Algoma Power Inc.
A FORTIS ONTARIO Company

November 16, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

RE: Algoma Power Inc ("API") 2023 IRM Distribution Rate Application (OEB Case No. EB-2022-0014)
Updated Echo River TS ACM Proposal

As part of its 2023 IRM Application Algoma Power Inc. (API) has applied for ACM funding effective January 1, 2023, in relation to the Echo River TS project, which received ACM approval in Algoma's 2020 Cost-of-Service rate application.

API is writing to inform the Board regarding the progress of the project and API's updated proposals for ACM funding, as well as to document other "routine" model updates made in respect of the above-noted case.

Background

The driver for the Echo River TS project was outlined in the Needs Assessment completed with the first cycle of regional planning in 2014 for the East Lake Superior region, which identified an unacceptable reliability risk in the region, related to the Echo River TS. Specifically, in the case of certain outage scenarios, the expected restoration time would exceed the maximum tolerance level of 8 hours plus travel time. Since the need to address the unacceptable risk was identified various wires-based solutions to mitigate the reliability concern have been investigated. The project need and optimal solution have been re-affirmed in the most recent Regional Infrastructure Plan, and independently through API's own due diligence.

API included the project within its 2020 COS application. At that time, the project was estimated by HONI to be between $6M and $9M. API included a proposal of $7.5M in its DSP and ACM request, which was the level of cost reflected in its Settlement Agreement supporting the Decision and Order in that Application based on HONI's high level estimate at the time.

Project Progress Update

Since the conclusion of the Cost of Service proceeding, API and HONI entered into a Connection Cost Estimate Agreement in November 2019, which resulted in HONI providing a more detailed and accurate Class 3 estimate (accuracy of -20%/+30%). The updated estimate of $7.766M was provided on December 15, 2020.

API also retained a qualified third-party consultant to develop two reports, consistent with the commitments made in its Settlement Agreement:

1) A report analyzing the optimal distribution level alternative to meet the reliability risk issue for the East of Sault Ste. Marie distribution system; and
2) A Business Case report comparing the distribution level solution with the transmission alternative, which concluded that the transmission alternative was optimal from a technical and cost perspective.

In recent months, HONI has made progress on this project. In July and September, API received project updates reflecting project cost increases from Hydro One. The updates have led to a total forecasted project cost exceeding the 30% threshold contemplated in the ACM framework.

API submitted an ACM funding request with its 2023 IRM application for $8.01M. This update reflected the Class 3 Connection Cost Agreement cost estimate, plus the costs to prepare the business case studies. The forecasted cost increases were not reflected in the ACM proposal. At the time of the Application, though the initial report reflecting an increase had been recently received, API felt it was too early in its due diligence with HONI to include the increased forecast.

API has requested and will be requesting further details on the cost drivers for these increases from HONI and is working to understand whether and to what extent further cost variances are possible. At this time, the best information available indicates that the forecast in-service date for this project remains mid-2023.

Despite the cost escalation API believes that the proposed project remains the best option to meet the assessed need under the circumstances. Accordingly, while API remains engaged with HONI on the details and limits of the cost escalation, API expects to proceed with the project as planned.

ACM Updated Funding Proposal

At this time, API is proposing to amend its Application to request an ACM Rate Rider funding of $7.5M, reflecting the level originally included in the 2020 Settlement. API has proposed this approach to simplify the funding request currently before the OEB, avoiding further procedural complexity and delays to the implementation of 2023 rates. API respectfully makes this proposal with the expectation that API will be eligible to record and apply for the disposition of the differential between the ACM funding it recovers and the actual revenue requirement associated with the full cost of the completed project during the time before the asset is added to rate base through the use of the various Account 1508- Sub Accounts related to Incremental Capital. It is API's expectation that proceeding in this fashion will:

a) allow API's 2023 IRM application to proceed under delegated authority as originally contemplated by the OEB in its letter dated August 24, 2022, as the ACM funding request will mirror without variation the ACM approval provided by the OEB as part of API's 2020 COS Application;

b) allow API time to review the details underpinning the escalation in costs associated with the project for presentation to the OEB as part of API's 2025 COS Application; and

c) preserve the OEB and stakeholders' opportunity to review the escalation in costs associated with the project in the context of both:

   i) API's eligibility for incremental ACM funding upon the true-up of the relevant 1508 accounts as between the ACM funding collected by API and the actual revenue requirement for the project based on its actual costs[1], and

   ii) API's anticipated request in its 2025 COS Application to add the entire capital cost for the project to API's opening 2025 rate base.

Other Model Updates

API has completed updates to its models reflecting the ACM capital expenditure change, as well as the following "routine" updates:

1. Reflect the updated price escalator of 3.7% for use in 2023 distribution rate-setting, making the IRM adjustment applicable to API 3.1%.
2. Updating the Pole Attachment, Retail Service Charges, and Smart Metering Entity Charge per OEB Decisions in (EB-2022-0221, EB-2022-0220, and EB-2022-0137 respectively).
3. Updating the CCA rate applicable to the Echo River TS ACM to 8%, consistent with the rate required for Class 47 investments. The original application initially reflected the rate of 4% (Class 1). API has reviewed the nature of the investment (being transmission equipment) and concluded this is the appropriate classification. The net impact of this change is to decrease the revenue requirement associated with the project.
4. Reflect the RRRP increase level of 3.11% confirmed with OEB staff.

As in its original Application, API has made updates to the Tariff of Rates to properly reflect the proposed distribution rates; namely to reflect the correct rates for the Residential R1 (ii) class. Additionally, API has updated the Smart Metering Entity Charge to $0.42/ month in the Tariff only (as the relevant cells in the Rate Generator are locked).

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[1] EB-2014-0219, Report of the Board New Policy Options for the Funding of Capital Investments: The Advanced Capital Module, September 18, 2014, pages 13, 27:

> *Following a cost of service application, per the current ICM policy (which is now extended to ACMs), the actual costs and the recoveries would be reviewed for any material discrepancies. If there are significant variances between the revenue requirement based on actuals and the revenues collected through the ACM rate riders, the Board may decide to true up any differences. The following sections provide further discussion and details on ACM and ICM approvals during the IR period.*
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> *If the Board approves the true-up of any variances for ACM/ICM projects at the next cost of service application, the recalculated revenue requirement relating to the actual ACM/ICM capital expenditures should be compared to the rate rider revenues collected in the same period, plus the carrying charges in the respective sub-accounts. These variances would then be refunded to, or collected from, customers through a rate rider.*

Sincerely,

Oana Stefan
Digitally signed by Oana Stefan
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