



October 25, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Algoma Power Inc. ("API") 2022 IRM Application (EB-2021-0006)
Interrogatory Responses**

As set out in the OEB's October 6, 2021 Procedural Order No. 1, please find attached API's responses to interrogatories. API has included an updated rate generator model, based on the OEB Staff version submitted on October 15, 2021, and an updated application reflecting changes to DVAs within the rate generator model.

API confirms that the responses do not include personal information as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*.

Please direct any questions or correspondence in this matter to the undersigned.

Sincerely,

Trevor Wilde, P.Eng., MBA
Manager, Regulatory Affairs
Phone: 289.808.2236

RegulatoryAffairs@FortisOntario.com

1-Staff-1

Ref 1: EB-2019-0019 Decision and Order, October 17, 2019 (Schedule A – Settlement Proposal)

In reference 1, it states that “To the extent that API exceeds the approved \$12.69M capital budget when completing the project, API will have to explain and justify the prudence of the overspend if it seeks to include the full capital expenditure in rate base upon rebasing for rate-setting on a going forward basis.”

API stated that the forecasted total cost for the Sault Ste. Marie project is \$14.86M.

- a) Please confirm if at API’s next rebasing, API intends to include the full \$14.86M in rate base.
- b) Please provide a breakdown of the cost increase of \$2.17M and details on the prudence of this additional spending. Please also note which costs were higher than anticipated and which costs were unforeseen.

RESPONSE:

- a) Confirmed that API intends to include the full cost of the Sault Ste. Marie project in rate base at its next rebasing; as noted in the question API’s current forecasted total cost of the project is \$14.86M and as discussed in part b) the final cost may vary from this updated forecast.
- b) The \$14.86M is an updated forecast, and the project is still underway at this time. This forecast does not necessarily reflect the final cost of the project upon completion. Accordingly, the final drivers for the forecast increase and the impact of each driver on the final cost are not yet certain.

API has not provided further detail in this response because the project is still under construction and API is actively working with third-party contractors to prudently manage the costs and scope of the project.

API reiterates that it is not seeking recovery of the \$2.17M differential as part of this Application. The prudence of the project costs will be fully assessed as part of API’s next cost of service application; until then API will be absorbing any incremental costs of the project beyond the \$12.69M budget approved for IRM funding in EB-2019-0019.

1-Staff-2

Ref 1: ACM Model

Ref 2: EB-2019-0019 ACM Model, August 14, 2019

Ref 3: EB-2019-0019 Chapter 2 Appendices, November 7, 2019

In reference 3, the total capital expenditures for 2022 were \$21.5M. In reference 1, API used a total capital expense of \$38.2M. API explained that it had adjusted the 2022 total capital expenditures by removing capital expenditures for Echo River TS ACM and added back the capital expenditures for Sault Facility Project.

API also stated that majority of the variances in capital expenditures is due to timing of expenditures and higher than planned costs.

- a) Based on API's EB-2019-0019 application, the \$21.5M appears to include the full amount of the Sault Ste. Marie Facility Project in the 2022 capital expenditures. Please explain why API added additional capital expenditures for the Sault Ste. Marie Facility Project to the 2022 total capital expenditure amount in the current ACM model.
- b) The total capital expenditure variance between the ACM model in EB-2019-0019 and the current ACM model for 2022 is \$16.7M. Please provide a specific breakdown of projects that were moved from other years to 2022 and projects that had higher than anticipated costs, along with an explanation of the variance.
- c) For projects that were moved from other years to 2022, please explain how API intends to have the resources available to complete these projects.

RESPONSE:

- a) Largely, capital expenditures can be a good proxy for capital additions. However, when there are large, multi-year projects this may not be the case. The Sault Ste. Marie project (and Echo River TS project) are both examples of this. For certainty, the Sault St. Marie project will have the majority of its spending occur in 2021 and 2022 (and small amounts of work occurring in prior years leading up to construction), with an in-service date in 2022. Therefore, the forecast capital expenditures in the ACM model were adjusted to more closely reflect the capital additions of the ACM projects.

Note that API made this change in the ACM model inputs on a principled basis. If API's adjustments were to be removed there is no impact to the capital that is eligible for ACM treatment, nor to the revenue requirement.

- b) The current forecast capital expenditure for 2022 is \$32.7M, while the DSP forecast for 2022 was \$21.5M. This is a difference of approximately \$11.2M. This is a more appropriate comparator than the suggested \$16.7M difference (38.2-21.5) because it avoids confusing ACM model changes discussed above in part a) (removing Echo River TS spending from the year and adding all SSM facility spending, to more closely reflect capital addition timing for ACM projects).

As shown in the table below, the largest change is the addition of a new customer connection request that was unconfirmed at the time the DSP was prepared.

Table 1-Staff-2: 2022 Forecast Capital Expenditures (\$ millions)

Project	DSP	Updated Forecast	Difference
New customer connection	0	16.0	+16.0
SSM Facility project	14.1	5.1	-9.0
Echo River TS	0	4.1	+4.1
Other	7.4	7.5	+0.1
Total	21.5	32.7	11.2

- c) API resources itself for baseload work levels, and uses external resources for peak workload times, for large projects, or in areas where it does not have expertise. 2022 has multiple large projects (e.g. Echo River TS and the SSM facility project), and as such found it prudent to largely use external resources for these projects, and some others.

1-Staff-3

Ref 1: API_2022_GA_Analysis_Workform_20210818.xlsx, Tab "Account 1588" Ref 2: 2022 IRM Rate Generator Model, "3. Continuity Schedule"

Large balances are not expected for Account 1588 as it should only hold the variance between commodity costs based on actual line losses and commodity revenues calculated using values for line losses approved by the OEB in the utility's last rebasing application. At reference 1, API calculated the ratio of account 1588 as a percentage of power purchased (account 4705) as follows:

Account 1588 Reasonability Test					
Year	Account 1588 - RSVA Power			Account 4705 - Power Purchased	Account 1588 as % of Account 4705
	Transactions ¹	Principal Adjustments ¹	Total Activity in Calendar Year		
2020	- 335,728	446,596	110,868	18,497,291	0.6%
Cumulative	- 335,728	446,596	110,868	18,497,291	0.6%

OEB staff noted the information in the table above does not match the information included in reference 2. Please see below:

Account 1588 - as per Continuity Schedule

	Account	Transactions	Principal Adjustments
RSVA - Power	1588	831,667	(359,062)

- a) Please confirm this calculation or provide a revised calculation if necessary.
- b) If the revised calculation is greater than 1% of the total power purchased, please provide an explanation, with due consideration to the expected impact of line losses.

RESPONSE:

- a) API has revised the Account 1588 reasonability test to align with the revised DVA continuity schedule. As a result of API's review of this IR, API has specifically revised the principal adjustments in the DVA continuity schedule for 1588 and 1589, as described in the principal adjustments tab of the revised GA Analysis Workform.
- b) The revised calculation is still within the 1% threshold of total power purchased.

1-Staff-4

Ref 1: 2022 IRM Rate Generator Model, “1. Information Sheet”

API noted in its manager's summary that it had both Class A and Class B customers throughout the underlying period of the Group 1 balances requested for disposition. On Sheet 1 of the IRM model, API answered “no” to questions 5 and 6.

Please confirm that API had no transition customers during the underlying disposition period for its Group 1 balances. If so, please update the necessary worksheets in the IRM model.

RESPONSE:

API confirms that there are no transition customers during the underlying disposition period for its Group 1 balances.

1-Staff-5

Ref 1: 2022 IRM Rate Generator Model, "1. Information Sheet"

OEB staff has identified that the Non-RPP Retailer Average Price and Average IESO Wholesale Market Price used at the above reference were incorrectly entered as \$0.2689. OEB staff has updated the pricing to reflect the correct amount of \$0.1060. Please confirm that the updated model included with these interrogatories reflects this update.

RESPONSE:

Confirmed.