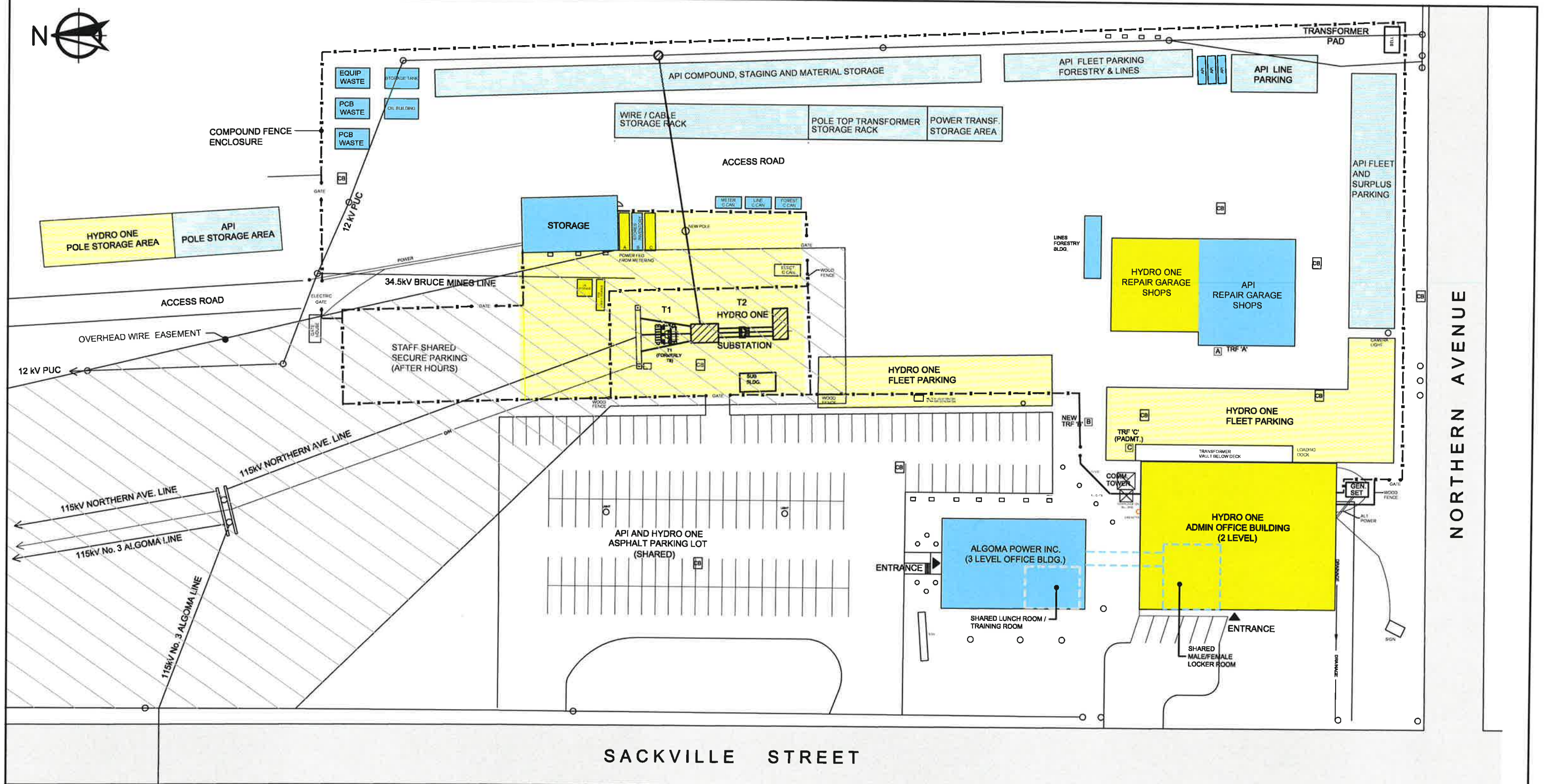
The investigations included the review of site usage and monitoring of building functioning. Based on the results of this program, the recommendation is to construct a new Fully Integrated API Facility, on a new site. The recommendation to build new is based on the following findings:

- The new API Functional Program for occupied space and storage space, exceeds what is presently available in leased buildings and site, without extensive expansion and renovating. The following breakdown shows the comparison of new functional program area needs to current spaces presently occupied by API at Sackville Road:

	<u>New Program sq.ft .</u>	<u>Current sq.ft.</u>	<u>Surplus sq.ft.</u>	<u>Shortage sq.ft.</u>
Admin Offices:	13,676	19,698	6,022	
Operations /Shops:	15,747	7,810		7,937
Covered Fleet Garage:	12,280	1,590		10,690

- The site is restrictive and congested. API share operations and compound space with Hydro One and there are two major power transmissions lines traversing the site, with a main substation located in the centre of the existing shared compound.
- Primarily, all departments presently are fragmented and scattered in various locations on site and within the compound.
- With the transmission line towers and substation on the site, there are easements and aerial clearance issues that are limiting to any future permanent expansion of buildings
- All needed expansion to various departments over the years and to date, has been limited to the addition of sub-standard Sea Cans, scattered in various locations, for the storage of equipment and materials, the use of a temporary construction trailer for occupied space expansion [now permanent] and the overlapping of departments using one existing maintenance shop space, within the Repair Garage, which is already undersized for one use, let alone various other departments.
- The decentralization and fragmentation of departments is inefficient, unorganized and the travel distances are inconvenient and time-consuming.

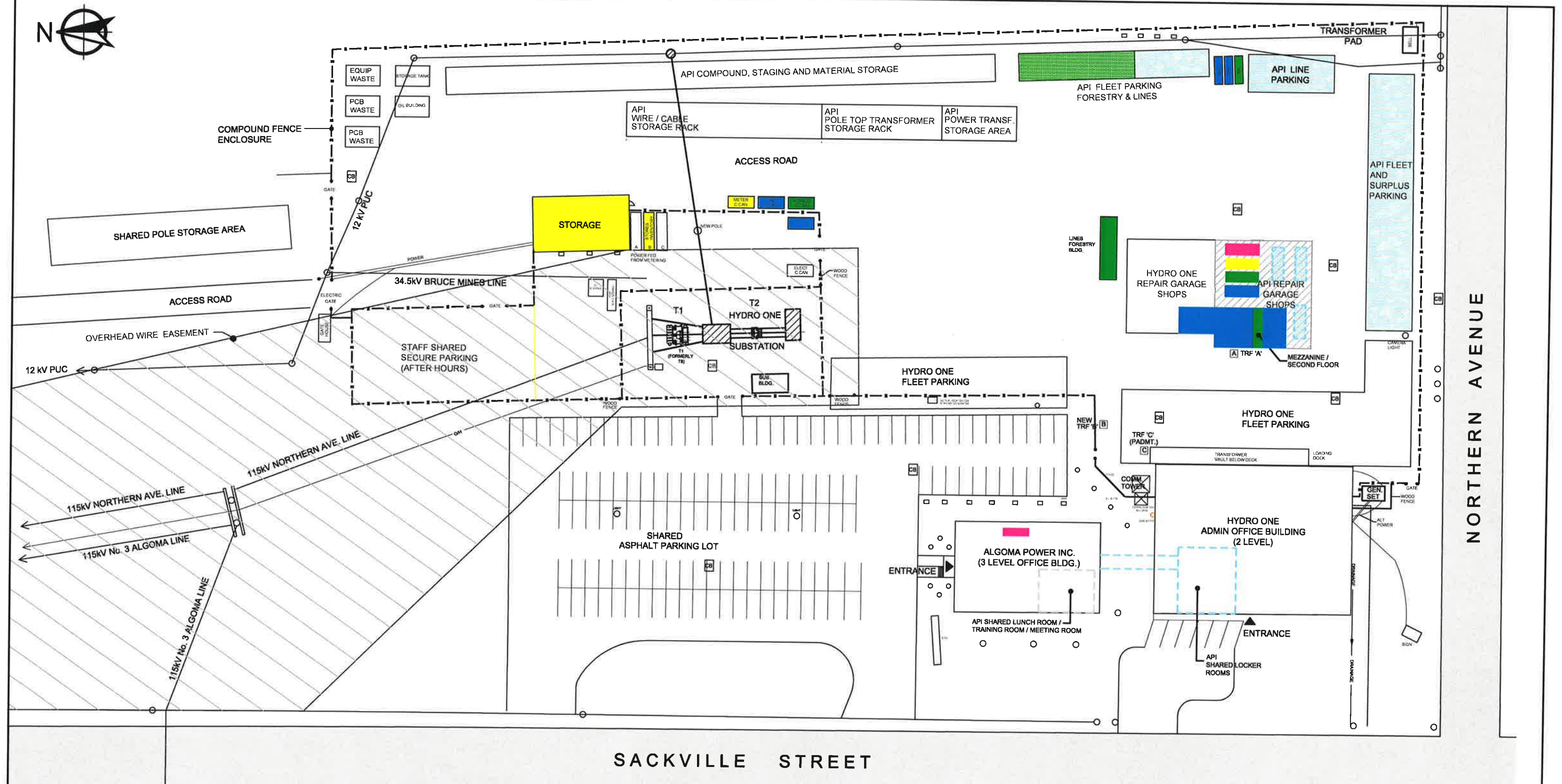
- Service Vehicle fleet, pole / line and Forestry Lift trucks, along with other vulnerable equipment presently are parked outside and exposed to the elements. Fleet should be housed in heated Garage.
- Some sensitive equipment and materials stored in cold containers are being exposed to moisture and damage.
- Facilities for Change and Locker rooms are inconveniently located in another tenant space, some distance away for API staff and shared with that tenant.
- Barrier free access is questionable in some areas and a further detailed code study is warranted
- A Designated Substances Survey indicated the presence of some hazardous materials, in the API office building. This survey would require updating, if renovation or modification to existing buildings are contemplated.
- There is need for maintenance and upgrades to API occupied buildings - components and systems. Upgrades are necessitated due to the age of the buildings and by the fact equipment has exceeded their life expectancy.
- The site should be investigated for environmental contamination if further expansion is contemplated.



LEGEND

- | | |
|--|---|
|  ALGOMA POWER INC. BUILDINGS |  ALGOMA POWER INC. CONTROLLED SPACES |
|  HYDRO ONE BUILDINGS |  HYDRO ONE CONTROLLED SPACES |

SACKVILLE ROAD SITE PLAN - "LAND USE"



LEGEND BY DEPARTMENTS

	FORESTRY PARKING		FLEET REPAIR
	FORESTRY		FLEET PARKING
	LINES OPERATIONS		ELECTRICAL METER
	STORES		

SACKVILLE ROAD SITE PLAN API SPACIAL SEPARATION BY DEPARTMENT

ALGOMA POWER INC. Program Requirements - Areas by Departments			Revised March 2019
Title	Room Area	Final Area Required	Department / Section Area
Site "A" - 2 Sackville Road - Office			
Area "A" - Administrative / Office Areas			
Corporate Administration, Finance & Human Resources			1904
Enclosed Office	200	280	
Enclosed Office	160	224	
Admin. File Room	40	56	
HR File Room	40	56	
Enclosed Office	160	224	
Secure File Storage	40	56	
Enclosed Office	200	280	
Enclosed Office	120	168	
Board Room	400	560	
IT			924
Enclosed Office	120	168	
Fax / Print / Copier/ File/Work Area	400	560	
Server Room	140	196	
Engineering			2128
Enclosed Office	160	224	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Central Files / Technical Library / Drawings	200	280	
Tech Equipment Storage	80	112	

Title	Room Area	Final Area Required	Department / Section Area
Customer Service			2044
Enclosed Office	160	224	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Interview Room	120	168	
Public Area (Customer Services)	160	224	
Printer / Fax	100	140	
File Storage Room	120	168	
Meeting Room (4-8)	200	280	
Safety and Environment			336
Enclosed Office	160	224	
Storage Area	40	56	
Health & Safety Library Area	40	56	
Line Operations			952
Enclosed Office	160	224	
Staff Cubicle	120	168	
Staff Cubicle/Outage Management Area	400	560	
Forestry			504
Enclosed Office	160	224	
Contract Staff Cubicle Area	200	280	
File Storage	50	70	
Purchasing & Stores (Material)			224
Enclosed Office	160	224	
Technical Services (Metering/Electrical)			224
Enclosed Office	160	224	
Meeting Rooms (Shared)			700
1 - Common Meeting (4-8) @ 200sf	200	280	
1 - Common Meeting (10-14) @ 300sf	300	420	

Title	Room Area	Final Area Required	Department / Section Area
Archives / General Office Storage			1440
Secure Engineering Archives / Drawings	400	480	
General Archives	400	480	
Secure Vault (Fireproofed)	150	180	
General Office Storage	150	180	
Janitor / Storage (2 @ 50sf)	100	120	
Miscellaneous Spaces			2296
Lunch Room	500	700	
Mail Room & Central Printer/copier/Work Area	300	420	
Staff Training Room (up to 30 people)	760	1064	
First Aid / Health / Quiet Room	80	112	
TOTAL AREA "A"			13676
Area "B" - Shops & Fleet Area			
Shops			5004
Line Operations		1400	
Enclosed Office	90	126	
Line Crew Room - 9 (4 WS)	250	350	
Work Area-Meeting w/ Kitchenette	240	336	
Line Equipment Material Storage	120	144	
Small Equipment & Tool Storage	120	144	
Equipment Drying Room	250	300	
Electrical/Metering- Technical Services		1920	
Meter Testing / Stock	250	300	
Meter Work Room & Testing	200	240	
Electrical & Transformer Repair Shop	800	960	
Staff Desk Space	300	420	
Forestry		1684	
Enclosed Office	160	224	
Forestry Crew Room - 11 w/ Kitchenette	400	560	
Work / Maintenance Area- Drying Room	500	600	
Equipment Drying Room/Tool Storage	250	300	

Title	Room Area	Final Area Required	Department / Section Area
Purchasing & Stores (Material)			4877
Staff (2) Office	160	192	
Reception & Counter / Entry Cage	150	180	
Storage (heated)	3000	3600	
Shipping & Receiving Area			
Tools Lock-up	400	480	
Exterior Maintenance Tool Storage	250	250	
Main Janitor Room	125	175	
Locker Rooms			2126
Locker Room & Washroom - 22 Female (Office - 20 & Work Crew - 2)	400	560	
Locker Rooms- Male (Office - 20 & Work Crew - 28)	390	546	
Drying	50	70	
Showers	80	112	
Washroom	200	280	
Clothes Drying Room	100	140	
Laundry Room	100	140	
Fleet Repair Garage			3600
Enclosed Office	150	180	
2 Repair Bays	1600	1920	
Parts / Storage	150	180	
Work Area (Workbench, Welding, etc..)	200	240	
Wash Bay	900	1080	
Miscellaneous Spaces			140
Garbage Area / Pick-up	100	140	
TOTAL AREA "B"			15747
AREA "C" - Fleet Storage Garage			12280
Storage Garage	12280	12280	
TOTAL AREA "C"			12280
TOTAL BUILDING AREA (AREAS A+B+C)			41703
	Regular gross up factor is 40%		
	Gross up factor w/ min. circulation is 20%		
	Room with no interior circulation		
	Future growth allowance		



Aerial View of Partial Compound - Substation and Stores



Forestry Temporary Quarters in Office Building Basement with Metering Area





Compound Storage- Snow on Cable Reels





Compound - Snow on Equipment Stored Outside





Electrical Workshop in Repair Garage





Electrical/Metering Workshop - Aerial View in Repair Garage (shared with Lines, Forestry and Stores)



Stores Building - Ice on Floor

Algoma Power Inc.
A FortisOntario Company

Strategic Facility Planning

“B”

December 4, 2018



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Algoma Power Inc. Strategic Facility Planning and Master Facility Planning Study

1. Introduction

MGP Architects - Engineer Inc. [MGP] in conjunction with KPMG, was retained by Algoma Power Inc. [a Fortis Ontario Company] on Dec. 21, 2016 to conduct a Feasibility Strategic Facility Planning Study followed by a Master Planning exercise, based on a preferred and approved site in Sault Ste Marie, Ontario.

KPMG will undertake the role of accessing the financial impacts associated with the cost of the new build in comparison to a lease arrangement.

MGP with support from a local commercial property realtor, Century 21, will establish a list of appropriate and available site options for consideration that will meet the physical, functional and economical operational needs for Algoma Power Inc. [API] in Sault Ste Marie.

This two-phase investigative study is undertaken to determine the best solution for API's present and future operational needs. One that will strengthen their presence and raise the standards of customer service in Sault Ste Marie and the surrounding district.

2. Background

API provides electrical distribution service to the Algoma District within its service territory which lies between the Towns of Thessalon and White River, with the main administration and service centre located in Sault Ste Marie, with smaller satellite service centres located in Wawa and Desbarats, Ontario.

The present API administrative offices, service garage, stores and equipment / material compound are located in sub-leased facilities and site, at 2 Sackville Road, Suite A, in Sault Ste Marie, Ontario. The current lease is five years which will terminate in December 2019. Contrary to past terms, there is no option for renewal incorporated into their present agreement.

API recognizes the need to begin planning for their future in Sault Ste Marie in advance of the end of 2019 [when the lease expires] in order to develop a proper project delivery schedule. Strategic planning is necessary to identify the best solution in the early part of 2017. The entire scope of the work will be used to support API in establishing a facility that meets the requirements of the business today, as well as provide flexibility for expansion and growth in the future.

3. Scope of Work – Strategic Facility Planning

This Strategic Planning Report phase, undertakes the investigation into determining present and future program space requirements for a new facility building. A similar space needs review will be developed to establish site size requirements, taking into account adequate space for buildings, site circulation, fenced-in equipment and materials compound space, service vehicle storage, staff and visitor parking, landscaping and site servicing capabilities above and below grade and at the street level.

The appropriate site must have good accessibility to and from major traffic arteries to facilitate customer service and response time; within line crew and work zones. [Points north and east of Sault Ste Marie]. These transportation routes will need to provide convenient and quick access to Highway 17 North and Highway 17 East.

A list of possible and available sites will be identified, with a comparison summary listing the benefits and drawbacks of each site, along with land costs.

The optional sites will be compared with comments provided that are based on a preliminary review of any known available site services and existing soil conditions. This scope of the work excludes detailed assessment of available site services, Geotechnical [soils] assessments and any Environments Engineering assessments.

An analysis and comparative study will be conducted to determine the best option relative to whether a new facility is leased or whether to build new.

Final recommendations will be made identifying a detailed Program of Building Area needs. The establishment of the most suitable building site options with identified costs, the recommendations on whether to lease or build new.

4. Tasks

4.1 Program Development – Building

To achieve the goals of the Strategic Facility Planning exercise the following tasks were conducted by the consultant team:

1. The Consultants team met with API department managers to get an understanding of current and future operational needs and objectives. A review of business day operations at the present Sackville road facility was conducted, with noted needs, restraints and shortcomings. Tours were made of the existing Sackville Road Administration and Operations offices, repair garage and shops, stores building, site equipment and material compound, roadways, parking and other site features used by API.
2. The team conducted interviews with individual department managers to review and document the restraints and shortcomings of each department presently occupied in the building and also the use of the total site, at the Sackville operation. Each manager, prior to the interviews, submitted to the consultant team a documented list of their particular space requirements, staffing numbers, shared common spaces needs, equipment and fitment requirements and a list of any anticipated future expansion needs.
3. As a result of these departmental interviews a detailed Program of Physical Space needs was developed, taking into account all departmental space needs, along with future expansion capabilities, where needed.

The program areas are broken down into three parts:

Section A – Administration/ Offices,

Section B - Shops and Fleet

Section C – Fleet Storage Garage

The program identifies spaces with a gross up factor for circulation, by department. An allowance factor for future area growth has been included in certain departments as requested by the management heads.

The final program of building needs was documented as follows:

ALGOMA POWER INC. Revised March 2019 Program Requirements - Areas by Departments			
Title	Room Area	Final Area Required	Department / Section Area
Site "A" - 2 Sackville Road - Office			
Area "A" - Administrative / Office Areas			
Corporate Administration, Finance & Human Resources			1904
Enclosed Office	200	280	
Enclosed Office	160	224	
Admin. File Room	40	56	
HR File Room	40	56	
Enclosed Office	160	224	
Secure File Storage	40	56	
Enclosed Office	200	280	
Enclosed Office	120	168	
Board Room	400	560	
IT			924
Enclosed Office	120	168	
Fax / Print / Copier/ File/Work Area	400	560	
Server Room	140	196	
Engineering			2128
Enclosed Office	160	224	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Staff Cubicle	120	168	
Central Files / Technical Library / Drawings	200	280	
Tech Equipment Storage	80	112	

Title	Room Area	Final Area Required	Department / Section Area
Customer Service			2044
Enclosed Office	160	224	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Staff Cubicle	100	140	
Interview Room	120	168	
Public Area (Customer Services)	160	224	
Printer / Fax	100	140	
File Storage Room	120	168	
Meeting Room (4-8)	200	280	
Safety and Environment			336
Enclosed Office	160	224	
Storage Area	40	56	
Health & Safety Library Area	40	56	
Line Operations			952
Enclosed Office	160	224	
Staff Cubicle	120	168	
Staff Cubicle/Outage Management Area	400	560	
Forestry			504
Enclosed Office	160	224	
Contract Staff Cubicle Area	200	280	
File Storage	50	70	
Purchasing & Stores (Material)			224
Enclosed Office	160	224	
Technical Services (Metering/Electrical)			224
Enclosed Office	160	224	
Meeting Rooms (Shared)			700
1 - Common Meeting (4-8) @ 200sf	200	280	
1 - Common Meeting (10-14) @ 300sf	300	420	

Title	Room Area	Final Area Required	Department / Section Area
Archives / General Office Storage			1440
Secure Engineering Archives / Drawings	400	480	
General Archives	400	480	
Secure Vault (Fireproofed)	150	180	
General Office Storage	150	180	
Janitor / Storage (2 @ 50sf)	100	120	
Miscellaneous Spaces			2296
Lunch Room	500	700	
Mail Room & Central	300	420	
Printer/copier/Work Area			
Staff Training Room (up to 30 people)	760	1064	
First Aid / Health / Quiet Room	80	112	
TOTAL AREA "A"			13676
Area "B" - Shops & Fleet Area			
Shops			5004
Line Operations		1400	
Enclosed Office	90	126	
Line Crew Room - 9 (4 WS)	250	350	
Work Area-Meeting w/ Kitchenette	240	336	
Line Equipment Material Storage	120	144	
Small Equipment & Tool Storage	120	144	
Equipment Drying Room	250	300	
Electric Meters- Technical Services		1920	
Meter Testing / Stock	250	300	
Meter Work Room & Testing	200	240	
Electrical & Transformer Repair Shop	800	960	
Staff Desk Space	300	420	
Forestry		1684	
Enclosed Office	160	224	
Forestry Crew Room - 11 w/ Kitchenette	400	560	
Work / Maintenance Area- Drying Room	500	600	
Equipment Drying Room/Tool Storage	250	300	

Title	Room Area	Final Area Required	Department / Section Area
Purchasing & Stores (Material)			4877
Staff (2) Office	160	192	
Reception & Counter / Entry Cage	150	180	
Storage (heated)	3000	3600	
Shipping & Receiving Area			
Tools Lock-up	400	480	
Exterior Maintenance Tool Storage	250	250	
Main Janitor Room	125	175	
Locker Rooms			2126
Locker Room & Washroom - 22 Female (Office - 20 & Work Crew - 2)	400	560	
Locker Rooms- Male (Office - 20 & Work Crew - 28)	390	546	
Drying	50	70	
Showers	80	112	
Washroom	200	280	
Clothes Drying Room	100	140	
Laundry Room	100	140	
Fleet Repair Garage			3600
Enclosed Office	150	180	
2 Repair Bays	1600	1920	
Parts / Storage	150	180	
Work Area (Workbench, Welding, etc..)	200	240	
Wash Bay	900	1080	
Miscellaneous Spaces			140
Garbage Area / Pick-up	100	140	
TOTAL AREA "B"			15747
AREA "C" - Fleet Storage Garage			12280
Storage Garage	12280	12280	
TOTAL AREA "C"			12280
TOTAL BUILDING AREA (AREAS A+B+C)			41703
	Regular gross up factor is 40%		
	Gross up factor w/ min. circulation is 20%		
	Room with no interior circulation		
	Future growth allowance		

The final Building Program Requirements of Areas by department was presented to the API management group, for approval, and was accepted.

4.2 Program Development – Sites

Prior to the development of a list of available and appropriate site options in Sault Ste Marie for a new API facility, a base program of the minimum site surface area requirements needed to be established, to determine the size [land acreage] needed to facilitate all of the required API functions.

Criteria for sites were identified as follows:

- Ease of access to and from the site, to major traffic arteries within the city, leading to points north and east of Sault Ste Marie, on Highway 17
- Preferred available land, that is Zoning M2 [Medium Industrial Zone] or M3 [Heavy Industrial] which API would be a permitted use.

To determine the minimum site size required, the following list of Site Plan Surface Area requirements was developed:

4.2 PROGRAM DEVELOPMENT - SITES: (continued)

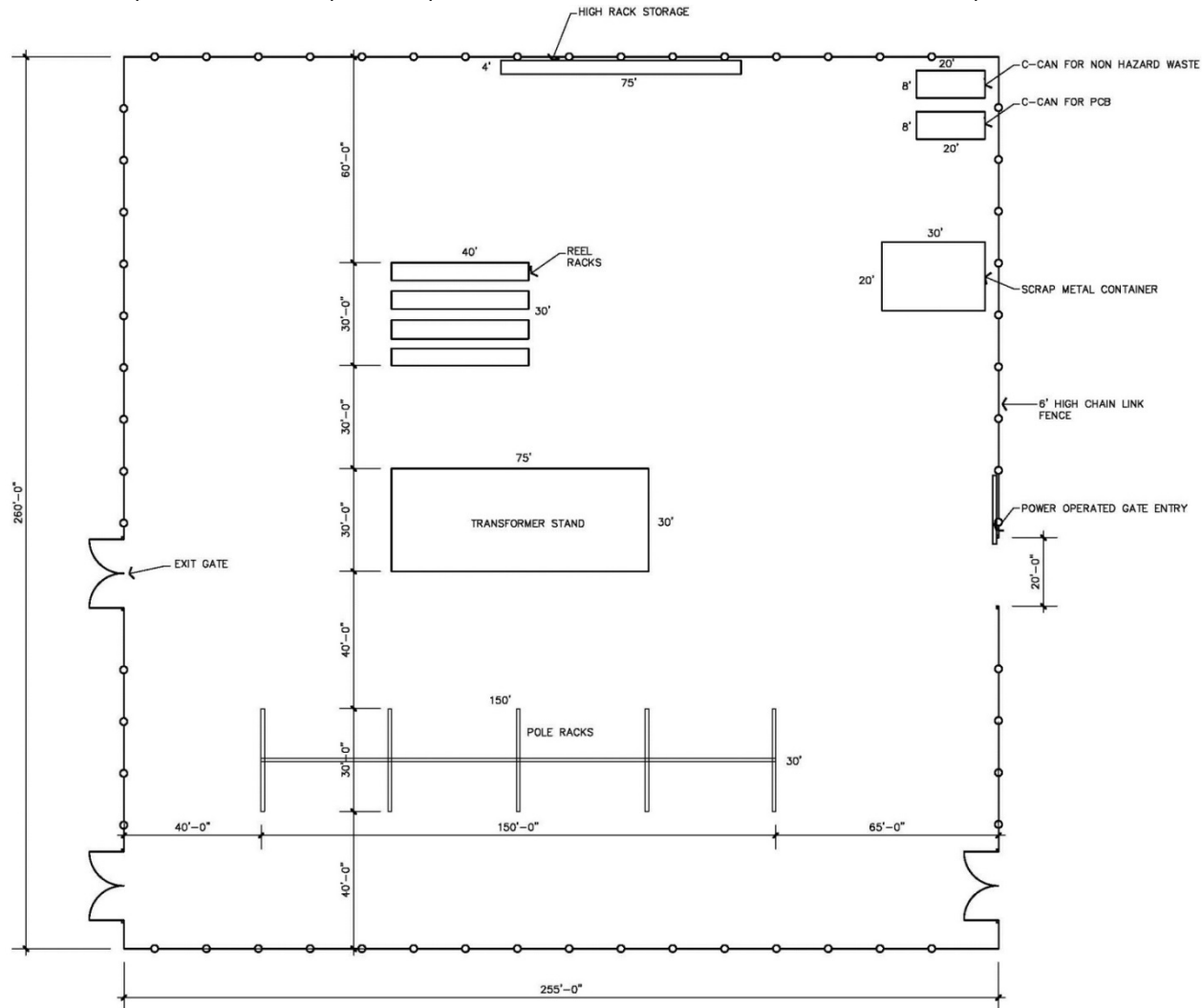
<u>SITE - SURFACE AREA REQUIREMENTS [minimum]</u>		<u>Strategic Facility Plan</u>
		<u>Surface Area [SF]</u>
<u>1. Building:</u>		
Administration Offices:		
Total Area A	13,676 sf [assume 2 floors]	6,838 sf
Shops:		
Total Area B	15,747 sf	15,747 sf
Fleet Garage:		
Total Area C	<u>12,280 sf</u>	12,280 sf
Total Building Area: 41,703 sf		
<u>2. Parking :</u>		
Offices	[4.5 stalls /100m2 = 60 stalls	60 stalls
Shops	[3.5 stalls / 100m2 for first 1000m2	
	plus 3.5 stalls / 200 m2 for remainder of occupied area]	30 stalls
	Addition 5 stalls for mechanic repair area	<u>5 stalls</u>
Total parking required		95 stalls
	[95 stalls at 450 sf /stall]	42,750 sf
<u>3. Storm Water Management:</u>		
On site Pond size	[assume to be 120'x100' in surface area]	12,000 sf

4. Equipment Material Storage Compound Requirements

Storage needs for Pole bunks, transformer stand, reel racks, stores exterior storage scrap metal storage and PCB waste storage

Area of 66,300 sf plus added 20% expansion space

79,560 sq.ft



PRELIMINARY SITE COMPOUND PLAN

N.T.S.

5. Site access Roadways / Drive ways

[assumed 700 LF x20 Ft width x 2] 28,200 sf

6. Estimated - Bylaw Setbacks Requirements for M2 [Medium Industrial Zoning]

Front yard setback – 49.2ft [15m]

[Estimated 720 LF x 50ft] 36,000 sf

Side yard setback - 16.5ft [5m] on one side yard and 10m [32.8ft] on the other

[Estimated 16.5 ft x 838 Lf = 13,827 sf] 13,827 sf

[Estimated 32.8 ft x 838 Lf = 27,419 sf] 27,419 sf

Rear yard setback – 25 [8m]

[Estimated 25ft x 654 LF] 16,354 sf

7. General Landscaping and staff patio space

6,000 sf

Minimum Total Surface Area of site required

**307,010 sf
or 7.04 acres**

Would recommend a building site size in the range of 8-9 acres to account for further design development requirements on the preferred site and to allow for future site expansion capabilities.

The program summary for base Site Surface Areas Requirements were presented to API management group for approval and accepted.

4.3 Site Analysis

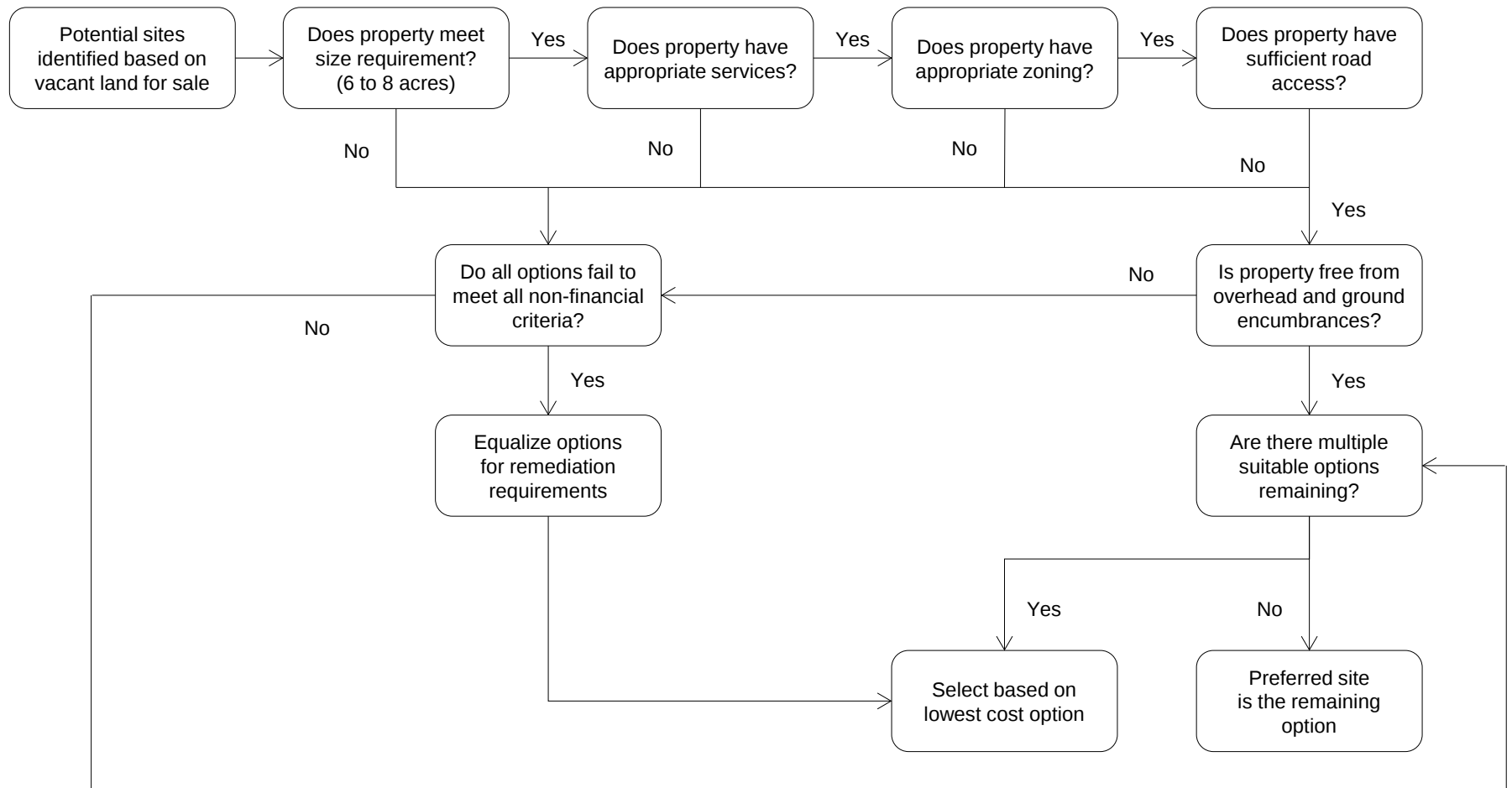
MGP with the support of Century 21 [a commercial realtor in Sault Ste Marie] compiled a list of 13 potential building sites that could meet the minimum site requirements for the development of the API program. An evaluation approach was developed by MGP taking into account non-financial considerations that related to the suitability of the site and the ease of development and secondly the cost differential associated with the different sites.

Non-Financial Analysis

The following is the non-financial considerations for site selection which includes compared evaluation criteria charts, overview of the site selection process, a list of identified site photos with zoning map for the each site.

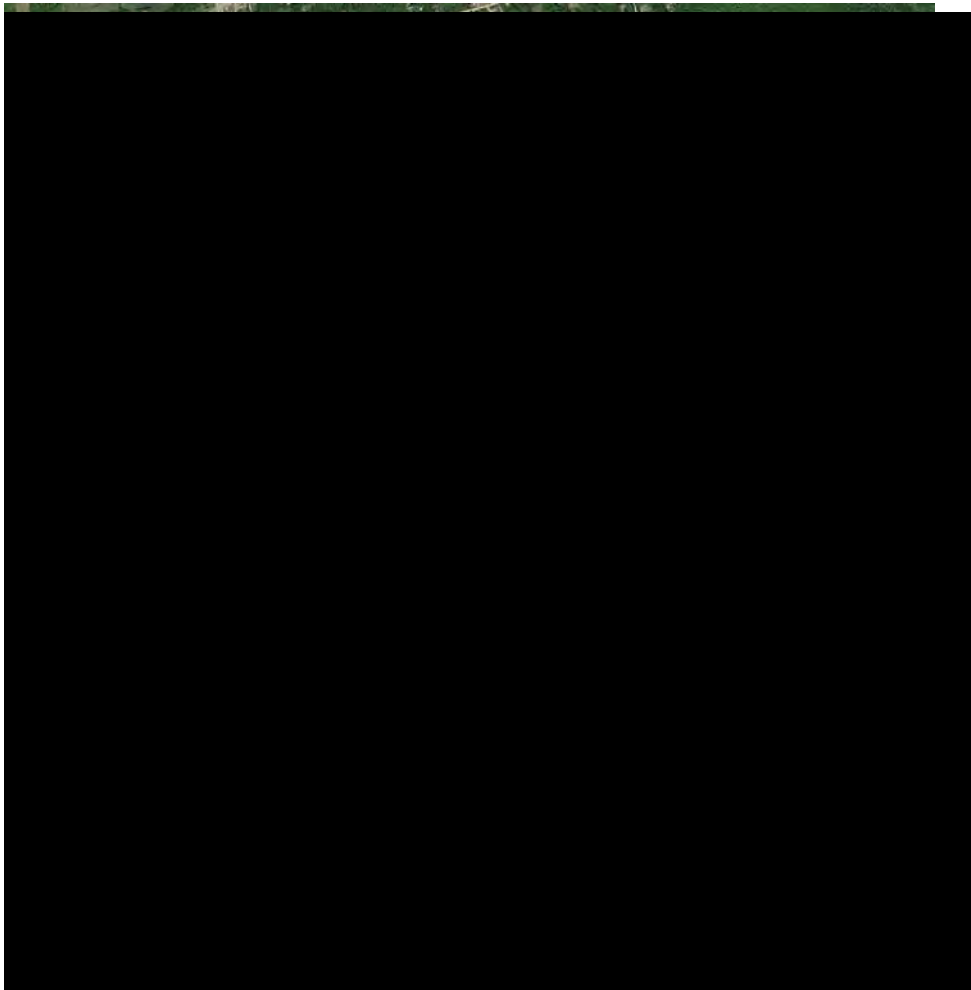
Criteria	Requirement
Site size	Properties should have a total area of between a minimum of six to eight acres
Road access	Properties should have ease of access to major arterial networks. Entrance to the site should not be restricted by limiting factors such as proximity to controlled intersections.
Zoning	Properties should be zoned as M2 (Medium Industrial) or M3 (Heavy Industrial)
Underground services	Properties should have access to three phase power, water and sanitary sewer
Overhead encumbrances	Properties should be free of overhead encumbrances that would limit development (e.g. power lines)
Ground encumbrances	Properties should be free of underground encumbrances that would limit development (e.g. drainage, water bodies, utility easements, proximity to residential areas)

Non-Financial Analysis (continued)



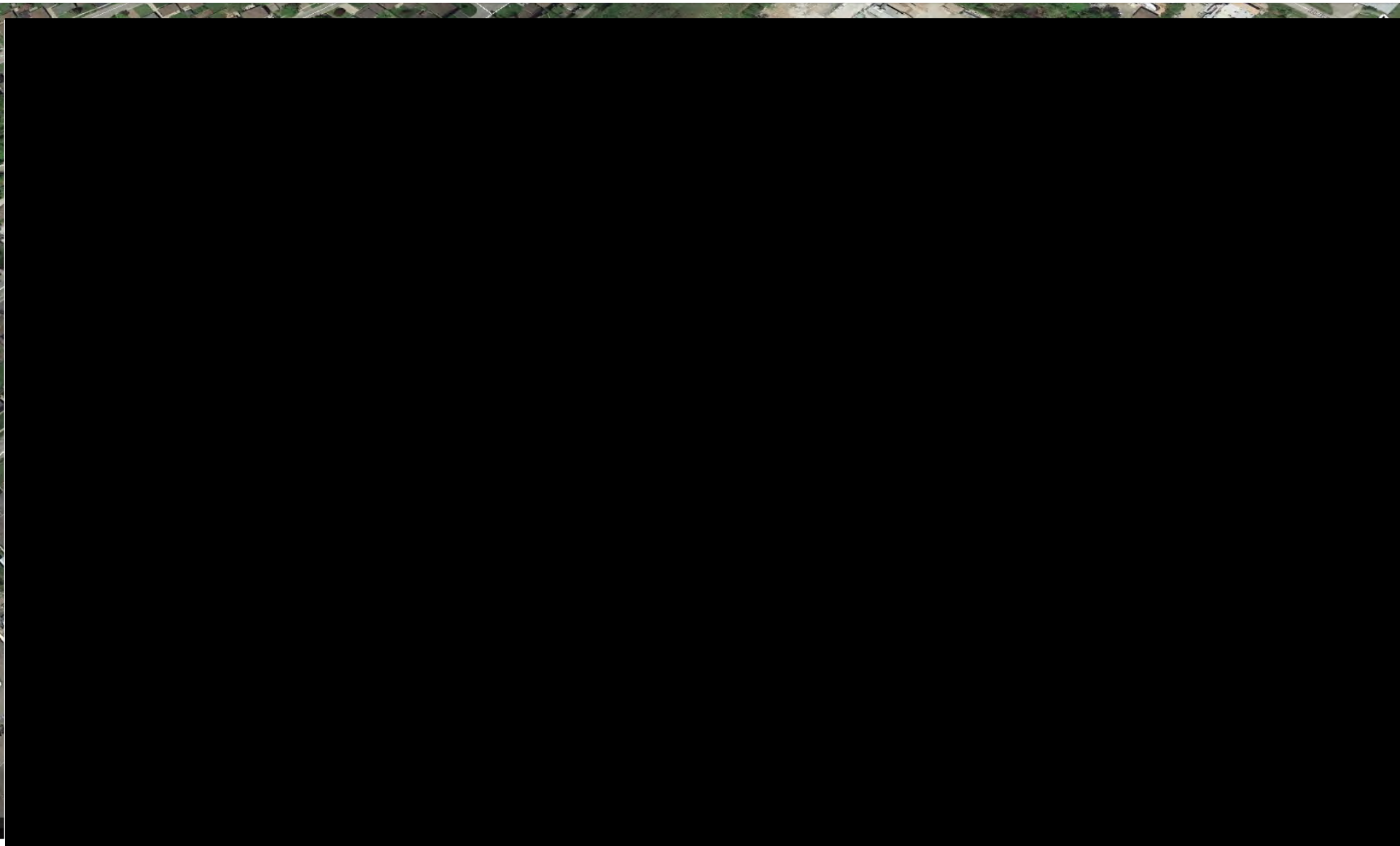
Non-Financial Analysis (continued)

MGP identified and evaluated a total of 13 sites, as indicated below.



- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

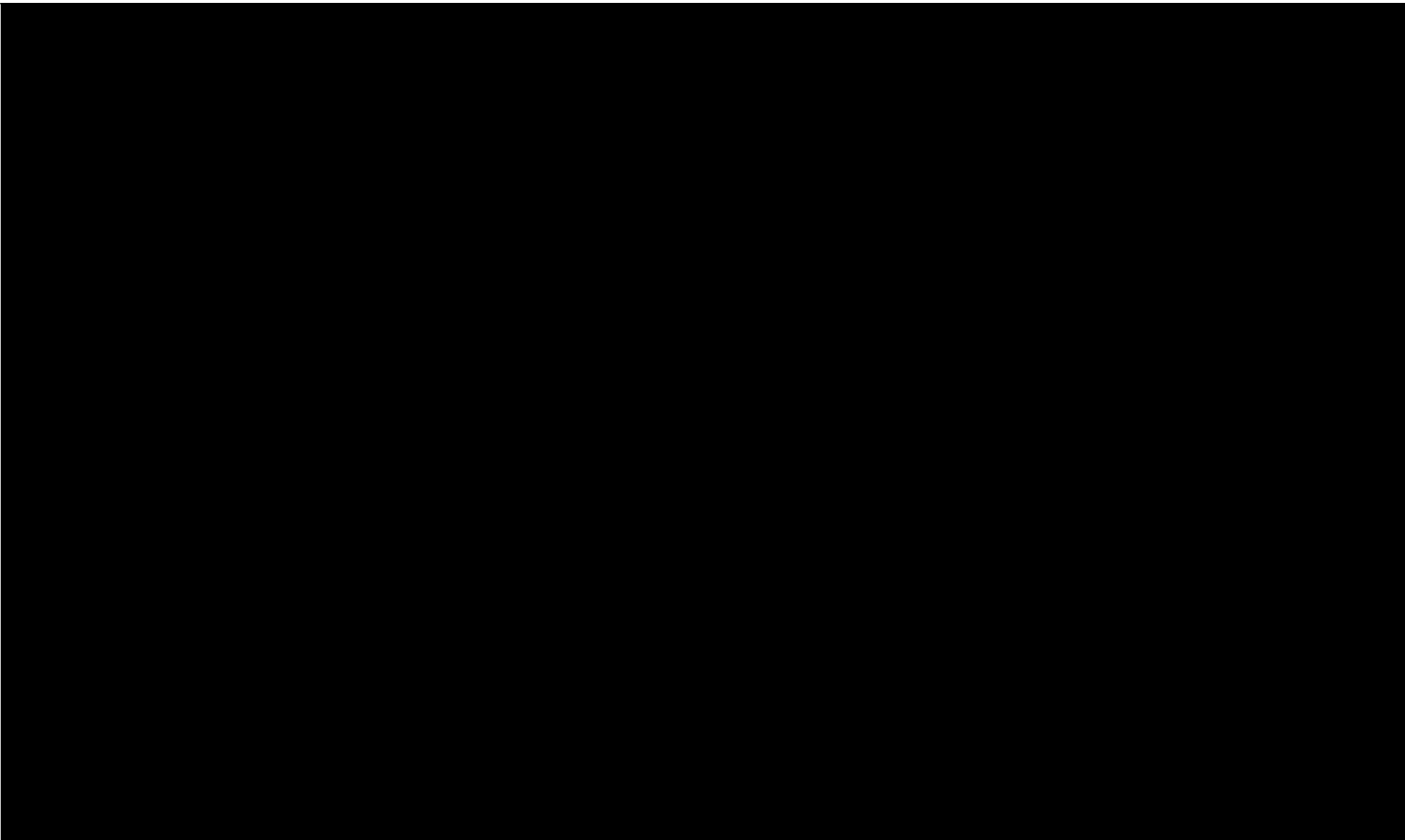
* Evaluated as one site

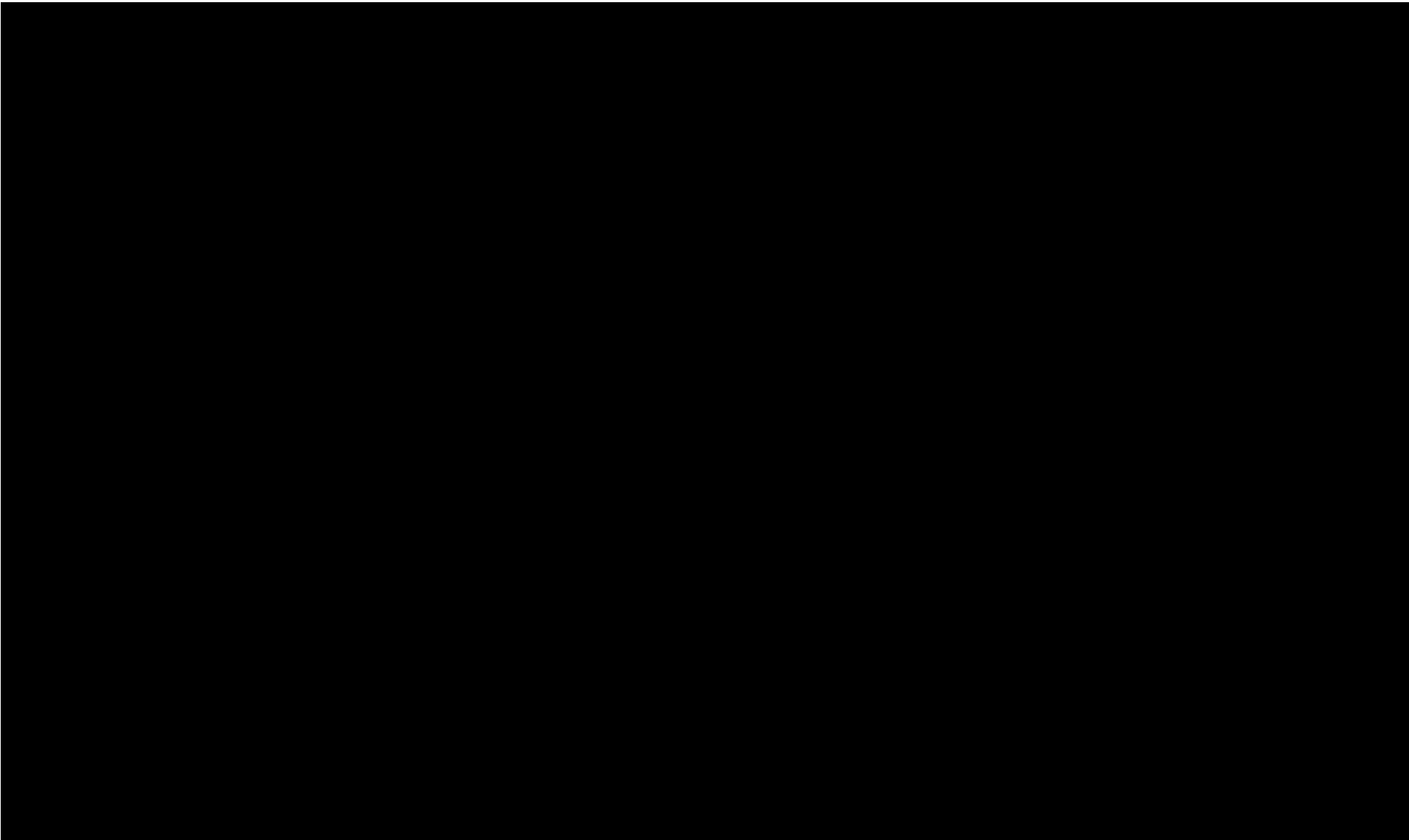


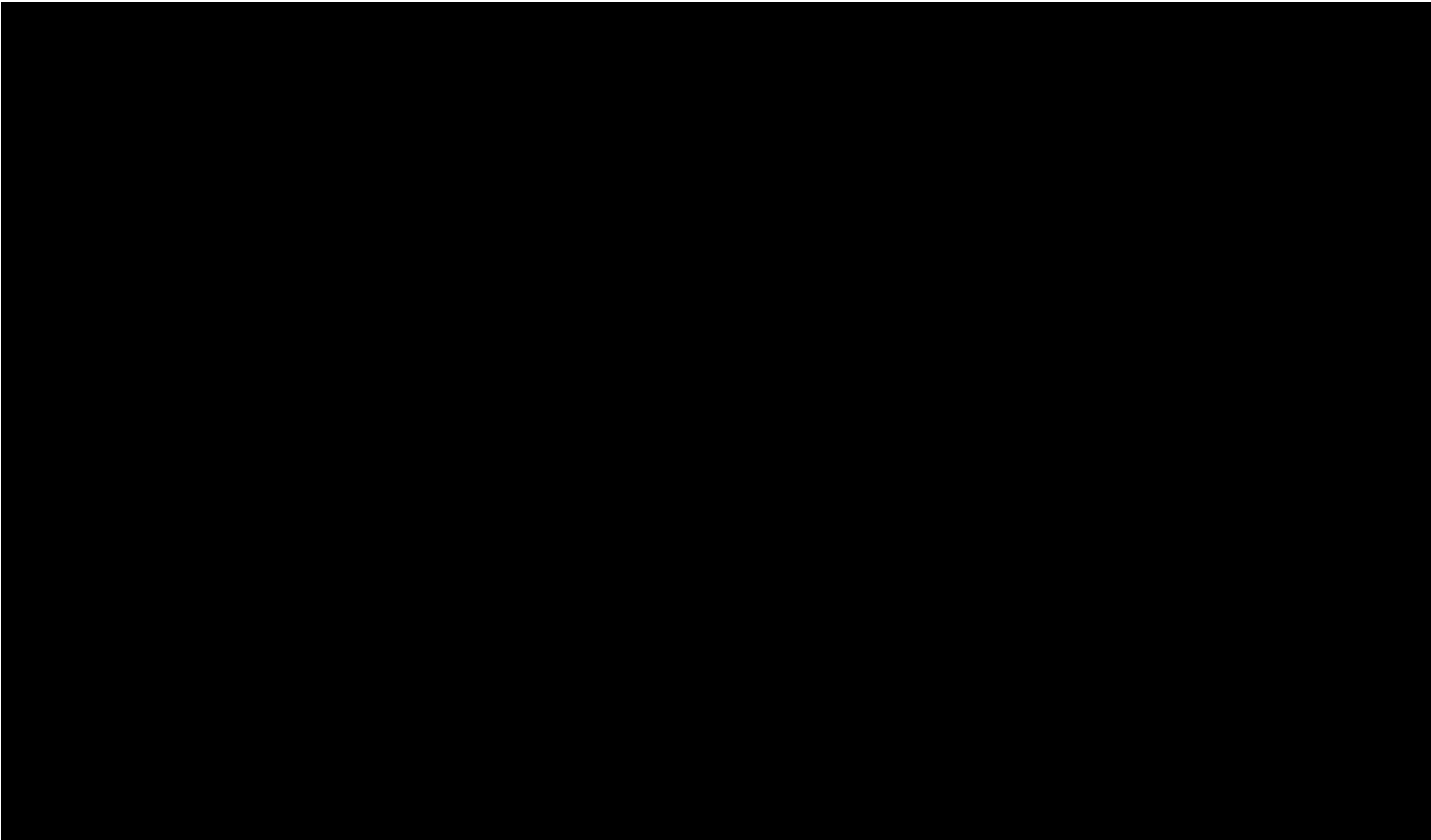
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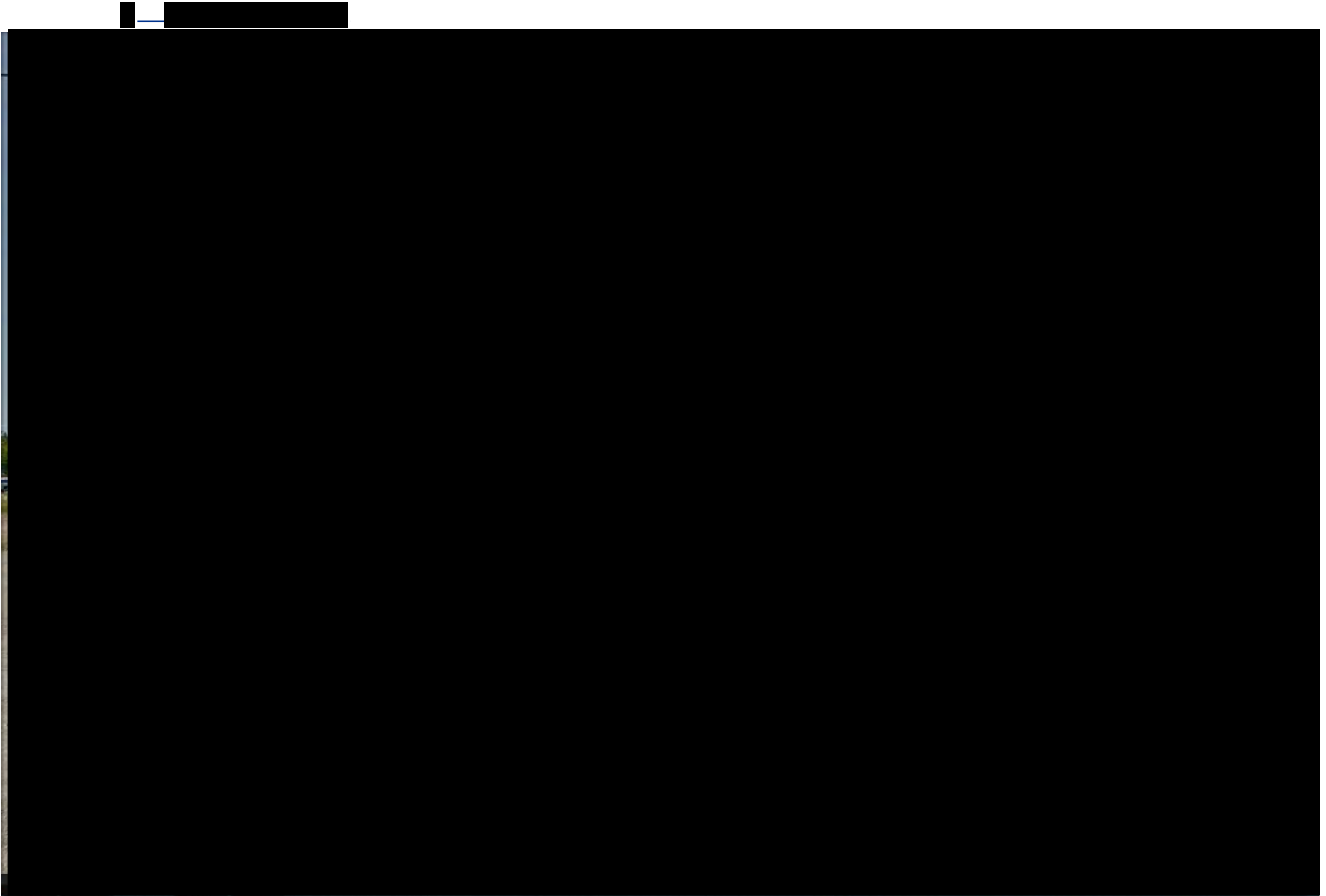
[REDACTED]

[REDACTED]

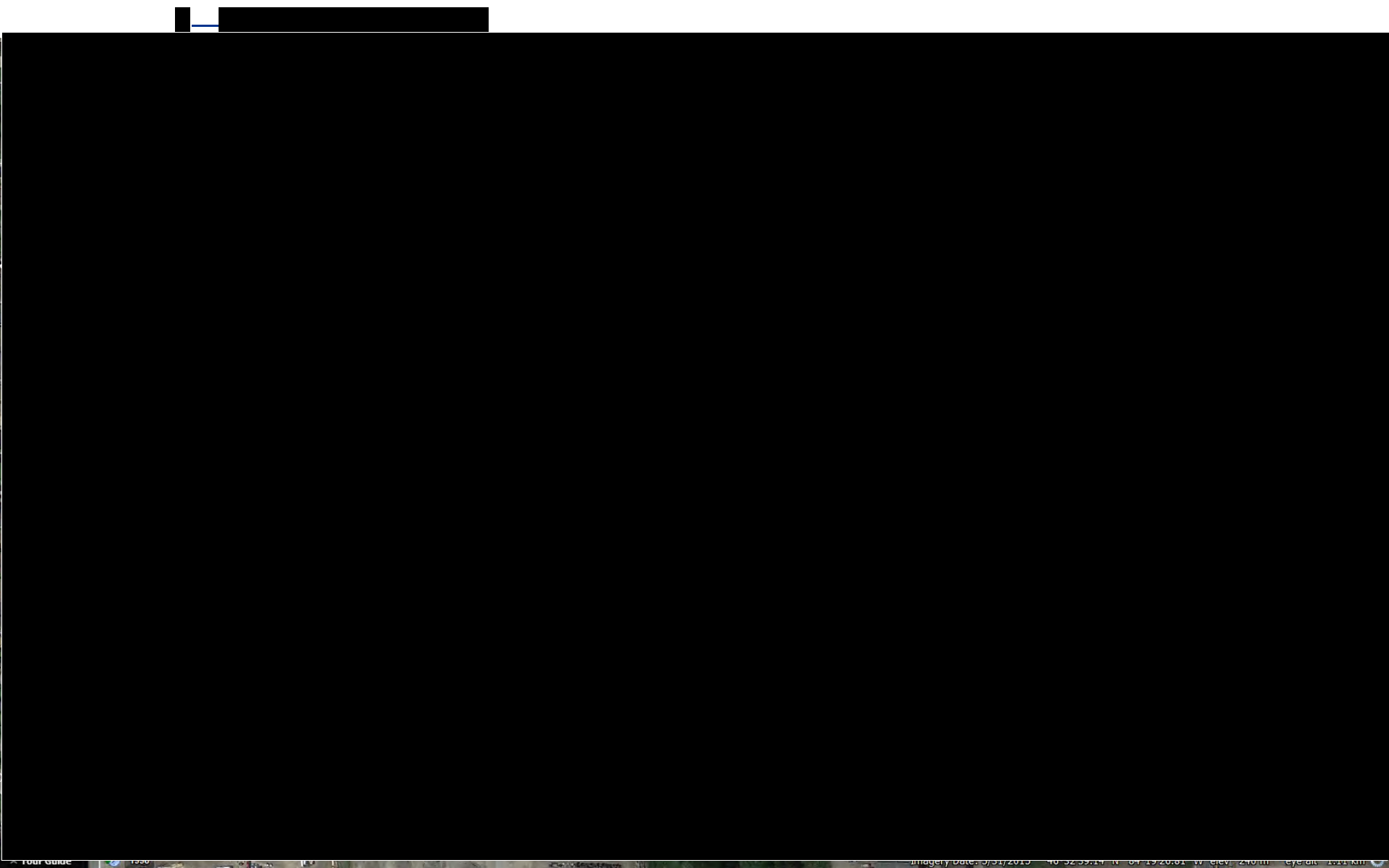






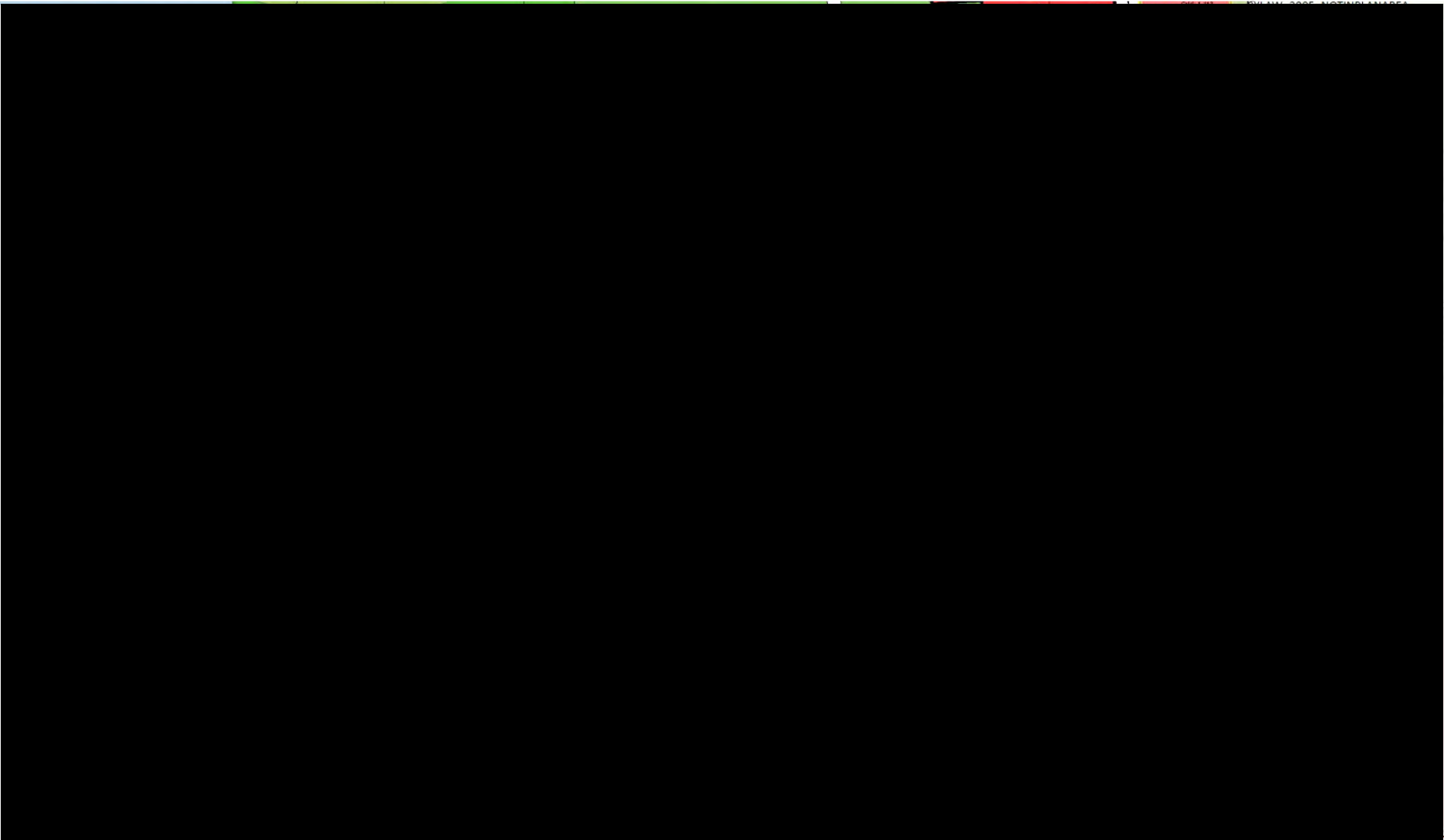


[REDACTED]

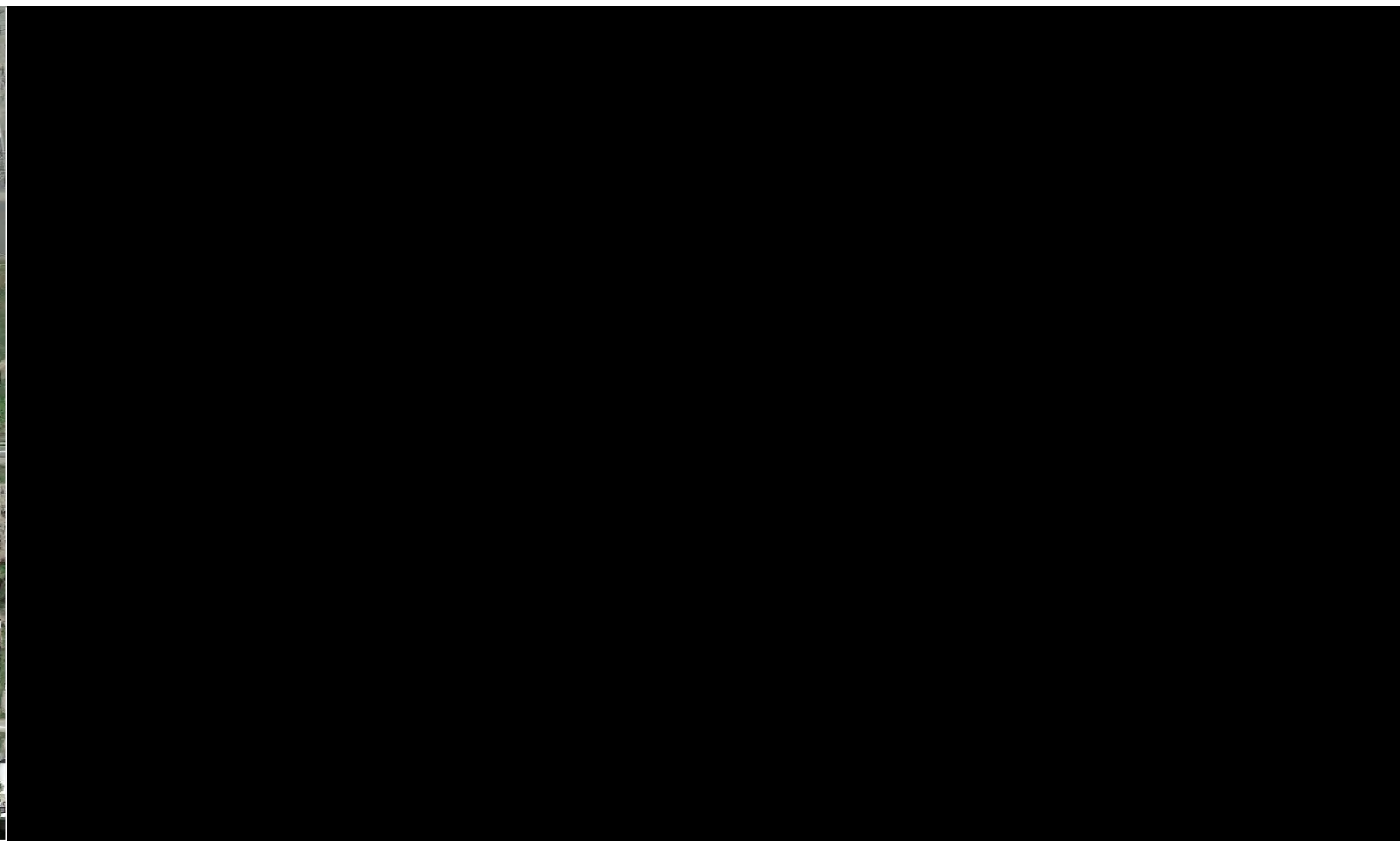


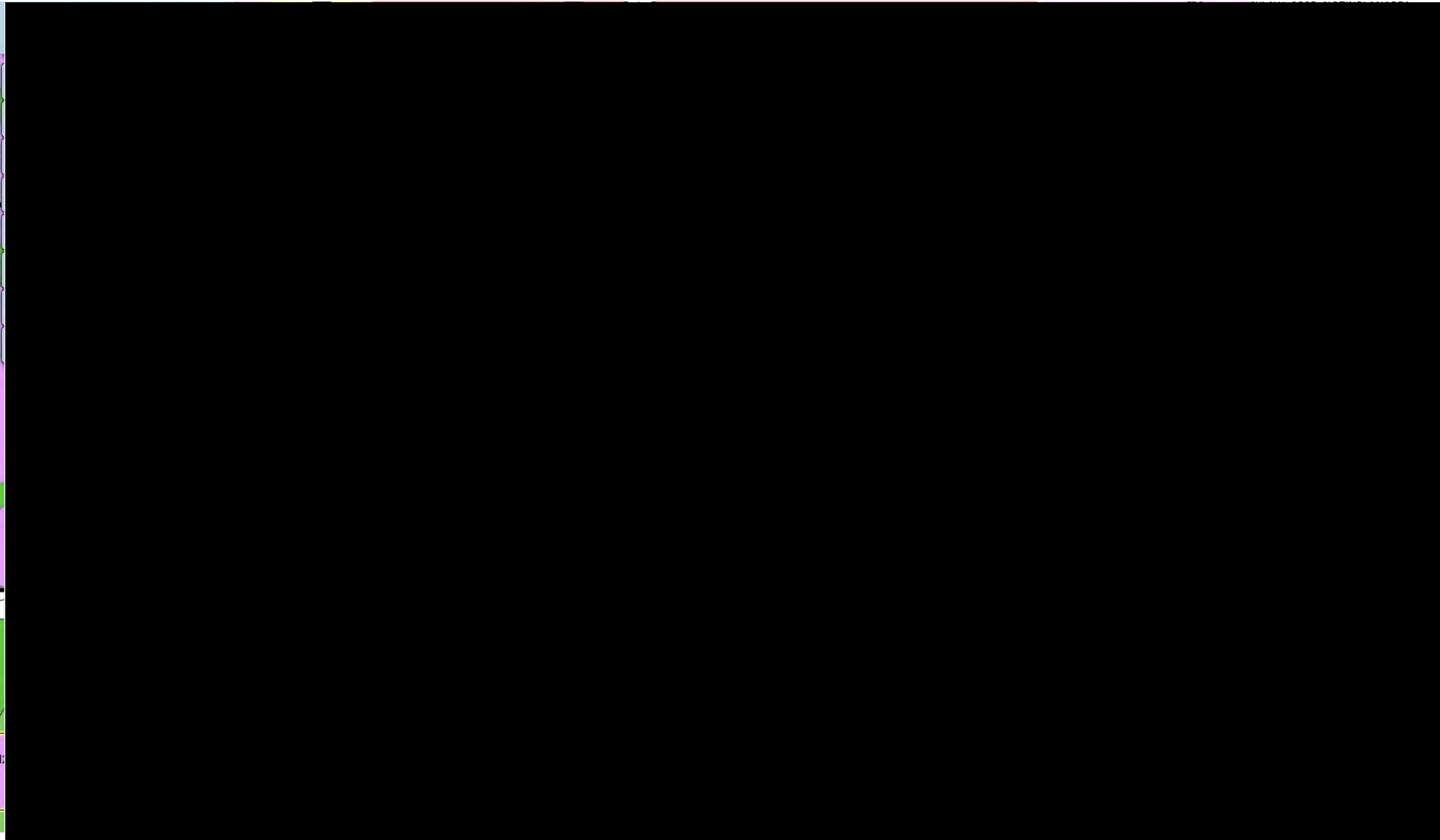
[REDACTED]

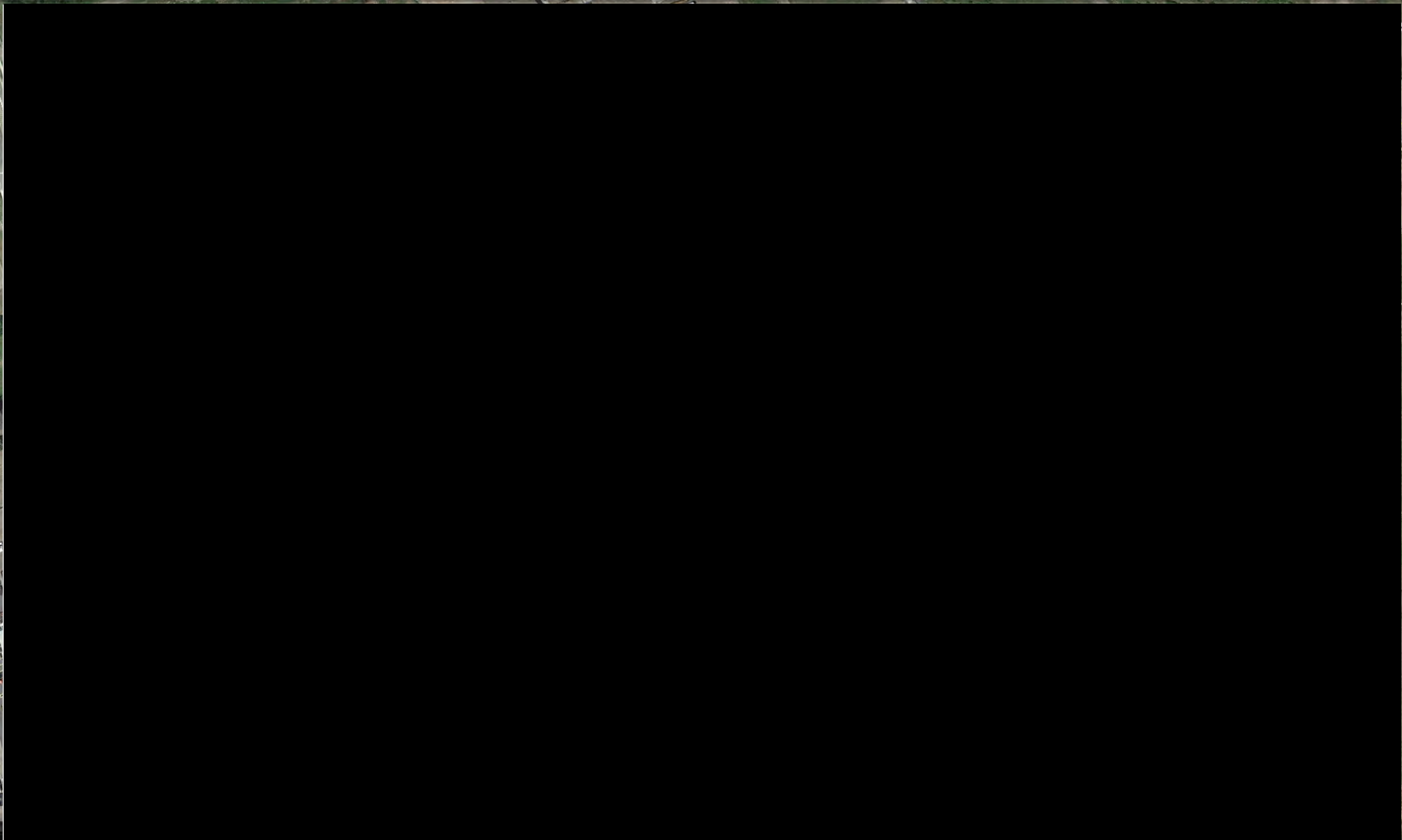
CHS 100 - FALL 2025 - HISTORICAL MAPS

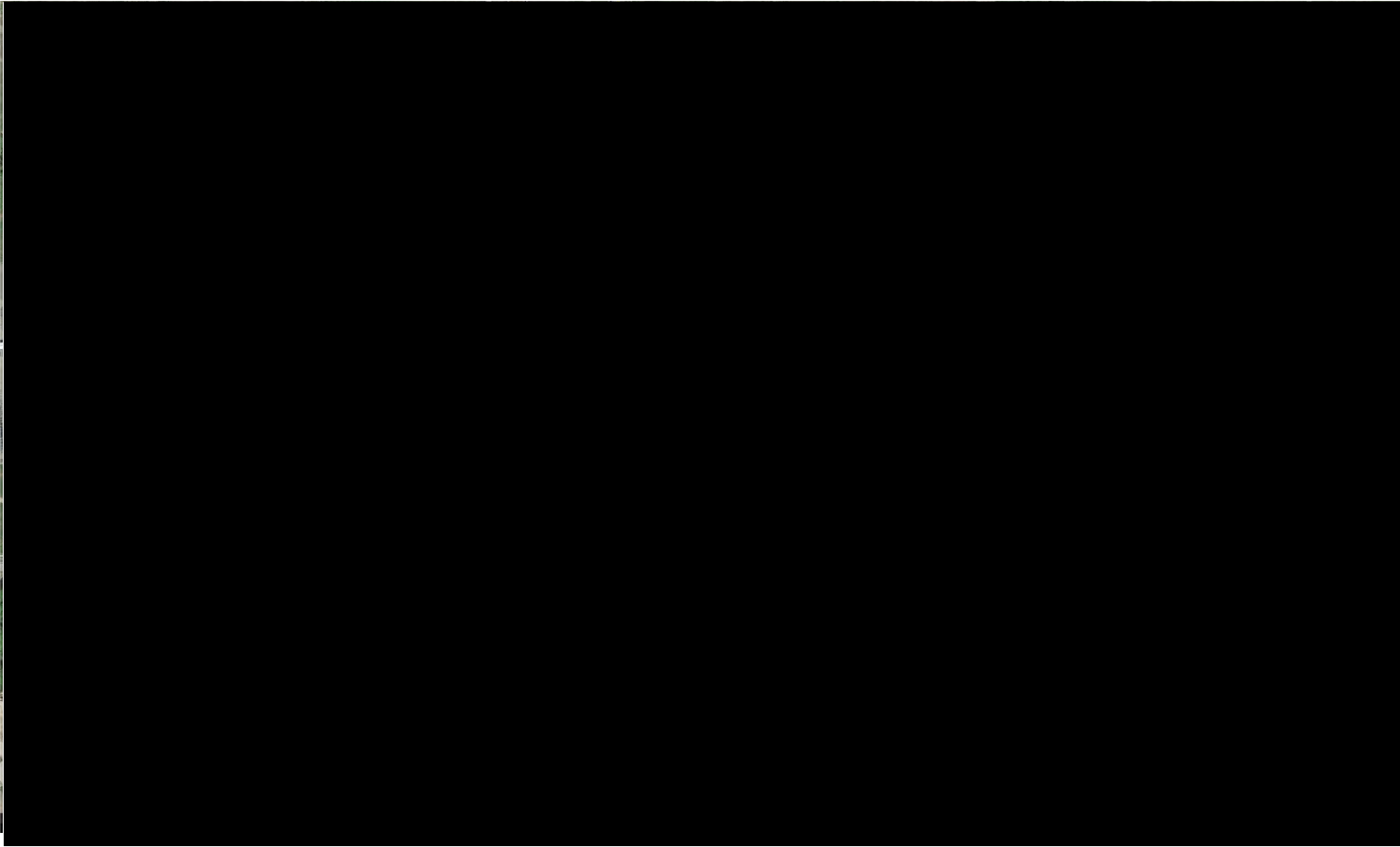


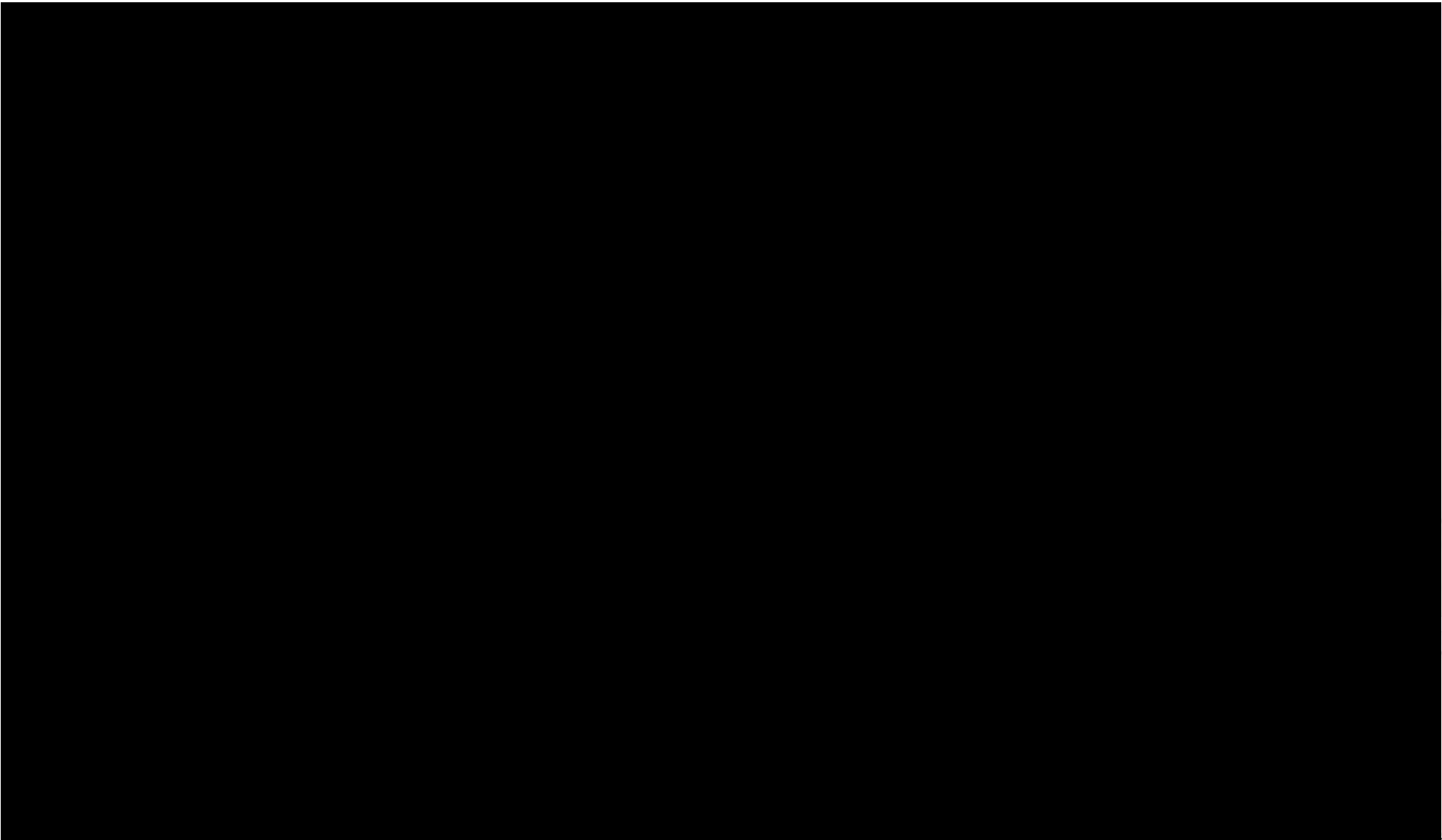
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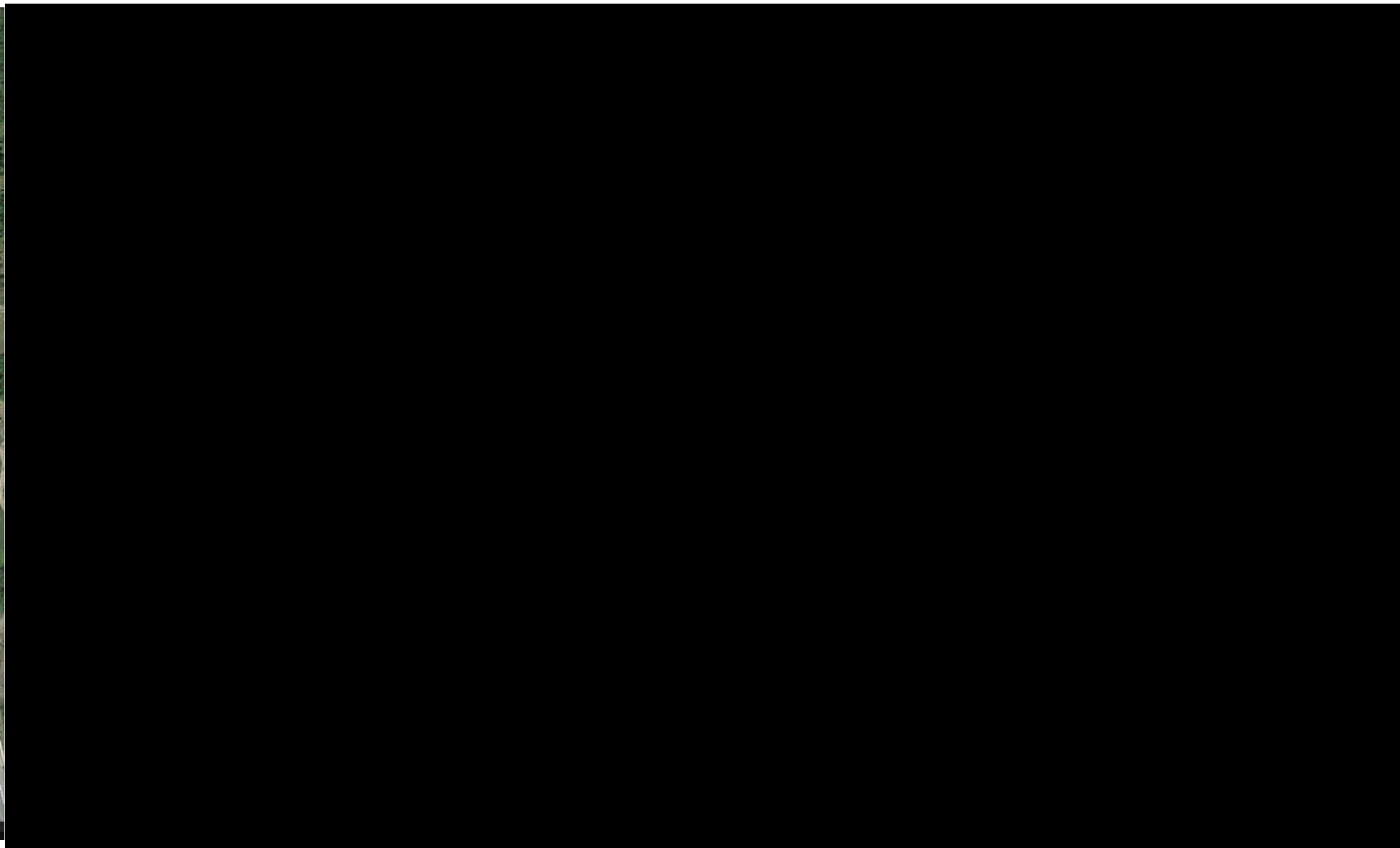


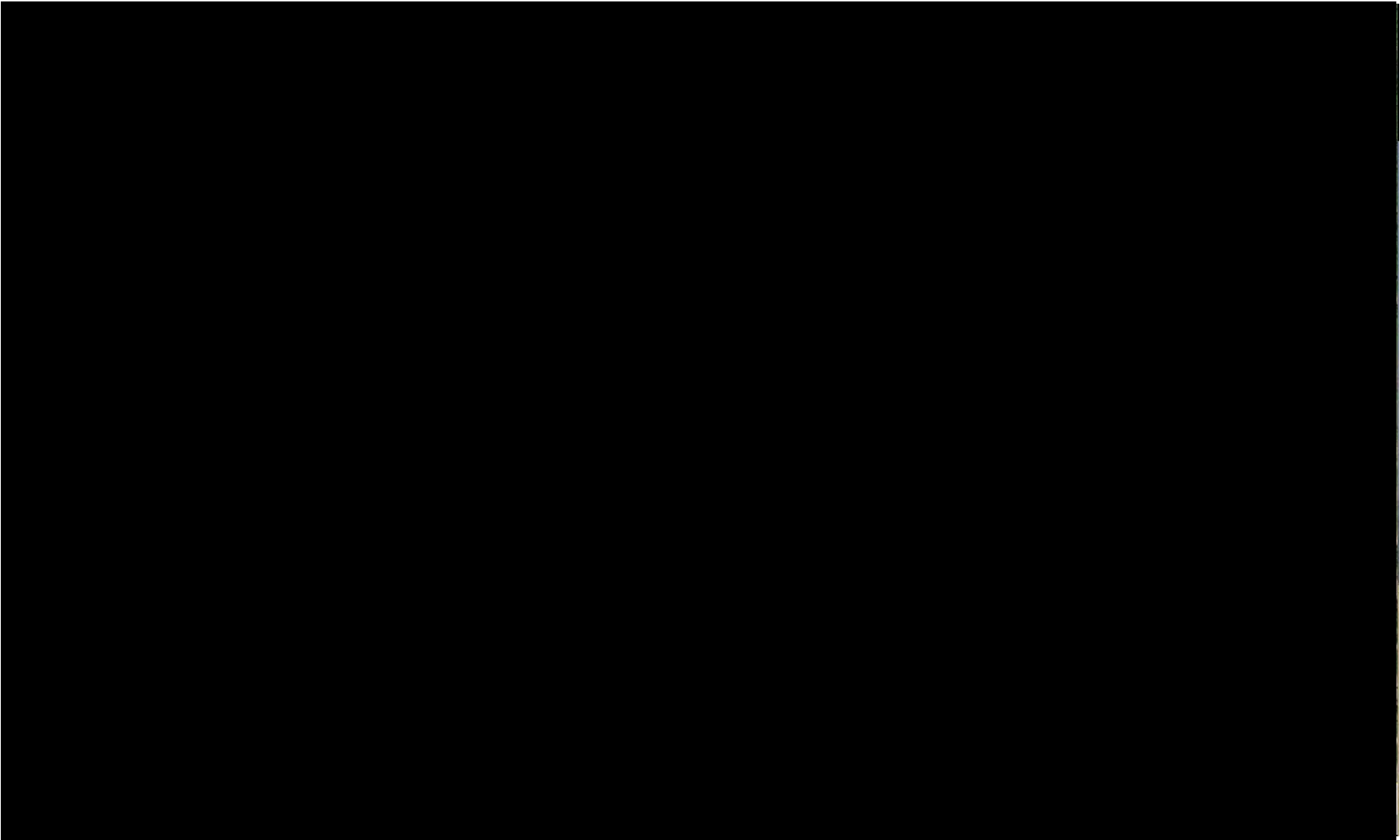


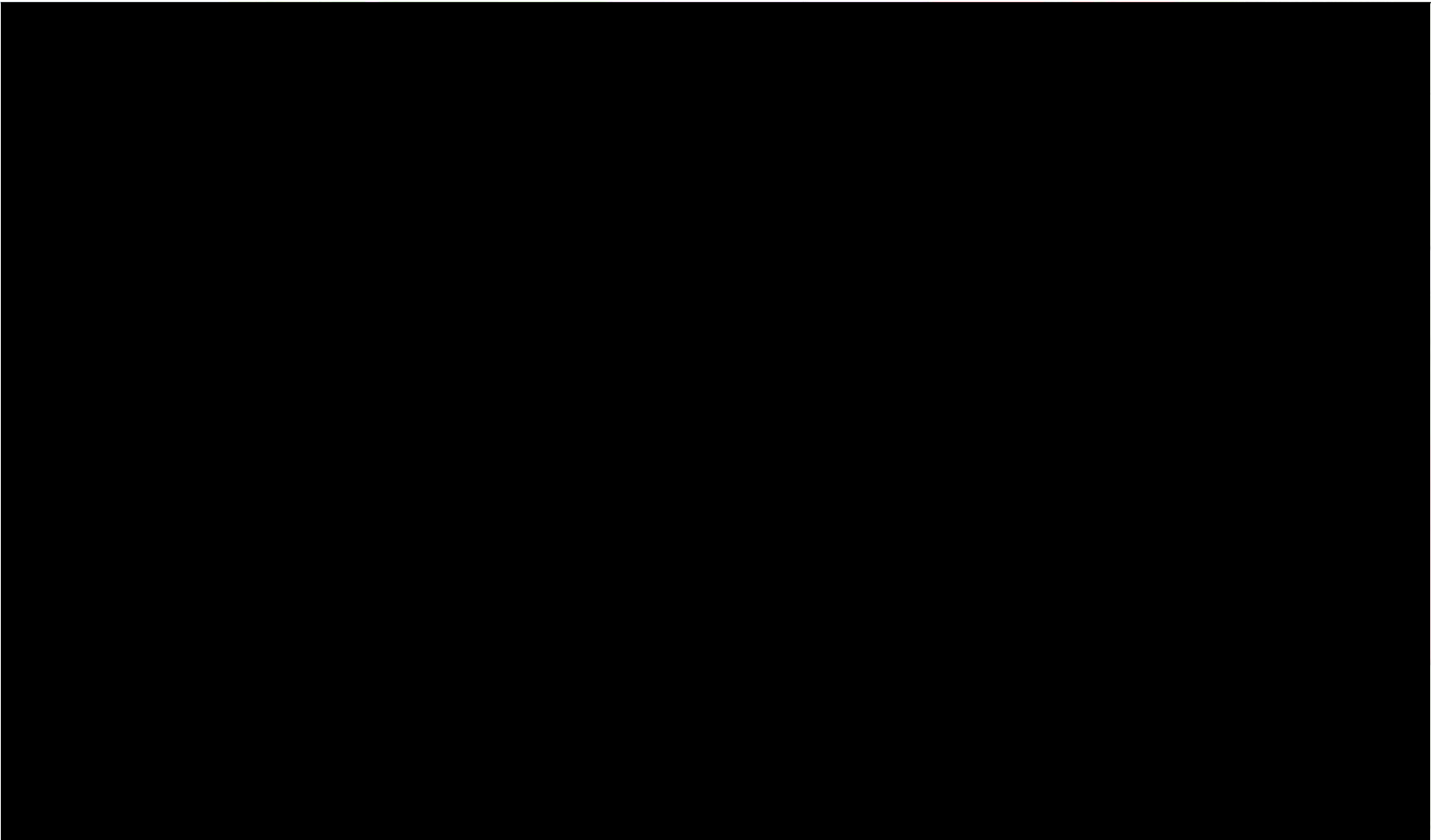


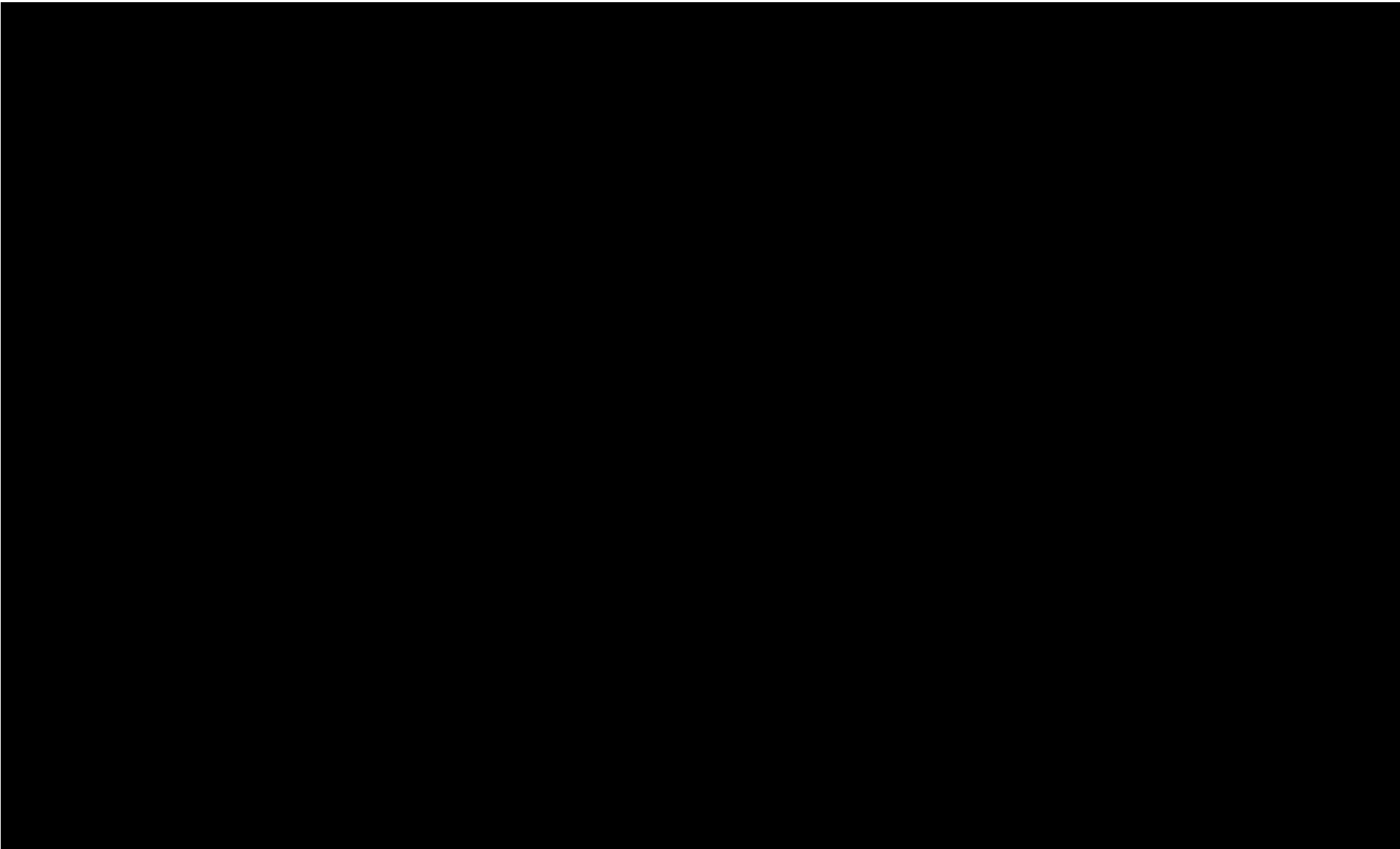




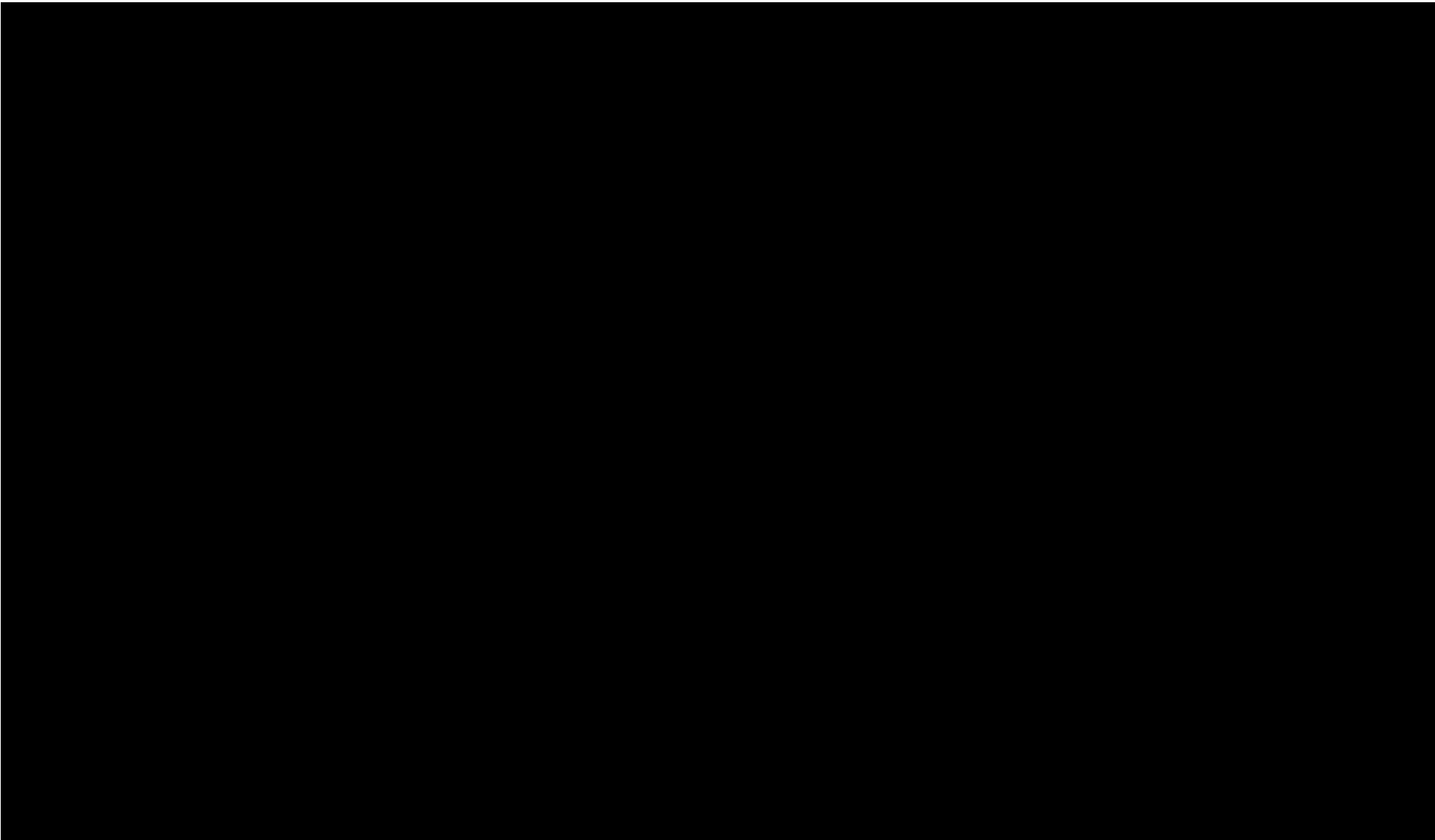


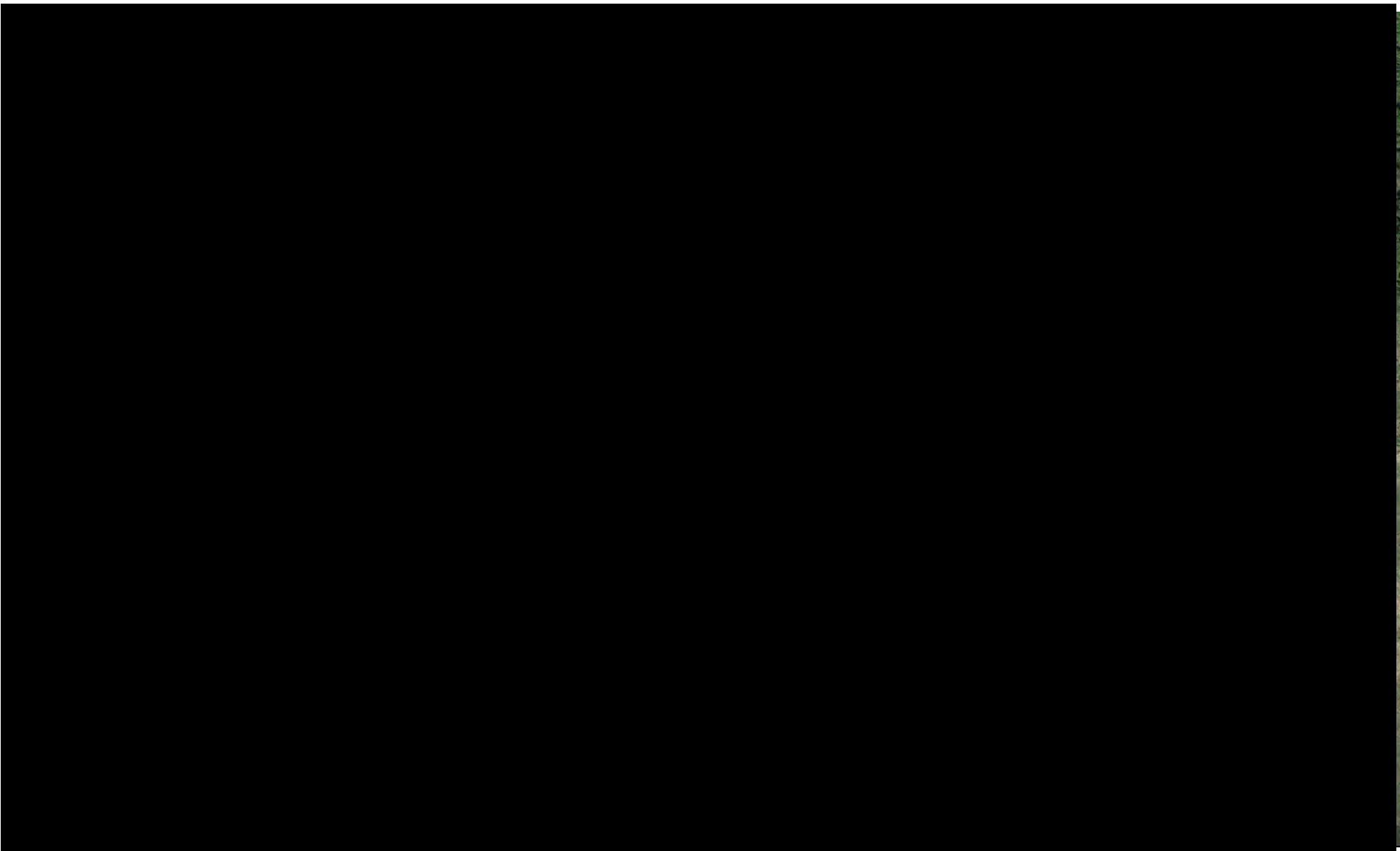


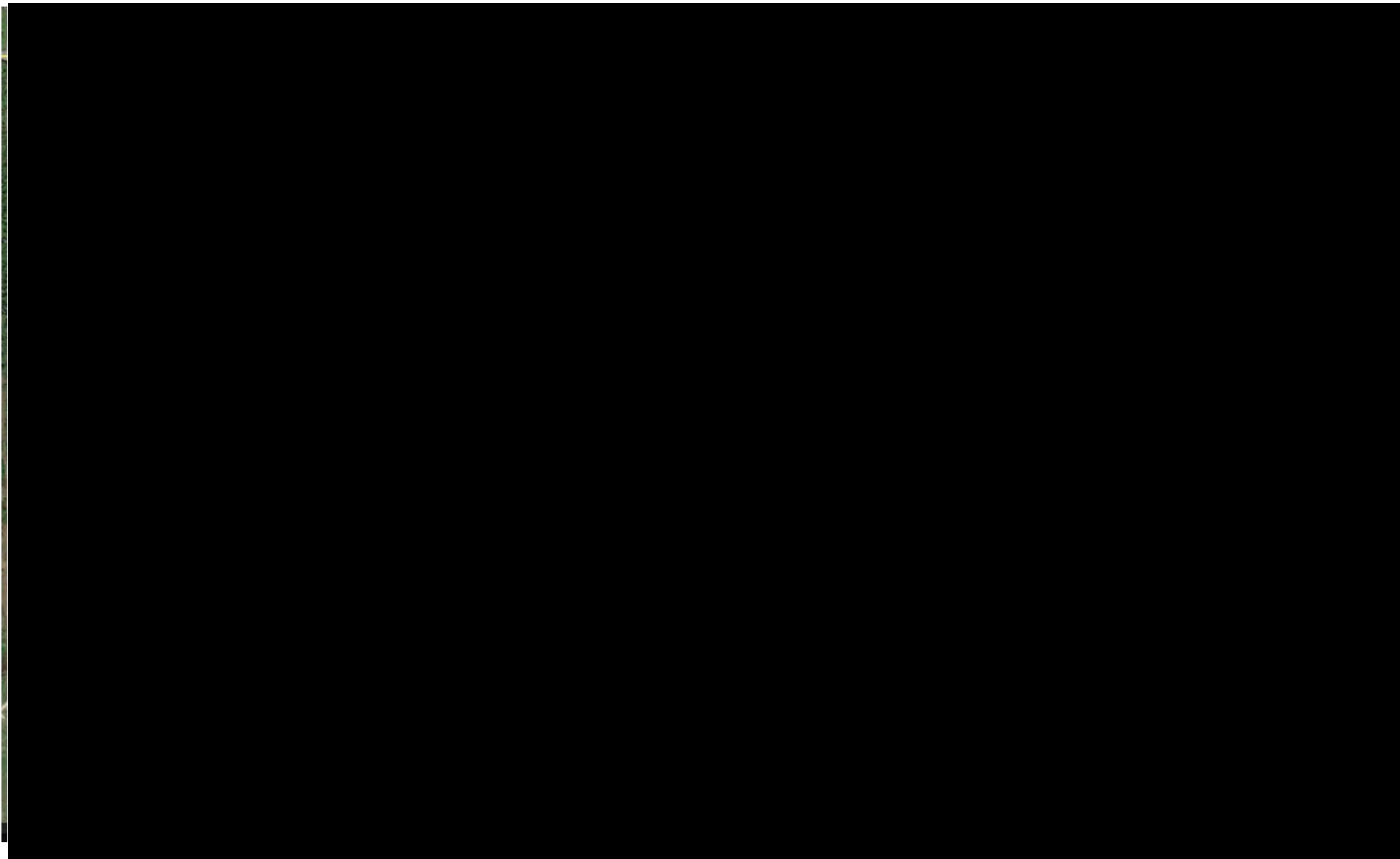


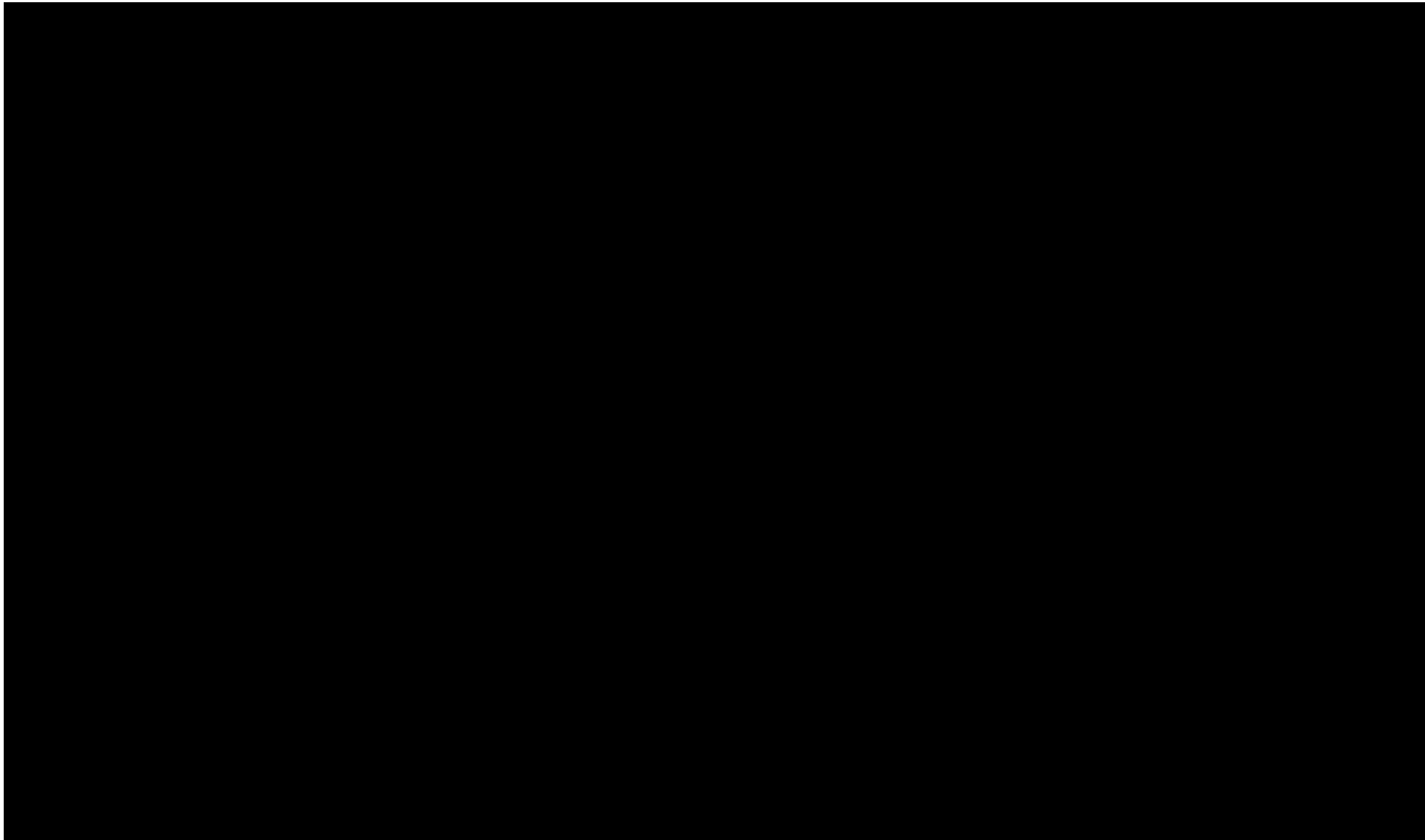


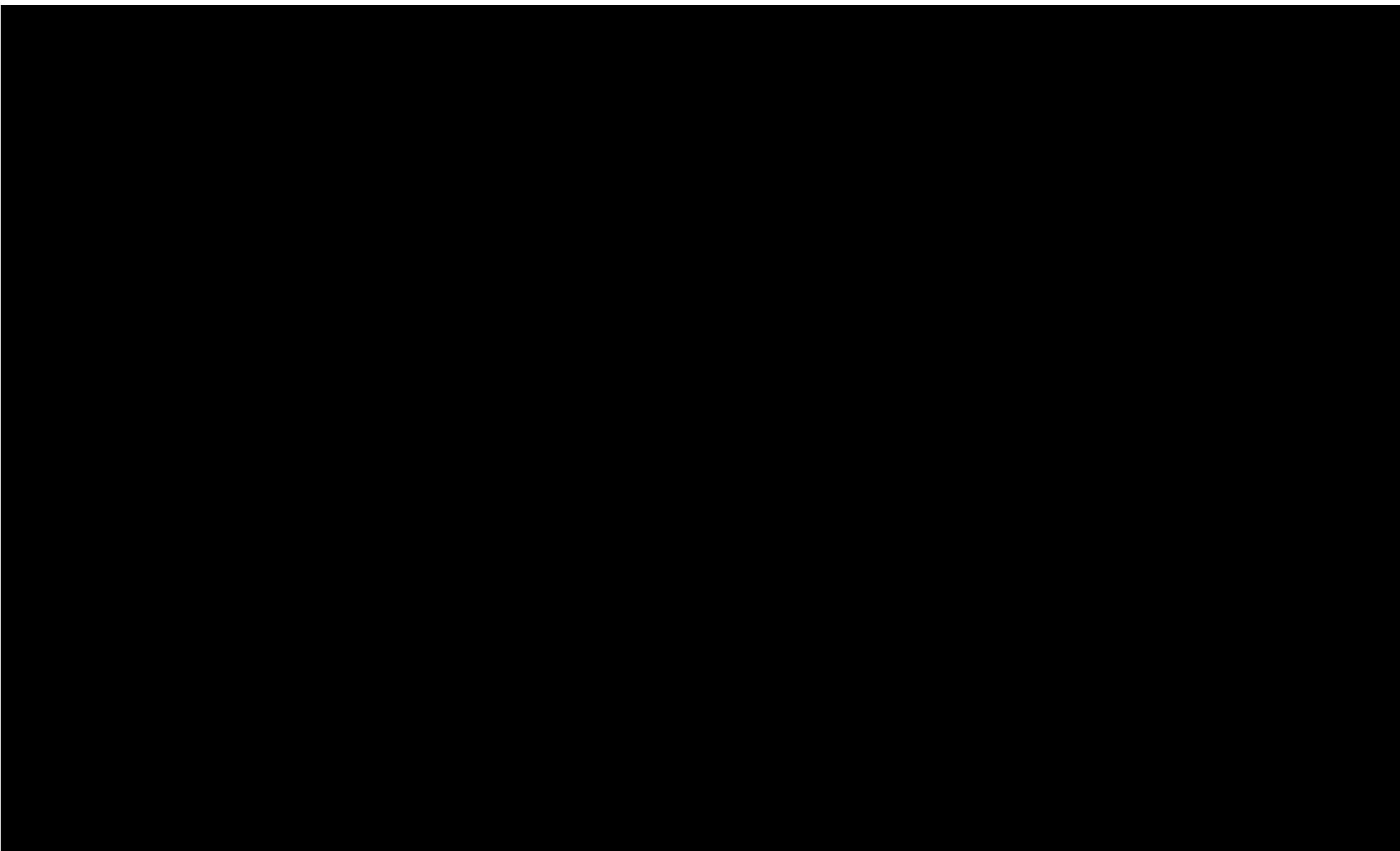
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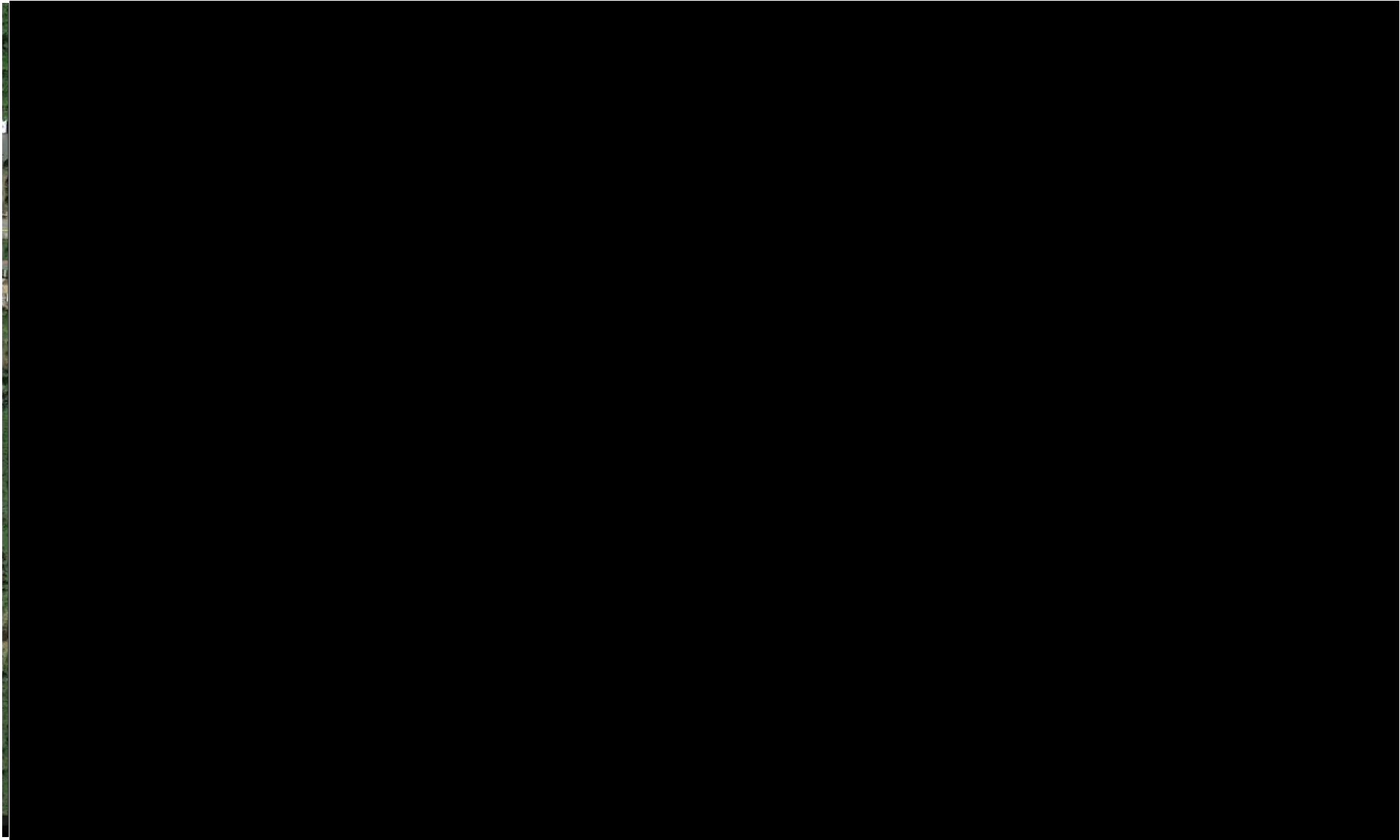


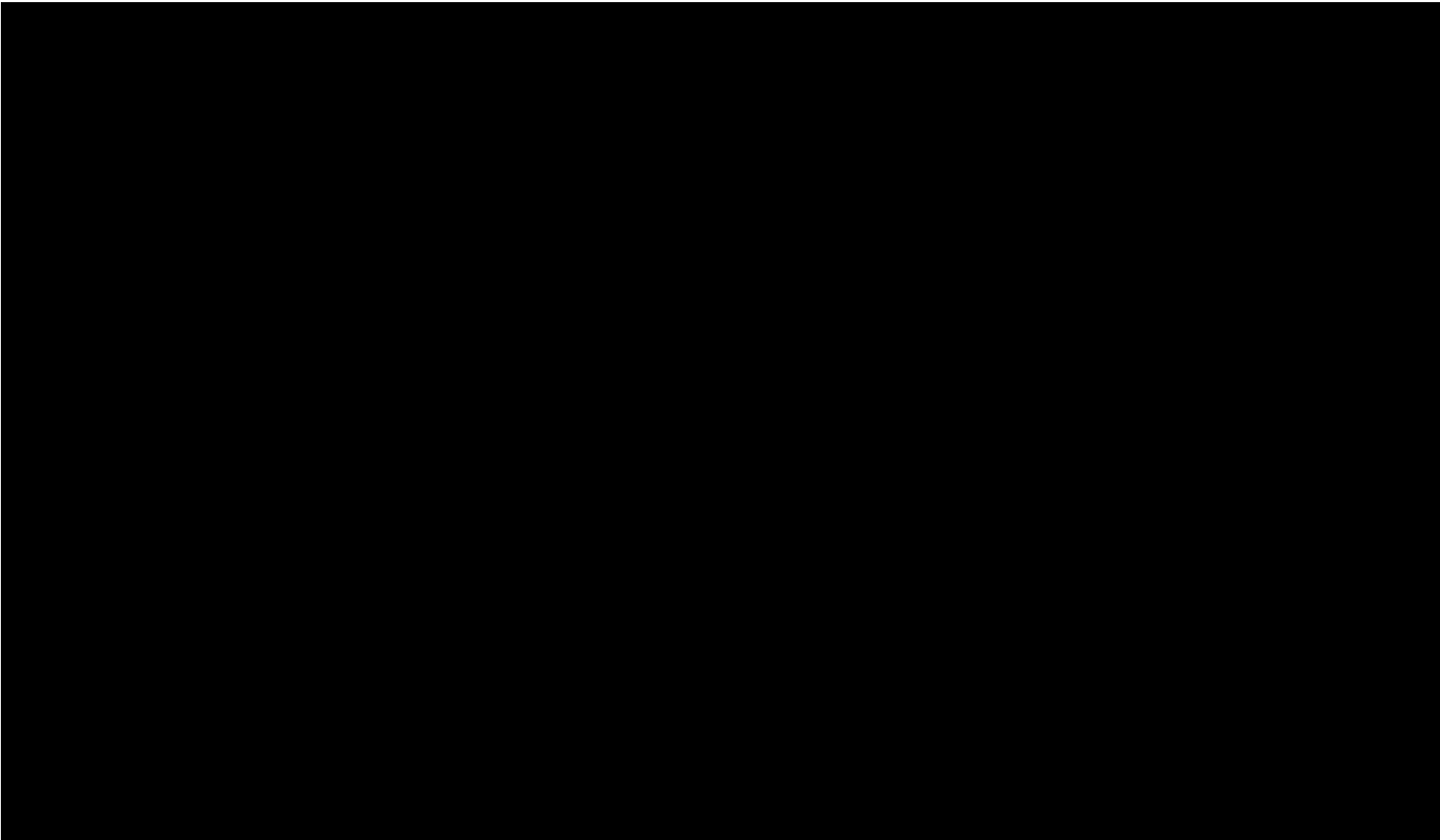


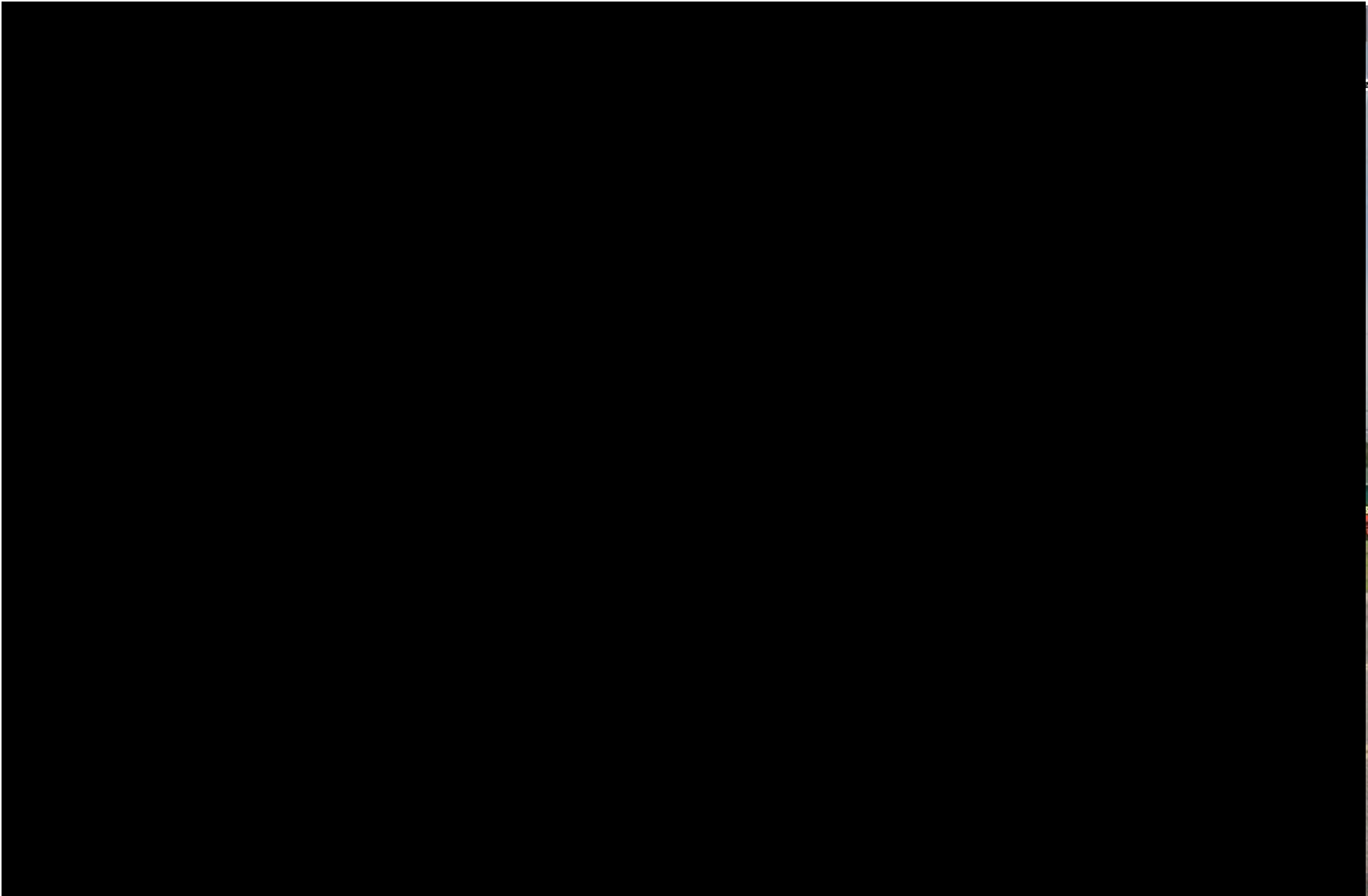


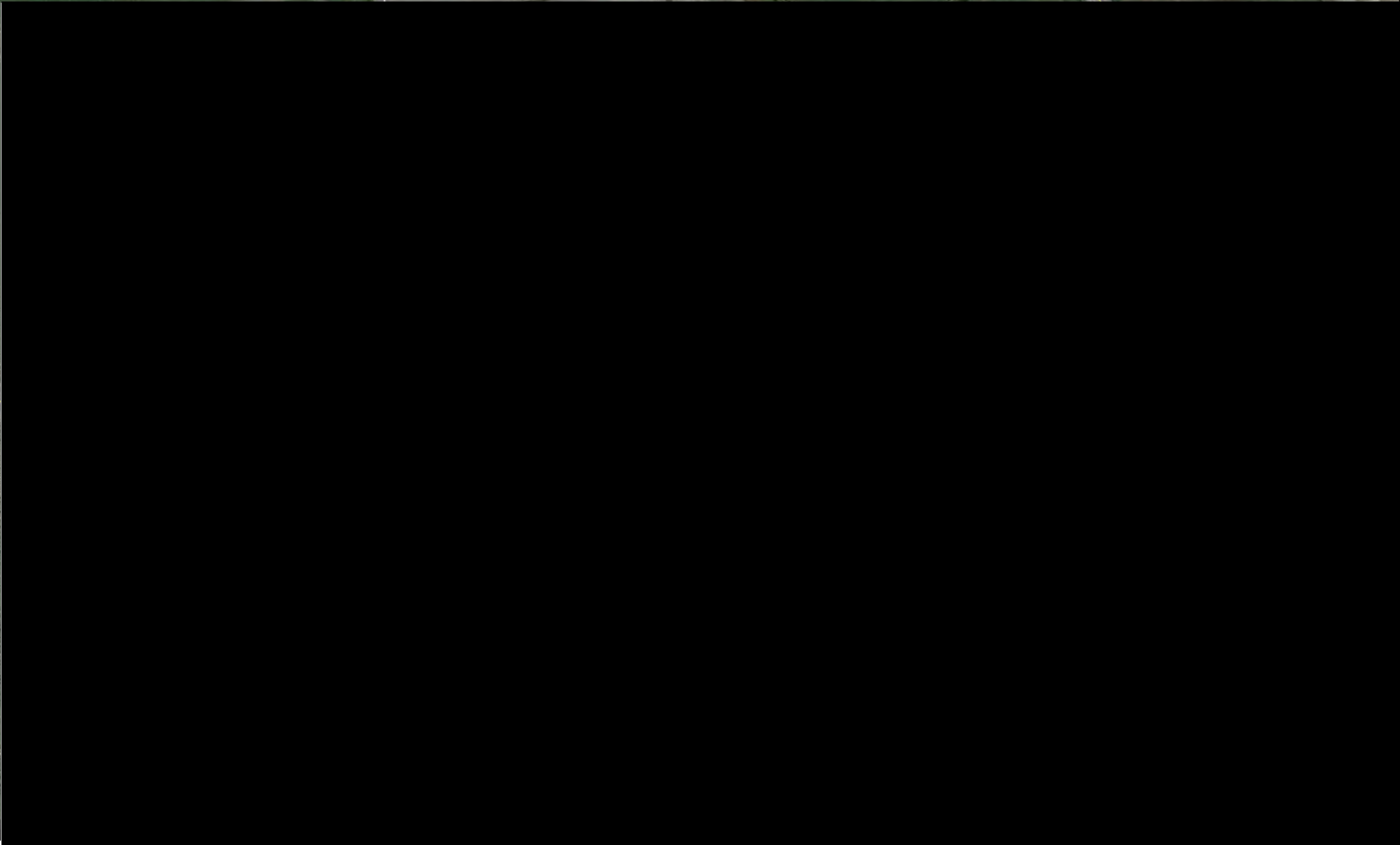


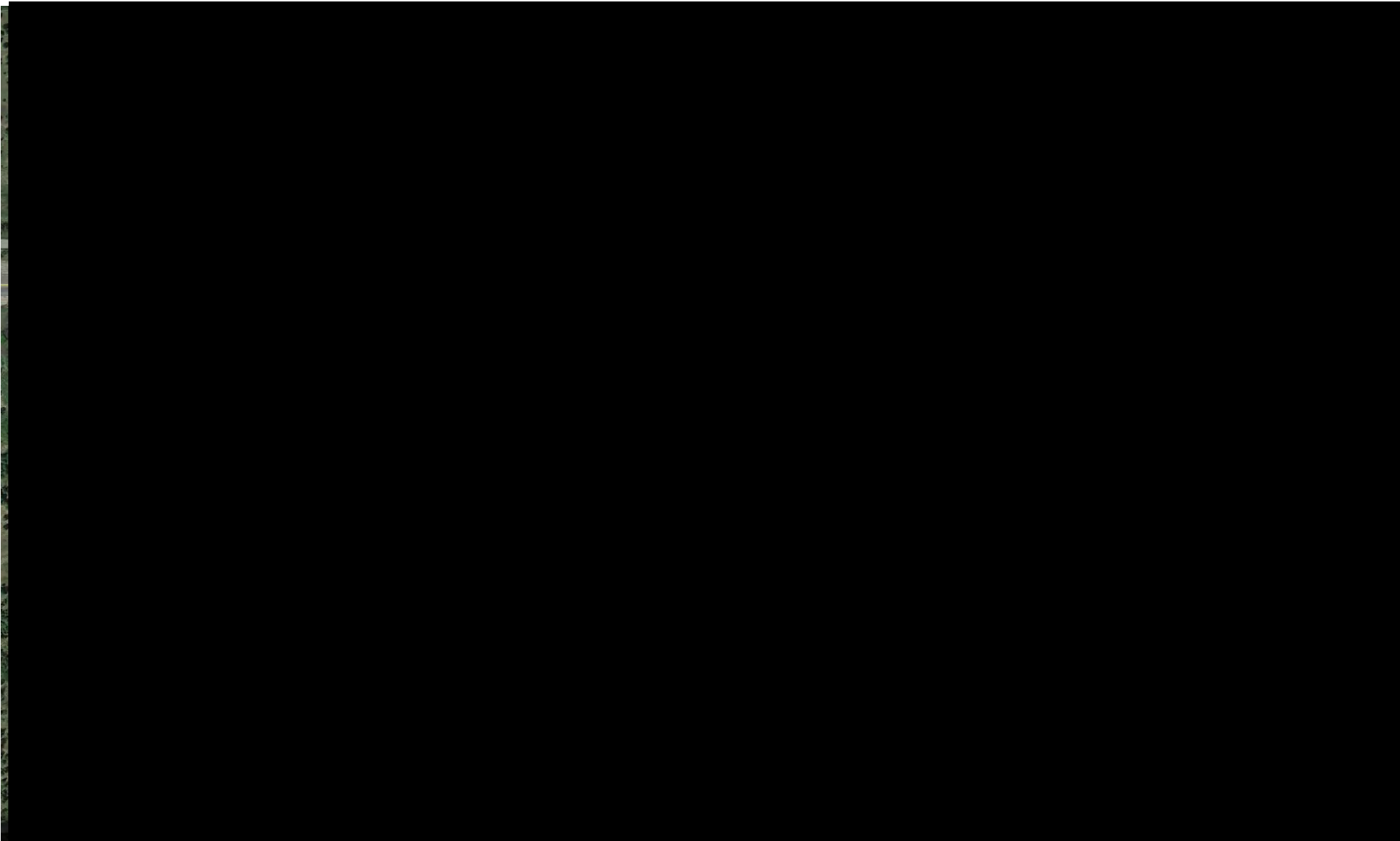




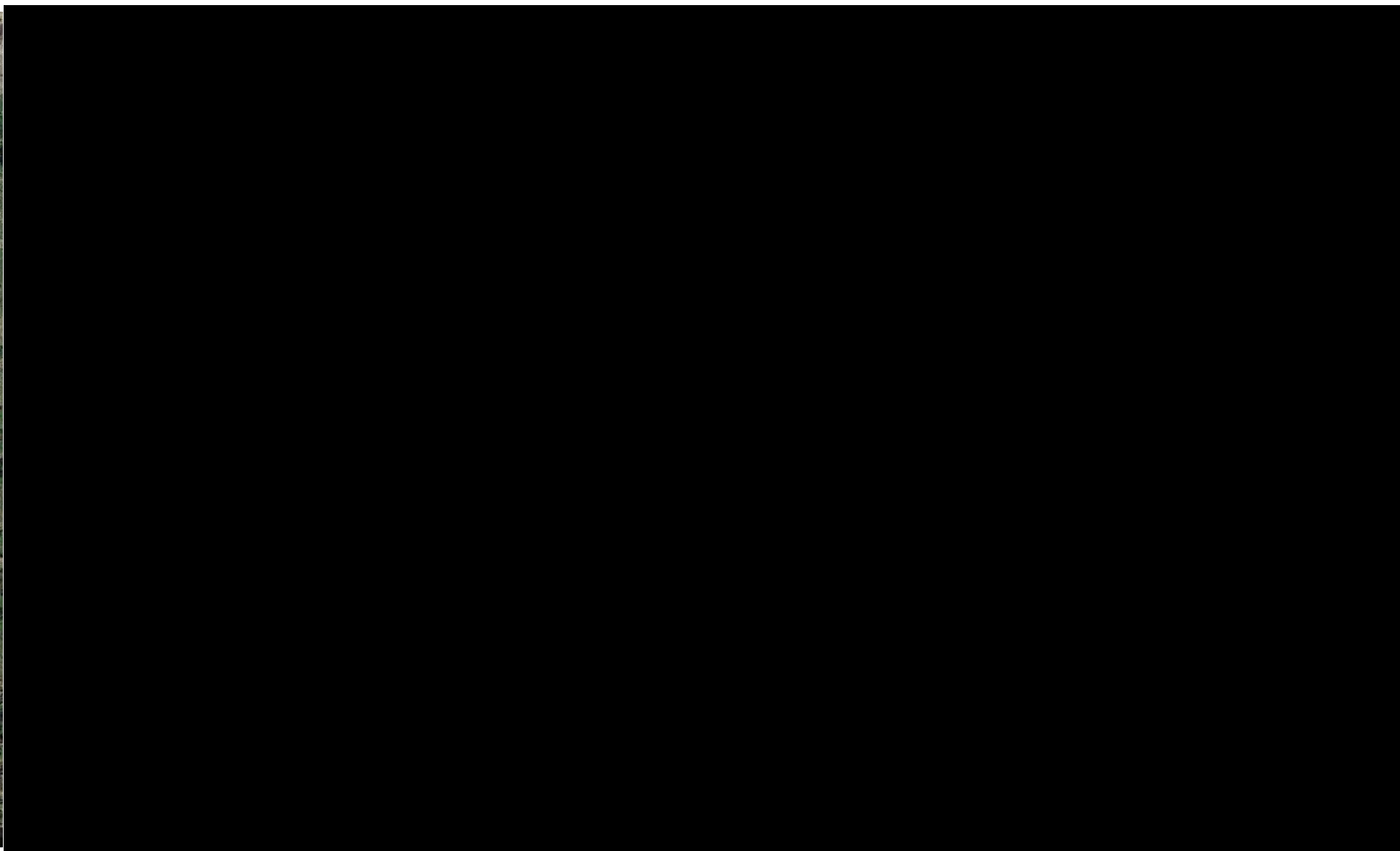


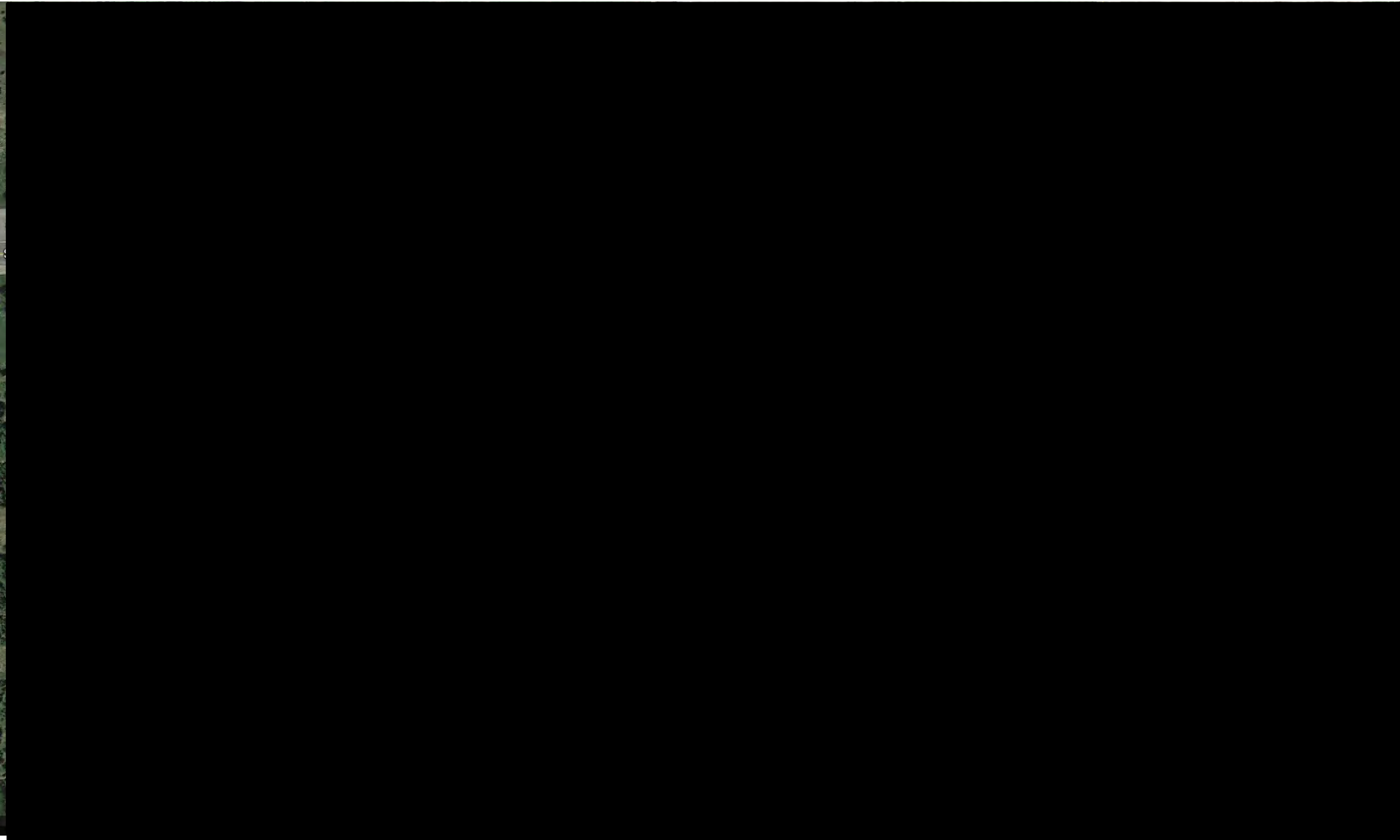


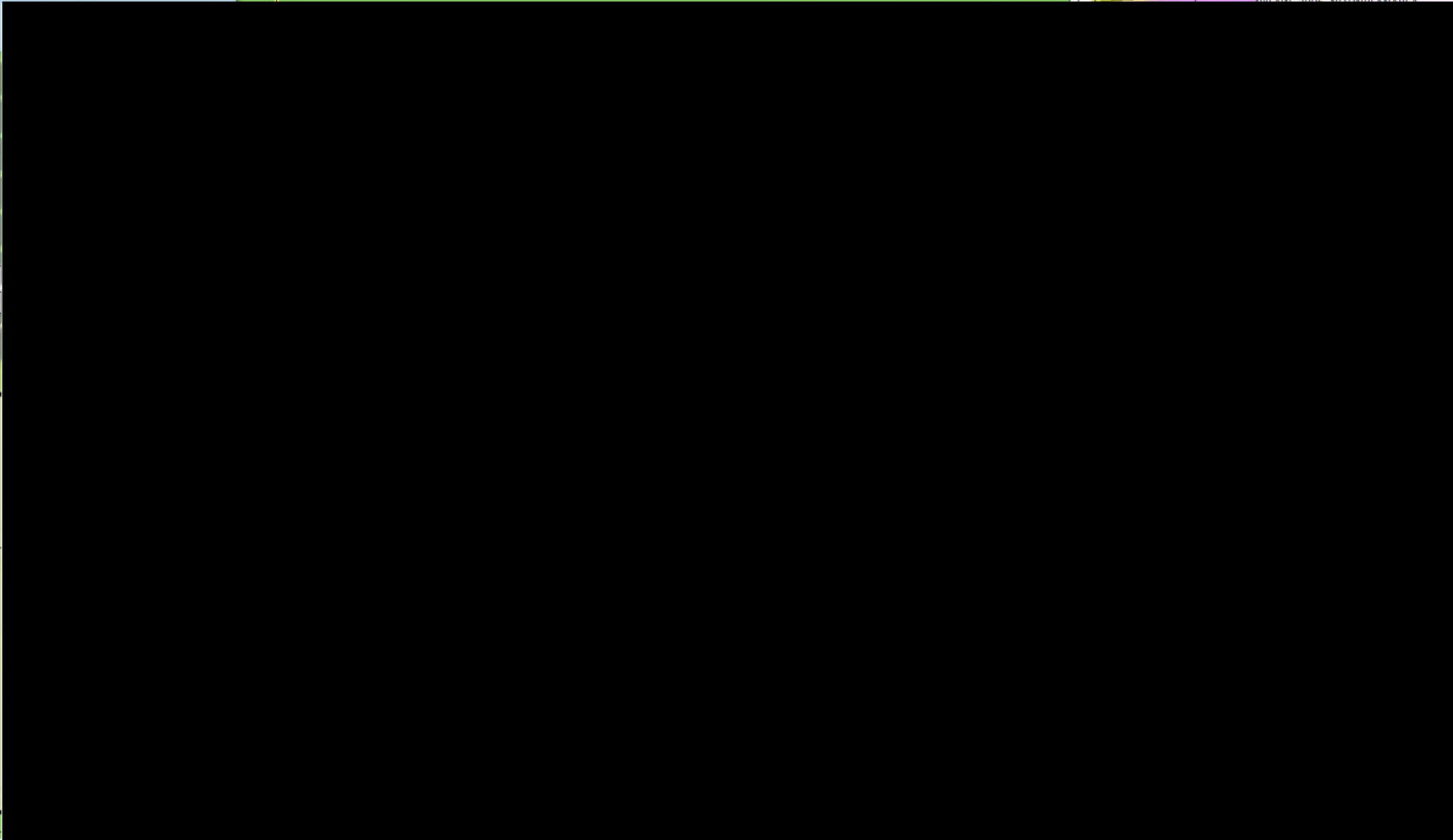


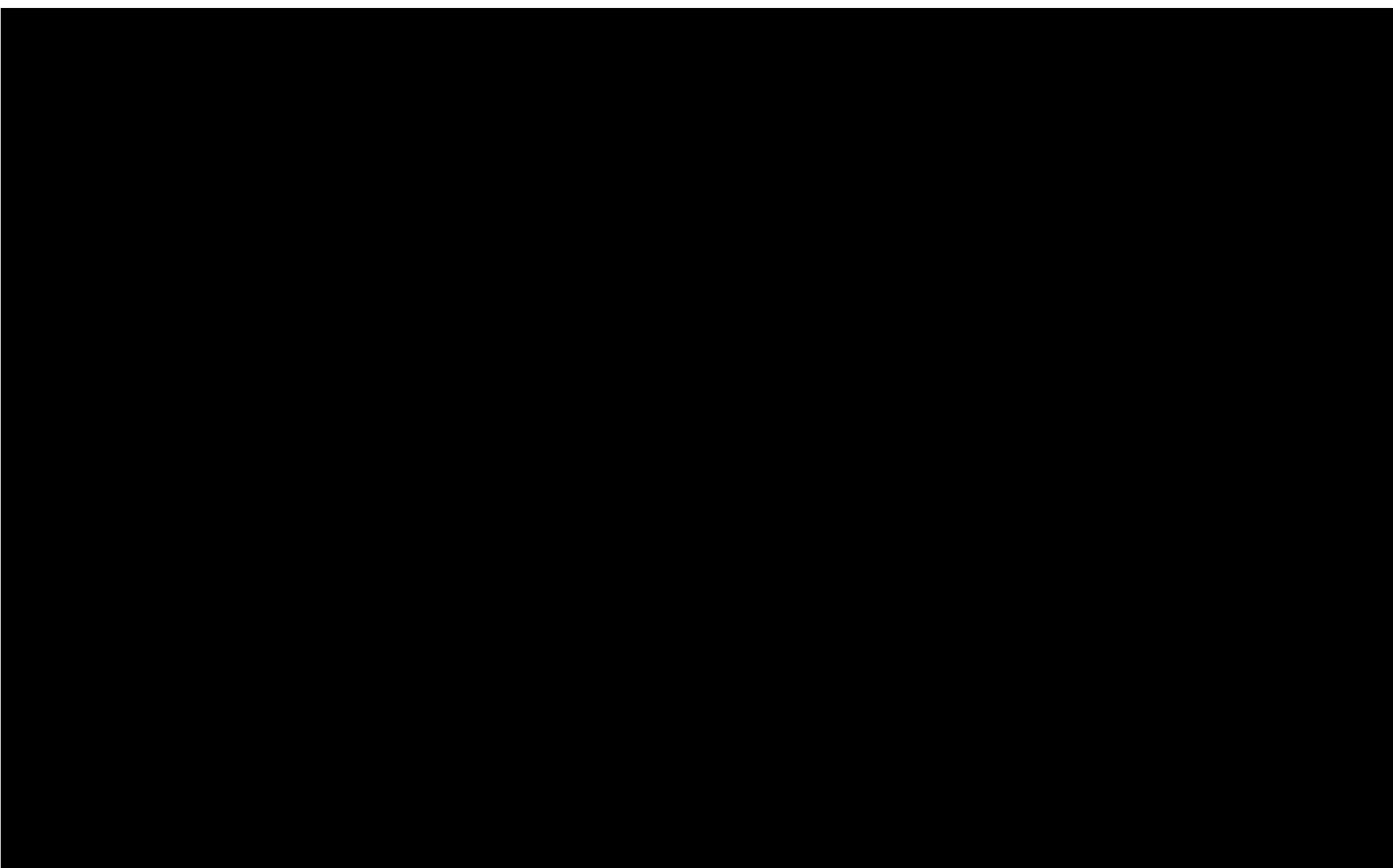


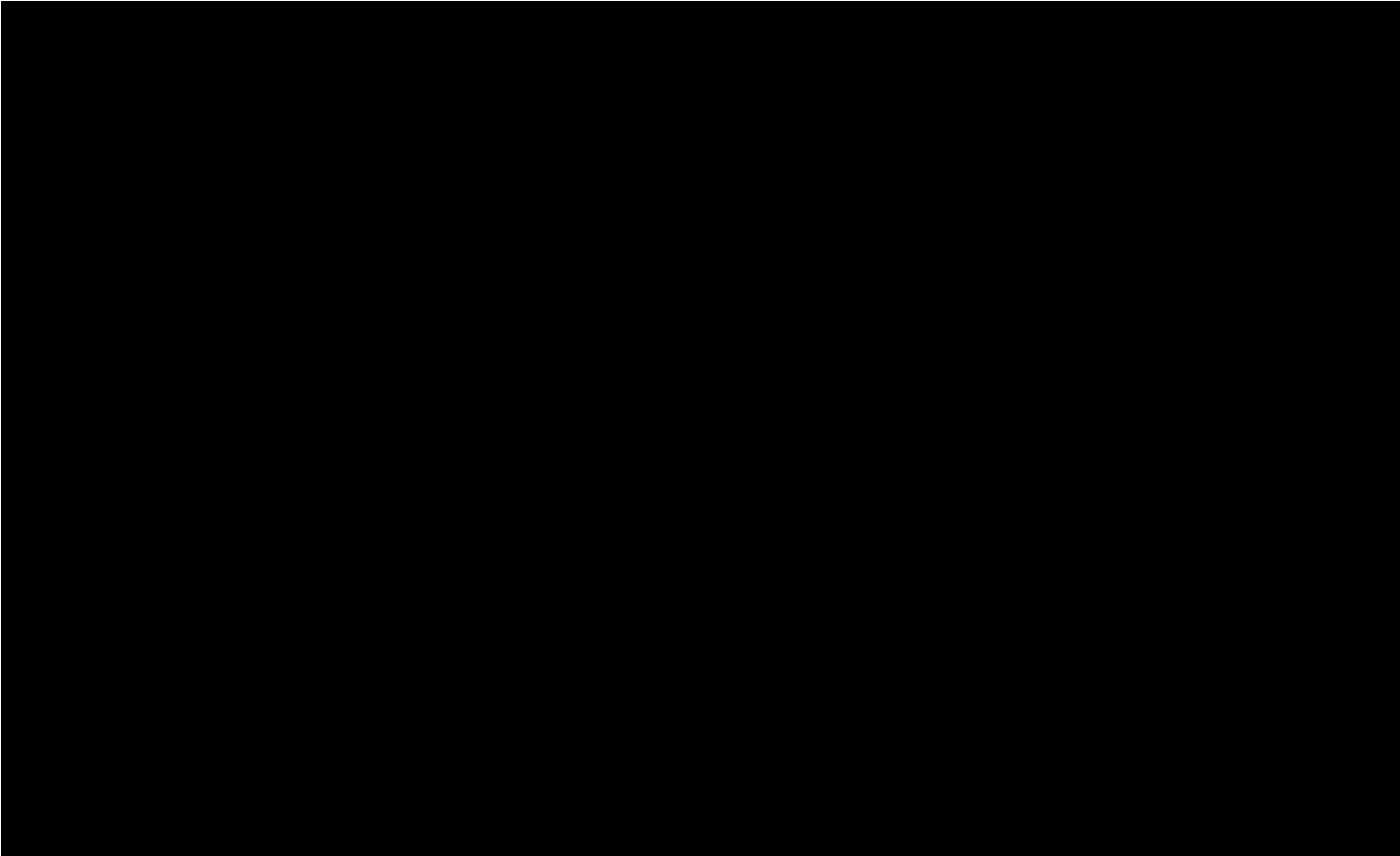
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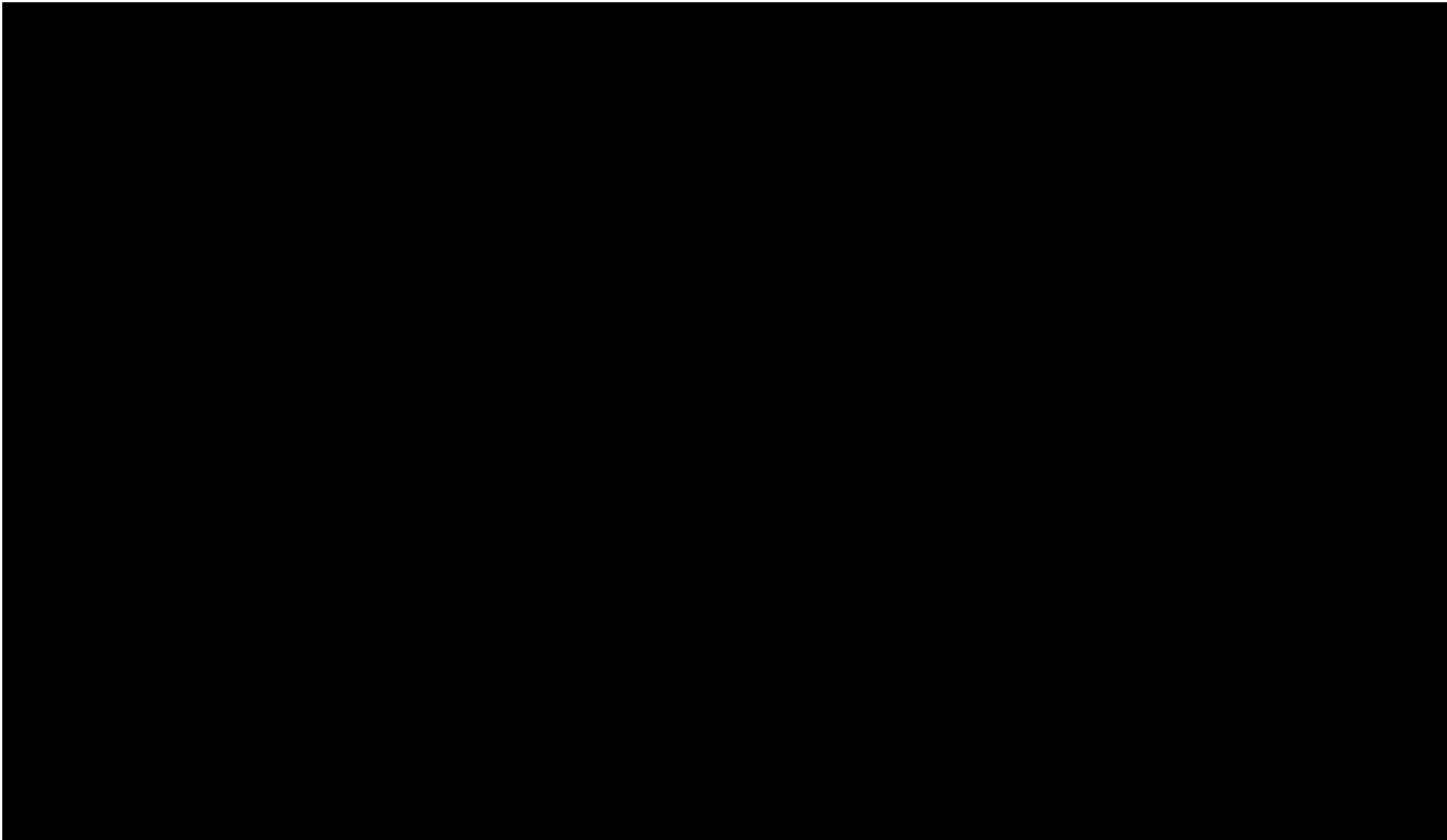












Non-Financial Analysis (continued)

The results of MGP's evaluation of the selected sites has identified [REDACTED] as the preferred location for the new service centre as it is the only site that has met the evaluation criteria. A summary of the MGP evaluation results for each site is provided below.

Site Information			Criteria Met						Percent of Criteria Met
Address	Size (acres)	Zoning*	Site Size (6 to 8 acres)	Road Access	Zoning (M2 or M3)	Services	Encumbrances		
							Overhead	Ground	
1. [REDACTED]	[REDACTED]	M2	Yes	Yes	Yes	Yes	Yes	Yes	100%
2. [REDACTED]	[REDACTED]	M2/C4	Yes	Yes	No	No	Yes	Yes	67%
3. [REDACTED]	[REDACTED]	M2	Yes	Yes	Yes	Yes	Yes	No	83%
4. [REDACTED]	[REDACTED]	HZ/I	Yes	Yes	No	Yes	Yes	No	67%
5. [REDACTED]	[REDACTED]	HZ/M2	Yes	Yes	Yes	Yes	No	Yes	83%
6. [REDACTED]	[REDACTED]	HZ/M2	No	Yes	Yes	Yes	Yes	Yes	83%
7. [REDACTED]	[REDACTED]	HZ/M2	Yes	Yes	Yes	Yes	Yes	No	83%
8. [REDACTED]	[REDACTED]	HZ/RA	No	No	No	Yes	Yes	Yes	50%
9. [REDACTED]	[REDACTED]	HZ/R1	No	Yes	No	Yes	Yes	Yes	67%
10. [REDACTED] 11. [REDACTED]	[REDACTED]	M1	Yes	Yes	No	Yes	Yes	No	67%
12. [REDACTED]	[REDACTED]	I	Yes	Yes	No	No	Yes	No	50%
13. [REDACTED]	[REDACTED]	M1/I	No	Yes	No	Yes	Yes	Yes	67%

- M1 – Light industrial, M2 – Medium industrial, M3 – Heavy Industrial, C4 – General commercial, HZ – Highway, RA – Rural area, R1 – Estate residential, I - Institutional

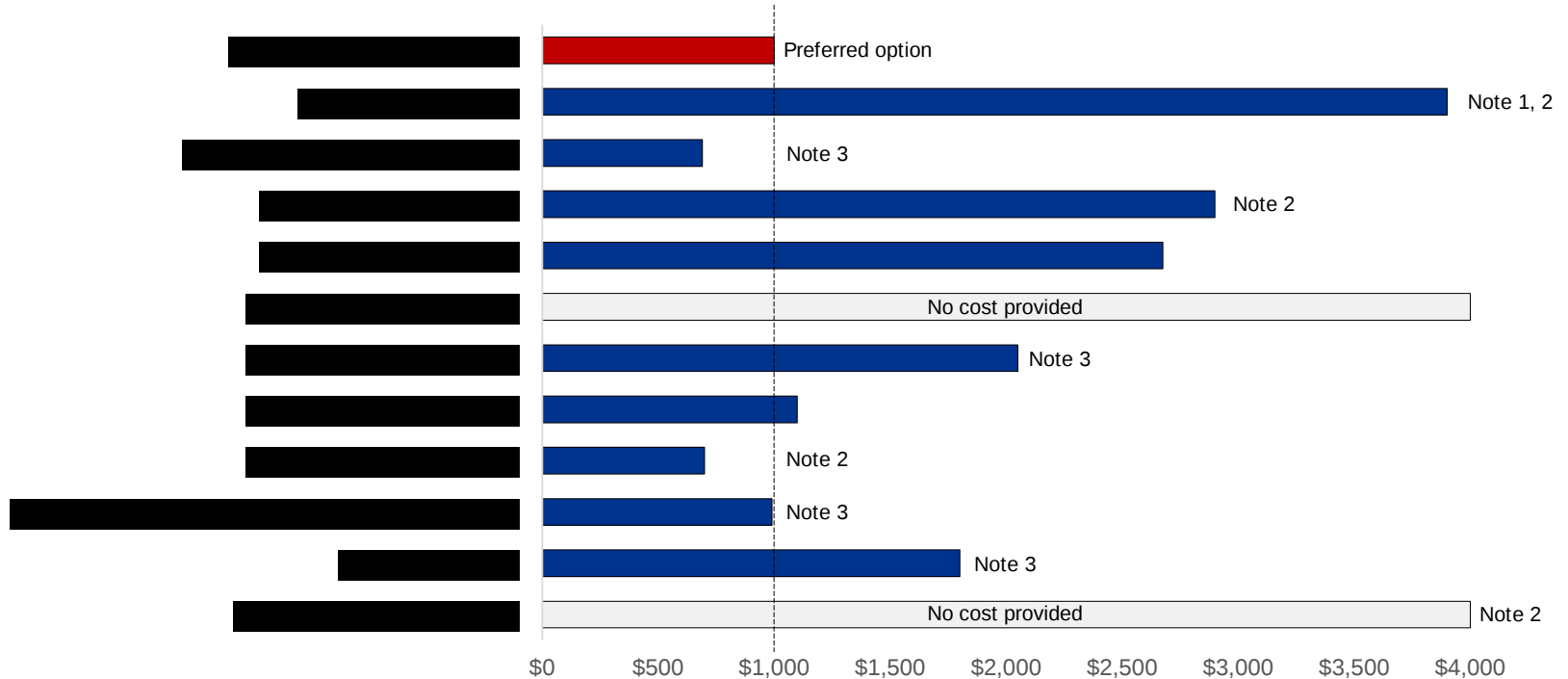
** Yes – Positive impact on site selection

No – Negative impact on site selection

Site Financial Analysis

As noted earlier in the report, the evaluation of the identified sites based on non-financial considerations has identified one site [REDACTED] as the preferred alternative, with all other sites excluded due to their inability to meet one or more of the evaluation criteria. From a financial perspective, the preferred site has the third lowest acquisition cost of the identified options, recognizing that the two lowest cost options have additional costs relating to site preparation.

Estimated Land Acquisition Cost (in thousands)



Note 1 – Requires additional costs for servicing

Note 2 – Requires additional costs for demolition and removal of existing structures on property

Note 3 – Requires additional costs for soils investigation and site preparation to address anticipated soil condition issues

Site Selection Analysis

From a financial perspective, the construction of a new service centre in comparison to a lease arrangement will result in a higher upfront incremental cost, with lower operating costs on a go-forward basis. As summarized below, our analysis indicates that over a 20-year period, the total notional cash flows associated with leasing a new service centre will be in the order of █████ million. In comparison, the total cash outflows associated with constructing a new service centre will be in the order of █████ million. In addition, as there is a residual value associated with the facility at the end of the period (estimated to be █████ million in notional dollars), the notional net cash flows are expected to be negative as the increase in the property's value is expected to offset the incremental ownership costs.

From a net present value perspective, the two scenarios are relatively consistent, with the net present value of the cash outflows for the lease option (█████ million) being lower than the cash outflows, net of residual value, for the owned option (█████ million).

(in thousands)	Reference	Leased Facility		Owned Facility	
		Notional	NPV (Note 6)	Notional	NPV (Note 6)
Facility construction cost (including property acquisition)	(note 1)	–	–	█████	█████
Leasing costs	(note 2)	\$18,641	\$8,781	–	–
Operating costs (including property taxes)	(note 3)	–	–	–	–
Building insurance	(note 4)	–	–	█████	█████
Total cash outflows		\$18,641	\$8,781	█████	█████
Residual value of facility	(note 5)	–	–	█████	█████
Cash outflows net of residual value		\$18,641	\$8,781	█████	█████

The key assumptions for the financial analysis are included on the following page.

Site Selection Analysis

Note 1 – Based on initial cost estimates provided by MGP. The capital cost estimate consists of \$█ million for the acquisition of the preferred site and \$█ million for the construction of the new service centre.

Note 2 – For the purposes of our analysis, we have assumed that an arrangement for a new leased service centre would have different terms than Algoma’s existing lease due to the fact that Algoma currently subleases its service centre from Hydro One Networks Inc., which we believe provides a lower lease rate than what would otherwise be charged for a stand-alone lease. Rather, we have calculated an estimated lease rate of \$775,000 per year, which equates to a rate of \$18.58 per square foot, as follows.

Fair market value of property (see Note 1)	\$
Required annual rate of return (a)	6%
Annual required lease	\$
Number of square feet (b)	41,703
Lease rate per square foot	\$

- (a) Based on discussions with local real estate agents, we understand that the rate of return typically considered for Triple-A tenants is in the rate of 5% to 6%, which reflects (i) the current cost of capital; and (ii) the low risk profile associated with the tenants.
- (b) Based on information provided by MGP, we understand the proposed service centre will have a total area of 41,703 square feet, comprised of 13,676 square feet for office space, 15,747 square feet for the repairs and workshops areas and 12,280 square feet for fleet storage garage.

Lease costs are projected to increase at a rate of 2% per year.

Note 3 – For the purposes of our analysis, we have assumed that operating costs associated with the service centre will be consistent under both scenarios as the anticipated lease arrangement would be on a triple-net basis, under which all operating costs would be paid by the tenant with the exception of building insurance. Under a triple-net lease arrangement, building insurance costs are paid by the owner and not the tenant.

Note 4 – Based on discussions with Algoma Insurance Brokers, we have projected insurance costs to be \$10,000 per year. Insurance costs are projected to increase at a rate of 2% per year.

Site Selection Analysis

C. Financial Analysis (continued)

Note 5 – The residual value of the facility has been calculated based on an assumed annual increase in value of 2% per year, which is consistent with the projected rate of inflation.

Note 6 – The net present value of the notional cash flows has been calculated based on a 20-year projection period and a discount rate of 9.040%. The discount rate used represents the midpoint of Fortis Ontario's return on equity as indicated in Fortis Inc. Investor Presentation, April 2019.

Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and opportunities as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, Algoma Power Inc.

This report includes or makes reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in Algoma Power Inc. nor are we an insider or associate of Algoma Power Inc. or its management team. Our fees for this engagement are not contingent upon our findings or any other event. Accordingly, we believe we are independent of Algoma Power Inc. and are acting objectively.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

6. RECOMMENDATIONS: - Strategic Facility Planning

The program of building areas needs for API has been established at 41,703 square feet, for Administrative Offices, Operations Shops and Fleet, and a Fleet Storage garage.

The site size requirements to suit the development needs of API operations have also been identified and recommended to be in the range of 8 to 9 acres of land.

Thirteen potential and available sites within Sault Ste Marie were presented to the API management group which identified a list of benefit and draw back comparisons on each property, relative to suitability for API needs.

The preferred and recommended building site, of the 13 properties proposed, is identified as [REDACTED] at [REDACTED]. This vacant site seems to represent and reflect the most suitable characteristics needed to meet the functional and operational goals of API, for the following reasons:

- This is a vacant parcel of land located centrally, in the city of Sault Ste Marie's Industrial Park District.
- Zoning and Land use in this district and for this property is all **M2 – [Medium Industrial Zone]**, which is a compatible and a permitted use for API.
- This available parcel of land is [REDACTED] acres in size and can be severed in size to meet the needs of API.
- On this parcel, the land owner can provide access to both [REDACTED], to the east and [REDACTED] to the west. This provides good transportation route access to API's service points, to the north and east of Sault Ste Marie.
- Due to the configuration of this [REDACTED]-acre parcel of land, a severance of [REDACTED] acres with desired access provided from both [REDACTED] and [REDACTED].
This severance will likely leave the present land owner with limited usable land in this M2 Medium Industrial Zone, for further development. There might be an opportunity for API to negotiate with the land owner, the purchase of the total [REDACTED]-acre parcel at a lower price. This 1 [REDACTED] parcel would enable API to have the best possible use and flexibility of property, for master planning of the site, as well as allow for future expansion and growth.
- [REDACTED] at the southwest border of this [REDACTED]-acre parcel of land. (see site map on pages 18 and 19). The city of Sault Ste Marie is presently planning the extension of [REDACTED] from this location north to the [REDACTED], with expected construction in the foreseeable future. This extension will further enhance API access to service areas, to the north and east of the city.

6. RECOMMENDATIONS- Strategic Facility Planning (continued)

- The [REDACTED] will be a fully serviced roadway improving service availability to this proposed site.
- Land cost at \$125,000 per acre, appears in line with recent market costs of other properties located in this [REDACTED].
- Preliminary investigations on site services to this parcel of land [water, sanitary, storm sewer, power] appear all adequate, to service the needs of API. The parcel can be serviced from either access street. In general, this site appears to be readily and easily developable with minimum risk of cost escalation during the design phase beyond that which is considered “normal” development costs
- Soils appears to be glacial till with bearing capacity for conventional spread footing foundations expected.

The KPMG analysis of leasing versus building new, indicates a new built centre would result in a higher up-front incremental cost, but with a lower operating cost on a go-forward basis, over leasing space. However, there is a positive residual value in building at the end of the period, which is estimated to be [REDACTED] million in notional dollars, if built to own.

Algoma Power Inc.

A FortisOntario Company

Master Plan for Algoma Power Inc.

New Additions & Renovations Facility
for Algoma Power Inc. at 2 Sackville Road

March 2019



MGP ARCHITECTS • ENGINEER INC.



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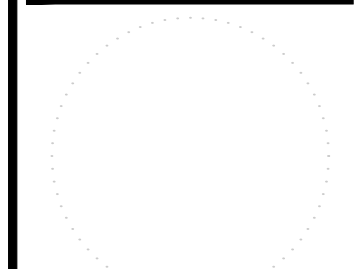
NEW ADDITIONS & RENOVATIONS FACILITY FOR ALGOMA POWER INC AT 2 SACKVILLE ROAD

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Certificate of Practice No. 3856

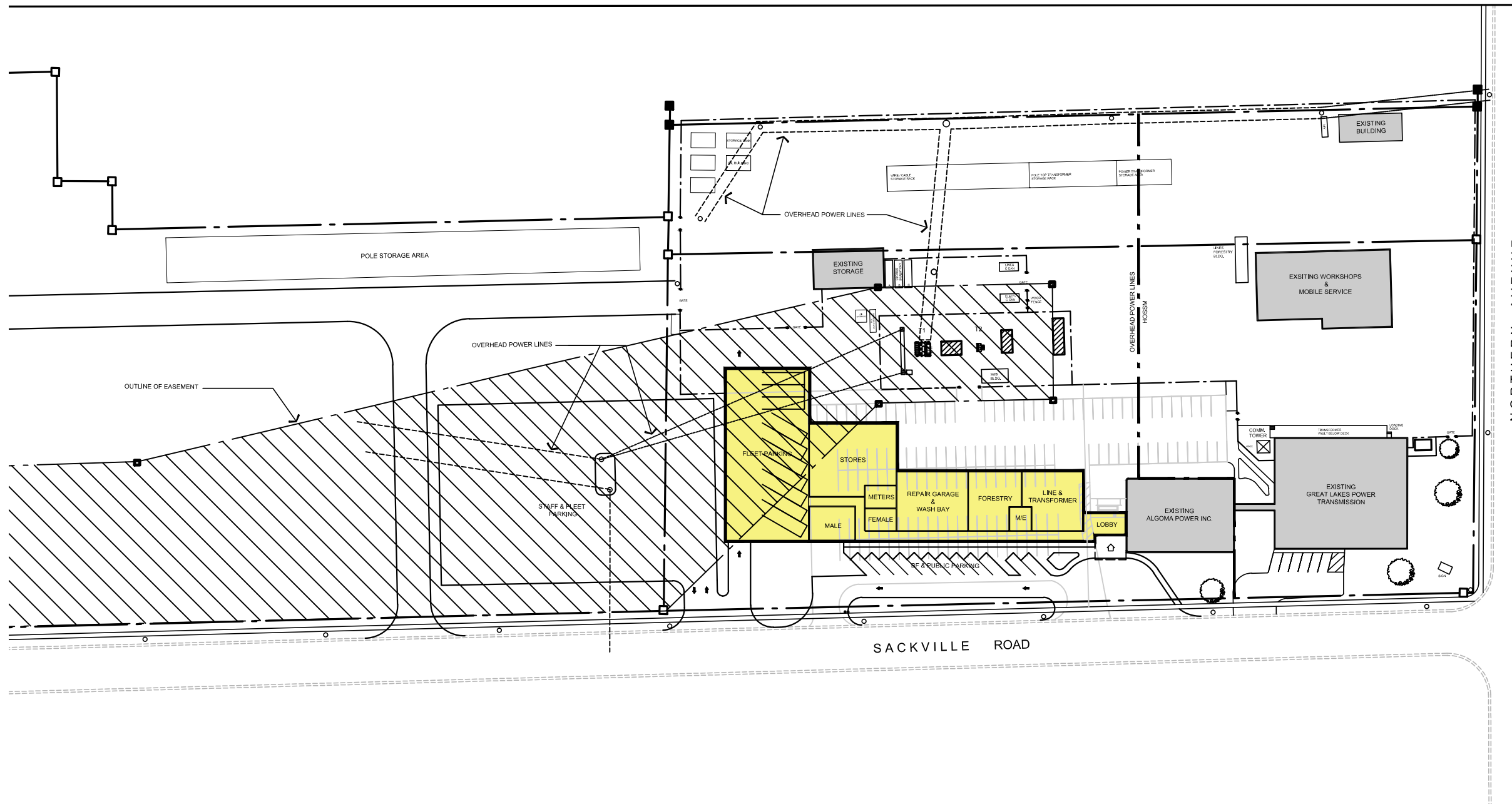
**NEW FACILITY FOR
ALGOMA POWER INC.
2 SACKVILLE ROAD
SAULT STE. MARIE, ON**

SITE PLAN

scale : AS NOTED
pic :
design : DG
drawn : DG
date : AUGUST 2018
plotted : 1 Jan 2000
printed :

number
18061 18061A910

SK-1



1 SITE PLAN
SK-1 SCALE 1"=100'-0"



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Certificate of Practice No. 3856

**NEW FACILITY FOR
ALGOMA POWER INC.
2 SACKVILLE ROAD
SAULT STE. MARIE, ON**

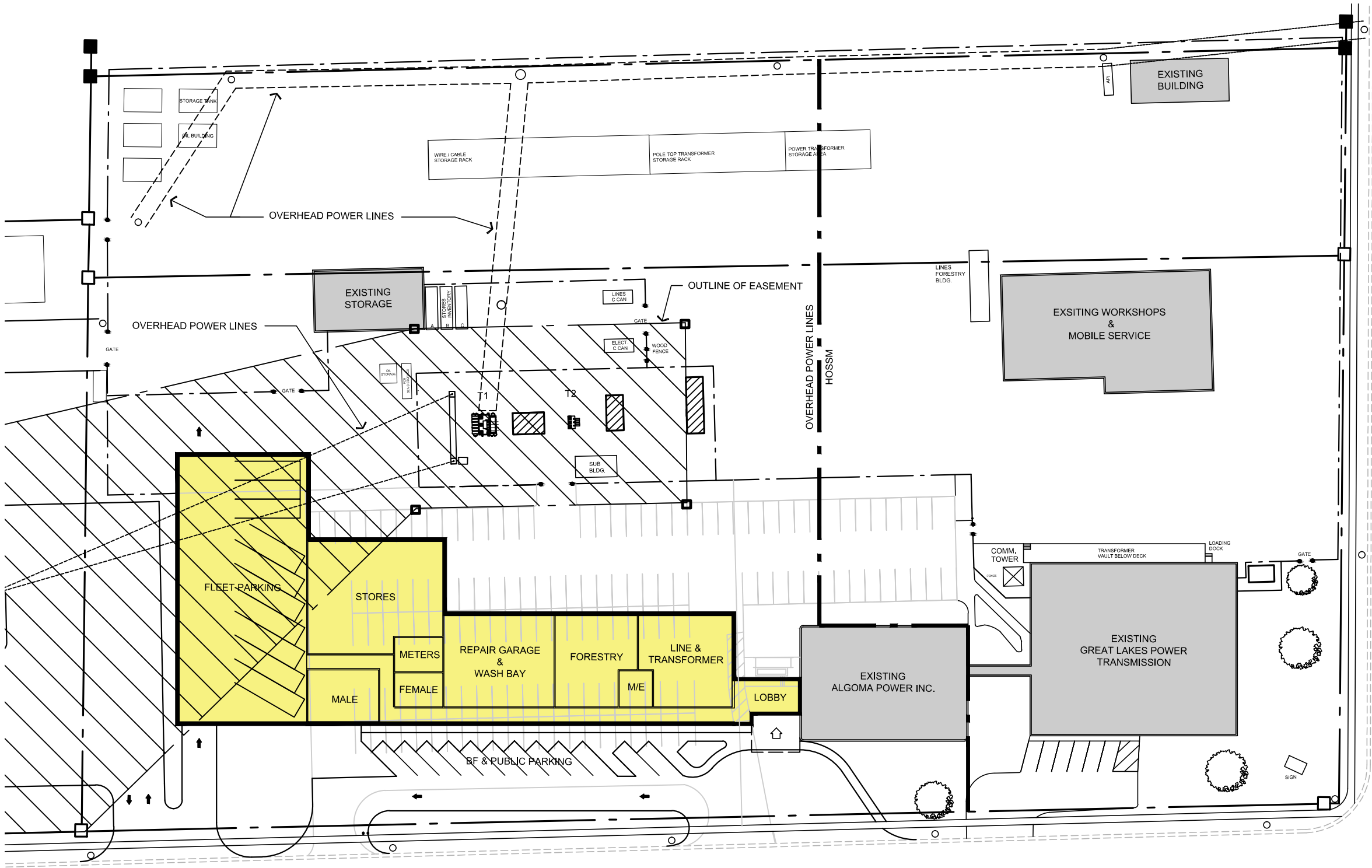
SITE PLAN

scale : AS NOTED
pic :
design : DG
drawn : DG
date : AUGUST 2018
plotted : 1 Jan 2000
printed :

number
18061 18061A910

SK-2

NORTHERN AVENUE



SACKVILLE ROAD

1 SITE PLAN
SK-1 SCALE 1"=60'-0"

SUMMARY:

The extent of renovations to the existing API Office building on Sackville Road, would be limited to the Ground floor and Basement level. On the second floor, offices would remain as the API Admin Offices, with possible minor upgrades to finishes [painting etc.,]

The Ground floor would involve redesign to suit Customer Services and Engineering expansion needs. The Basement level will need reworking to add new Male and Female Change Rooms, Lockers and Washrooms. This will separate the present arrangement of shared Change facilities, which are presently located in the adjacent Hydro One's office building.

The proposed new additions for Operations /Shops and covered Fleet Garage, [an area of 28027 s.f] as identified on the Site Plans SK-1 and SK -2; is restrictive and conflicts with existing overhead 115Kv transmission lines and the identified easement clearances. Building below the lines and within the easements may limit development on this site.

The site is presently zoned M2 [medium industrial] which allows expansion development of this nature. The requirements for front yard set back from Sackville Road, was originally set at 50 feet [15m] back from Sackville Road. Recently this bylaw was amended, requiring an additional 20 feet[6m] for future road widening.

Since the existing two Admin Office buildings on site were built with a 50 foot setback, we think there are grounds to have the issue revisited by the City Planning Department and to ask for a Minor Variance Agreement to allow the 50 foot setback to remain.

The conceptual site plans SK1 and SK2 reflect the 50-foot setback, not 70 foot.

From what we understand, the city is asking for more widening in anticipation of the future expansion of Sackville Road, from Second Line thru to Third Line. We don't believe the 50-foot setback would impact the traffic volumes at the API site location. These discussions with the city should take place before proceeding with any future redevelopment on this site.

The existing storage compound would likely remain, with a designated space agreement put in place between API and the landlord of the property.

The API building has been identified to have the presence of designated substances. This designated substance survey will require updating if renovations or modifications to the existing building are contemplated.

With any new building additions, it is suggested to have the site soils investigated for environmental contamination as a precaution.

New & Renovated Facility for Algoma Power Inc. at 2 Sackville Rd

Preliminary Conceptual Design Estimate
9/5/2018
Project #18061

		COST	%	Unit Cost /GFA
A PROGRAM AREAS				
A1 Corporate / Administration / Offices	13,000 Square feet (existing space renovated on 2 floors)			
A2 Operations /Shops	15,747 Square feet			
A3 Fleet Storage Garage	<u>12,280 square feet</u>			
Total Program Area	41,027 square feet GFA [gross floor area- new & renovated space]			
B. BUILDINGS				
B1 - Corporate Administration / Offices	(Renovations)			
B2 - Operation/ Shops	(New)			
B3 - Fleet Storage Garage	(New)			
TOTAL B1/B2/B3 -EXCLUDING SITE SERVICES				
C. DESIGN & CONSTRUCTION CONTINGENCY ALLOWANCES				
C1 - Design Contingency	5%			
C2 - Construction contingency	5%			
TOTAL C1 & C2-				
TOTAL ESTIMATED CONSTRUCTION COST (EXCLUDING SITE)				
D. SITE DEVELOPMENT				
D1 - Soft and Hard Landscaping				
D2 - Civil Services				
D2.1 Sanitary Sewer				
D2.2 Stormwater Management & Sewers				
D2.3 Water Works				
D2.4 Gas				
D2.5 Electrical Transformer				
D2.6 Roadways and Asphalt Paving				
D2.7 Geotext 6				
D2.8 Storm Sewers				
D2.9 Sidewalks				
D2.10 Curbs				
D2.11 Replace East Sackville Rd				
TOTAL ESTIMATED CONSTRUCTION COST			plus HST	

Total GFA (gross floor area) is 41,027 sf

**New & Renovated Facility for
Algoma Power Inc. at
2 Sackville Rd**

**Preliminary Conceptual Design Estimate
9/5/2018
Project #18061**

MAIN EXCLUSIONS, ASSUMPTIONS & NOTES

Main Exclusions

The enclosed estimate does not account for the following items. If required, the owner should budget for these costs separately.

1. Professional Fees
2. HST
3. Loose furniture, fittings and equipment (modular furniture, storage units, hangers etc
4. Costs associated with security escorts, etc. if required
5. Building Permits and Fees etc.
6. Geotechnical soil and Environment investigations
7. Legal Surveys and topographical surveys
8. Owner moving expenses
9. Fast tracking of the work
10. Phasing and Staging Premium
11. Work Outside normal working hours
12. Professional Fees (Architects, Engineers, Project Managers)
13. Kitchen and Break Room, coffee shop equipment and appliances etc
14. Exterior building signage
15. Cost associated with abnormal site conditions (water, rock, contamination, lead, asbestos etc.)
16. Fleet carwash equipment
17. Window washing equipment
18. Waste disposal equipment and bins, etc.
19. Testing and commissioning of the works
20. Cost escalation beyond December 2019
21. Cost associated with relocating high voltage transmission lines

Main Assumptions

1. Work will be procured on the basis of a competitively bid stipulated sum form of contract
2. Bids will be received from a minimum of five general contractors
3. Bids will be received from a minimum of three sub-contractors for each trade
4. All work will be carried out during normal working hours.
5. Normal foundation conditions assumed on original clay soils

Estimate Notes

This estimate has been predicated upon the following criteria

1. Prices are based upon tender levels current at August 2018
2. HST is not included
3. All rates are based on I.C.I. Union Labour.
4. Lack of competitive bidding will impact the cost estimate herein



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PRIVATE AND CONFIDENTIAL

Mr. Gord Mezzomo
MGP Architects Engineers Inc.
123 East Street
Sault Ste. Marie, Ontario P6A 3C7

September 10, 2018

Dear Mr. Mezzomo

As requested, KPMG is pleased to provide our comments concerning lease rates in Sault Ste. Marie for Class A office space, industrial space and vacant land. We understand that our comments have been requested in connection with your review of potential facility alternatives for Algoma Power Inc. ("API").

Our comments are based on the following sources of information:

- Discussions with commercial real estate agents;
- Reviews of commercial lease listings available through the MLS website; and
- A review of available public information concerning lease rates.

Class A office space

Based on the results of our review, it appears that there is insufficient vacant Class A office space currently available in Sault Ste. Marie to meet the requirements of API. As such, it is likely that a landlord would be required to construct a new facility for API's use. Based on this assumption, the results of our review indicate that a potential lease rate would be in the range of \$20.00 to \$25.00 per square foot on a gross lease basis. Our review also indicates that property taxes, insurance and common area maintenance charges ("CAM") would be in the order of \$8.00 per square foot, resulting in a triple-net lease rate of between \$12.00 and \$17.00 per square foot.

Industrial space

The results of our analysis indicate that the average lease rate for industrial space (e.g. warehousing, fabrication and manufacturing workshops) is in the range of \$6.50 to \$7.50 per square foot on a triple-net lease basis, with property taxes, insurance and CAM amounting to approximately \$3.00 to \$3.50 per square foot. This equates to a gross lease of rate of \$9.50 to \$11.00 per square foot.



MGP Architects Engineers Inc.
September 10, 2018
Page 2

Vacant land

During the course of our review, we were unable to obtain information concerning vacant land lease rates in Sault Ste. Marie. However, we did identify vacant industrial land lease rates of \$500.00 per acre per month in Greater Sudbury. Given the proximity of Greater Sudbury to Sault Ste. Marie, we consider this to be a reasonable proxy for vacant industrial land lease rates in Sault Ste. Marie.

We trust the above is satisfactory for your purposes. Please feel free to contact the undersigned should you require anything further.

Yours very truly

KPMG LLP

Per Oscar A Poloni, CPA, CA, CBV
Partner

/lb



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PRIVATE AND CONFIDENTIAL

Mr. Gord Mezzomo
MGP Architects Engineers Inc.
123 East Street
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April 18, 2019

Dear Mr. Mezzomo:

We are writing in connection with our correspondence dated September 10, 2018 (the "KPMG Correspondence") wherein we provided our comments concerning lease rates in Sault Ste. Marie for Class A office space, industrial space and vacant land.

You have requested that we provide you with an update to our comments contained in the KPMG Correspondence, specifically whether there has been a significant change in the lease rates identified therein. In response to your request, we have:

- Inquired as to changes in market conditions for commercial office space, industrial space and vacant land with commercial real estate agents in Sault Ste. Marie; and
- Inquired as to changes in the local economy with representatives of the City of Sault Ste. Marie.

Based on these limited procedures, we have not identified any factors that would appear to result in a significant change to the comments included in the KPMG Correspondence.

We trust the above is satisfactory for your purposes. Please feel free to contact the undersigned should you require anything further.

Yours very truly

A handwritten signature in black ink, appearing to read "Oscar A. Poloni", written over a horizontal line.

Oscar A. Poloni, CPA, CA, CBV
Partner

/lb