EXHIBIT 4 – OPERATING EXPENSES

2025 Cost of Service

Algoma Power Inc.
EB-2024-0007

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4.1 OPERATING EXPENSES OVERVIEW

4.1.1 OVERVIEW OF OPERATING EXPENSES

The operating costs found in this Exhibit represent expenditures that are required to maintain and operate API's distribution system assets at the targeted levels of performance, to meet customer expectations, ensure public and employee safety and provide quality service. These operating costs are necessary to comply with the Distribution System Code, environmental requirements, and government direction.

OM&A expenses consist of, but are not limited to: the required expenditures necessary to maintain and operate API's distribution system assets; the costs associated with metering, billing, and collecting from API's customers; the costs associated with ensuring the safety of all stakeholders; and costs to maintain distribution service quality and reliability.

API's 2025 Test Year operating costs (excluding property tax) are projected to be $16,319,014, which represents an increase of $2,630,732 from 2020 Board Approved Cost of Service or 19.2% (Compound Annual Growth Rate: 3.6%). A summary of the changes from 2020 Board Approved to 2025 Test can be found in Table 1 below. Table 2 shows an excerpt of Appendix 2-JA from the Chapter 2 filing requirements.

Table 1– 2020 Board Approved Compared to 2025 Test OM&A

	2020 Board Approved	2025 Test Year	2020 BA to 2025 Test Variance
Operations	$ 1,732,837	$ 2,563,055	$ 830,217
Maintenance	$ 5,282,210	$ 6,711,543	$ 1,429,333
Billing and Collecting	$ 986,414	$ 1,085,080	$ 98,665
Community Relations	$ 96,558	$ 75,220	-$ 21,338
Administrative and General	$ 5,559,123	$ 5,842,116	$ 282,994
Total OM&A	**$ 13,657,142**	**$ 16,277,014**	**$ 2,619,872**
LEAP	$ 31,140	$ 42,000	$ 10,860
Total OM&A incl. LEAP	**$ 13,688,282**	**$ 16,319,014**	**$ 2,630,732**

Table 2 – OEB Appendix 2-JA Summary of Recoverable OM&A Expenses

	2020 Board Approved	2020 Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS	MIFRS
Operations	$ 1,732,837	$ 1,481,440	$ 1,624,753	$ 1,891,114	$ 2,001,412	$ 2,049,080	$ 2,563,055
Maintenance	$ 5,282,210	$ 5,596,378	$ 5,546,052	$ 5,496,523	$ 5,603,445	$ 5,834,295	$ 6,711,543
SubTotal	**$ 7,015,047**	**$ 7,077,818**	**$ 7,170,805**	**$ 7,387,637**	**$ 7,604,856**	**$ 7,883,376**	**$ 9,274,598**
%Change (year over year)		0.9%	1.3%	3.0%	2.9%	3.7%	17.6%
%Change (Test Year vs Last Rebasing Year - Actual)							31.0%
Billing and Collecting	$ 986,414	$ 951,794	$ 907,175	$ 891,233	$ 959,849	$ 1,039,479	$ 1,085,080
Community Relations	$ 96,558	$ 34,402	$ 52,871	$ 70,420	$ 68,681	$ 69,488	$ 75,220
Administrative and General	$ 5,589,735	$ 5,292,721	$ 5,477,480	$ 5,552,569	$ 5,360,101	$ 5,614,130	$ 5,884,116
SubTotal	**$ 6,672,707**	**$ 6,278,917**	**$ 6,437,526**	**$ 6,514,222**	**$ 6,388,631**	**$ 6,723,097**	**$ 7,044,416**
%Change (year over year)		-5.9%	2.5%	1.2%	-1.9%	5.2%	4.8%
%Change (Test Year vs Last Rebasing Year - Actual)							12.2%
Total	**$ 13,687,754**	**$ 13,356,735**	**$ 13,608,330**	**$ 13,901,859**	**$ 13,993,487**	**$ 14,606,472**	**$ 16,319,014**
%Change (year over year)		-2.4%	1.9%	2.2%	0.7%	4.4%	11.7%

Cost drivers related to the year over year variances in OM&A have been outlined in Section 4.2 of this Exhibit. The primary drivers of the $2,631,260 increase from 2020 Board Approved to 2025 Test are:

- increased right of way maintenance (vegetation management) program costs per Appendix 2-JB of approximately $1,245,000 which are required to address increases in the cost to complete VM work, as well as increases in the amount and complexity of the work to be completed;

- Increased right of way land fees of approximately $664,000 which are required in order for API to operate its existing distribution system in a cost-effective manner;
- Increases in compensation costs of approximately $498,000, the details of which are further discussed in section 4.4 below, and which are shown to be trending consistently with industry inflation measures and are necessary to continue to attract and retain qualified staff to deliver the high service quality that API's customers value ;
- increased shared service and corporate allocations per Appendix 2-N of approximately $403,000 needed to continue to support API in delivering service and meeting its obligations such as Health, Safety and Environment, Cybersecurity and regulatory compliance ; and,
- the increases above are partially offset by total decreases of $(277,000), with the largest driver being related to a decrease in building rent following API's construction of the SSM Facility.

Table 3 below shows an excerpt from Appendix 2-L of the Chapter 2 filing requirements.

Table 3 – OEB Appendix 2-L OM&A Cost per Customer and per FTE

	2020 Board Approved	2020 Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis							
OM&A Costs							
O&M	$ 7,015,047	$ 7,077,818	$ 7,170,805	$ 7,387,637	$ 7,604,856	$ 7,883,376	$ 9,274,598
Admin Expenses	$ 6,672,707	$ 6,278,917	$ 6,437,526	$ 6,514,222	$ 6,388,631	$ 6,723,097	$ 7,044,416
Total Recoverable OM&A from Appendix 2-JB [5]	$ 13,687,754	$ 13,356,735	$ 13,608,330	$ 13,901,859	$ 13,993,487	$ 14,606,472	$ 16,319,014
Number of Customers [2,4]	12,110	11,923	12,171	12,280	12,380	12,408	12,436
Number of FTEs [3,4]	70	65	68	68	71	74	74
Customers/FTEs	173	183	179	181	174	168	168
OM&A cost per customer							
O&M per customer	$579	$594	$589	$602	$614	$635	$746
Admin per customer	$551	$527	$529	$530	$516	$542	$566
Total OM&A per customer	$1,130	$1,120	$1,118	$1,132	$1,130	$1,177	$1,312
OM&A cost per FTE							
O&M per FTE	$100,215	$108,890	$105,453	$108,642	$107,111	$106,532	$125,332
Admin per FTE	$95,324	$96,599	$94,669	$95,797	$89,981	$90,853	$95,195
Total OM&A per FTE	$195,539	$205,488	$200,123	$204,439	$197,091	$197,385	$220,527

Total OM&A per customer has increased from $1,130 per customer in 2020 Board Approved to $1,312 per customer in 2025 Test, an increase of $182 per customer or 16.1%. This represents a compound annual growth rate of 3.0%. API notes that the compound annual growth rate for OEB inflation over the same period is estimated to be 3.86%. Table 4 below shows the OEB's Inflation Factor, in the year applicable for rate-setting (part 1), as well as the year those inflation levels were experienced (part 2; ie: eliminating the two year lag build in to IRM escalations).

Table 4- OEB Inflation over Historical Period

	Inflation Factor Applicable to Rates	
Year	Rate	Notes
2021	2.20%	
2022	3.30%	
2023	3.70%	
2024	4.80%	
2025	3.60%	forecast based on available STATSCAN data
CAGR	3.52%	
	OEB's GDP IPI for Cost Increases in:	
Year	Rate	Notes
2021	3.70%	
2022	4.80%	
2023	3.60%	forecast based on STATSCAN
2024	3.60%	forecast based on '23 prediction
2025	3.60%	forecast based on '23 prediction
CAGR	3.86%	

Total OM&A per FTE has increased from $195,539 per FTE in 2020 Board Approved to $220,527 per FTE in 2025 Test, an increase of $24,988 per FTE or 12.8% (CAGR of 2.4%). API notes that much of the 2020-2025 OM&A increase detailed in this Exhibit is not related to the number of FTEs, for example there is limited labour expense contributing to the increase in the Land Rights cost driver. Nonetheless, API's OM&A per FTE compound annual growth of 2.4% is still below inflation.

As a rural and very low-density distributor, API's cost drivers are inherently different than the average Ontario LDC. As such, API believes that asset-driven metrics such as cost per km and year-over-year trending in total cost efficiency are more reflective of its cost control performance than the OM&A metrics in Appendix 2-L which are based on customer numbers, FTE counts, and benchmarking against other Ontario LDCs. A number of asset-based and other metrics are presented in the DSP (Appendix 2A to Exhibit 2) and the Business Plan (Appendix 1B to Exhibit 1).

Budgeting and Inflation Rate and Assumptions

API's Test Year budget was prepared in Q3/Q4 2023 based on budget proposals from API's management team to meet API's goals for quality of service as outlined in Exhibit 1. The budgets were presented to API's executive team for adjustments and approvals.

Labour costs were budgeted based on known and forecasted compensation adjustments, which are outlined in section 4.4. In preparing its 2025 Test Year budget numbers, API has reviewed the OEB published inflation rates (the Input Price Index or IPI) for use by utilities with respect to IRM rate applications. API selected to use the inflation rate of 2.75% for 2025, applicable to non-labour items where API did not have detailed, more accurate costing information available.

4.1.2 OVERVIEW OF OPERATING FUNCTIONS

To provide a more comprehensive understanding of API's operations, below is an overview of the functional responsibilities within the organization.

OPERATIONS AND MAINTENANCE

Operations and Maintenance includes the responsibilities associated with the effective and efficient delivery of system engineering and planning, construction, maintenance and operation of the distribution system. This incorporates the following departments: Lines Services, Forestry Services, Technical Service (Electrical, Stations & Metering), Engineering, Materials Management, Fleet and Facilities. API's Sault Ste. Marie Service Centre is the main operating centre with smaller service centres in both Wawa and Desbarats, Ontario.

Engineering

The API Engineering department is responsible for all activities associated with system planning, long-term asset management, capital program development and budgeting, project designs, development of the annual Vegetation Management Plan and standards development. The department is located in Sault Ste. Marie and has a variety of technical skilled staff to accomplish the activities listed below:

Capital / Maintenance Programs

- Identify the long-range capital programs and associated projects;
- Develop short range capital programs and associated projects;
- Develop and manage annual capital expenditure budgets;
- Coordinate, monitor and report on annual capital program progress;
- Develop the annual operation and maintenance plans and programs; and
- Maintain the Distribution System Plan to ensure alignment of all capital and maintenance programs.

Agreements / Corporate Data / Regulatory

- Develop and manage asset recording through corporate systems (GIS, SAP);
- Develop / negotiate / administer property and access agreements;
- Manage regulatory compliance to Electrical Safety Authority Reg. 22/04;
- Aggregate and report company outage statistics;
- Develop / negotiate / administrate Joint Use tenant agreements;
- Develop and manage highway and railway agreements;
- Assist and participate with rate applications and other OEB matters;
- Manage property and access engagements, disputes or concerns; and
- Manage landowner and land user engagement and notification as it relates to the annual work programs of the power line and Right-Of-Way.

Asset Management & Engineering

- Distribution System planning;
- Develop designs and standards for overhead, underground, and submarine power line construction;
- Prepare work orders;
- Develop standards for material and equipment specifications;
- Develop asset management plans and justifications;
- Manage small and large customer connections;
- Provide technical support for field level troubleshooting and maintenance;
- Assist with the development of business processes; and
- Coordinate with customers on technical issues.

Vegetation Management (VM)

- Develop the multi-year Vegetation Management Plan (VMP) and associated annual VM programs to support the Forestry department in achieving the overall VM objectives;
- Deliver the annual Vegetation Management operation and maintenance plan and programs;

- Manage the landowner notification, ensuring that any issues are resolved prior to issuing the program work release to the Forestry department;
- Track the program progress in API's vegetation management software and report on the progress of the annual program;
- Perform annual Right-Of-Way assessments, tracking growth patterns and the overall condition of the Right-Of-Way;
- Identify access constraints to the Right-Of-Way and oversee the development of the Access Trail program;
- Track and manage Forestry Work requests ensuring the work is coordinated within the overall Vegetation Management program; and
- Identify the vegetation clearing requirements associated with any other projects such as line upgrades.

Lines Services

The API Line Services department is responsible for all activities associated with field operations, maintenance, and outage restoration of API's distribution line network. To accomplish these activities, API operates out of three service centres positioned at geographically strategic locations, in consideration of the vast service area over which API operates. These dispersed service centres allow for faster response time to customer service and outage demands. Service centres in Wawa, Desbarats and Sault Ste. Marie have equipment, tools, and materials inventory to allow for all routine maintenance and outage restoration activities to be dispatched from those locations. A larger inventory of equipment and materials is located at the service centre in Sault Ste. Marie.

Distance is a significant factor in responding to customer requests and outages. Even with the spatial separation of the three service centres necessary to service a territory over 14,000 square kilometres, there are some significant distances that are travelled to reach customers. Sample travel times between the three service centres are provided in Table 4 below.

Table 5 – Sample Distances to Customers

Service Centre Location	Customer Location (Sample Customer Locations)	Distance	Travel Time with Line Truck*
Wawa	Missanabie	118km	2 hr
Sault Ste. Marie	Montreal River Harbour	116km	1hr 20 min
Desbarats	St. Joseph's Island	58km	54 min

**Travel times above assume normal weather and road conditions. Travel during inclement weather can be much longer. Access to remote sections of the distribution system for O&M activities may also be longer due to lack of regular road access.*

Routine activities of the Line Services department include:

Inspections

- Line patrols, utilizing various equipment and methods to complete the inspection cycle in a variety of geographic and climate conditions.
- On-road line sections are patrolled using pickup truck or equivalent, while off road sections are patrolled using all-terrain vehicle, snowmobile or on foot. Approximately ¼ (or 460km) of API circuits are off road.

Maintenance

- Maintenance is performed on pole installations or line hardware (such as switches and connections) as problems are identified through the inspection process or other means.

Outage response

- Outage response is a significant activity for the Lines department. API's reliability is impacted by the heavily forested and rugged terrain and climate of northern Ontario as well as the vastness of the service area.

Operational switching

- API has SCADA ready devices installed within its distribution system and has implemented and enabled communication between a handful of these devices to the main SCADA server. The current functionality of this implementation is focused on data acquisition, with supervisory and control planned as part of future investments. As a result, there are periodic system switching required for purposes of isolating sections of the API system for maintenance or capital work, or to respond to requests from the Transmitter (Hydro One Sault Ste. Marie) to de-energize certain feeders for worker safety within the Transmission substations.

Customer concerns

- API responds to customer concerns, which may relate to technical, power quality, or public safety in nature.

Construction

- API's lines services department performs powerline construction projects, including line rebuilds and upgrades, pole replacements, line relocations, customer expansion and connections and upgrades, conductor upgrades, insulator replacements, etc. Lines services also provides assistance with station construction projects..

Dispatching

The Dispatching function includes internal labour primarily from the lines department (with additional support from Technical Service), operating costs for radio equipment, and other third party support fees for after-hours customer call centre and dispatch. API's outage management strategy is based on continuing the support our currently developed Outage Management System, in conjunction with implementation and connection of field devices to our SCADA system. API has described its continued SCADA implementation in Section 4.2.2 of this Exhibit as well in the DSP.

Forestry Services

The Forestry department at API is responsible for all activities associated with field operations and maintenance of API's distribution Rights-of-Way. Given API's vast service territory including a significant portion which is rural and forested, vegetation management of the distribution Rights-of-Way throughout the API service area is key for system reliability and public safety. Approximately 85% of API's power lines have treed edges averaging 490 trees per km with an average height 20.7m (68ft). **Greater than 23% of API system has forested edges on *both* sides of the Right-of-Way**. The field work completed by API staff is mainly performed by utility arborist tradespersons. In addition to internal staff, a large portion of the field work is contracted out to companies that specialize in this type of work. Accordingly, the support to manage, administer and monitor these contracted services is also performed by this department.

Routine activities of the Forestry department include:

- Perform line clearing and brush control along the distribution Right-of-Way in accordance with the Vegetation Management Plan and the Right-of-Way standards;
- Manage, administer and monitor the forestry work contracted to third-parties in accordance with API's contract management system, the Vegetation Management Plan and the Right-of-Way standards;
- Identify and address hazard trees and encroaching vegetation through system patrols of subtransmission and distribution Right-of-Ways in remote locations;
- Support the Outage Response activities managed by the Lines department; and
- Manage and complete demand work, identified through the patrols, line upgrades work customer connections or customer concerns.

API has described its Vegetation Management Plan further in the DSP included in Exhibit 2 of this Application.

API ROW with treed backline

<u>Technical Services- Electrical, Metering and Stations</u>

The Technical Services department is responsible for two core functions- Stations and Metering, which are further described below.

Stations

The API Stations function comprises the activities associated with the maintenance and operation of API distribution stations throughout its system. These distribution stations house various equipment including transformers, switches, communication devices, cybersecurity monitoring devices and protective devices. The Stations department staff are responsible for completing the following:

- Station inspections;
- Sampling of power transformer and regulators for oil testing;
- Transformer and switch testing & maintenance;
- Oil containment inspection & maintenance;

- Infrared scanning of major electrical facilities and equipment;
- Voltage regulator verifications;
- Maintenance and Repair of all Stations Grounding;
- Upkeep of Station site security;
- SCADA testing and maintenance;
- Recloser inspection, maintenance and testing (both station and line reclosers); and
- Underground facility locates and manage locates.

Metering

The API Metering function relates to all activities associated with the metering assets and infrastructure. There are eight delivery points supplying electricity to the API system. Each of those delivery points are registered IESO metered facilities which require regular maintenance as prescribed by the market rules and are managed by a registered Meter Service Provider (“MSP”). Metering also includes the cost of operating and maintaining the Smart meters and its communication network.

API’s operation and maintenance costs related to its AMI system are primarily driven by monthly fees associated with operating and maintaining the AMI towers and repeaters. These fees include regular preventive maintenance performed by API’s AMI Vendor (Sensus), Industry Canada RF licensing costs, and other costs associated with each site items such as electrical consumption, communications backhaul and leasing charges for towers owned by third parties.

The meter trades and staff are responsible for completing the following:

- Meter reading, including meters not in time-of-use or non-communicating;
- Meter exchanges due to troubleshooting, meter failures/meter communication failures;
- Disconnects / reconnects for non-payment, customer vacancies or customer requests;
- Annual meter exchange program;
- Troubleshooting meter communications infrastructure including 8 base stations, 23 remote portals and 11 wholesale meter connections;
- Verification and maintenance of transformer rated meter installations;

- Record keeping associated with Measurement Canada compliance requirements;
- Supporting annual wholesale meter exchange program (supplement the MSP trade staff)
- Install Electric meters and, if required associated instrument transformers on new or upgraded electrical services

Customer Service

Customer Service primarily involves Billing, Collecting, Customer Portal support, Communication, Customer Demand work, and Account Maintenance.

In 2013, API began utilizing the FortisOntario SAP system for managing its customer information and contact management. Through this implementation, API billing and collecting functions were centralized similarly to the other FortisOntario utilities. Local functions include Account Maintenance, Account Receivable Management, Credit and Collections, Communication, Customer Portal support, Coordination to fulfil Customer Requests for Upgrades, Connections, etc., and all associated customer inquiry assistance.

Customer Service also includes Community Relations, namely Public Safety programs, directing customers to the appropriate organization for Energy Conservation, Communication, Large Customer Outreach, and attending regular municipal and First Nations customer and community stakeholder meetings.

Materials Management

Materials Management includes activities associated with procurement, storage and handling of materials and related distribution hardware that is required for all of the capital, operating and maintenance programs. There is a larger warehouse located in Sault Ste. Marie in addition to two smaller inventory locations in both the Desbarats and Wawa service centres. All three locations include poles, wire, transformers and critical spares inventory. There are dedicated resources that are accountable for all procurement and inventory management including shipping and receiving.

Facilities Management

As noted earlier, there are three service centres; Sault Ste. Marie, Desbarats, and Wawa. Activities performed in this function involve the operation and maintenance of these facilities including janitorial service, snow removal, yard maintenance and maintenance of building equipment and physical security systems.

GENERAL AND ADMINISTRATION

Health, Safety & Environment

An integral component of API's operations is its Health, Safety & Environment ("HSE") department and its systematic approach to proactively managing safety and the environment.

API utilizes an integrated management system for HSE, consistent with the standards of ISO 45001 (Health & Safety) and ISO 14001 (Environment) and developed within the context of FortisOntario's structure. The management system is based upon the premise of "Plan, Do, Check and Act". Both of these standards have been developed based on a foundation of a strong Internal Responsibility System. This is a key value contained in the *Occupational Health and Safety Act*. All HS&E responsibilities are identified through the management system and have been clearly assigned to all levels of API and its parent company FortisOntario including: the Board of Directors, the Executive, Departments (Managers, Supervisors and workers) and Committees (Executive Environmental & Safety Committee, Central Environment & Safety Committee, Joint Health & Safety Committee and Environmental Leadership Team). FortisOntario's corporate HS&E department consists of 4 full time employees, with some staff located directly at API . The HSE department has a combined responsibility to manage HS&E for all FortisOntario business units with approximately 200 employees and 37 facilities (offices & sub-stations) across Ontario. API's service territory inherently possesses unique HS&E challenges associated with its geographical location and operational differences, and benefit from a standardized approach to managing HS&E.

The following is an overview of FortisOntario's HS&E departmental functions.

- Hazard Assessment
- Perform Major Incident Investigations
- Develop and Maintain:
    - Operational Control Procedures
    - Health, Safety and Environmental Procedures,
    - Emergency Response Procedures;

   - Health Safety and Environmental Management System
- Legal Compliance
- Environmental Compliance Reporting
- Environmental Assessment and Sustainability
- Performance Indicators
- Training and Learning
- Audits and Inspections

One of the core principles consistent with the ISO standards 45001 & 14001 associated with the FortisOntario HS&E management system is the need for continual improvement. The HS&E department explores new ideas and facilitates recommendations to improve the system, and to promote HS&E responsibility. In an industry in which technology is evolving rapidly, and in an environment where API's workers are exposed to risk, it is imperative that API continues to commit the appropriate resources to sustain its current level of HS&E performance. Due to the remote nature of the service territory, API utilizes additional communication technologies to meet emergency response requirements, for example Automatic Vehicle Locator (AVL), which is part of the radio system, as well as Satellite Radios which act as a backup for the main radio system and can operate in areas without cell phone or radio coverage.

API has consistently achieved high levels of success in the areas of health, safety and environmental management as evidenced by its HS&E record. API promotes HSE work practices through many elements of the system including regular workplace inspections and work observations and training throughout its service territory. Training requirements for API include standardized utility sector focused training as well as additional training related to its API service area such as Ice and Water Rescue, Wilderness Advance First Aid, Tree Rescue Techniques, SP105 Industrial Operations Fire Prevention, Snow machine and Off Road Vehicle/Argo.

Human Resources

The FortisOntario Human Resources department has corporate responsibilities throughout the organization. The department is headquartered in Fort Erie, with one shared HR and administrative role located on-site at API. The priorities of the department are to ensure adequate staffing levels, succession planning and employee retention with a focus on employee development and on-going labour relations.

A leadership coaching and development training program has been offered to a number of management and supervisory employees to further develop their management and leadership skill set.

Human Resources leads the Diversity, Equity and Inclusion Leadership Team which works to create and maintain a welcoming environment that encourages and promotes diversity, cross-culture working experiences and strong relationships with the Indigenous communities within the service territory.

Health plan cost management, pension administration and workplace safety and insurance board administration, and other benefit related activities are managed by the Human Resources department. The company maintains a modified return to work program and regularly tracks, reports and manages human resources in an effort to remain aligned with corporate objectives. API maintains positive labour relations with its represented employees and has a cooperative working relationship with PWU leadership.

Information Technology

API purchases IT support as a shared corporate service from CNPI and uses CNPI's *SAP for Utilities* CIS and *SAP ECC 6.0 Enterprise Resource Planning* solutions as the primary IT systems that manage meter-to-cash, work management, procurement, and financial accounting/controlling functions for the organization. The CNPI Corporate Information Technology department is responsible for all hardware and software procurement, installation, maintenance, configuration, and programming. Technology solutions are comprised of a combination of on-premise, cloud-hosted, and Software-as-a-Service ("SaaS") environments tailored to API's specific requirements. The IT department is also responsible for the management of cybersecurity.

Finance

API purchases financial support as a shared corporate service from CNPI. The corporate Finance department supports the accounting and reporting administration of the company. Located centrally in the Fort Erie office, the Finance department is responsible for ongoing accounting tasks and deliverables including accounts payable, accounts receivable, asset accounting, payroll, treasury and cash management, financing requirements, pension and OPEB accounting, and financial reporting and forecasting. In addition, the department is responsible for retailer settlements, regulatory accounting, tax filings, and ensuring that internal controls are operating effectively. The Finance department further supports Sarbonnes-Oxley (SOX) compliance and reporting.

Regulatory

API purchases Regulatory Affairs services as a shared corporate service from CNPI to provide rate-setting support and assistance with maintaining compliance with its new and existing regulatory requirements. The Regulatory Affairs department balances its use of internal resources and external consultants with the goal of meeting department objectives in a cost-effective manner. Through the use of the shared Regulatory Affairs department, FortisOntario's LDCs benefit from economies of scale related to certain shared tasks; for example regulatory compliance work and policy analysis and implementation support can often be completed to support all three LDCs without duplication of effort.

Other Corporate Services

API purchases other various corporate service as shared corporate services from CNPI, including:

Customer Service – Billing

Billing functions for all FortisOntario rate-regulated distributors is performed by CNPI employees.

Materials Management

Some materials management and procurement functions are completed by at the corporate level. These services include larger procurement project, policy development and training, etc. Further details are provided in section 4.6.1 below.

Corporate Communications and Customer Engagement

The Corporate Communication function supplements API's on-site communications and community involvement initiatives. The corporate communications and customer engagement department manages the annual customer satisfaction and public safety surveys, as well as supports programs promoting public safety and conservation at local elementary schools.. Corporate communications supports outage communications in the case of large-scale outages.

Corporate Legal

Through its shared services agreement, API has access to internal legal counsel to advise on day-to-day legal matters (ex: agreements, dispute resolution, risk management). The corporate Legal function may also support external legal counsel in situations where specialized legal review is required.

4.2 SUMMARY & COST DRIVER TABLES

4.2.1 SUMMARY OF COST DRIVERS

In accordance with the Filing Requirements, OEB Appendix 2-JB – OM&A Cost Drivers, presented in Table 12 below, outlines the key drivers of OM&A costs over the period of 2020 Board Approved to the 2025 Test Year. The explanations behind the cost drivers are presented in Section 4.2.2.

With respect to the drivers related to Right of Way Maintenance (Vegetation Management), and Land Use, API offers the following background and explanation regarding the factors impacting the Historic, Bridge and Test Year periods:

Key Cost Driver #1: Vegetation Management

API manages Right-of-Ways (ROWs or ROW) to support its 2,100 kilometers (km) of distribution line. Approximately 85% of API's power lines have treed edges averaging 490 trees per km with an average height 20.7m (68ft). The remainder of API ROW are mainly comprised of front yard trees (residential), farmland and other natural areas containing brush and shrubs. Greater than 23% of API system has forested edges on both sides of the ROW (i.e. cross-country and double-sided ROW).

API double-sided ROW

To mitigate risks and ensure safe and reliable operation of the electrical system, adequate funding is necessary to manage the annual volume workload (AVW) or the amount of vegetation to be removed within a year. The AVW is affected by a variety of factors. When AVW is systematically approached, cost and operational efficiencies are presented by reducing the risk of exposure and occurrence of tree-caused outages and other hazards such as arcing and fires. Additionally, managing the AVW extends and/or introduces the use of best management practices such as more mechanized equipment and herbicide applications thereby extending the maintenance free period.

On average, API manages the vegetation management programs and associated

AVW based on an average 6-year cycle, completing an average of approximately 350 km per year.

API conducts its VM programs using a combination of both internal specialized labour (mainly Utility Arborists), work equipment, vehicles, and contracted services.

Vegetation Management Plan (VMP): Programs and Work Activities

Line Clearing Program (Approximately 38% of Budget)

To manage tree growth and hazard trees thereby controlling vegetation encroaching and/or falling into the lines. Work activities would typically include manual and mechanical tree removal, tree trimming and clean-up of cut material.

Brush Control Program (Approximately 60% of Budget)

To maintain the active ROW widths and manage “grow-ins” by removing tall growing vegetation and promoting low-growth “compatible” vegetation. Identifying compatible/incompatible vegetation depends on many factors, such as type of vegetation, location of vegetation within the ROW, height of the power line (when at maximum sag point), voltage, and power line design. Work activities would typically include brush cutting both manual and mechanical, clean-up of cut material and herbicide treatments where acceptable.

Demand Work (Approximately 2% of Budget)

To address imminent threats (vegetation concerns that cannot remain until scheduled maintenance work occurs) identified by customer concerns, hazardous reports, and other unplanned maintenance.

Condition Assessments

To evaluate the effectiveness of the work program, document vegetation clearances and tree conditions, through inspections and reporting any immediate hazards.

Project Planning and Reporting

To analyze, prioritize, coordinate, and evaluate both API’s long-term cycle program and short-term annual work programs while meeting the objectives of API’s VM plan. Work activities include working with government agencies, First Nations and municipalities ensuring regulatory requirements are met; setting targets, scope of work, budgets and forecasting for successful work completion and monitoring, recording data and reporting on annual work programs that ultimately drive the success of API’s long- term VM plan.

Customer/Landowner Notifications

To inform landowners and/or customers of API’s annual VM work activities including requesting permissions for herbicide use. Work activities include confirming land ownership and completing VM work notifications, creating work packages entailing scope of VM activities for field crews and managing public relations including community information sessions.

VM Programs:Types of Work and Cycle Frequency

API's maintenance cycles are described below, which are designed to enable API to manage the AVW in the lowest-cost sustainable manner.

Brush Removal is brush needing to be cut, whether by manual or mechanical means, and has a maintenance cycle of 6 years. By revisiting each area every 6 years, API reduces the brush encroaching on conductors, which would otherwise impede public safety, access to the powerline and reliability and increase the risk vegetation contacting or arcing with power lines which may have the potential of starting forest fires. While recent recommendations consider adjusting certain cycle frequencies[1] , resulting in greater cost efficiency, it is noted that a level of stable control (related to brush height and density) must first be achieved, which API has not yet reached.

Herbicide Application allows brush to be treated with herbicide and is on a maintenance cycle of 6-years. Brush suitable for herbicide applications represents the lowest level of public and reliability risk and the least cost treatment for a utility. The current 6-year cycle is based on avoiding upwards vegetation growth towards the powerline. In the Vegetation Management third-party report attached to the DSP, it is recommended that API implement a 3-year cycle frequency for herbicide application to gain <u>long term</u> cost and operational efficiencies by reducing brush density to be managed. Unfortunately, due to the declining landowner permission issue outlined below, API is unable to implement this approach at this time on a system-wide basis, but API will continue to attempt to implement this where opportunities for larger-scale applications exist (ie: where permissions are obtained for larger sections of line).

Tree trimming is related to trees requiring clearance through trimming work and has a 6-year maintenance cycle. This cycle will serve to reduce and minimize the number of encroachments and grow-in related outages.

Hazard Tree Removal relates to trees needing to be removed and has a 6-year maintenance cycle. The annual volume of work includes funding for the removal of newly emergent hazard trees. A 6-year

[1] (see *Appendix A: Algoma Program Assessment Report, Page 29, Cycle Lengths)*

established maintenance cycle will prevent the major build up in hazard trees between maintenance events.

VM Programs : Factors Affecting Annual Cost Variations (Summary)

The factors affecting API's Annual Volume Workload (AVW) include:

- the average volume (density) of the vegetation; and
- complexity of the work (work effort) which includes such sub-factors as:
  - worker competency and qualifications required;
  - accessibility to and along ROW;
  - type of terrain; and
  - equipment for the work program.

A "Heavy" level, for example, would have higher density of vegetation to be managed (average volume) in combination with remote and hard to access areas (work effort).

Due to these variations in the AVW, the km completed and/or cost per km can fluctuate year over year as seen by the Year Over Year (YOY) comparison below.

Table 7- Vegetation Management- Historical Cost Drivers and 2025 Test Year Budget

	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Bridge	2025 Test
Total VM Amount	3,595,162.02	3,839,054.67	3,821,810.81	4,024,179.40	4,000,882.00	4,816,433.66
Km Completed	280	480	480	209	213	355
AVW (Density & Complexity)	medium - heavy	low	low	Heavy	heavy	medium
Average Cost/Km	12,839.86	7,998.03	7,962.11	19,226.85	18,752.67	13,567.42
YOY Change ($)		243,892.65	-17,243.86	202,368.59	-23,297.40	815,551.66
YOY Change (%)		7%	0%	5%	-1%	20%

Since the 2020 Board - Approved amount, API has experienced cost increases in its Vegetation Management programs. The drivers for these increases in the historical period are related to both the volume of work, as well as variations in the cost per unit to complete the work. The factors impacting the variances year-to-year are detailed below, and include:

Table 8- Factors Affecting Vegetation Management Annual Costs

	Detailed Factors Affecting Annual VM Costs
Annual Volume Workload (AVW)	• Increase in annual volume workload due to decrease in herbicide use*; • Climate change - longer growing season, milder winters, rate of tree decline and damage due to storms;[2*] • Expansion of API's distribution system*; • Limitations on use of mechanical cutting due to terrain and access; AVW and km completed fluctuate depending on VM programs priorities and volume of work (low, medium, heavy levels)
Cost of Work	• Increases in density and height of vegetation in proximity to energized apparatus/powerlines\ requires higher competency/skilled workers • More manual work for brush control (i.e. brush saw) requires more person-hours to complete the same volume • Contracted services cost increases due to shortage in resource availability to perform and complete the work, increasing fuel costs, and other contractor input costs. • General inflation increases and requirements such as labour market pressures and increases in fuel and equipment

*Decrease in herbicide use, system expansion, and the impact of longer growing seasons are long-term impacts which increase the level of work required over time. Other factors listed are explanations for Year-over-Year variances but remain relatively stable from cycle to cycle and over the long term.

VM Programs: Impact of Declining Herbicide Permissions

To further explain the herbicide impacts mentioned in Table 8, currently, API is trending towards a 25% decrease in the use of herbicide since 2017 mainly due to declining landowner consent. The reduction of herbicide has had an impact on previous and future vegetation management requirements (annual volume workload), cost and operational efficiencies. The table below presents a simplified example of the current and future impacts of applying herbicide versus manual brush clearing:

In Scenario 1, API is able to continue using herbicide to complete brush control activities. In Scenario 2, API is no longer permitted to apply herbicide.

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[2] While API does not have third party or internal studies to confirm the impacts of the longer growing season on vegetation growth, API staff have anecdotally observed faster-than-expected levels of growth when returning to particular areas of the distribution system. Generally, there is available literature confirming that Climate Change is having an effect on growing seasons, see below: Longer growing seasons have a limited effect on combating climate change – Brighter World (mcmaster.ca)

The situation described in Cycle 3 describes API's circumstances with respect to brush control in the 2020 COS, while Cycle 4 describes the current/forecast circumstances.

	Sc.1 – Herbicide Permitted	**Sc. 2- Herbicide Not Permitted**	***Comments re: Herbicide Not Permitted***
Cycle 3			
Crew Size	3-person crew	7-person crew	*Higher costs incurred to complete the work due to the larger crew requirement.*
Competency Requirements *	Medium (Mix of entry and medium)	Medium (Mix of high and medium)	
Description	Crews complete minimal cutting; Crews selectively identify high-growth "incompatible" species to spray with herbicide where permitted by environmental Regs.	Crews manually cut vegetation using chainsaws and brush saws. Crews must clean up any cut material.	
What Happens During 6-year Cycle			
Type of Growth	95% efficacy of treatment- very low "suckering" Growth primarily low growing "compatible" species that do not risk contact with electrical equipment	Cutting prompts faster growth rates One cut stem in cycle 3 becomes multiple stems by Cycle 4 (suckering) Growth in incompatible, tall-growing species. High risk of growth into or within proximity to powerline;	*Without herbicide application, cutting trees prompts accelerated growth (upwards), and "Suckering" prompts increased density of growth (outwards).*
Maintenance Requirement	None	Continual Maintenance Often requires off-cycle work	*Increased costs within cycle due to inspection, reactive maintenance requirements*
Cycle 4 (Six years since Cycle 3)			
Volume of vegetation to treat	Stable/comparable to Cycle 3	Significant increase from Cycle 3 (upwards of 2x)	*Second cycle is much more expensive to complete. Higher specialization, higher*

	Sc.1 – Herbicide Permitted	**Sc. 2- Herbicide Not Permitted**	***Comments re: Herbicide Not Permitted***
	Limited clean-up requirements	Cut stems from Cycle 2 have accelerated new growth (suckering) resulting in multiple new stems to be cut. Higher volume of vegetation removed = higher volume of clean up work.	*number of crew, higher cleanup requirements.*
Crew Size	3-person crew	10-person crew	
Competency Requirements *	Medium (Mix of entry and medium)	Medium- High -increase in level of work for Utility Arborists required in Cycle 4 vs. Cycle 3, due to increase in tall growing incompatible brush which only Utility Arborist can address.	
Long Term (Future Cycles)			
Opportunity for Long Term Efficiencies.	Opportunity to expand cycle length from 6 years to 9 years as "steady state" of control is gained over tall-growing incompatible species.	API continues to need to remove a high volume of growth every 6 years, with added maintenance in between cycles.	*API loses the opportunity for ~50% cost savings via extending the brush control cycle by 50% (from 6 to 9 yrs)*

As shown in the table above, the workload impact of not applying herbicide in the short term involves an increase in the workload and cost of clearing work (ex: 3-person crew vs. 7-person crew), however it results in an even greater increase in workload and work cost the following time API attends the same clearing area (ex: 3-person crew vs. 10-person, more specialized crew).

The deceased level of control in the second cycle has increased the annual volume workload (higher number of stems and height of brush) creating more biomass (volume of vegetation) to be managed. As shown in the figure below[3] using herbicides to treat stumps prevents re-sprouting which leads to a decrease in biomass to be managed over time, by an estimated factor of ~2-6 times depending on the

[3] See DSP Appendix H, Pg 37.

timeframe. In other words, the timely application of herbicide can reduce the amount of work to be done in future cycles.

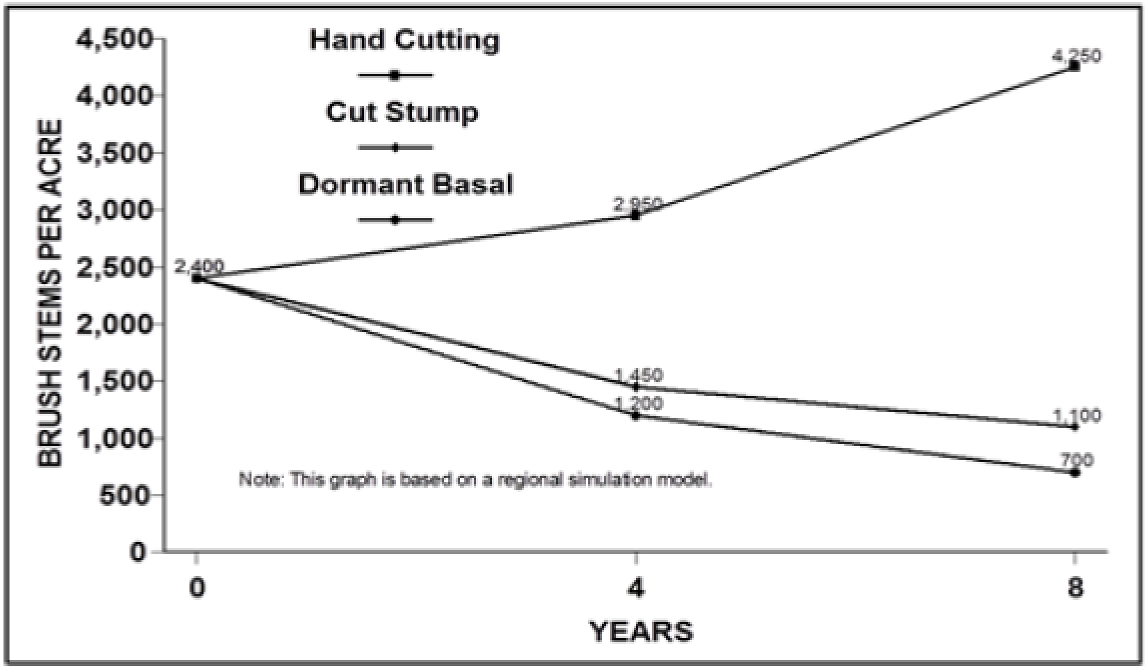

Figure 14. Effectiveness of herbicides for control of brush over time.

API is now beginning to experience the increase in the required volume of manual brush clearing as a result of the significant decrease in use of herbicide which began in 2017 and have since escalated, contributing a significant increase in the AVW associated with brush clearing. These impacts are expected to continue into future years and potentially worsen if API experiences further limitations in its ability to apply herbicide.

VM Programs: Inflationary Cost Escalations in Recent Years

Higher contractor bid costs have been seen through recent submissions with an average of approximately $16,264/km, representing over a 26% increase compared to the 2018-2023 average[4] Contractor pricing has increased due to a combination of factors including inflation increases, labour market pressures, equipment, fuel and other inputs.

VM Programs: Higher Competency/Skilled Workers

[4] See DSP Appendix H, Pg. 26, Table 2.

With respect to internal API labour and Contractor labour rates of higher skilled Utility Arborists required to clear vegetation in the wire zone (with proximity to energized conductors) are on average 15-30% higher than groundperson and herbicide applicators.

In the 2025 Test Year, API has budgeted $4.8M for its total vegetation management program, representing a $1.24M increase over the 2020 Board Approved amount. Based on the increase cost API is experiencing due to increases in AVW and unit costs, the 2025 budget represents the VM system annual average amount of km (~355km) cleared with a "medium" level Annual Volume Workload at an average cost of $13,567/km. API is planning for a "medium" level of density (AVW) in the test year budget cycle, and has budgeted a corresponding average level of cost per km based on historical pricing and future forecasting.

VM Programs: Historical Impacts to Reliability

As outlined in DSP tables 2.1, 2.14 and 2.16, the following has occurred over the 2019-2023 period with respect to tree contact outages (in relation to all outages excl. MED):

- Tree contact represents 27.8% of outages, with a downward trend of about -17 outages per year.
- Tree contact represents 18.9% of customer interruptions, with a downward trend of -1,227 customer interruptions per year.
- Tree contact represents 16.2% of customer-hours of interruptions, with a downward trend of -3,600 customer-hours per year.

The outage statistics above indicate that, though tree contact related outages remain a significant contributor to API's outage performance, API's vegetation management plan is effective in meeting its desired objective of reducing the risk of outages.

API notes that factors outside of API's control will also contribute to the trends in outage performance, notably weather patterns.

API reaffirms that its vegetation management practices, including continuous improvements implemented over time, have been successful at improving reliability.

The particulars of API's service territory, including remoteness, and the frequency of treed edges, as well as double-sided ROWs, result in tree contact continuing to present the highest risk to reliability. While tree contact remains the leading cause for outages in API's service territory, API's approach has resulted in strong long-term improvements in reliability trends. Please see the table below from the Reliability Study included as Appendix E to the DSP, which shows a marked decrease in the number and customer hours of vegetation outages.

Figure 10 below shows the overall trend in vegetation caused outages between 2015 and 2023.

Figure 10: Vegetation caused Outages 2015 to 2023

VM Programs: Customer Engagement

In recent years, API has increased the frequency and detail of the communication with customers and municipalities regarding its Vegetation Management practices, as well as its plans for a given year. API has received positive feedback on this approach, as well as a reduction in the frequency of negative comments on its surveys related to vegetation management.

In preparing the customer engagement survey specific to this Application, API chose to include Vegetation Management as one of the programs for consultation due to the importance of the VM program at API.

In the survey, API explained the potential risks and cost savings associated with increasing and/or decreasing the level of hazard tree monitoring by 300 km per year. The majority of customers in every rate class supported API's planned approach to hazard tree monitoring, despite the program presenting the one of the highest opportunities for cost savings among all of the programs consulted ($1.43/month for the typical residential customer)[5].

Table 9- Customer Feedback – Hazard Tree Monitoring

Vegetation Management	Residential	Seasonal	Small Business	Large Business
	n=1000	n=350	n=35	n=7
Reduced Cycle Approach	13%	15%	4	1
Standard Cycle Approach	67%	67%	22	5
Increased Cycle Approach	21%	19%	9	1

Furthermore, customers supported API's overall plan as drafted, inclusive of the VM-related increase.

Table 10-Customer Feedback- Overall Plan

Overall Plan Evaluation	Residential	Seasonal	Small Business	Large Business
	n=1000	n=350	n=35	n=7
Spend More	33%	21%	10	1
Spend According to Draft Plan	52%	52%	19	5
Spend Less	5%	17%	5	1

Further, the highest proportion of customers surveyed (23%) ranked reducing the number of tree caused outages as their top reliability priority[6].

VM Programs: Summary

In Conclusion, API's vegetation Management costs have increased $1.24M compared to 2020 Board-Approved. The increase is attributable to the following factors, outlined above:

- A increase in the level and cost of work required for brush control, as a result of lower ability to complete brush control through herbicide application during this cycle;

[5] See Exhibit 1, Attachment 1I, page 58-59
[6] See Exhibit 1 Attachment 1I, pg. 32 for residential customer feedback on this topic. Respondents in other customer classes provided strong support for this priority as well.

- An additional increase in the cost of work required for brush control, as a result of brush growth volume caused by inability to apply herbicide in past years/cylces;
- An estimated $745k[7] increase or 21% in costs associated with general inflation since 2020; and
- Above-inflationary levels of increases in contractor cost per km pricing (estimated at 26%).

For the Test Year and beyond, API has planned to incorporate efficiencies from increasing the use of mechanical and herbicide brush control to achieve the target cost level budgeted. API has incorporated some mechanical brush control into its Vegetation Management Plan. The amount of area that can be mowed in API system is restricted by rock outcroppings, ditches, and fences as depicted in DSP Appendix A. Remote areas with limited access require specialized equipment or can restrict the use of mechanical equipment entirely as an option. API has seen that brush control programs with manual clearing can be 4 times higher than mechanical mowing therefore, API continues to gain experience and determine suitable locations to optimize the use of mechanical methods and equipment where possible.

API has demonstrated that its vegetation management approach has yielded positive results over the long term as it relates to outage performance. Continued appropriate investments in vegetation management are required in order to maintain or improve the current reliability performance. API has confirmed that its customers prioritize reduction of tree caused outages as a key reliability outcome. For these reasons, API believes the 2025 Test Year budget for Vegetation Management is necessary and appropriate.

[7] To arrive at this estimate, API applied the inflation factors from Table 3 (lower part) to the 2020 OEB Approved amount. API did not factor in an adjustment for stretch factor, since efficiency improvement oppotunities for this program have been limited, and in fact, have decreased over this period.

<u>Key Cost Driver #1: Land Use</u>

API's distribution line facilities cross and/or occupy properties under the purview of various entities. API's service territory contains many types of land ownership, governance and interests, Including municipal, privately held, unorganized territories and First Nation. API has been approached by a number of entities to discuss its land rights over land which the entity has jurisdiction. As such, API anticipates increased costs as land rights discussions are triggered. Easements and agreements associated with these entities are currently under review and steps are being taken to reach initial or new agreements to cover API power lines.

Cost Variances during Historical Period (2020-2023)

ROW Land Fees have fluctuated during the historical (2020 to 2023) period primarily as a result of one-time payments such as legal fees in relation to the negotiation of agreements. API incurred significant such costs in 2022, with non-material costs also impacting the costs in 2021 and 2023. The first annual payment under an ongoing annual agreement was introduced in 2021, which will be relatively stable in future years (and increases with inflation). Additionally, in 2023, API recorded "catch up" payments related to 2019-2023.

Contingency/Uncertainty- Bridge and Test Years

API cannot predict with accuracy the aggregate amount that it may have to pay to maintain these land rights. For planning purposes, however, the rights payments for the 2025 test year are budgeted to be $767,909 per year. This amount is based on continuing payments and the OM&A equivalent of the current revenue requirement estimate (subject to all of the uncertainty factors below) for negotiations with various entities.

Several factors affect API's ability to accurately predict the land rights costs including the following:

1. Negotiated form of agreement will impact the accounting treatment for the agreement. API capitalizes easements and/or other permanent agreements, as well as the costs required to facilitate these costs. In the case of an easement form of agreement, API also typically incurs survey costs associated with the easement, which can be material in nature. Survey costs are part of the capitalized amount. API's preference is to arrange for

permanent easements in order to have long-term price stability, as well as certainty regarding its ability to maintain its use of the lands in question, however some land owners/interest holders may not be willing or able to agree to a permanent arrangement with a one-time payment.

2. At this time, API is not able to accurately predict the cost levels associated with the negotiation outcomes.
3. API is unable to predict and control the timing and phasing of these payments over the test year and subsequent COS term. Different forms of agreement may also require a combination of ongoing and one-time costs, with the one-time implementation costs being related to such items as legal fees, up-front payments, and/or other expenses incurred during negotiations or included as requirements in the final agreements.

For these reasons, API has proposed a Variance Account in Exhibit 9 to address the uncertainties above, which will account for any discrepancies between actual costs and the forecasting errors associated with the above:

Table 11- Proposed DVA Treatment for Land Use

Item No.	Item	DVA treatment
1	Accounting Treatment/Form of Agreement	API proposes that the DVA will compare the forecasted revenue requirement for new agreements from the Test Year budget to the actual revenue requirement associated with the new agreements.
		Where capitalized, permanent easements or other permanent agreements, and any costs required to establish them, will be amortized as land rights, attracting a 40-year useful life.
		API will calculate the revenue requirement impact of any capitalized land use agreements based on annual amortization expense, return on rate base using the OEB-approved WACC, and grossed-up PILS impact.
2	Cost of Agreements	API proposes to compare the final actual spending on the new land use agreements to the Test Year amount, resulting in rate funding based on the true cost of land use.
3	Timing/Phasing of Payments	Through the proposed DVA treatment, any “spike” due to increased one-time costs in the Test Year and other impacts of the timing and phasing will be appropriately addressed, resulting in rate funding based on the true cost of land use over the upcoming COS period.

As outlined above, API is in a relatively unique circumstance compared to most Ontario distributors with respect to the magnitude and complexity of land use arrangements required. API is aware that Hydro One may be the closest comparator, as it serves many remote areas of Ontario and has assets spanning the properties of many types of land owners. In proposing its DVA, API has made reference to the DVA approved for Hydro One EB-2010-0028, and believes this to be a relevant precedent to API's proposal.

[8] Please refer to Hydro One Application and Evidence filed May 19, 2020, Exhibit C1, Tab 2, Schedule 13 p 5 of 6.

Table 12 – OEB Appendix 2-JB OM&A Cost Drivers

OM&A	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year	Cumulative Impact (2020 BA to 2025 TY)
Reporting Basis							
Opening Balance²	13,688,282	13,356,735	13,608,330	13,901,859	13,993,487	14,606,472	
App 2-K Impact on OM&A	- 182,000	17,000	32,000	- 32,000	483,000	180,000	498,000
Right of Way Land Fees	- 83,000	133,000	135,000	- 20,000	113,000	386,000	664,000
Building Rent	-	-	-	- 208,000	-	-	- 208,000
Appendix 2-N Administrative Shared Services From Affiliates	- 62,000	270,000	- 168,000	205,000	- 11,000	169,000	403,000
Maintenance of Overhead Servi	-	-	86,000	- 83,000	54,000	-	57,000
Outages	383,000	- 274,000	- 76,000	- 145,000	133,000	69,000	90,000
ROW Vegetation Maintenance Program	23,000	244,000	- 17,000	202,000	- 23,000	816,000	1,245,000
Meter Expenses	- 112,000	- 14,000	15,000	10,000	37,000	6,000	- 58,000
Travel Costs	- 85,000	- 8,000	49,000	33,000	-	-	- 11,000
Miscellaneous	- 213,547	- 116,405	237,529	129,628	- 173,015	86,542	- 49,268
Closing Balance²	13,356,735	13,608,330	13,901,859	13,993,487	14,606,472	16,319,014	2,630,732

4.2.2 COST DRIVER ANALYSIS

The following section provides explanations of the year-over-year cost variances and drivers as submitted within Appendix 2-JB of the Chapter 2 Filing Requirements.

App 2-K Impact on OM&A

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test

Decrease of $182,000, Increase of $17,000, Increase of $32,000, Decrease of $32,000, Increase of $483,000, Increase of $180,000

FTE Variance explanations have been provided in 4.4.2 of this Application. API has noted that FTE numbers have fluctuated over the historical years. The 2025 Test year total FTE of 74 is an addition of four FTE as compared to 2020 Board Approved and this increase is a combination of an additional new hire for operations administrative support, and more operational (i.e. customer service and engineering) direct time allocation to API from the operations group of another FortisOntario group of companies. The increase in direct time allocation is a result of enhanced billing and customer engagement, general operating engineering support for area planning studies and GIS system operations, and internal legal support provided to API.

Right of Way Land Fees

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test

Decrease of $83,000, Increase of $133,000, Increase of $135,000, Decrease of $20,000, Increase of $113,000, Increase of $386,000

API notes that the year over year variances in the historic period do not individually meet the materiality threshold, however API has provided the explanations below for additional background and context.

The decrease in 2020 Actual compared to 2020 Board Approved was primarily due to the delay in finalizing a land use agreement which covers a portion of the 34.5kV feed between Echo River TS and the TS at 2 Sackville Road. Increases in 2021 and 2022 represented a combination of one-time fees associated the execution the agreement along with the on-going annual fees associated with the agreement. Further, in 2023 API made several "catch up" payments related to land use obligations related to 2019-2023.

Collectively, API's costs in the historical (2020-2023) time period have exceeded the Board-Approved amounts by (on average) about $165k per year, made up of payments under new and existing agreements, as well as significant one-time legal fees to negotiate and other costs to support these agreements. API expects further fluctuations in the Bridge and Test Years, and has proposed a Deferral and Variance Account (DVA) in Exhibit 9 to address a high likelihood of forecasting differences between the proposed Test Year and actual costs- due to accounting treatment, forms of payments, and payment amounts.

Building Rent

2022 Actuals vs 2023 Actuals

Decrease of $208,000

API's lease agreement at 2 Sackville Rd, Sault Ste. Marie concluded at the end of 2022, consistent with API's Q4 2022 relocation to its newly constructed building located at 251 Industrial Park Crescent, Sault Ste. Marie. API had temporarily extended its lease agreement so that the termination coincided with its facility relocation to Industrial Park Crescent.

Appendix 2-N Administrative Shared Services From Affiliates

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test

Decrease of $62,000, Increase of $270,000, Decrease of $168,000, Increase of $205,000, Decrease of $11,000, Increase of $169,000

Shared services have also been discussed in Section 4.5 of this Exhibit, including the overall increase from 2020 Board Approved to 2025 Test year. Variability year-over-year is dependent on several factors. For example, IT 3rd party software maintenance agreements have generally seen increases year-over-year that have exceeded the pace of inflation. There have been on-going costs incurred to enhance cybersecurity (including operational) efforts, and also the accounting treatment for cloud computing (ie: treatment of cloud computing as expense items) has resulted in net increases in shared expenses. Other variability year-over-year has resulted from other costs such as temporary reduced travel and training costs during the pandemic years, and other consulting (such as recruitment). API's relative percentage allocation of the total shared service costs are only updated when Canadian Niagara Power Inc. rebases. Therefore, any change in dollars allocated to API outside of those rebasing years is a reflection of a change in the total shared service dollars that are to be shared across all of the FortisOntario business units.

Maintenance on Overhead Services

2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge

Increase of $86,000, Decrease of $83,000, Increase of $54,000

The actual variances observed from 2021 to 2023 are primarily the result of the non-discretionary customer demand for disconnection and reconnection. In 2022, API responded to over double the quantity of these requests. The increase in the 2024 Bridge Year is based on a rolling average, which accounts for the high increase in 2022.

Outages

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test

Increase of $383,000, Decrease of $274,000, Decrease of $76,000, Decrease of $145,000, Increase of $133,000, Increase of $69,000

This cost driver captures the O&M costs of outage response. When outage response efforts result in the installation of new assets (ex: due to storm damage or failure in the field), the costs directly attributable to the installation of the asset are recorded as Capital rather than the use of the "outages" orders, therefore this cost driver excludes the impacts of planned outages and storm-related capital work.

API's outages which are influenced by weather patterns, can vary significantly from one year to the next. There were more than expected outages in 2020, but outage costs decreased in 2021 to 2023. API's vegetation management program continues to play a significant role in reducing outages due to severe weather. Given unpredictability in outage costs, planned values for Bridge and Test years used historical activity averaging as a basis at the time of estimation.

API notes that the costs included in years with high outage restoration efforts, there may be additional overtime expenses than normal. The increased efforts towards outage restoration may divert staff availability for work towards capital programs, therefore affecting the proportion of labour capitalized. API notes that there may be some overlap between the Appendix 2K impacts and outage response; however based on the factors above API considers outage response to be a cost driver during the historical period.

For the Test Year , API has provided for an outage response budget of $687,530 in account 5125.

Right of Way Maintenance (Vegetation Management) Program

<u>2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test</u>

Increase of $23,000, Increase of $244,000, Decrease of $17,000, Increase of $202,000, Decrease of $23,000, Increase of $816,000

API's Right of Way maintenance program is a significant portion of API's total OM&A, and total expenditures may vary from year to year depending on multiple factors including forestry zone, weather patterns, and contractor availability and pricing. API manages roughly 2100 km of line over a 6-year VM cycle. This amounts to roughly 350 km/year, on average. The km actually cleared in each year fluctuates annually based on the area being cleared.

Another factor affecting the cost in each year is the relative density/and or complexity of the areas being cleared. Higher-density areas can result in a greater level of effort per km of line to clear, and therefore an increased cost per km of line. API has provided descriptions of the relative density of the areas cleared in each year in table 14, with detailed explanations of material year-over-year variances below.

Table 14- Vegetation Management – Annual Summary of Work

	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Bridge	2025 Test
Total VM Amount	3,595,162.02	3,839,054.67	3,821,810.81	4,024,179.40	4,000,882.00	4,816,433.66
Km Completed	280	480	480	209	213	355
AVW (Density & Complexity)	medium - heavy	low	low	Heavy	heavy	medium
Average Cost/Km	12,839.86	7,998.03	7,962.11	19,226.85	18,752.67	13,567.42
YOY Change ($)		243,892.65	-17,243.86	202,368.59	-23,297.40	815,551.66
YOY Change (%)		7%	0%	5%	-1%	20%

API completed an above-average level of work in 2021, completing 480km of work, compared to 280km in the prior year.

The areas completed in this year were low-density and therefore API was able to achieve a lower than typical average cost per km of line cleared. In 2021, API also incurred higher than typical rental costs due partially to COVID-19 safety protocols (ex: increased truck rental to permit physical distancing requirements, rental of sanitary facilities).

API's cost to complete vegetation management in 2023 increased, despite a decrease to the number of km cleared that year. The km of line completed were lower than typically planned as API had to defer some work due to resource availability and cost pressures.

The increased cost per km of line was influenced by two items:

1) The relative complexity of the areas cleared compared to prior years (resulting in higher effort and higher cost per km of line);

2) Due to resource availability and inflationary pressures in 2023, API incurred higher cost per unit to complete the work.

For the 2025 Test Year, API has budgeted to complete just over the annual average, budgeting 355 km, at an average rate of approximately $13,600/km. The rate per km of lines cleared is in line with API's historic average to complete this type of work, and takes into consideration a medium-density level of work. The factors affecting the test year budget are detailed in section 4.2.1 above, together with the justification for the test year budget from a customer focus and operational effectiveness (reliability outcomes) perspective.

Meter Expenses

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals, 2023 Actuals vs 2024 Bridge, 2024 Bridge vs 2025 Test

Decrease of $112,000, Decrease of $14,000, Increase of $15,000, Increase of $10,000, Increase of $37,000, Increase of $6,000

API's meter expenses overall have seen a reduction since the 2020 Board Approved. In 2020, API saw a significant decrease in monthly fees from the service provider that manages the settlement services for API as well as a decrease in the cost associated with disconnection/reconnection for non-payment because of the OEB’s decision and order on the ban of disconnection of low-volume consumers for non-payment during the COVID-19 pandemic (see EB-2020-0109). From 2021 to 2023, there was varied work required with API’s Meter Service Provider in troubleshooting meter trouble reports, as well as variations in settlement service fees. The increase in 2024 and 2025 is related to the implementation the meter verification program.

Travel Costs

2020 Board Approved vs 2020 Actuals, 2020 Actuals vs 2021 Actuals, 2021 Actuals vs 2022 Actuals, 2022 Actuals vs 2023 Actuals

Decrease of $112,000, Decrease of $14,000, Increase of $15,000, Increase of $10,000, Increase of $37,000, Increase of $6,000

Due to the pandemic restrictions in place, API significantly reduced its directly incurred travel costs (includes accommodations, meals, other travel related costs). Travel costs for shared services are covered off in the 2-N variance explanation above. As the pandemic restrictions eased, travel expenditures have increased but it is expected that these costs should not reach the same levels as they were pre-pandemic as API continues to pursue alternative options. For example, travel costs associated with attending certain training programs may be minimized by attending similar sessions remotely using available technologies where possible.

4.2.3 CAPITALIZATION OF LABOUR

Since API's implementation of the Modified IFRS accounting basis, in 2013, API only capitalizes costs which are directly attributable to an asset. API therefore capitalizes labour at a fully loaded (or "burden") labour rate where internal resources are used I the construction of an asset. On a departmental basis, API uses direct wages, employee benefits and directly attributable overhead including vehicle costs if applicable to calculate the fully loaded labour rates. These are then used in the allocation of labour between OM&A and PP&E.

Table 8 below shows API's capitalized labour and burden over the historical and test periods.

Table 15- Capitalized Labour and Burden (Appendix 2-D)

OM&A Before Capitalization	2020 Historical Year	2021 Historical Year	2022 Historical Year	2023 Historical Year	2024 Bridge Year	2025 Test Year
Operations and Maintenance	$ 8,234,663	$ 8,670,293	$ 8,709,000	$ 8,970,585	$ 9,188,399	$ 10,266,396
Billing and Collecting	$ 983,448	$ 953,983	$ 930,159	$ 990,522	$ 1,066,091	$ 1,114,285
Community Relations	$ 34,402	$ 52,871	$ 70,420	$ 68,681	$ 69,488	$ 75,220
Administrative and General	$ 5,301,933	$ 5,495,019	$ 5,568,817	$ 5,369,432	$ 5,632,111	$ 5,931,480
Total OM&A Before Capitalization (B)	$ 14,554,447	$ 15,172,166	$ 15,278,397	$ 15,399,220	$ 15,956,088	$ 17,387,381

Applicants are to provide a breakdown of capitalized OM&A in the below table. Capitalized OM&A may be broken down using the categories listed in the table below if possible. Otherwise, applicants are to provide its own break down of capitalized OM&A.

Capitalized OM&A	2020 Historical Year	2021 Historical Year	2022 Historical Year	2023 Historical Year	2024 Bridge Year	2025 Test Year	Directly Attributable? (Yes/No)	Explanation for Any Change in Treatment of Capitalized Overhead
employee benefits								
costs of site preparation								
initial delivery and handling costs								
costs of testing whether the asset is functioning properly								
professional fees								
Insert description of additional item(s) and new rows if needed								
Operational Departments	$ 1,156,845	$ 1,499,488	$ 1,321,363	$ 1,365,729	$ 1,305,023	$ 1,356,637	Yes	No change since last CoS, costs are directly attributable to labour costs charged to capital and are included in burden rate. Balance includes all directly attributable costs except for direct wages.
Customer Service Department	$ 31,654	$ 46,808	$ 38,926	$ 30,673	$ 26,612	$ 29,205	Yes	No change since last CoS, costs are directly attributable to labour costs charged to capital and are included in burden rate. Balance includes all directly attributable costs except for direct wages.
Administrative and General Departments	$ 39,825	$ 48,152	$ 46,861	$ 39,943	$ 48,593	$ 47,364	Yes	No change since last CoS, costs are directly attributable to labour costs charged to capital and are included in burden rate. Balance includes all directly attributable costs except for direct wages.
Total Capitalized OM&A (A)	$ 1,228,324	$ 1,594,448	$ 1,407,150	$ 1,436,345	$ 1,380,228	$ 1,433,206		
% of Capitalized OM&A (=A/B)	8%	11%	9%	9%	9%	8%		

4.2.4 COST PER CUSTOMER

Table 7 below shows an OM&A cost per customer of $1,283 in 2025 Test Year in comparison to $1,130 in the 2020 Board Approved. This represents a compound annual growth rate of 2.6% per customer over the 5-year period.

Table 16 – OEB Appendix 2-L OM&A Cost per Customer and FTE

	2020 Board Approved	2020 Actuals	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Reporting Basis							
OM&A Costs							
O&M	$ 7,015,047	$ 7,077,818	$ 7,170,805	$ 7,387,637	$ 7,604,856	$ 7,883,376	$ 9,274,598
Admin Expenses	$ 6,672,707	$ 6,278,917	$ 6,437,526	$ 6,514,222	$ 6,388,631	$ 6,723,097	$ 7,044,416
Total Recoverable OM&A from Appendix 2-JB [5]	$ 13,687,754	$ 13,356,735	$ 13,608,330	$ 13,901,859	$ 13,993,487	$ 14,606,472	$ 16,319,014
Number of Customers [2,4]	12,110	11,923	12,171	12,280	12,380	12,408	12,436
Number of FTEs [3,4]	70	65	68	68	71	74	74
Customers/FTEs	173	183	179	181	174	168	168
OM&A cost per customer							
O&M per customer	$579	$594	$589	$602	$614	$635	$746
Admin per customer	$551	$527	$529	$530	$516	$542	$566
Total OM&A per customer	$1,130	$1,120	$1,118	$1,132	$1,130	$1,177	$1,312
OM&A cost per FTE							
O&M per FTE	$100,215	$108,890	$105,453	$108,642	$107,111	$106,532	$125,332
Admin per FTE	$95,324	$96,599	$94,669	$95,797	$89,981	$90,853	$95,195
Total OM&A per FTE	$195,539	$205,488	$200,123	$204,439	$197,091	$197,385	$220,527

'*Customers do not include connections

4.3 PROGRAM DELIVERY COSTS WITH VARIANCE ANALYSIS

4.3.1 SUMMARY OF PROGRAMS

Although API does not currently track and analyze its costs exactly as presented below, in accordance with Chapter 2 filing requirements, API has completed Table 7 below, which shows a summary of the 2020 Board Approved to 2025 Test OM&A programs. API has classified its various OM&A components into a series of programs that have considered the RRFE categories of Customer Focus, Operational Effectiveness, and Public Responsiveness. Variance analysis was completed where program variances exceeded the materiality threshold.

Table 17 - OEB Appendix 2-JC OM&A Programs

Programs	Last Rebasing Year (2020 OEB-Approved)	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year	Variance (Test Year vs. 2023 Actuals)	Variance (Test Year vs. Last Rebasing Year (2020 OEB-Approved)
Reporting Basis									
Customer Focus									
Customer Service, Mailing Costs, Bi	842,496	747,347	784,594	757,743	773,436	878,542	904,372	130,936	61,876
Community Relations	96,558	34,402	52,871	70,420	68,681	69,488	75,220	6,539	-21,338
Bad Debts	71,000	98,828	24,171	5,730	66,606	50,000	75,000	8,394	4,000
Meter Reading	104,058	136,232	129,023	158,373	150,419	141,549	147,708	-2,711	43,649
								0	0
Sub-Total	1,114,112	1,016,809	990,658	992,266	1,059,142	1,139,579	1,202,300	143,158	88,188
Operational Effectiveness									
Stations	197,425	109,846	192,702	214,222	183,035	217,480	258,684	75,649	61,258
Load Dispatching	142,302	131,697	138,200	128,953	153,248	132,322	196,581	43,333	54,279
Supervision and Engineering	246,582	219,436	221,590	230,336	223,808	238,607	258,583	34,774	12,000
Meters Maintenance	836,103	776,125	734,669	748,724	831,049	840,128	795,363	-35,686	-40,740
Overhead Lines and Feeders	1,306,533	1,535,748	1,265,781	1,538,670	1,279,721	1,616,589	2,112,707	832,987	806,174
Distribution Transformers	17,446	29,103	14,135	111	29,515	13,367	13,657	-15,857	-3,789
Right of Way Maintenance Program	3,571,764	3,595,162	3,839,055	3,821,811	4,024,179	4,000,882	4,816,434	792,254	1,244,670
Underground Lines, Feeders, and Services	14,466	16,599	21,048	14,105	13,435	15,633	15,763	2,328	1,296
Poles Towers & Fixtures	130,195	113,694	122,309	89,308	62,042	154,217	147,142	85,100	16,947
Salaries, Wages and Benefits for Administrative Services	3,064,412	2,966,989	3,221,036	3,031,327	3,162,490	3,141,109	3,400,789	238,299	336,377
Other External Administrative Services	441,194	497,881	435,668	490,569	491,704	463,152	480,479	-11,225	39,285
Rent and Maintenance of General Plant	1,512,169	1,414,549	1,395,544	1,429,134	1,116,011	1,292,125	1,221,591	105,579	-290,579
Other Operating and Maintenance	548,133	547,617	615,854	597,064	802,581	648,886	654,311	-148,271	106,177
Other General and Admin	358,266	249,972	248,087	373,653	341,406	462,832	436,190	94,784	77,924
Sub-Total	12,386,991	12,204,417	12,465,675	12,707,988	12,714,224	13,237,330	14,808,272	2,094,048	2,421,281
Public and Regulatory Responsiveness									
Regulatory & Compliance	187,179	135,510	151,997	201,605	220,121	229,563	308,442	88,321	121,263
								0	0
								0	0
								0	0
								0	0
Sub-Total	187,179	135,510	151,997	201,605	220,121	229,563	308,442	88,321	121,263
Community Relations									
								0	0
								0	0
								0	0
								0	0
								0	0
Sub-Total	0	0	0	0	0	0	0	0	0
Administrative and General									
								0	0
								0	0
								0	0
								0	0
								0	0
Sub-Total	0	0	0	0	0	0	0	0	0
Miscellaneous								0	0
Total	**13,688,282**	**13,356,735**	**13,608,330**	**13,901,859**	**13,993,487**	**14,606,472**	**16,319,014**	**2,325,527**	**2,630,732**

4.3.2 PROGRAM VARIANCE ANALYSIS

The following section provides explanations of the significant program variances between either 2020 Board Approved and 2025 Test, or 2023 Actuals and 2025 Test.

Overhead Lines and Feeders

2023 Actuals vs 2025 Test, 2020 Board Approved vs 2025 Test

Increase of $468,148, Increase of $441,336

The increase in overhead lines and feeders expenses from 2023 Actuals to 2025 Test is primarily the result of a combination of increased right of way land fees, outage costs and general maintenance of overheads services. Each of these costs are explicitly outlined in the cost driver table and the cost driver analysis completed in Section 4.2 of this Exhibit; right of way land fees shows a cumulative increase of $134,000, maintenance of overhead services an increase of $54,000 and outages an increase of $202,000.

The increase in overhead lines and feeders expenses from 2020 Board Approved to 2025 Test is also primarily the result of a combination of increased right of way land fees, outage costs and general maintenance of overheads services. Each of these costs are explicitly outlined in the cost driver table and the cost driver analysis completed in Section 4.2 of this Exhibit; right of way land fees shows a cumulative increase of $299,000, maintenance of overhead services an increase of $57,000 and outages an increase of $90,000.

The increases noted above related to increased right of way lands fees and outage costs are driven by factors primarily outside of API's control.

Right of Way Maintenance

2023 Actuals vs 2025 Test, 2020 Board Approved vs 2025 Test

Increase of $792,254, Increase of $1,244,670

The increases of $792,254 and $1,244,670 above have been explained in further detail in the cost driver table and the cost driver analysis completed in Section 4.2 of this Exhibit. Expenditures vary from year to year based on the density of the zone and the volume of work scheduled for the year. API's vegetation management program is discussed further in the DSP and in Section 4.2.1 above. While the ROW maintenance costs are within API's control to an extent, the vegetation management standards and volumes of annual work have been designed to allow API to uphold worker and public safety, as well as to reduce risk of outages. Items such as vegetation growth patterns, inability to apply herbicide and contractor market price increases are primarily outside of API's control.

Salaries, Wages and Benefits for Administrative Services

2023 Actual vs 2025 Test, 2020 Board Approved vs 2025 Test

Increase of $238,299, Increase of $336,377

The increase of $238,299 from 2023 Actuals to 2025 Test represents a CAGR of 3.7%, while the increase of $336,337 from 2020 Board Approved to 2025 Test represents a CAGR of 2.1%, which is slightly above the compound annual growth rate calculated per FTE calculated in Section 4.4.2. This is reasonable as growth rates may vary slightly from department to department. Included in this program classification are the increases in FortisOntario corporate services to API, along with the majority (all except Regulatory) of the administrative services from CNPI to API as noted in Appendix 2-N in Section 4.5.

Compensation costs are primarily within API's control, though they are impacted by labour market trends. API's compensation strategy is designed to attract and retain well-qualified staff. API further describes its compensation strategy in section 4.4.1 below.

Rent and Maintenance of General Plant

2020 Board Approved vs 2025 Test

Decrease of $290,579

As outlined in the cost driver table and the cost driver analysis completed in Section 4.2 of this Exhibit, API's lease agreement at 2 Sackville Rd, Sault Ste. Marie was extended until the end of 2022, and the expiry of this agreement resulted in a decrease of approximately $208,000 annually. The choice to move from its facilities at 2 Sackville Road to the Industrial Park Drive facility was primarily within API's control. A description of the due diligence to select this course of action is included with Exhibit 2.

4.4 WORKFORCE PLANNING AND EMPLOYEE COMPENSATION

4.4.1 EMPLOYEE COMPENSATION, INCENTIVE PLAN EXPENSES AND OTHER BENEFITS

Overview

This Section of Exhibit 4 provides an overview of API's compensation framework including an outline of API's approach to employee incentive pay. Appendix 2-K (Employee Costs) of the OEB's Chapter 2 appendices provides a summary of total compensation costs from 2020 Board Approved to 2025 Test Year. Section 4.4.3 of this Exhibit outlines the status of API's pension funding and assumptions used.

API has not made significant changes in its workforce planning and compensation strategies since the 2020 COS, though the application of these strategies have been affected by market conditions and unforeseen developments (such as COVID). During the 2020-2023 period, API's approach has allowed it to reach its goals of attracting and retaining qualified individuals. During this period API believes its employee turnover levels have been favourable to national averages[9]. API's approach has also enabled API to achieve and often exceed its OEB scorecard goals in such areas as safety, reliability, customer satisfaction and service quality.

Base Pay Compensation – Executive, Management, Non-Union Staff

Overall compensation for all employees of API is designed to remain competitive with market compensation so as to attract and retain qualified personnel. Overall compensation includes base pay and a portion of the pay which is dependent on achievement of corporate and personal targets. The following outlines the process followed by the Company in making changes to Management and Non-Union Compensation.

API uses the Korn Ferry Job Evaluation method for position evaluation. This method of job evaluation is the most widely used job measurement system in the world. Position evaluations

[9] Ex: in 2022 and 2023, API's turnover was 5.4% and 5.2%, respectively including retirements, while Canadian average turnover was 12.4% and 15.5% respectively per 2023 Canadian Turnover Trends | Mercer (imercer.com).

for the Executive positions were established by Korn Ferry. API Management and Non-Union positions are evaluated jointly with Korn Ferry trained personnel.

API uses a reference community of participants in the Korn Ferry Compensation Comparison. API uses this reference community to establish the market rates for similar positions in Ontario. To attract and retain qualified staff, the Company sets midpoint salaries using a policy line recommended by Korn Ferry management consultants. Actual salaries are set by reference to these recommendations and based on corporate and individual performance.

For members of the Executive, the Board of Directors of FortisOntario considers Korn Ferry compensation data and other policies to validate that the compensation practices are market competitive. All Executive salaries are set and all increases must be approved by the Board of Directors of FortisOntario.

All salary increases are based on market information provided by the Korn Ferry. The resulting salaries are reflective of base compensation for comparable-sized positions in the national marketplace. All salaries are approved by senior management and/or the Board of Directors as applicable. Executive and Management employees are not paid overtime. Certain Non-Union staff employees are eligible for overtime pay; for example, during emergency storm response situations.

Short-term Incentive Compensation Available to Management and Non-Union Staff

Description

One element of API’s overall compensation package is incentive compensation. Implicit in the analysis contained in Korn Ferry management consultants’ recommendations is the fact that incentive compensation is a normal component of compensation for management positions in Canadian corporations.

Incentive compensation for all employees for API reflects an element of compensation put at risk to elicit and sustain continued good performance. The more senior the employee, the greater the percentage of overall compensation is put at risk.

Application

The short-term incentive ("STI") plan is available to the Executive, Management and Non-Union staff of API. Unionized employees do not participate in the STI plan and do not receive incentive compensation.

Format

API's STI plan includes both an individual and a corporate component for all Executive, Management and Non-Union staff. Key aspects of this plan together with the targets are outlined below.

Minimum Corporate Performance Criterion

Prior to any incentive payments being made, a minimum corporate performance criterion, or trigger, must be reached. API must achieve a pre-determined corporate threshold/target as approved by the Board of Directors of FortisOntario Inc. ("FortisOntario"); otherwise, no incentive payments will be made. For more information on these criterion, see "Corporate Targets" below.

PAYOUT SUMMARY

Payout Summary

Basis

The STI payout is based on a percentage of annual salary and ranges between 5% and 50% depending on position. STIs objectives are set annually and establish criteria upon which the corporation and the individual performance are to be measured. The objectives are then scored which will result in an STI rating between 0% and 150%.

The individual performance component is designed to better reflect the degree of opportunity which employees in each management group have to influence corporate performance. The weighting for the individual component varies by position level and ranges between 30% and 75%. The balance of the weighting is based on a corporate STI scorecard approved annually by the Board of Directors.

The incentive regime is structured in a manner that emphasizes the greater ability of the more senior individuals to affect corporate performance by making a greater portion of their compensation dependent on corporate as opposed to individual performance. For the President and CEO, and Vice Presidents, 70% of the incentive opportunity is based on corporate performance and 30% on individual performance. For Management and Non-Union staff the split is 25% corporate and 75% individual.

Corporate Targets

Corporate targets may include the following: cost reduction, capital project management, customer service, safety and environment, and reliability. Accordingly, all corporate incentive payments included in the 2020 Actual to 2025 Test Year relate to benefits to ratepayers as described below. Corporate measures have three performance levels and are reflective of key corporate targets or goals.

Each of the corporate targets benefits the ratepayers. In particular, the cost reduction measure sets targets for reducing operating costs. The capital project measure sets targets for meeting budgeted capital project costs and completing projects with respect to scope and schedule; the completion of these projects benefits customers through safe and reliable electricity supply which meets their needs. These measures are primarily customer-related as they represent a cost reduction target that directly benefits ratepayers through lower rates or rates that could otherwise be higher. Customer service corporate measures ensure efficient and effective levels of service that meet Board standards and service quality indices. Safety and environmental measures benefit the ratepayer by minimizing high risk incidents and promoting a proactive approach to managing safety and the environment. Reliability measures primarily benefit the ratepayer by ensuring a reliable supply of electricity.

Individual Targets

Individual targets, like the corporate targets, support the broader design objective of aligning the interests of all stakeholder groups in API with an overall focus on efficient delivery of service to customers.

Individual measures are developed in consultation with individuals and their immediate superiors. Each measure has three performance levels, is reflective of key projects or goals and focuses on departmental or divisional priorities. Individual measures may include the following: human resources, safety and environment, reliability, regulatory compliance, customer service, efficiencies, capital project completion, cost reduction and training targets. These measures primarily benefit ratepayers for the reasons discussed herein. Human Resources primarily benefit the ratepayer by ensuring that skilled personnel are recruited and retained to provide safe and reliable service and to maintain service levels. Cost reduction, capital project and efficiency measures relate to maintaining or reducing operating costs which flow directly to the ratepayer through stable rates. Safety and environment, training, capital project, reliability, regulatory compliance and customer service measures directly benefit ratepayers in the form of a safe and reliable supply of electricity in compliance with regulations and established customer service levels.

Assessment and Payment

The Board of Directors of FortisOntario, API's parent company, approves the corporate targets for all participants and the individual targets for the Executive. Corporate measures are reflective of key corporate targets or goals and are approved annually by the Board of Directors of FortisOntario. Actual corporate performance is assessed and approved annually by the Board of Directors of FortisOntario. Actual performance against individual targets is evaluated by the individual's immediate superior. The President and Chief Executive Officer makes recommendations in relation to the Vice Presidents' individual awards. The Board of Directors of FortisOntario makes recommendations and approves the President and Chief Executive Officer award, and reviews the recommendations and approves payments respecting the Vice Presidents. Payments will be made generally in February, once all corporate and individual performance measures of the financial year have been finalized. API budgets for incentive payments at target payment levels.

Other Benefits

Other benefits include employer portion of Canadian Pension Plan, employer portion of Employment Insurance, Employee Health Tax expense, WSIB expense, defined contribution pension expense, insurance benefit, extended health and dental care plan expense, defined benefit pension expense, post-retirement benefit, share purchase plan top-up expense, wellness reimbursements (fitness memberships) and employee assistance plan services.

Compensation for Unionized Employees

Unionized employees of API are represented by the Power Workers Union CUPE Local 1000 ("PWU Local 1000"). The collective agreement was recently negotiated for a new three year term, which expires on December 31, 2026. Wage increases are in line with other industry adjustments and are 3.75%, 3.25% and 3% for 2024-2026 respectively.

4.4.2 EMPLOYEE COSTS VARIANCE ANALYSIS

API has prepared Appendix 2-K using total FTEs. This includes FTEs that are employees of API, an allocation of FTEs included in the shared services and corporate cost allocations outlined in Section 4.5 of this Exhibit, and time directly charged to API from its affiliates within the FortisOntario group such as customer service and engineering support which are not already covered under the shared services allocations.

The number of FTEs from the 2020 Board Approved to the 2025 Test Year has increased by 4 FTEs, a 6% increase.

Table 8 below is an excerpt from Appendix 2-K that has been submitted as part of this Application:

Table 18 - OEB Appendix 2-K Employee Compensation

	Last Rebasing Year 2020 - OEB Approved	Last Rebasing Year (2020 Actuals)	2021 Actuals	2022 Actuals	2023 Actuals	2024 Bridge Year	2025 Test Year
Number of Employees (FTEs including Part-Time)[1]							
Management (including executive)	12	11	12	11	12	11	11
Non-Management (union and non-union)	58	54	56	57	59	63	63
Total	70	65	68	68	71	74	74
Total Salary and Wages including ovetime and incentive pay							
Management (including executive)	$ 1,745,282	$ 1,745,599	$ 1,806,968	$ 1,809,000	$ 1,771,244	$ 1,806,045	$ 1,892,538
Non-Management (union and non-union)	$ 5,566,645	$ 5,278,914	$ 5,465,122	$ 5,715,777	$ 6,012,789	$ 6,579,988	$ 6,789,512
Total	$ 7,311,927	$ 7,024,513	$ 7,272,090	$ 7,524,777	$ 7,784,033	$ 8,386,033	$ 8,682,050
Total Benefits (Current + Accrued)							
Management (including executive)	$ 414,774	$ 420,195	$ 496,355	$ 431,840	$ 409,061	$ 362,805	$ 382,519
Non-Management (union and non-union)	$ 1,711,110	$ 1,737,448	$ 2,057,219	$ 1,745,003	$ 1,576,206	$ 1,584,703	$ 1,651,103
Total	$ 2,125,884	$ 2,157,643	$ 2,553,574	$ 2,176,843	$ 1,985,267	$ 1,947,508	$ 2,033,622
Total Compensation (Salary, Wages, & Benefits)							
Management (including executive)	$ 2,160,056	$ 2,165,794	$ 2,303,323	$ 2,240,840	$ 2,180,305	$ 2,168,850	$ 2,275,057
Non-Management (union and non-union)	$ 7,277,755	$ 7,016,362	$ 7,522,341	$ 7,460,780	$ 7,588,995	$ 8,164,691	$ 8,440,615
Total	$ 9,437,811	$ 9,182,156	$ 9,825,664	$ 9,701,620	$ 9,769,300	$ 10,333,541	$ 10,715,672
Total Compensation Breakdown (Capital, OM&A)							
OM&A	$ 6,655,084	$ 6,473,496	$ 6,489,504	$ 6,521,797	$ 6,489,520	$ 6,972,852	$ 7,152,603
Capital	$ 2,782,727	$ 2,708,660	$ 3,336,160	$ 3,179,823	$ 3,279,780	$ 3,360,689	$ 3,563,069
Total	$ 9,437,811	$ 9,182,156	$ 9,825,664	$ 9,701,620	$ 9,769,300	$ 10,333,541	$ 10,715,672

VARIANCE ANALYSIS - FTEs

<u>2020 Board Approved to 2020 Actual</u>

There was a 5 FTE decrease from 2020 Board Approved to 2020 Actual. This was primarily due to several seasonal labourer positions and a contract monitor that were not hired as originally planned, a retirement that was not replaced due to attrition, and also the fact that neither a co-op or summer student was hired as originally planned primarily due to Covid restrictions that were in place at the time. In lieu of temporary hiring of seasonal staff, API utilized more third-party resourcing to complete its vegetation management program.

<u>2020 Actual to 2021 Actual</u>

There was a 3 FTE increase from 2020 Actual to 2021 Actual. This was primarily due to filling of vacancies for supervisory positions in the operations group, the hiring of seasonal labours, and the temporary increase of shared service allocations primarily due to additional staffing required for coverage of medical leaves as well as retirement succession planning.

<u>2021 Actual to 2022 Actual</u>

There was no change from 2021 Actual to 2022 Actual because the reversal of the temporary increase in shared service above was offset by additional seasonal contract monitors hired along with a co-op student.

<u>2022 Actual to 2023 Actual</u>

There was a 3 FTE increase from 2022 Actual to 2023 Actual. This was due to a combination of a new hire for operations administrative support, increased time directly charged to API from its affiliates within the FortisOntario group for both engineering and customer services support, and temporary additional resourcing in an operations support position due to a large industrial project. The increased affiliate allocations included allocated time from a new GIS position at FortisOntario. The proper maintenance of the GIS system supports many important functions including outage management, asset inspections and maintenance, planning, reporting and other key functions.

<u>2023 Actual to 2024 Bridge</u>

There is a planned increase from 2023 Actual to 2024 Bridge Year of 3 FTEs. This is due to a combination of the filling of temporarily vacant positions and additional seasonal labourers and a Co-op student in the operations group, an increase in time directly charged to API from its affiliates within the FortisOntario group for both engineering (annualization of GIS position filled in 2023) and customer services support, and an increase in shared services allocation particularly in information technology as cybersecurity efforts continue ramp up in the area of operational technologies.

2024 Bridge to 2025 Test Year

There are no planned changes in FTEs from 2024 Bridge Year to 2025 Test Year.

Variance Analysis – Total Compensation

Total compensation indicates a compound annual growth rate per FTE of 1.4% from 2020 Board Approved to 2025 Test Year. The breakout of this variance between salary/wages and benefits is discussed in the sections below.

Total Salary and Wages

Total salary and wages demonstrate a compound annual growth rate per FTE of 2.4% year over year from 2020 Board Approved to 2025 Test Year. Increases are primarily due to individual progressions, economic adjustments and changes to staff mix.

Negotiated collective bargaining unit increases and details regarding non-union and management salary increases and incentive payment structure are described in Section 4.4.1 of this Exhibit.

Total Benefits

Total benefits decreased by a compound annual growth rate per FTE of negative 2.0% year over year from 2020 Board Approved to 2025 Test Year. The main contributors are decreases to defined benefit pension plan benefit expenses, which are described further in Section 4.4.3 of this Exhibit.

4.4.3 PENSION EXPENSE AND POST RETIREMENT BENEFITS EXPENSE

Overview

API participates in two pension plans: a defined benefit plan, the Retirement Fund of API, and a defined contribution plan, the Defined Contribution Plan of API.

Defined Benefit Pension Plan

API sponsors the Retirement Fund of API. Regular Power Workers Union employees hired after January 1, 1991 become a member of this plan after three (3) months of continuous service. The pension plan is a contributory defined-benefit pension plan whereby the member's contributions are based on the following:

Effective January 1, 2019 member contribution rates for the 2019 plan year and each plan year thereafter are 6.5% of gross earnings up to and including the YMPE and 8.5% of gross earnings, if any, in excess of the YMPE.

The members are comprised of current represented employees of the Power Workers Union, certain grandfathered Management and Non-Union employees, pensioners (previous employees) and beneficiaries of employees or pensioners. As of January 1, 2024, there are 33 active members and a total of 37 pensioners/beneficiaries receiving a pension.

The most recent actuarial valuation for the Retirement Fund of API was December 31, 2022. The actual valuation was filed with the Financial Services Commission of Ontario and has been included as Attachment 4A within this Exhibit. The valuation showed that the plan had an excess of $4,605,200, on a going-concern basis.

The most recent actuarial report has been provided as Attachment 4A. The actuarial reports will not be directly reconcilable to pension and OPEB expense amounts reported in bridge and test years given the differing accounting standards and the multiple DVA accounts relating to pension and OPEB. Mercers does consider recent actuarial reports among other factors, in establishing forecasted pension and OPEB expenses for Bridge and Test Year values as presented within this Exhibit and these estimates are used as an input into the calculation of taxes within the PILs model. Pension and OPEB amounts are considered part of employee attributable costs and so the costs are then allocated to a combination of OM&A and capital based on employee effort, and so these amounts will not tie directly back to the calculation of taxes within the PILs model.

Table 19 below outlines Defined Benefit Pension Plan expenses, amounts included in internal labour burden rates that have been allocated to capital, and significant assumptions used from 2020 Board Approved to 2025 Test.

Table 19 - Defined Benefit Pension Plan Expenses and Assumptions

Defined Benefit Pension Plan	2020 Board Approved	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Bridge Year	2025 Test Year
Pension Expense	$284,218	$418,656	$625,390	$399,693	$93,410	$44,415	$42,998
Pension Expense Allocated to Capital	$102,533	$151,849	$260,996	$154,089	$37,262	$17,254	$17,419
Pension Expense Allocated to OM&A	$181,685	$266,807	$364,394	$245,604	$56,148	$27,161	$25,579
Significant assumptions used:							
Discount rate	3.70%	3.20%	2.70%	3.30%	5.30%	4.60%	4.90%
Expected long-term rate of return on plan assets	5.25%	4.85%	4.35%	4.70%	5.75%	5.75%	5.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

The defined benefit pension expense amounts are prepared for API by Mercer (Canada) Limited ("Mercer"). In February 2024, Mercer provided an updated estimate of the 2025 pension expense amount based on current known market information as at January 31, 2024.

API notes that the recent pension expense for the Defined Benefit Pension Plan has been lower than historical amount, driven by the increased discount rates experienced in recent years (2023, 2024, 2025). API believes these discount rate fluctuations to be temporary in nature, and therefore anticipates that during the 2026-2029 term, pension costs will increase accordingly, likely by a material annual amount. For this reason, API proposes a Defined Benefit Pension Plan True Up Variance Account, the details of which are further discussed in Exhibit 9. API has reviewed the applications of other OEB-regulated entities and determined that similar variance accounts have been previously approved for Enbridge Gas (EB-2022-0200), Hydro One (Transmission and Distribution, alluded to in EB-2021-0110) and Ontario Power Generation ("OPG", EB-2020-0290).

For clarity, API has reviewed the history and forecasts for the Defined Contribution Pension Plan expense, and for Post-Retirement Benefits Expense as well. While there may be increase in costs for these items beyond the Test Year, API expects to be able to manage these variances in the coming years, and is only proposing that the variance account apply to the Defined Benefit Pension Plan.

Defined Contribution Pension Plan

This plan is available to full-time, permanent, non-unionized employees after completing three (3) months of employment. As of January 1, 2023 there are 24 members in the plan. Members of the plan may make contributions ranging from 0% to 5% of their basic earnings. API is required to contribute an amount equal to 3% of earnings, in addition to matching the employee's contributions to a maximum of 8%. Contributions cannot exceed the overall maximum under the Income Tax Act (Canada).

Table 11 below outlines the total Defined Contribution Pension Plan expenses for 2020 Board Approved to 2025 Test, and the amounts that have been included in internal labour burden rates that have been allocated to capital.

Table 20 – Defined Contribution Pension Plan Expenses

Defined Contribution Pension Plan	2020 Board Approved	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Bridge Year	2025 Test Year
Pension Premiums	$123,000	$128,924	$140,041	$139,391	$165,806	$147,880	$151,947
Pension Premiums Allocated to Capital	$43,056	$46,762	$58,444	$53,738	$60,480	$57,448	$61,556

Post-Retirement Benefits Expense

API provides certain health, dental and life insurance benefits, under unfunded defined benefits plans, on behalf of its retired employees.

The post retirement benefit expense amounts are prepared for API by Mercer. In January 2024, Mercer provided updated estimates of the 2025 post retirement benefit expense amounts based on the current known market information as at January 31, 2024.

Table 21 below outlines Post Retirement Benefits expenses and assumptions used for 2020 Board Approved to 2025 Test.

Table 21 - Post Retirement Benefits Expenses and Assumptions

Post-Retirement Benefits Expense	2020 Board Approved	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Bridge Year	2025 Test Year
Post-retirement benefit costs	$540,111	$601,600	$672,600	$619,200	$472,960	$565,600	$547,500
Post-retirement benefit costs Allocated to Capital	$194,847	$218,205	$280,698	$238,713	$188,669	$219,724	$221,800
Significant assumptions used:							
Discount rate	3.90%	2.80%	3.30%	5.30%	4.60%	4.60%	5.20%

EB-2015-0040 Report of the Ontario Energy Board: Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs

API uses the accrual accounting in rate setting for pension and OPEB amounts. As outlined in Exhibits 1 and 9, API has implemented variance accounts, effective January 1, 2018, to track the difference between the forecasted accrual amount in rates and actual cash payment(s) made. API has also calculated carrying charges in accordance with OEB guidance. Refer to Exhibit 9 for further details.

4.5 SHARED SERVICES & CORPORATE COST ALLOCATION

API is a wholly owned subsidiary of FortisOntario Inc. ("FortisOntario"). FortisOntario also owns two other regulated distribution businesses licensed by the OEB; Canadian Niagara Power Inc. ("CNPI") and Cornwall Street Railway Light and Power Company Limited ("Cornwall Electric"). CNPI is also a licensed transmitter. In addition, FortisOntario owns an unregulated district heating plant in Cornwall (i.e., Cornwall District Heating). Fortis Inc. is a partner in the First Nations-led Wataynikaneyap Power LP transmission partnership (ET-2015-0264) with 24 First Nations partners and FortisOntario provides project management services to via Wataynikaneyap Power PM Inc.

The business units of the FortisOntario group are as follows:

- FortisOntario (includes Executive and Cornwall District Heating)
- API;
- Cornwall Electric;
- CNPI – Distribution; and
- CNPI – Transmission.

Service Agreements

Pursuant to a Services Agreement between FortisOntario and its Board licensed affiliates, API shares certain services with its affiliates. In addition to shared services, certain assets and employees are also shared. The Services Agreement is attached as Attachment 4B.

Corporate and Administrative Services – Shared Services

In order to maximize economies of scale and avoid duplication, certain administrative and corporate services are shared by the FortisOntario business units. The shared services include: executive; finance; information technology; human resources; health, safety and environmental; regulatory; and procurement and contract management. Cost-based pricing is used for the shared services. The allocation methodology is regularly reviewed and was most recently updated and approved within Canadian Niagara Power Inc.'s EB-2021-0011 cost of service proceeding. That same updated methodology has been reflected in 2022 Actuals through to 2025 Test within this Application. The allocation methodology, which includes the relative percentage allocation to the FortisOntario business units, are updated when Canadian Niagara Power Inc. rebases. Therefore, any change in dollars allocated to API outside of those rebasing years is a reflection of a change in the total shared service dollars that are to be shared across all of the FortisOntario business units.

Allocation of Shared Assets

API has presented costs related to shared computer hardware and software in OEB OM&A account 5675 within this Application. The charges allocated are derived by calculating a return on the shared assets, adding the depreciation expense, and then including a gross up for taxes.

API does not provide any services to its affiliates, and therefore does not receive any related revenues. Since API records the costs related to shared services in OM&A and does not collect any revenues, there is no impact from Appendix 2-N to Other Revenues. Therefore, the filing requirement related to reconciling Appendix 2-N to Other Revenues does not apply.

Corporate Services – Fortis Inc.

Fortis Inc., FortisOntario's parent company, allocates to the FortisOntario group, and other Fortis-owned companies, costs for strategic planning, finance and administrative services such as costs incurred related to the listing of Fortis shares on the Toronto Stock Exchange and New York Stock Exchange, and charges related to the administration of share purchase plans, and other costs. Customers benefit from these services by providing API with access to capital, which provides the required capital investment in the API distribution system for a reliable and safe supply of electricity. The charges are allocated to FortisOntario. The charges allocated to FortisOntario are subsequently charged to the five business units within FortisOntario based on relative rate base and relative revenues. Cost-based pricing is used for the charges.

Board of Director Related Costs

There are no Board of Director-related costs for affiliates included in API's costs.

Variance Analysis

Appendix 2-N has been completed for 2020 Board Approved to 2025 Test Year as part of the Chapter 2 Appendices. Table 12 shown below details the variances from the last Board Approved 2020, to the 2025 Test Year. The materiality threshold used for explanation of variances is $175,000, as calculated in Exhibit 1.

Table 22- Shared Service and Corporate Cost Allocation

Year: 2020

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$554,045	$554,045
FortisOntario	API	building rent	market based	$82,149	$82,149
CNPI-Distribution	API	administrative serv	cost based	$1,600,793	$1,600,793
Fortis Inc.	API	administrative serv	cost based	$197,277	$197,277
CNPI-Distribution	API	shared IT	cost based (Note 1)	$536,737	$536,737

Year: 2021

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$565,199	$565,199
FortisOntario	API	building rent	market based	$83,792	$83,792
CNPI-Distribution	API	administrative serv	cost based	$1,872,394	$1,872,394
Fortis Inc.	API	administrative serv	cost based	$201,502	$201,502
CNPI-Distribution	API	shared IT	cost based (Note 1)	$517,842	$517,842

Year: 2022

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$561,094	$561,094
FortisOntario	API	building rent	market based	$83,135	$83,135
CNPI-Distribution	API	administrative serv	cost based	$1,750,341	$1,750,341
Fortis Inc.	API	administrative serv	cost based	$200,962	$200,962
CNPI-Distribution	API	shared IT	cost based (Note 1)	$478,299	$478,299

Year: 2023

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$558,262	$558,262
FortisOntario	API	building rent	market based	$84,797	$84,797
CNPI-Distribution	API	administrative serv	cost based	$1,984,062	$1,984,062
Fortis Inc.	API	administrative serv	cost based	$165,877	$165,877
CNPI-Distribution	API	shared IT	cost based (Note 1)	$484,999	$484,999

Year: 2024

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$627,591	$627,591
FortisOntario	API	building rent	market based	$86,493	$86,493
CNPI-Distribution	API	administrative serv	cost based	$1,887,895	$1,887,895
Fortis Inc.	API	administrative serv	cost based	$179,830	$179,830
CNPI-Distribution	API	shared IT	cost based (Note 1)	$484,999	$484,999

Year: 2025

Shared Services and Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
FortisOntario	API	corporate services	cost based	$639,570	$639,570
FortisOntario	API	building rent	market based	$88,223	$88,223
CNPI-Distribution	API	administrative serv	cost based	$2,092,149	$2,092,149
Fortis Inc.	API	administrative serv	cost based	$183,747	$183,747
CNPI-Distribution	API	shared IT	cost based (Note 1)	$431,621	$431,621
Note 1: Price for the Service is the depreciation cost plus cost of capital based on average NBV					

Administrative Services from CNPI Distribution

2020 Board Approved vs 2025 Test

Increase of $426,815

As highlighted in Section 4.2 and 4.3 of this Exhibit, there has been an increase in administrative service allocations. The increase of $426,815 from 2020 Board Approved to 2025 Test is due to general increases in labour, material and contracted service costs. Also, cybersecurity related costs continue to increase and the implementation of the cloud computing standard gives rise to additional third party maintenance agreement costs that were previously capitalized.

4.6 PURCHASES OF NON-AFFILIATE SERVICES, ONE TIME COST, REGULATORY COSTS

4.6.1 NON-AFFILIATE SERVICES

FortisOntario Policy PUR-001 is the policy that covers purchases of non-affiliate services. Policy PUR-001 replaced Policy MM100 in October 2019. Current Policy PUR-001, along with some of the procedures referenced within it, and the now outdated Policy MM100 are attached as Attachment 4C to this exhibit.

Policy PUR-01, FortisOntario's Purchasing Procedures and Sourcing Methods, sets out the accepted means of sourcing, including the prerequisites required to be met before proceeding with soliciting vendors for information and prices. Policy PUR001-01 allows for outsourcing of service expenses primarily through two means:

1) Competitive Procurement

Policy PUR001-01 states that all efforts shall be made to find more than one source of supply and that three bidders is the ideal number for a competitive bid. Processes such as a Request for Quotations ("RFQ"), Request for Proposals ("RFP") and Request for Tender ("RFT") are to be used for purchases over $15,000 unless the source of supply doesn't allow for competitive bidding.

Previously, Policy MM100 stated that processes such as a RFQ, RFP and Request for Information were to be used for purchases over $10,000. Depending on the nature of the work and estimated expense, this could be a formal or informal process.

In most cases the procurement process is handled directly by API, however in other cases this process might be managed by affiliates, or parent companies in order to leverage economies of scale.

2) Single/Sole Source

Policy PUR001-01 allows for single or sole-sourcing in circumstances where the source for supply does not allow for competitive bidding. Section 4.5 of Policy PUR001-01 outlines the specific requirements were single or sole sourcing is allowed. The policy also allows for purchases with an annual spend under $15,000 to be single-sourced in order to facilitate low dollar-value purchases.

Previously, Policy MM100 allowed for purchases over $10,000 to have a single source of supply provided they meet specific requirements of Section 4.5 of Policy PUR001-01. API has allowed that purchases with an annual spend under $10,000 can have a single source of supply in order to facilitate low dollar purchases.

Both procurement methods are subject to the rules and controls that API has built 1 into its ERP system. The purpose being to provide visibility on the acquisition and to have an authorized approval for all goods and services purchased. Approval authorizations are tiered to specific positions within API with specific dollar limitations. Purchases over the $75,000 limit become the responsibility of the API Executives to review and approve. High dollar expenses are authorized by one or more of the Executives upon a Purchase over $250,000 as per FIN-001 Authorization Policy.

API also employs a Corporate Buyer. The buyer is responsible to seek the optimal combination of logistics activities and their attributes such as price, quality, speed and security and to manage the resulting information and monetary flows. Additional responsibilities of the buyer include overseeing the acquisition, use and disposition of goods, materials and services to fulfill internal and external customer needs. The specific duties of the buyer include but are not limited to:

1) Administration of the FortisOntario Corporate Purchasing Policy.
2) Prepare and administer competitive bidding documents and processes. This includes but is not limited to: issuing the bid; summarizing submissions; assisting with the review and selection process; finalizing and managing any contractual documents and the ongoing maintenance thereof.
3) Review and evaluate purchase orders submitted through the ERP system to ensure reasonableness, accuracy and policy compliance prior to Management approval.
4) Prepare and submit the forms for Executive signoff.
5) Review and investigate invoices for any price, product or service discrepancies.
6) Develop new supply sources and stay abreast of new trends and innovations in routinely purchased supplies, materials, services and equipment.
7) Maintain price lists on assigned commodities and negotiate prices and terms.
8) Solicit labour and equipment rates for cost comparisons.

Table 13 below lists non-affiliated services that were purchased between 2020 and 2023 inclusive, that were sole-sourced in accordance with one or more of the exception criteria included in Section 4.5 of Policy PUR001-01; a $175,000 materiality threshold was used. Explanations for the exceptions are provided following the table.

For some of the vendors identified below, the cost noted relates to services provided or materials purchased for both API and its affiliates, paid by API. For those types of invoices, although the full amount of the invoice may be paid out of API, the cost is then allocated across API and its applicable affiliates and a corresponding due from affiliates transaction is triggered in API's accounting system.

For those examples, the annual cost amounts provided below were the gross cost incurred for that vendor in that particular year before allocation to affiliates.

Table 23 – Material Sole-Source Exceptions by Year

Year	Nature of Service	Exception	Annual Expense	Note
2020	Equipment Services	4.5(d)	$ 200,020	Unique/Standardized Equpment requirements
2020	Wood Poles	4.5(f); (g)	$ 479,470	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2020	Inventory	4.5(f); (g)	$ 616,053	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2020	Tracked Vehicle Rental	4.5(a)	$ 186,900	Only one supplier available
2020	Metering	4.5(d); (f)	$ 460,815	Unique/ Standardized equipment requirements; Under existing Fortis Inc. or FON Contract
2021	Equipment Services	4.5(d)	$ 234,916	Unique/Standardized Equpment requirements
2021	Tracked Vehicle Rental	4.5(a)	$ 348,861	Only one supplier available
2021	Equipment Services	4.5(d)	$ 212,896	Unique/Standardized Equpment requirements
2021	Equipment Services	4.5(d)	$ 221,141	Unique/Standardized Equpment requirements
2021	Wood Poles	4.5(f); (g)	$ 647,770	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2021	Inventory	4.5(f); (g)	$ 874,351	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2021	Metering	4.5(d); (f)	$ 488,077	Unique/ Standardized equipment requirements; Under existing Fortis Inc. or FON Contract
2021	Legal Services	4.5(h)	$ 874,495	Regional Manager/ Exec Approval- within limit
2021	Regulator (equipment)	4.5(d); (c)	$ 442,084	Unique/Standardized Equpment requirements/ Technical and HS&E Standards
2022	Tracked vehicle rentals	4.5(a)	$ 287,508	Only one supplier available
2022	Inventory	4.5(f); (g)	$ 1,275,434	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2022	Wood Poles	4.5(f); (g)	$ 623,047	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2022	Metering	4.5(d); (f)	$ 436,309	Unique/ Standardized equipment requirements; Under existing Fortis Inc. or FON Contract
2022	Equipment services	4.5(d)	$ 248,703	Unique/Standardized Equpment requirements
2022	Host Agreement	4.5(h)	$ 384,724	Regional Manager/ Exec Approval- within limit
2022	Computer/Software	4.5(g); (h)	$ 233,098	Recent history that supplier is lower priced/Regional or Executive approval within limits
2023	Equipment Services	4.5(d)	$ 433,740	Unique/Standardized Equpment requirements
2023	Inventory	4.5(f); (g)	$ 734,413	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2023	Wood Poles	4.5(f); (g)	$ 1,707,496	Under existing Fortis Inc. or FON Contract/ Recent history that supplied is lower-priced
2023	Metering	4.5(d); (f)	$ 549,597	Unique/ Standardized equipment requirements; Under existing Fortis Inc. or FON Contract
2023	Equipment services	4.5(d);	$ 182,633	Unique/Standardized Equpment requirements
2023	Equipment Services	4.5(d);	$ 402,655	Unique/Standardized Equpment requirements
2023	Equipment Services	4.5(d);	$ 372,216	Unique/Standardized Equpment requirements

Equipment Services – these services represent a large number of smaller jobs, related to excavation for pole setting, temporary access from roads to right of way, etc. While specific packages of work are not competitively bid, API prequalifies a number of vendors that are able to comply with its Health & Safety and Environmental requirements. Vendor selection for any specific task often depends on contractor availability and/or the availability of specialized equipment at the time each project, or as required during emergencies. API regularly compares pricing across all qualified contractors to ensure that it reflects market rates. These vendors have also recently bid on competitive snow plowing contracts, as reflected in the above table.

Tracked Vehicle Rentals – these are specialized off-road equipment used for line work in areas not accessible by API's typical large fleet. Suppliers are limited, and the selected vendor is currently the only vendor able to supply this equipment in a cost-effective manner, without an obligation to supply a dedicated operator.

Wood Poles– this vendor was uniquely qualified to ensure API receives best pricing and logistical services for pole supply on a long-term basis.

Metering– this vendor was uniquely qualified to standardize the AMI smart meter technology adopted across FortisOntario and to align with other utilities in Ontario.

Inventory– this supplier was uniquely qualified to ensure API receives the best pricing and logistical services for common inventory part supply on a long-term basis.

Legal Services – this was a legal consultant service that had been sole-sourced due to legal exemption.

Host Agreement– this was a service that had been sole-sourced to First Nation community to enhance indigenous relationship.

Computer/Software – this IT solution provider was uniquely qualified and sole-sourced due to the excellent quality and pricing offered at that time. Although it did not go through the competitive bid, market research, preliminary consultation, and pricing comparison was conducted.

Regulator– This was an equipment refurbishment service that had been sole-sourced to the original equipment manufacturer (OEM).

4.6.2 ONE-TIME COSTS

In compliance with OEB policy and the Filing Requirements, incremental costs associated with this Cost of Service application are being amortized over a period of 5 years, by including one-fifth of the total cost in the 2025 Test Year. These one-time costs, which are explained in detail in the next section, include costs related to consultants, supporting studies, legal representation, and intervenor cost awards. In accordance with the Filing Requirements, API commits to updating these forecasted costs in OEB Appendix 2-M at the Draft Rate Order stage of the proceeding.

In recent years, API has incurred material one-time costs related to the establishment of land use agreements. API anticipates such further costs will occur in the Bridge and Test years, but has limited information to forecast these costs. In order to avoid over- or under- collecting land use costs as a result of significant one-time costs and other uncertain forecasting elements, API has proposed a Land Use Variance Account, further details of which can be found in Exhibit 9.

With the exception of the one-time costs identified above the other costs presented in the proposed 2025 Test Year OM&A budget are considered regular year-over-year expenses, with no material further one-time costs.

4.6.3 REGULATORY COSTS

API's regulatory costs include ongoing costs such as the OEB assessments, licencsing costs, cost awards, and the costs of staffing allocated to regulatory matters through shared service allocations to API. These costs are forecasted based on historical actuals plus inflation and consideration of labour allocations in the 2025 Test Year.

Regulatory one-time board-approved test year OM&A was $168,240 for API's 2020 Cost of Service application, or $33,648 per year amortized over the 2020-2025 period. Forecasted costs for the 2025 Cost of Service are estimated at $504,000, as detailed in Table 16 below, with a corresponding annual amortized amount of $101, 000.

These costs include consulting costs for completion of an asset condition assessment, area planning, and vegetation management study in support of the Distribution System Plan. Additionally, application-specific customer engagement activities, and regulatory consulting (load forecast/load profile, models and general assistance with the preparation of the Application) have also been included. Incremental financial support in the form of OPEBs and DVA review costs have also been included . Externally-driven one-time regulatory costs include forecasted intervenor cost awards, OEB costs, and legal costs related to the preparation and review of the Application and all components of the hearing process.

Table 24 - Regulatory Costs specific to the 2025 Cost of Service

Item	Test Year	Notes
Legal Fees	$ 70,000	Possible offset to Consulting
Intervenors and OEB (est. 4-5 intervenors)	$ 126,994	
Consultants	$ 307,000	Compensation, OPEBs
		1588/1589 Review
		Asset Condition Assessment
		Area Planning Study Support
		Vegetation Management
		Rate Consulting

Table 16 on the next page shows Appendix 2-M which details regulatory costs for board approved, most recent historical year, bridge and test year. All regulatory costs listed in Table 16 are tracked in account 5655 – Regulatory Expenses. All one-time costs identified in the 2025 Test Year are amortized over a period of 5 years (2025-2029) such that one-fifth of these costs are included in API's 2025 revenue requirement. API notes the one-time costs shown in 2023 actuals and 2024 bridge year represent the 1/5th amortization of the 2020 COS. API has also excluded the DLI-related one time regulatory costs from the calculations for 2020 Board Approved which were recorded in account 4305.

Table 25 – OEB Appendix 2-M Regulatory Costs

	Regulatory Cost Category	USoA Account	USoA Account Balance	Last Rebasing Year (2020 OEB Approved)	Last Rebasing Year (2020 Actual)	Most Current Actuals Year 2023	2024 Bridge Year	Annual % Change	2025 Test Year	Annual % Change
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)=[(G)-(F)]/(F)	(I)	(J) = [(I)-(G)]/(G)
	Regulatory Costs (Ongoing)									
1	OEB Annual Assessment	5655		71,904	50,414	60,238	62,277	3.39%	66,360	6.56%
2	OEB Section 30 Costs (OEB-initiated)	5655		5,416	1,799	2,169	5,332	145.84%	2,287	-57.11%
3	Expert Witness costs for regulatory matters									
4	Legal costs for regulatory matters	5655			2,460	2,250	4,700	108.89%	1,627	-65.39%
5	Consultants' costs for regulatory matters								150	
6	Operating expenses associated with staff and other resources allocated to regulatory matters	5655		48,459	80,837	121,816	123,606	1.47%	137,219	11.01%
7	Operating expenses associated with other resources allocated to regulatory matters [1]									
8	Other regulatory agency fees or assessments									
9	Any other costs for regulatory matters (please define)									
10	Intervenor costs									
	Regulatory Costs (One-Time)									
1	Expert Witness costs									
2	Legal costs	5655		110,000	26,280	5,256	5,256	0.00%	70,000	1231.81%
3	Consultants' costs	5655		113,500	104,520	20,904	20,904	0.00%	307,000	1368.62%
4	Incremental operating expenses associated with staff resources allocated to this application.									
5	Incremental operating expenses associated with other resources allocated to this application. [1]									
6	Intervenor costs	5655		97,500	37,440	7,488	7,488	0.00%	126,994	1595.97%
7	OEB Section 30 Costs (application-related)								0	
8	Customer Engagement and Other Costs	5655								
9	Recovery of One-Time DLI-Related Costs (EB-2018-0271) : 617 765	4305								
1	Sub-total - Ongoing Costs [2]		$ -	$ 125,779	$ 135,510	$ 186,473	$ 195,915	5.06%	$ 207,643	5.99%
2	Sub-total - One-time Costs [3]		$ -	$ 321,000	$ 168,240	$ 33,648	$ 33,648	0.00%	$ 503,994	1397.84%
3	Total		$ -	$ 446,779	$ 303,750	$ 220,121	$ 229,563	4.29%	$ 308,442	34.36%

Application-Related One-Time Costs	Total
Total One-Time Costs Related to Application to be Amortized over IRM Period	$ 503,994.43
1/5 of Total One-Time Costs	$ 100,798.89

API notes that Line 6 for ongoing expenses represents the corporate Regulatory Affairs allocation to API. Small amounts of corporate consulting services may be included in this line.

4.7 LEAP, CHARITABLE & POLITICAL DONATIONS

As set out in the March 2009, OEB issued Report of the Board: Low Income Energy Assistance Program (the LEAP Report), API has allocated at least 0.12% of its OEB-approved distribution revenue requirement to provide consumers assistance in response to affordability issues. Based on API's 2020 Board Approved Service Revenue Requirement of $25,510,313, $30,612 was designated as the minimum amount required for LEAP funding for 2020 Actuals to 2024 Bridge.

On February 12, 2024, the OEB issued a Letter regarding changes to the Low-Income Energy Assistance Program Emergency Financial Assistance (OEB Case No. EB-2023-0135, the "LEAP Letter"). Among other changes, the OEB announced:

- Increased maximum grant amounts;
- Increased eligibility criteria making more customers LEAP-eligible; and
- A requirement for LDCs to provide LEAP funding such that no eligible applicant will be denied funding.

As seen above, in past recent years, API has not typically exhausted its full funding amount each year, despite efforts to promote the program, leading to growing carry-over amounts into the subsequent year. With changing program eligibility and grant amounts, API expects a higher level of funding to be provided as grants in each year.

For 2025 Test Year, API has used $42,000 for LEAP funding in OEB 6205. API understands that going forward LDCs are to set an appropriate forecasted LEAP funding amount forecasted to cover the grants for all eligible LEAP applicants, regardless of the prior 0.12% rule. $42,000 has been established based on 0.12% of a rounded revenue requirement of $35,000,000.

API expects the annual minimum funding plus the carry-over amounts from prior years to be sufficient to cover the new funding requirement, however it is difficult to forecast how much funding will be required in the future as a result of the combination of changes announced in the Leap Letter. As such, and given API will not have a full year's experience with the new LEAP eligibility and grants, API respectfully requests that the Variance Account established in the LEAP letter remain available to API until its next rebasing application.

In API, the Low-Income Energy Assistance Programs began in 2011 and API has continued to provide support for this program since that time. API has utilized Algoma District Services Administration Board ("ADSAB"), a local support organization as its lead organization to administer the LEAP program. This program administration has two offices in API's service territory and has worked well to serve API customers either on or off First Nations reserve lands with low incomes. Table 17 below outlines the LEAP funding for historical years:

Table 26 – Historical and Proposed Leap Funding

	2020 Board Approved	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Test Year
Carry Over from PY		$ 38,809	$ 49,242	$ 63,240	$ 46,762	$ 55,097	TBD
LEAP Funding Amount	$ 30,612	$ 30,612	$ 30,612	$ 30,612	$ 30,612	$ 30,612	$ 42,000
One-Time Adjustment from OEB		$ -	$ 3,897	$ -	$ -	$ -	$ -
Less: Grants and Admin Fees Used		-$ 20,179	-$ 20,512	-$ 47,090	-$ 22,278	TBD	TBD
Carry Over to Next Year		**$ 49,242**	**$ 63,240**	**$ 46,762**	**$ 55,097**	**TBD**	**TBD**

API confirms that no charitable or political donations have been included in OM&A expenses for 2025 Test other than the LEAP funding noted above.

4.8 CONSERVATION AND DEMAND MANAGEMENT

4.8.1 CONSERVATION AND DEMAND MANAGEMENT OVERVIEW

In 2019, directives issued to the OEB and IESO resulted in the wind-down in 2022 of the Conservation First Framework (CFF), in which API had been an active participant. As a result, CDM acitvity under the 2021-2024 Framework is centralized under the IESO, including activities that LDCs would previously have been involved in, in previous frameworks since 2006.

The current CDM Guidelines (last issued In 2021), indicate that LDCs may propose LDC-specific CDM programs to be funded in rates, where these programs are limited and non-duplicative of IESO activities. Furthermore, LDCs are to confirm no dedicated CDM staff are included in the revenue requirement.

API confirms it has not included any capital or OM&A costs in this Application related to CDM Activities. API does not have any dedicated CDM staff. API's involvement in IESO CDM programs is limited to refering customer inquiries to the IESO. API is not proposing any Local Initiatives Programs.

As outlined in the Distribution System Plan, API has received a request for the connection for which an Non-Wires Solution may be a viable option to meet the customer's needs. API is in the process of examining both the wires and non-wires alternatives available, and will use the principles in the OEB's Benefit Cost Analysis guidance, as applicable, while also taking the customer's needs and preferences into consideration.

4.8.2 FUNDING OPTIONS FOR FUTURE CONSERVATION AND DEMAND

API has not proposed any Conservation and Demand programs at this time and therefore no funding is being requested in this Application.

Additionally, API last applied for and disposed of LRAMVA balances for CDM results until the end of 2024 (via prospective disposition) in its EB-2022-0014 IRM application. Accordingly, API is not proposing any further LRAMVA disposition. API is requesting to keep the LRAMVA account open, in case API proposes and the OEB approves any further API-specific CDM Programs.

ATTACHMENTS

Attachment 4A	Algoma Pension Valuation Report
Attachment 4B	Services Agreement
Attachment 4C	FortisOntario Purchasing Policy

Attachment 4A

Algoma Pension Valuation Report

Algoma Power Inc.
EB-2024-0007

Mercer

welcome to brighter

Retirement Fund of Algoma Power Inc.

Report on the Actuarial Valuation for Funding Purposes as at December 31, 2022

September 2023

Financial Services Regulatory Authority of Ontario Registration Number: 1212836

Canada Revenue Agency Registration Number: 1212836

Note to reader regarding actuarial valuations:

This valuation report may not be relied upon for any purpose other than those explicitly noted in the Introduction, nor may it be relied upon by any party other than the parties noted in the Introduction. Mercer is not responsible for the consequences of any other use. A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a pension plan's future financial condition or its ability to pay benefits in the future. If maintained indefinitely, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the amount of plan expenses, and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date. The content of the report may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission. All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used, or relied upon without reference to the report as a whole.

To prepare the results in this report, actuarial assumptions are used to model a single scenario from a range of possibilities for each valuation basis. The results based on that single scenario are included in this report. However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. Different assumptions or scenarios within the range of possibilities may also be reasonable, and results based on those assumptions would be different. Furthermore, actuarial assumptions may be changed from one valuation to the next because of changes in regulatory and professional requirements, developments in case law, plan experience, changes in expectations about the future, and other factors.

The valuation results shown in this report also illustrate the sensitivity to one of the key actuarial assumptions, the discount rate, and the sensitivity to three adverse scenarios. We note that the results presented herein rely on many assumptions, all of which are subject to uncertainty, with a broad range of possible outcomes, and the results are sensitive to all the assumptions used in the valuation.

Should the Plan be wound up, the going concern funded status and solvency financial position, if different from the wind-up financial position, become irrelevant. The hypothetical wind-up financial position estimates the financial position of the Plan assuming it is wound up on the valuation date. Emerging experience will affect the wind-up financial position of the Plan assuming it is wound up in the future. In fact, even if the Plan were wound up on the valuation date, the financial position would continue to fluctuate until the benefits are fully settled.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security, and/or benefit-related issues should not be made solely on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic, and societal factors, including financial scenarios that assume future sustained investment losses.

Funding calculations reflect our understanding of the requirements of the *Pension Benefits Act (Ontario)*, the Income Tax Act, and related regulations that are effective as of the valuation date. Mercer is not a law firm, and the analysis presented in this report is not intended to be a legal opinion. You should consider securing the advice of legal counsel with respect to any legal matters related to this report.

Contents

Section 1

Summary of results

	31.12.2022	31.12.2019
Going Concern Financial Status		
Market value of assets	$29,987,100	$32,663,000
Going concern funding liabilities	$23,982,500	$26,034,900
Provision for adverse deviations in respect of the going concern liabilities	$1,399,400	$1,565,500
Funding excess (shortfall)	$4,605,200	$5,062,600
Hypothetical Wind-up Financial Position		
Wind-up assets	$29,847,100	$32,563,000
Wind-up liability	$29,307,200	$35,295,900
Wind-up excess (shortfall)	$539,900	($2,732,900)
Transfer ratio	102%	93%
Funding Requirements in the Year Following the Valuation [1]		
Total current service cost	$524,300	$684,500
Provision for adverse deviations in respect of current service cost	$30,700	$40,600
Estimated members' required contributions	($233,700)	($238,800)
Estimated employer's current service cost	$321,300	$486,300
Employer's current service cost and provision for adverse deviations in respect of the current service cost expressed as a percentage of members' pensionable earnings	9.6%	14.5%
Minimum special payments	$0	$0

[1] Provided for reference purposes only. Contributions must be remitted to the Plan in accordance with the Minimum Funding Requirements and Maximum Eligible Contributions sections of this report.

	31.12.2022	31.12.2019
Estimated minimum employer contribution	$321,300	$486,300
Estimated maximum eligible employer contribution	$321,300	$3,219,200
Next required valuation date	31.12.2025	31.12.2022

Section 2

Introduction

To FortisOntario Inc.

At the request of FortisOntario Inc., we have conducted an actuarial valuation of the Retirement Fund of Algoma Power Inc. (the “Plan”), sponsored by FortisnOntario Inc. (the “Company”), as at the valuation date, December 31, 2022. We are pleased to present the results of the valuation.

Purpose

The purpose of this valuation is to determine:

- The funded status of the Plan as at December 31, 2022 on going concern, hypothetical wind-up, and solvency bases;
- The minimum required funding contributions from 2023, in accordance with the *Pension Benefits Act* (the “Act”); and
- The maximum permissible funding contributions from 2023, in accordance with the *Income Tax Act.*

The information contained in this report was prepared for the internal use of the Company, and for filing with the Financial Services Regulatory Authority of Ontario and with the Canada Revenue Agency, in connection with our actuarial valuation of the Plan. This report will be filed with the Financial Services Regulatory Authority of Ontario and with the Canada Revenue Agency. This report is not intended or suitable for any other purpose.

In accordance with pension benefits legislation, the next actuarial valuation of the Plan will be required as at a date not later than December 31, 2025 or as at the date of an earlier amendment to the Plan depending on any funding implications.

Terms of Engagement

In accordance with our terms of engagement with the FortisOntario Inc., our actuarial valuation of the Plan is based on the following material terms:

- It has been prepared in accordance with applicable pension legislation and actuarial standards of practice in Canada.
- As instructed by the FortisOntario Inc., we have not reflected a margin for adverse deviations in the going concern valuation in excess of the provision for adverse deviations prescribed by the Act.

- We have reflected the FortisOntario Inc., decisions for determining the solvency funding requirements, summarized as follows:
  - The same plan wind-up scenario was hypothesized for both hypothetical wind-up and solvency valuations.
  - Certain excludable benefits were excluded from the solvency liabilities.
  - Solvency smoothing was used.
- As instructed by the Company, we have reflected the impact of various plausible adverse scenarios on the going concern, solvency and hypothetical wind-up financial position.

See the Valuation Results – Solvency section of the report for more information.

Events since the Last Valuation at December 31, 2019

Pension Plan

There have been no special events since the last valuation date.

This valuation reflects the provisions of the Plan as at December 31, 2022. The Plan has not been amended since the date of the previous valuation, and we are not aware of any pending definitive or virtually definitive amendments coming into effect during the period covered by this report. The Plan provisions are summarized in Appendix F.

Assumptions

We have used the same going concern valuation assumptions and methods as were used for the previous valuation, except for the following:

	Current valuation	Previous valuation
Discount rate:	5.85%	4.85%
Interest on employee contributions:	5.85%	4.85%

A summary of the going concern methods and assumptions is provided in Appendix C.

The hypothetical wind-up and solvency assumptions have been updated to reflect market conditions at the valuation date. A summary of the hypothetical wind-up and solvency methods and assumptions is provided in Appendix D.

Regulatory Environment and Actuarial Standards

There have been a number of changes to the Act or the relevant regulations that impact the funding of the Plan.

On September 21, 2020, the Ontario government filed Regulation 520/20, providing potential temporary funding relief for eligible single employer defined benefit pension plans registered in Ontario. The new regulation allows sponsors of eligible plans to defer required employer contributions starting with those contributions due in October 2020 and ending with contributions due in March 2021. Each deferred monthly contributions plus interest were due to be paid in 2 consecutive monthly payments ranging no later than April/May 2021 to February/March 2022. This funding relief did not apply to this Plan.

On July 23, 2020 and September 14, 2021, the Canadian Institute of Actuaries (the “CIA”) published revisions to Section 3500 of the Standards of Practice on Pension Commuted Values (the “Commuted Value Standards”). The effective dates of the revisions to the Commuted Value Standards were December 1, 2020 and February 1, 2022 respectively.

From the effective dates, the revised Commuted Value Standards affect various assumptions used to value the solvency and wind-up liabilities for benefits assumed to be settled through a lump sum transfer.

The revised Commuted Value Standards affect implied rates of inflation used for purposes of calculating commuted values from registered pension plans and affirmed that the select and ultimate non-indexed interest rates cannot be less than zero. From the effective date, the revised standards affect the assumptions used to value the wind-up liabilities for benefits assumed to be settled through a lump sum transfer.

The CIA also announced changes to the practice-specific standards for pension plans (Part 3000) on June 22, 2022. The final changes to Part 3000 took effect December 1, 2022. The key revisions to the standards impact the approach applied when setting going concern discount rates for plans with an investment allocation glide path, the treatment of pending amendments for valuation purposes, the quantification of plausible adverse scenarios and required disclosures in funding reports.

The changes to Part 3000 are reflected in this report.

Subsequent Events

After checking with representatives of the Company, to the best of our knowledge there have been no events subsequent to the valuation date that, in our opinion, would have a material impact on the results of the valuation as at December 31, 2022. However, since the valuation date, there have been significant fluctuations in the financial markets including changes to yields on fixed income and expected short-term inflation, which may have led to a variation in the funded position of the Plan after the valuation date. Our valuation reflects the financial position of the Plan as of the valuation date and does not take into account any subsequent experience after the valuation date.

Impact of Case Law

This report has been prepared on the assumption that all claims on the Plan after the valuation date will be in respect of benefits payable to members of the Plan determined in accordance with the Plan terms and that all Plan assets are available to provide for these benefits. It is possible that court and regulatory decisions and changes in legislation could give rise to additional entitlements to benefits under the Plan and cause the results in this report to change. By way of example, we bring your attention to the following decisions:

- The Ontario Court of Appeal’s 2003 decision in *Aegon Canada Inc. and Transamerica Life Canada versus ING Canada Inc.* restricted the use of original plan surplus where two or more pension plans were merged.

- The Supreme Court of Canada's 2004 decision in *Monsanto Canada Inc. versus Superintendent of Financial Services* upheld the requirement, with retroactive effect, to distribute surplus on partial plan wind-up under the *Pension Benefits Act (Ontario).*

We are not in a position to assess the impact that such decisions or changes could have on the assumption that all plan assets on the valuation date are available to provide for benefits determined in accordance with the Plan terms. If such a claim arises subsequent to the date of this report, the consequences will be dealt with in a subsequent report. We are making no representation as to the likelihood of such a claim.

Section 3

Valuation results – Going concern

Financial Status

A going concern valuation compares the relationship between the value of Plan assets and the present value of expected future benefit cash flows in respect of accrued service, assuming the Plan will be maintained indefinitely.

The results of the current valuation, compared with those from the previous valuation, are summarized as follows:

	31.12.2022	31.12.2019
Assets		
Market value of assets	$29,987,100	$32,663,000
Going concern funding target		
Going concern liabilities:		
• Active members	$8,121,100	$10,426,700
• Pensioners and survivors	$15,780,000	$15,486,400
• Deferred pensioners	$81,400	$121,800
Subtotal	$23,982,500	$26,034,900
Provision for adverse deviations in respect of going concern liabilities as prescribed by the Act	$1,399,400	$1,565,500
Total	$25,381,900	$27,600,400
Funding excess (shortfall)[2]	$4,605,200	$5,062,600

The going concern liabilities at December 31, 2022 do not include an additional margin for adverse deviations beyond the provision for adverse deviations prescribed by the Act.

[2] Funding excess (shortfall) may or may not be equal to the going concern excess (unfunded liability) as described in the Act. Details of the going concern excess (unfunded liability) are provided in Appendix A.

Reconciliation of Financial Status

Funding excess (shortfall) as at previous valuation		$5,062,600
Provision for Adverse Deviations (PfAD) at previous valuation		$1,565,500
Funding excess (shortfall) before PfAD		$6,628,100
Interest on funding excess (shortfall) before PfAD		$1,011,900
Expected funding excess (shortfall)		$7,640,000
Net experience gains (losses)		
• Investment return	($5,650,200)	
• Increases in pensionable earnings	($58,400)	
• Increase in Years' Maximum Pensionable Earnings (YMPE)	$63,300	
• Indexation	($209,100)	
• Mortality	$847,500	
• Retirement	($265,800)	
• Termination	$49,900	
Total experience gains (losses)		($5,222,800)
Impact of changes in assumptions		
• Discount rate	$3,570,300	
Total assumption changes impact		$3,570,300
Net impact of other elements of gains and losses		$17,100
Funding excess (shortfall) before PfAD		$6,004,600
Provision for Adverse Deviations at current valuation		$1,399,400
Funding excess (shortfall) as at current valuation		$4,605,200

Current Service Cost

The current service cost is an estimate of the present value of the additional expected future benefit cash flows in respect of pensionable service that will accrue after the valuation date, assuming the Plan will be maintained indefinitely. A provision for adverse deviations in respect of the current service cost is determined in accordance with the Act.

The current service cost and the provision for adverse deviations in respect of the current service cost, during the year following the valuation date, compared with the corresponding values determined in the previous valuation, is as follows:

	2023	2020
Estimated members' pensionable earnings[3]	$3,339,300	$3,362,000
Total current service cost[4]excluding the provision for adverse deviations	$524,300	$684,500
Provision for adverse deviations in respect of the current service cost (based on the percentage defined in Appendix A)		
• As a dollar amount per year	$30,700	$40,600
• As a percentage of members' pensionable earnings	0.9%	1.2%
Estimated members' required contributions	($233,700)	($238,800)
Total estimated employer's current service cost		
• As a dollar amount per year	$321,300	$486,300
• As a percentage of members' pensionable earnings	9.6%	14.5%

The key factors that have caused a change in the employer's current service cost, excluding the provision for adverse deviations, since the previous valuation are summarized in the following table:

Employer's current service cost as at previous valuation	13.3%
Demographic changes	(0.1%)
Changes in assumptions	(4.5%)
Employer's current service cost as at current valuation	8.7%

[3] For those members assumed to accrue benefits

[4]Total current service cost includes $66,200 in estimated future costs for escalated adjustments as defined in the Act.

Discount Rate Sensitivity

The following table summarizes the effect on the going concern liabilities and current service cost shown in this report of using a discount rate that is 1% lower than that used in the valuation. The effect of a change in the discount rate on the provision for adverse deviations is not reflected.

Scenario	Valuation Basis	Reduce Discount Rate by 1%
Going concern funding liabilities	$23,982,500	$27,552,800
Current service cost		
• Total current service cost	$524,300	$676,800
• Estimated members' required contributions	($233,700)	($233,700)
Estimated employer's current service cost	$290,600	$443,100

Plausible Adverse Scenarios

The financial impact on the going concern results of plausible adverse scenarios that would pose threats to the Plan's future financial condition is presented in Appendix G.

Section 4

Valuation results – Hypothetical wind-up

Financial Position

When conducting a hypothetical wind-up valuation, we determine the relationship between the respective values of the Plan's assets and its liabilities assuming the Plan is wound up and settled on the valuation date, assuming benefits are settled in accordance with the Act and under circumstances consistent with the hypothesized scenario on the valuation date. More details on such scenario are provided in Appendix D.

The hypothetical wind-up financial position as of the valuation date, compared with that at the previous valuation, is as follows:

	31.12.2022	31.12.2019
Assets		
Market value of assets	$29,987,100	$32,663,000
Termination expense provision	($140,000)	($100,000)
Wind-up assets	$29,847,100	$32,563,000
Present value of accrued benefits for:		
• Active members	$9,769,700	$14,398,700
• Pensioners and survivors	$19,417,000	$20,651,900
• Deferred pensioners	$120,500	$245,300
Total wind-up liability	$29,307,200	$35,295,900
Wind-up excess (shortfall)	$539,900	($2,732,900)
Transfer Ratio	102%	93%

Wind-up Incremental Cost

The wind-up incremental cost is an estimate of the present value of the projected change in the hypothetical wind-up liabilities from the valuation date until the next scheduled valuation date, adjusted for the benefit payments expected to be made in that period.

The hypothetical wind-up incremental cost determined in this valuation, compared with the corresponding value determined in the previous valuation, is as follows:

	31.12.2022	31.12.2019
Number of years covered by report	3 years	3 years
Hypothetical wind-up incremental cost	$2,641,400	$3,070,100

The incremental cost is not an appropriate measure of the contributions that would be required to maintain the windup position of the Plan even if actual experience is exactly in accordance with the going concern valuation assumptions. For example, the expected return on plan assets (based on the going concern assumptions) is greater than the discount rate used to determine the hypothetical wind-up liabilities.

Discount Rate Sensitivity

The following table summarizes the effect on the hypothetical wind-up liabilities shown in this report of using a discount rate that is 1% lower than that used in the valuation:

Scenario	Valuation Basis	Reduce Discount Rate by 1%
Total hypothetical wind-up liability	$29,307,200	$33,594,000

Plausible Adverse Scenarios

The financial impact on the hypothetical wind-up financial position of plausible adverse scenarios that would pose threats to the Plan’s future financial condition is presented in Appendix G.

Section 5

Valuation results – Solvency

Overview

The Act also requires the financial position of the Plan to be determined on a solvency basis. The financial position on a solvency basis is determined in a similar manner to the Hypothetical Wind-up Basis, except for the following:

Exceptions	Reflected in valuation based on the terms of engagement
The circumstance under which the Plan is assumed to be wound up could differ for the solvency and hypothetical wind-up valuations.	The same circumstances were assumed for the solvency valuation as were assumed for the hypothetical wind-up valuation.
Certain benefits can be excluded from the solvency financial position. These include: (a) any escalated adjustment (e.g. indexing), (b) certain plant closure benefits, (c) certain permanent layoff benefits, (d) special allowances other than funded special allowances, (e) consent benefits other than funded consent benefits, (f) prospective benefit increases, (g) potential early retirement window benefit values, and (h) pension benefits and ancillary benefits payable under a qualifying annuity contract.	The following benefits were excluded from the solvency liabilities shown in this valuation: (a) post-retirment indexing
The financial position on the solvency basis needs to be adjusted for any Prior Year Credit Balance.	Not applicable.
The solvency financial position can be determined by smoothing assets and the solvency discount rate over a period of up to 5 years.	Solvency assets and liabilities were smoothed over 5 years.
The benefit rate increases coming into effect after the valuation date can be reflected in the solvency valuation.	Not applicable.

Financial Position

The financial position on a solvency basis, compared with the corresponding figures from the previous valuation, is as follows:

	31.12.2022	31.12.2019
Assets		
Market value of assets	$29,987,100	$32,663,000
Termination expense provision	($140,000)	($100,000)
Net assets	$29,847,100	$32,563,000
Liabilities		
Total hypothetical wind-up liabilities	$29,307,200	$35,295,900
Difference in circumstances of assumed wind-up	$0	$0
Value of excluded benefits	($6,218,800)	($6,862,700)
Liabilities on a solvency basis	$23,088,400	$28,433,200
Surplus (shortfall) on a market value basis	$6,758,700	$4,129,800
Solvency liability adjustment	$4,605,600	$1,021,300
Asset smoothing adjustment	$4,955,400	($1,705,000)
Surplus (shortfall) on a solvency basis	$7,108,500	$3,446,100
Transfer ratio	102%	93%
Solvency ratio	130%	115%

Plausible Adverse Scenarios

The financial impact on the solvency financial position of plausible adverse scenarios that would pose threats to the Plan’s future financial condition is presented in Appendix G.

Section 6

Minimum funding requirements

The Act prescribes the minimum contributions that the Company must make to the Plan. The minimum contributions in respect of a defined benefit component of a pension plan are comprised of going concern current service cost, the provision for adverse deviations in respect of the current service cost, and special payments to fund any funding shortfall or solvency shortfall that exceeds the level set out under the Act.

On the basis of the assumptions and methods described in this report, no special payments are required. However, since the available actuarial surplus is zero, the Act requires the employer to contribute the current service cost including the provision for adverse deviations. The determination of the provision for adverse deviations is shown in Appendix A. On the basis of the assumptions and methods described in this report, the rule for determining the minimum required employer monthly contributions, as well as an estimate of the employee and employer contributions, from the valuation date until the next required valuation are as follows:

	Employer's contribution rule		
Period beginning	Monthly current service cost[5]	Provision for adverse deviations	Monthly current service cost including provision for adverse deviation
January 1, 2023	8.7%	0.9%	9.6%
January 1, 2024	8.7%	0.9%	9.6%
January 1, 2025	8.7%	0.9%	9.6%

		Estimated employer's contributions			
Period beginning	Estimated Monthly Employee Contribution	Provision for adverse deviations (PfAD)	Monthly current service cost and PFAD	Available actuarial surplus applied[6]	Minimum monthly contributions
January 1, 2023	$19,500	$2,600	$26,800	$0	$26,800
January 1, 2024	$20,200	$2,700	$27,700	$0	$27,700
January 1, 2025	$20,900	$2,700	$28,700	$0	$28,700

[5] Expressed as a percentage of members' pensionable earnings for those members assumed to accrue benefits.

[6] Notwithstanding the available actuarial surplus in the Plan, the terms of the Plan may require the Company to make current service cost contributions.

The estimated contribution amounts above are based on projected members' pensionable earnings. Therefore, the actual employer's current service cost and provision for adverse deviations in respect of the current service cost may be different from the above estimates and, as such, the contribution requirements should be monitored closely to ensure contributions resume in accordance with the Act.

Appendix A includes details on the determination of the provision for adverse deviations

Other Considerations

Differences between Valuation Bases

There is no provision in the minimum funding requirements to fund the difference between the hypothetical wind-up and reduced solvency shortfalls, if any.

In addition, although minimum funding requirements do include a requirement to fund the going concern current service cost and a provision for adverse deviations in respect of the current service cost, there is no requirement to fund the expected growth in the hypothetical wind-up or solvency liability after the valuation date, which could be greater.

Timing of Contributions

Funding contributions are due on a monthly basis. Contributions for current service cost and the provision for adverse deviations including the expense allowance must be made within 30 days following the month to which they apply. Special payment contributions must be made in the month to which they apply.

Retroactive Contributions

The Company must contribute the excess, if any, of the minimum contribution recommended in this report over contributions actually made in respect of the period following the valuation date. This contribution, along with an allowance for interest, is due no later than 60 days following the date this report is filed.

Payment of Benefits

The Act imposes certain restrictions on the payment of lump sums from the Plan when the transfer ratio revealed in an actuarial valuation is less than one. If the transfer ratio shown in this report is less than one, the plan administrator should ensure that the monthly special payments are sufficient to meet the requirements of the Act to allow for the full payment of benefits, and otherwise should take the prescribed actions. If the full payment of benefits does not occur, the residual amount plus interest must be paid within 5 years of the initial transfer.

Additional restrictions are imposed when:

- The transfer ratio revealed in the most recently filed actuarial valuation is less than one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined by 10% or more since the date the last valuation was filed.
- The transfer ratio revealed in the most recently filed actuarial valuation is greater than or equal to one and the administrator knows or 'ought to know' that the transfer ratio of the Plan has declined to less than 0.9 since the date the last valuation was filed.

As such, the administrator should monitor the transfer ratio of the Plan and, if necessary, take the prescribed actions.

Letters of Credit

Minimum funding requirements in respect of required solvency special payments that otherwise require monthly contributions to the pension fund may be met, in the alternative, by establishing an irrevocable letter of credit subject to the conditions established by the Act. Required solvency special payments in excess of those met by a letter of credit must be met by monthly contributions to the pension fund.

Section 7

Maximum eligible contributions

The *Income Tax Act* (the "ITA") limits the amount of employer contributions that can be remitted to the defined benefit component of a registered pension plan. For purposes of this section on maximum eligible contributions only, any reference to the current service cost includes the provision for adverse deviations in respect of the current service cost.

In accordance with Section 147.2 of the ITA and *Income Tax Regulation* 8516, for a plan that is underfunded on either a going concern or on a hypothetical wind-up basis, the maximum permitted contributions are equal to the employer's current service cost, including the explicit expense allowance if applicable, plus the greater of the going concern funding shortfall and hypothetical wind-up shortfall.

For a plan that is fully funded on both going concern and hypothetical wind-up bases, the employer can remit a contribution equal to the employer's current service cost, including the explicit expense allowance if applicable, as long as the surplus in the plan does not exceed a prescribed threshold. Specifically, in accordance with Section 147.2 of the ITA, for a plan that is fully funded on both going concern and hypothetical wind-up bases, the plan may not retain its registered status if the employer makes a contribution while the going concern funding excess exceeds 25% of the going concern funding target.

Notwithstanding the above, any contributions that are required to be made in accordance with pension benefits legislation are eligible contributions in accordance with Section 147.2 of the ITA and can be remitted.

Schedule of Maximum Contributions

Since the surplus does not exceed 25% of the going concern funding target, the Company may make monthly contributions of up to 9.60% of pensionable earnings until the next valuation.

Section 8

Actuarial opinion

In our opinion, for the purposes of the valuations,

- The membership data on which the valuation is based are sufficient and reliable;
- The assumptions are appropriate; and
- The methods employed in the valuation are appropriate.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada. It has also been prepared in accordance with the funding and solvency standards set by the *Ontario Pension Benefits Act.*

Armando Fernandes
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

September 26, 2023
Date

Brad Duce
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

September 26, 2023
Date

Appendix A

Prescribed disclosure

Definitions

The Act defines a number of terms as follows:

Defined Term	Description				Result
Going concern assets	Total value of assets plus the sum of the following:				$29,987,100
	(a)	the present value of special payments in respect of any past service unfunded liability identified in a previously filed report		$0	
	(b)	the present value of special payments in respect of any plan amendment that increases going concern liabilities		$0	
	(c)	present value of special payments in respect of going concern unfunded liabilities identified in a previously filed report that are scheduled for payment within one year of the date of this report		$0	
Going concern excess / (unfunded liability)	The Going Concern Assets minus the sum of the following:				$4,605,200
	a.	the going concern liabilities			
		(i)	liabilities excluding the value of escalated adjustments	$20,887,100	
		(ii)	liabilities in respect of escalated adjustments	$3,095,400	
	b.	the provision for adverse deviations in respect of the going concern liabilities excluding the value of escalated adjustments		$1,399,400	
	c.	Prior Year Credit Balance		$0	

Defined Term	Description	Result
Going concern funded ratio	The ratio of: (a) Total value of assets (excluding letters of credit) less the Prior Year Credit Balance; to (b) going concern liabilities	1.25
Transfer Ratio	The ratio of: (a) Solvency Assets minus the lesser of the Prior Year Credit Balance and the minimum required employer contributions including the provision for adverse deviations until the next required valuation; to (b) The sum of the Solvency Liabilities and liabilities for benefits, other than benefits payable under qualifying annuity contracts that were excluded in calculating the Solvency Liabilities.	1.02
Solvency Ratio	The ratio of: (a) Solvency Assets related to defined benefits and ancillary benefits plus the total amount of any letters of credit minus the Prior Year Credit Balance (b) the sum of the Solvency Liabilities related to defined benefits and ancillary benefits	1.30
Prior Year Credit Balance	Accumulated sum of contributions made to the pension plan in excess of the minimum required contributions (note: only applies if the Company chooses to treat the excess contributions as a Prior Year Credit Balance).	$0
Solvency Assets	Market value of assets including accrued or receivable income and excluding the value of any qualifying annuity contracts.	$29,987,100

Defined Term	Description	Result
Solvency Asset Adjustment	The sum of:	
	(a) the difference between smoothed value of assets and the market value of assets	$4,955,400
	(b) the present value of going concern special payments required to liquidate any past service unfunded liability	$0
	(c) the present value of going concern special payments identified in December 31, 2019 valuation and scheduled for December 31, 2022	$0
	(d) the present value of going concern special payments (identified in this report) that are scheduled for payment within 6 years following the valuation date	$0
	(e) the present value of any previously scheduled solvency special payments (excluding those identified in this report)	$0
	(f) the total value of all letters of credit in respect of the special payments due before the valuation date, subject to the limit of 15% of solvency liabilities	$0
		$4,955,400
Solvency Liabilities	Liabilities determined as if the plan had been wound up on the valuation date, including liabilities for plant closure benefits or permanent layoff benefits that would be immediately payable if the employer's business were discontinued on the valuation date of the report, but, if elected by the plan sponsor, excluding liabilities for, (a) any escalated adjustment, (b) excluded plant closure benefits, (c) excluded permanent layoff benefits, (d) special allowances other than funded special allowances, (e) consent benefits other than funded consent benefits, (f) prospective benefit increases, (g) potential early retirement window benefit values, and (h) pension benefits and ancillary benefits payable under a qualifying annuity contract.	$23,088,400
Solvency Liability Adjustment	The amount by which Solvency Liabilities are adjusted as a result of using a solvency valuation interest rate that is the average of market interest rates calculated over the period of time used in the determination of the smoothed value of assets.	$4,605,600

Defined Term	Description	Result
Solvency Deficiency	The amount, if any, by which the sum of:	
	(a) the Solvency Liabilities	$23,088,400
	(b) the Solvency Liability Adjustment	$4,605,600
	(c) the Prior Year Credit Balance	$0
		$27,694,000
	Exceeds the sum of	
	(d) the Solvency Assets net of estimated termination expenses[7]	$29,847,100
	(e) the Solvency Asset Adjustment	$4,955,400
		$34,802,500
		$0
Reduced Solvency Deficiency / (Solvency Excess)	The sum of:	
	(a) 85% of the Solvency Liabilities	$19,625,100
	(b) 85% of the Solvency Liability Adjustment	$3,914,800
	(c) the Prior Year Credit Balance	$0
		$23,539,900
	minus the sum of:	
	(d) the Solvency Assets net of estimated termination expenses[7]	$29,847,100
	(e) the Solvency Asset Adjustment	$4,955,400
		$34,802,500
		($11,262,600)

[7] In accordance with accepted actuarial practice, for purposes of determining the financial position, the market value of plan assets was reduced by a provision for estimated termination expenses payable from the Plan's assets that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

Provision for Adverse Deviations

The provision for adverse deviations has been established in accordance with regulations taking into account the following parameters:

Defined Amount		Results
Fixed Income Component (L)	The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts and meeting the minimum rating requirement) as described in the regulations according to the investment policy applicable at the valuation date:	0.0%
Alternative Investment Component (M)	The sum of the Plan's target allocation of assets (excluding those allocated to annuity contracts) meeting requirements as described in the regulations according to the investment policy applicable at the valuation date:	0.0%
Investment Component (N)	Plan's target asset allocation for mutual, pooled or segregated funds	100.0%
Investment Component Fixed Income % (P)	Portion of Investment Component (N) that is allocated to investment categories accounted for in Fixed Income Component (L)	53.0%
Investment Component Alternative Investment % (Q)	Portion of Investment Component (N) that is allocated to investment categories accounted for in Alternative Income Component (M)	0.0%
Annuity Contract Allocation (R)	Annuity contracts that have been purchased from an insurance company and excluded from the Fixed Income Component (L) and Alternative Investment Component (M)	0.0%

Combined Target Asset Allocation for Fixed Income Assets (J)			
Sum of			
• Fixed Income Component (L)	0.00%		
• 0.5 × Alternative Investment Component (0.5 × M)	0.00%		
• Investment Component × Investment Component Fixed Income % (N × P)	53.00%		
• 0.5 × Investment Component × Investment Component Alternative Investment % (0.5 x N × Q)	0.00%		
		53.00%	
Divided by			
• 100% - Annuity Contract Allocation (100% - R)		100.00%	
Combined Target Asset Allocation for Fixed Income Assets			**53.00%**

Combined Target Asset Allocation for Non-Fixed Income Assets (K)	
100% – Combined **Target** Asset Allocation for Fixed Income Assets (100% - J)	**47.00%**

Duration of going concern liabilities at valuation date	
= (F - G) / (G × 0.01) where,	**13.52**
G = going concern liabilities excluding liabilities in respect of escalated adjustments and liabilities in respect of benefits for which an annuity contract has been purchased at valuation date established using the discount rate determined for this valuation	$20,887,000
F = going concern liabilities excluding liabilities in respect of escalated adjustments and liabilities in respect of benefits for which an annuity contract has been purchased established using the discount rate minus 1%	$23,710,100

Benchmark Discount Rate (E)	
Base rate	0.50%
Effective yield from CANSIM Series V39056 (H)	3.28%
1.5% x Combined **Target** Asset Allocation for Fixed Income Assets (1.5% × J)	0.80%
5.0% x Combined **Target** Asset Allocation for Non-Fixed Income Assets (5.0% × K)	2.35%
Benchmark Discount Rate	6.93%

Provision for Adverse Deviations		
i. 5.0% for a closed plan and 4.0% for a Plan that is not a closed plan		4.00%
ii. Provision based on Combined Target Asset Allocation for Non-Fixed Income Assets		2.70%
iii. Greater of zero and the		
• Duration of going concern liabilities at valuation date	13.52	
Multiplied by:		
– Going concern valuation gross discount rate net of active investment management fees (D), less	5.85%	
– Benchmark Discount Rate (E)	6.93%	0.00%
Provision for Adverse Deviations (i. + ii. + iii.)		6.70%

The available actuarial surplus that may be used according to the Act is established as follows:

Available actuarial surplus			
Excess of			
• Assets determined on basis of going concern valuation including accrued and receivable income but excluding the value of any letters of credit		$29,987,100	
Over			
• Going concern liabilities	$23,982,500		
• Provision for adverse deviations in respect of the going concern liabilities	$1,399,400		
• Prior Year Credit Balance	$0		
		$25,381,900	
		$4,605,200	(a)
Excess of			
• Solvency assets excluding the value of any letters of credits and lesser of Prior Year Credit Balance and minimum required employer contributions, including the provision for adverse deviations until the next required valuation		$29,987,100	
Over			
• Wind-up liabilities × 105%		$30,772,600	
		$0	(b)
The available actuarial surplus = the lesser of a) and b) above		$0	

Timing of Next Required Valuation

In accordance with the Act the next valuation of the Plan would be required at an effective date within one year of the current valuation date if:

- The ratio of solvency assets to solvency liabilities is less than 85%.
- The employer elected to exclude plant closure or permanent lay-off benefits under Section 5(18) of the regulations, and has not rescinded that election.

Otherwise, the next valuation of the Plan would be required at an effective date no later than three years after the current valuation date.

Accordingly, the next valuation of the Plan will be required as of December 31, 2025.

Special Payments

As the Plan does not have a funding shortall and there is a solvency excess, no special payments are required.

Pension Benefits Guarantee Fund (PBGF) Assessment

A PBGF assessment is required to be paid under Section 37 of the Act. The PBGF assessment base and additional information required under Section 3 of the Regulation 909 under the Act is as follows:

Solvency assets	$29,987,000	(a)
PBGF liabilities	$23,088,400	(b)
Solvency liabilities	$23,088,400	(c)
Ontario asset ratio	100.0%	(d) = (b) ÷ (c)
Ontario portion of the fund	$29,987,100	(e) = (a) × (d)
PBGF assessment base	$0	(f) = max(0, (b) – (e))
Amount of additional liability for plant closure and/or permanent layoff benefits which is not funded and subject to the 2% (3% for years after 2018) assessment pursuant to s.37(4)	$0	(g)
Modified PBGF liabilities	$11,875,000	
Number of Ontario Plan beneficiaries	68	
Number of Ontario Plan beneficiaries receiving monthly pensions (including bridge benefit) of $1,500 or less	3	
Number of Ontario Plan beneficiaries who have accrued monthly pensions (including bridge benefit) of $1,500 or less	17	
Amount of largest monthly pension or monthly pension benefit (including bridge benefit) that has accrued under the plan to an Ontario beneficiary	$6,359	

Percentiles of amounts payable under Plan to Ontario beneficiaries (in reference to all accrued monthly pensions, including bridge benefits for actives, disabled, suspended, transfers and deferred pensioners)	Accrued monthly pension (including bridge benefit)	PBGF liabilities
90th	$3,989	$4,640,729
80th	$3,133	$3,263,226
70th	$2,780	$2,184,122
60th	$1,856	$1,292,462
50th	$1,508	$896,095
40th	$1,285	$573,855
30th	$939	$282,437
20th	$687	$150,785
10th	$342	$56,042

Percentiles of amounts payable under Plan to Ontario beneficiaries (in reference to all monthly pensions in pay, including bridge benefits for pensioners and beneficiaries)	Accrued monthly pension (including bridge benefit)	PBGF liabilities
90th	$4,846	$11,615,925
80th	$3,928	$9,910,137
70th	$3,590	$8,137,847
60th	$3,318	$6,098,136
50th	$3,073	$4,869,046
40th	$2,727	$3,967,603
30th	$2,315	$2,464,976
20th	$2,126	$1,387,610
10th	$1,658	$611,958

Appendix B

Plan assets

The pension fund is held by RBC Investor and Treasury Services, In preparing this report, we have relied upon fund statements prepared by RBC Investor and Treasury Services without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

Reconciliation of Market Value of Plan Assets

The pension fund transactions since the last valuation are summarized in the following table:

	2020	2021	2022
January 1	$32,614,797	$35,488,912	$36,615,161
PLUS			
Members' contributions	$243,415	$227,541	$246,027
Company's contributions	$472,375	$455,540	$495,712
Investment earnings	$3,560,416	$1,798,661	($6,175,438)
	$4,276,206	$2,481,742	($5,433,699)
LESS			
Pensions paid	$1,131,701	$1,209,207	$1,210,647
Lump-sums paid	$243,215	$109,867	$1,195
Administration and investment fees	$27,175	$36,419	$40,527
	$1,402,091	$1,355,493	$1,252,369
December 31	$35,488,912	$36,615,161	$29,929,093
Gross rate of return[8]	11.03%	5.12%	(16.98%)
Rate of return net of expenses[8]	10.94%	5.01%	(17.09%)

[8] Assuming mid-period cash flows.

The market value of assets shown in the above table is adjusted to reflect in-transit amounts as follows:

	Current Valuation	Previous Valuation
Market value of invested assets	$29,929,093	$32,614,797
In-transit amounts		
• Members' contributions	$21,426	$21,760
• Company's contributions	$36,555	$26,415
Market value of assets adjusted for in-transit amounts	$29,987,074	$32,662,972

We have tested the pensions paid, the lump-sums paid, and the contributions for consistency with the membership data for the Plan members who have received benefits or made contributions. The results of these tests were satisfactory.

Investment Policy

The plan administrator has adopted a statement of investment policy and procedures. This policy is intended to provide guidelines for the manager(s) as to the level of risk that is consistent with the Plan's investment objectives. A significant component of this investment policy is the asset mix.

The plan administrator is solely responsible for selecting the Plan's investment policies, asset allocations, and individual investments.

The constraints on the asset mix and the actual asset mix at the valuation date are provided for information purposes:

	Investment Policy			Actual asset Mix as at December 31, 2022
	Minimum	Target	Maximum	
Equities	34%	47%	60%	48%
Fixed Income	43%	53%	63%	51%
Cash and cash equivalents	0%	0%	3%	1%
		100%		100%

Because the Plan's assets (which are invested in accordance with the above investment policy) are not matched to the Plan's liabilities (which tend to behave like long bonds), the Plan's financial position will fluctuate over time. These fluctuations could be significant and could cause the Plan to become underfunded or overfunded even if the Company contributes to the Plan based on the funding requirements presented in this report.

Appendix C

Methods and assumptions – Going concern

Valuation of Assets

For this valuation, we have used the market value of assets.

Going Concern Funding Target

Over time, the real cost to the employer of a pension plan is the excess of benefits and expenses over member contributions, if any, and investment earnings. The actuarial cost method allocates this cost to annual time periods.

For purposes of the going concern valuation, we have continued to use the projected unit credit actuarial cost method. Under this method, we determine the present value of benefit cash flows expected to be paid in respect of service accrued prior to the valuation date, based on projected final average earnings. This is referred to as the funding target. For each individual plan member, accumulated contributions with interest are established as a minimum actuarial liability.

The funding excess or funding shortfall, as the case may be, is the difference between the market or smoothed value of assets and the funding target. A funding excess on a market value basis indicates that the current market value of assets and expected investment earnings are expected to be sufficient to meet the cash flows in respect of benefits accrued to the valuation date as well as expected expenses – assuming the plan is maintained indefinitely. A funding shortfall on a market value basis indicates the opposite – that the current market value of the assets is not expected to be sufficient to meet the plan's cash flow requirements in respect of accrued benefits, absent additional contributions.

As required under the Act, a funding shortfall (including the prior year credit balance) and the provision for adverse deviations must be amortized over no more than 10 years through special payments beginning one year after the valuation date. A funding excess may, from an actuarial standpoint, be applied immediately to reduce required employer current service contributions unless precluded by the terms of the plan or by legislation.

The actuarial cost method used for the purposes of this valuation produces a reasonable matching of contributions with accruing benefits. Because benefits are recognized as they accrue, the actuarial cost method provides an effective funding target for a plan that is maintained indefinitely.

Current Service Cost

The current service cost is the present value of projected benefits to be paid under the plan with respect to service expected to accrue during the period until the next valuation.

The employer's current service cost is the total current service cost reduced by the members' required contributions.

The employer's current service cost has been expressed as a percentage of the members' pensionable earnings to provide an automatic adjustment in the event of fluctuations in membership and/or pensionable earnings.

Under the projected unit credit actuarial cost method, the current service cost for an individual member will increase each year as the member approaches retirement. However, the current service cost of the entire group, expressed as a percentage of the members' pensionable earnings, can be expected to remain stable as long as the average age distribution of the group remains constant.

Actuarial Assumptions – Going Concern Basis

The present value of future benefit payment cash flows is based on economic and demographic assumptions. At each valuation we determine whether, in our opinion, the actuarial assumptions are still appropriate for the purposes of the valuation, and we revise them, if necessary. Emerging experience will result in gains or losses that will be revealed and considered in future actuarial valuations.

The table below shows the various assumptions used in the current valuation in comparison with those used in the previous

Assumption	Current valuation	Previous valuation
Discount rate:	5.85%	4.85%
Explicit expenses:	$0	$0
PfAD	6.70%	7.00%
Inflation:	2.00%	2.00%
ITA limit / YMPE increases:	3.00%	3.00%
Pensionable earnings increases:	3.50%	3.50%
Post-retirement pension increases:	1.50%	1.50%
Interest on employee contributions:	5.85%	4.85%
Retirement rates:	60% when first meet unreduced pension eligibility: Remaining at 65.	60% when first meet unreduced pension eligibility: Remaining at 65.
Termination rates:	None	None
Mortality rates:	100% of the rates of the 2014 Private Sector Canadian Pensioners Mortality Table (CPM2014Priv)	100% of the rates of the 2014 Private Sector Canadian Pensioners Mortality Table (CPM2014Priv)
Mortality improvements:	Fully generational using CPM Improvement Scale B	Fully generational using CPM Improvement Scale B
Disability rates:	None	None
Eligible spouse at retirement:	80%	80%
Spousal age difference:	Male 3 years older	Male 3 years older

The assumptions are best estimates and do not include a margin for adverse deviations.

Pensionable Earnings

The benefits ultimately paid will depend on each member's final average earnings. To calculate the pension benefits payable upon retirement, death, or termination of employment, we have taken 2022 earnings and assumed that such pensionable earnings will increase at the assumed rate.

Rationale for Assumptions

A rationale for each of the assumptions used in the current valuation is provided below.

Discount Rate

We have discounted the expected benefit payment cash flows using the expected investment return on the market value of the fund net of fees. Other bases for discounting the expected benefit payment cash flows may be appropriate, particularly for purposes other than those specifically identified in this valuation report.

The discount rate is comprised of the following:

- An **assumed investment return** based on estimated returns for each major asset class that are consistent with market conditions on the valuation date modified, for fixed-income investments, to reflect a transition from current market interest rates to an equilibrium yield curve, on the expected time horizon over which benefits are expected to be paid, and on the target asset mix specified in the Plan's investment policy.
- An **implicit investment management expense provision** determined as the average rate of investment expenses paid from the fund over the last 3 years.

The discount rate was developed as follows:

Assumed investment return	5.95%
Implicit investment management expense provision	(0.10%)
Margin for adverse deviations	N/A
Net discount rate	5.85%

Expenses

Administrative expenses are not paid from the Plan.

Inflation

The inflation assumption is based on market expectations of long-term inflation implied by the yields on nominal and real return bonds at the valuation date of taking into accounti the mid-point of the Bank of Canada's inflation target range of between 1% and 3%.

Income Tax Act Pension Limit and Year's Maximum Pensionable Earnings

The assumption is based on historical real economic growth and the underlying inflation assumption.

Pensionable Earnings

The assumption is based on general wage growth assumptions increased by our best estimate of future merit and promotional increases over general wage growth considering current economic and financial market conditions.

Post-Retirement Pension Increases

The assumption is based on the Plan formula and 20-year stochastic model for inflation centred around a cumulative assumed median inflation of 2%, consistent with the inflation assumption described above.

Retirement Rates

Due to the size of the Plan, there is no meaningful retirement experience. The assumption is based on the Plan provisions and our experience with similar plans and employee groups.

Termination Rates

Use of a different assumption would not have a material impact on the valuation.

Mortality Rates

The assumption for the mortality rates is based on the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014.

Due to the size of the Plan, specific data on plan mortality experience is insufficient to determine the mortality rates. It was determined to use the CPM mortality rates from the private sector after considering plan-specific characteristics, such as the type of employment, the industry experience, the pension and employment income for the plan members, and data in the CPM study.

There is broad consensus among actuaries and other longevity experts that mortality improvement will continue in the future, but the degree of future mortality improvement is uncertain. Two mortality improvement scales published by the Canadian Institute of Actuaries (CIA) are generally adopted for Canadian pension valuations:

- The Canadian Pensioners Mortality (CPM) study published in February 2014 included CPM Improvement Scale B (CPM-B).
- A report released by the Task Force on Mortality Improvement on September 20, 2017 included an analysis of the rate of mortality improvement for the Canadian population and provides for mortality improvement scale MI-2017 to be considered for the purpose of reflecting future mortality improvement in Canadian actuarial work, while acknowledging that it might be appropriate to use alternative mortality improvement assumptions to reflect the nature of the work.

The CIA Committee on Pension Plan Financial Reporting published a revised version of the Educational Note on the Selection of Mortality Assumptions for Pension Plan Valuations on December 21, 2017. The Educational Note indicated that given the recent publication of the CPM-B and MI-2017 improvement scales and the similar data sets used in their development, it may be appropriate to use either scale in the absence of credible information to the contrary, such as the publication of a successor scale by the CIA.

COVID-19 has impacted mortality rates globally. Statistics Canada reported excess mortality in 2020 and 2021 for the general Canadian population and other peer countries globally have also seen excess mortality over the course of the pandemic. Mortality experience for the plan has been reflected up to the date of the valuation. We have not adjusted the expected mortality rates for Plan members after the valuation date. The long-term implications of the pandemic on mortality rates is unclear as at the date of this report. Credible plan specific experience and relevant broader observed mortality trends after the report date will be reflected in future valuations.

For the current valuation, we have continued to use the CPM-B scale, which is a reasonable outlook for future mortality improvement.

Based on the assumption used, the life expectancy of a member age 65 at the valuation date is 22.0 years for males and 24.3 years for females.

Interest on Employee Contributions

The assumption is based on Plan terms and the underlying investment return assumption.

Disability Rates

Use of a different assumption would not have a material impact on the valuation.

Eligible Spouse

The assumption is based on an industry standard for non-retired members (actual status used for retirees).

Spousal Age Difference

The assumption is based on an industry standard showing males are typically 3 years older than their spouse.

Appendix D
Methods and assumptions – Hypothetical wind-up and solvency

Hypothetical Wind-up Basis

The Canadian Institute of Actuaries requires actuaries to report the financial position of a pension plan on the assumption that the plan is wound up on the effective date of the valuation, with benefits determined on the assumption that the pension plan has neither a surplus nor a deficit.

To determine the actuarial liability on the hypothetical wind-up basis, we have valued those benefits that would have been paid had the Plan been wound up on the valuation date, with all members fully vested in their accrued benefits including, however, the impact of plan amendments with an effective date before the next scheduled valuation, which have been reflected in the going concern valuation results.

The Standards of Practice of the Canadian Institute of Actuaries require that the scenario upon which the hypothetical wind-up valuation is based be postulated. However, there are no benefits under the Plan contingent upon the circumstances of the plan wind-up or contingent upon other factors. Therefore, it was not necessary to postulate a scenario upon which the hypothetical wind-up valuation is made. No benefits payable on plan wind-up were excluded from our calculations. The plan wind-up is assumed to occur in circumstances that maximize the actuarial liability.

Upon plan wind-up, members are given options for the method of settling their benefit entitlements. The options vary by eligibility and by province of employment, but in general, involve either a lump sum transfer or an immediate or deferred pension.

The value of benefits assumed to be settled through a lump sum transfer is based on the assumptions described in Section 3500 – *Pension Commuted Values* of the Canadian Institute of Actuaries' Standards of Practice applicable for December 31, 2022.

Benefits provided as an immediate or deferred pension are assumed to be settled through the purchase of annuities based on an estimate of the cost of purchasing annuities.

The Plan provides for indexing at 100% of CPI increase, if CPI is less than 2.00%, otherwise indexing is equal to 50% of the CPI increase, with a minimum of 2.00% and a maximum adjustment of 5.00%. Therefore the Plan formula is a CPI related formula that provides a cap on the risk to the Plan sponsor of a CPI higher than 2.00%. However, there is limited data available to provide credible guidance on the cost of such a CPI related purchase of annuities in Canada. In light of these limitations, the basis for the cost of purchasing annuities is determined to be between the non-indexed annuity proxy rate and fully indexed annuity proxy rate in accordance with the Canadian Institute of Actuaries Educational Note: Assumptions for Hypothetical Wind-up and Solvency Valuations with Effective Dates Between December 31, 2022 and December 30, 2023 (the “Educational Note”). The Educational Note provides a spread adjustment for both non-indexed and fully indexed rates. The assumption for this inflation related Plan is determined to be the the non-indexed rate less a modified spread. The modified spread is the difference between the two spreads in the Educational Note multiplied by the proportion of the volatility of the Plan indexation formula to the volatility of inflation. We determine the volatility of inflation and the volatility of the indexation formula using a 20-year stochastic model for inflation centred around a cumulative assumed median inflation of 2.10%. This best estimate of future inflation is derived from the difference in the rounded average yield on Government of Canada marketable bonds over 10 years (i.e. CANSIM series V39062) to the unadjusted yield on Government of Canada real-return long-term bonds (i.e. CANSIM series V39057). We note that the above basis is theoretical and may not represent the cost of such CPI related indexed annuities can be purchased in today’s market

The Educational Note provides guidance on estimating the cost of annuity purchases assuming a typical group of annuitants. That is, no adjustments for sub- or super-standard mortality are considered. However, it is expected that insurers will consider plan experience and certain plan-specific characteristics when determining the mortality basis for a particular group. The Educational Note states that the actuary would be expected to make an adjustment to the regular annuity purchase assumptions where there is demonstrated substandard or super-standard mortality or where an insurer might be expected to assume so. In such cases, the actuary would be expected to make an adjustment to the mortality assumption in a manner consistent with the underlying annuity purchase basis. Given the uncertainty surrounding the actual mortality basis that would be typical of a group annuity purchase, it is reasonable to assume that there is a range of bases that can be expected not to be materially different from the actual mortality basis. Therefore, an adjustment to the regular annuity purchase assumptions would be warranted when the plan’s assumed basis falls outside that range. In this context, we have determined that no adjustment to the mortality rates used in the regular annuity purchase assumptions is required.

We have not included a margin for adverse deviations in the solvency and hypothetical wind-up valuations.

The assumptions are as follows:

Form of Benefit Settlement Elected by Member	
Lump sum:	70% of active members under age 55, and 50% of active members over age 55, elect to receive their benefit entitlement in a lump sum
Annuity purchase:	All remaining members are assumed to elect to receive their benefit entitlement in the form of a deferred or immediate pension. These benefits are assumed to be settled through the purchase of deferred or immediate annuities from a life insurance company.
Basis for Benefits Assumed to be Settled through a Lump Sum	
Mortality rates:	100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B
Interest rate:	4.10% per year for 10 years, 4.50% per year thereafter (2.68% per year for 10 years, 3.34% per year thereafter for the solvency liability adjustment)
Inflation rate:	1.90% per year (plan indexing excluded for solvency)
Basis for Benefits Assumed to be Settled through the Purchase of an Annuity	
Mortality rates:	100% of the rates of the 2014 Canadian Pensioners Mortality Table (CPM2014) with fully generational improvements using CPM Scale B
Interest rate for non-indexed liabilities:	4.91% (3.30% for solvency liability adjustment) per year based on a duration of 9.99 years determined for the liabilities assumed to be settled through the purchase of an annuity.
Interest rate for indexed liabilities:	2.46% (plan indexing excluded for solvency) per year for the net rate of discounting reflecting the Plan's inflation related formula
Retirement Age	
Benefits assumed to be settled through the purchase of an annuity:	Members are assumed to retire at the age that maximizes the value of their entitlement from the Plan, based on the eligibility requirements that have been met at the valuation date
Grow-in:	The benefit entitlement and assumed retirement age of Ontario members whose age plus service equals at least 55 at the valuation date reflect their entitlement to grow into early retirement subsidies

Other Assumptions	
Final average earnings:	Calculated using the final pensionable earnings and the assumed rate of increase in earnings
Family composition:	Same as for going concern valuation
Maximum pension limit:	$3.506.67 for 2023
Termination expenses:	$140,000

To determine the hypothetical wind-up position of the Plan, a provision has been made for estimated termination expenses payable from the Plan's assets in respect of actuarial and administration expenses that may reasonably be expected to be incurred in terminating the Plan and to be charged to the Plan.

Because the settlement of all benefits on wind-up is assumed to occur on the valuation date and is assumed to be uncontested, the provision for termination expenses does not include custodial, investment management, auditing, consulting, and legal expenses that would be incurred between the wind-up date and the settlement date or due to the terms of a wind-up being contested.

Expenses associated with the distribution of any surplus assets that might arise on an actual wind-up are also not included in the estimated termination expense provisions.

The provision for termination expenses payable from the Plan's assets determined is not dependent upon the plan sponsor being solvent or not on the wind-up date. We have also assumed, without analysis, that the Plan's terms as well as applicable legislation and court decisions would permit the relevant expenses to be paid from the Plan.

Although the termination expense assumption is a best estimate, actual fees incurred on an actual plan wind-up may differ materially from the estimates disclosed in this report.

Incremental Cost

In order to determine the incremental cost, we estimate the hypothetical wind-up liabilities at the next valuation date. We have assumed that the cost of settling benefits by way of a lump sum or purchasing annuities remains consistent with the assumptions described above. Since the projected hypothetical wind-up liabilities will depend on the membership in the Plan at the next valuation date, we must make assumptions about how the Plan membership will evolve over the period until the next valuation.

We have assumed that the Plan membership will evolve in a manner consistent with the going concern assumptions as follows:

- Members terminate, retire, and die consistent with the termination, retirement, and mortality rates used for the going concern valuation.
- Pensionable earnings, the Income Tax Act pension limit, and the Year's Maximum Pensionable Earnings increase in accordance with the related going concern assumptions.
- Active members accrue pensionable service in accordance with the terms of the Plan.
- Cost of living adjustments are consistent with the inflation assumption used for the going concern valuation.

Solvency Basis

In determining the financial position of the Plan on the solvency basis, we have used the same assumptions and the same methodology as were used for determining the financial position of the Plan on the hypothetical wind-up basis except as follows:

- Excluded plan indexation;
- Smoothed discount rates; and
- Smoothed asset values.

The solvency position is determined in accordance with the requirements of the Act.

Valuation Assets

We have used a smoothed value of the Plan's assets in our valuation of the Plan for solvency purposes and the market value of the Plan's assets for wind-up purposes.

The smoothed value of assets has been determined by recognizing the difference each year between the actual market value and the expected market value (based on he assumed investment return of 4.85%) over a 5 year period.

The asset value provided by this method are related to the market value of assets, with the advantage that, over time, the market-related asset values will tend to be more stable than market values.

	Market Value of Assets	Expected Value 0f Assets	Difference
December 31, 2019	$32,614,797	$29,574,225	$3,040,572
December 31, 2020	$35,488,912	$33,521,504	$1,967,407
December 31, 2021	$36,615,160	$36,558,707	$56,452
December 31, 2022	$29,929,093	$37,909,493	($7,980,400)

The smoothed value of assets at December 31, 2022 is calculated as the market value less the total unrecognized difference. The unrecognized difference is calculated as follows:

- 4/5 x ($7,980,400) plus
- 3/5 x $56,452 plus
- 2/5 x $1,967,407 plus
- 1/5 x $3,040,572
  = ($4,955,371)

The resulting smoothed value of assets is calculated to be

$29,929,093 - ($4,955,371) + $57,981[9] = $34,942,445

[9] Adjustment for in-transit amounts

Appendix E
Membership data

Analysis of Membership Data

The actuarial valuation is based on membership data as at December 31, 2022, provided by FortisOntario Inc.

We have applied tests for internal consistency, as well as for consistency with the data used for the previous valuation. These tests were applied to membership reconciliation, basic information (date of birth, date of hire, date of membership, gender, etc.), pensionable earnings, credited service, contributions accumulated with interest, and pensions to retirees and other members entitled to a deferred pension. Contributions, lump sum payments, and pensions to retirees were compared with corresponding amounts reported in financial statements. The results of these tests were satisfactory.

If the data supplied are not sufficient and reliable for its intended purpose, the results of our calculation may differ significantly from the results that would be obtained with such data. Although Mercer has reviewed the suitability of the data for its intended use in accordance with accepted actuarial practice in Canada, Mercer has not verified or audited any of the data or information provided.

Plan membership data are summarized below. For comparison, we have also summarized corresponding data from the previous valuation.

	31.12.2022	31.12.2019
Active Members		
Number	32	34
Total pensionable earnings for the following year	$3,339,300	$3,362,000
Average pensionable earnings for the following year	$104,400	$98,900
Average years of pensionable service	12.3 years	12.9 years
Average age	43.2 years	42.7 years
Accumulated contributions with interest	$2,323,900	$2,207,700
Deferred Pensioners		
Number	2	2
Total annual pension	*	*
Average annual pension	*	*
Average age	*	*

	31.12.2022	31.12.2019
Pensioners and Survivors		
Number	34	34
Total annual lifetime pension	$1,172,800	$1,038,900
Total annual temporary pension	$74,800	$81,200
Average annual lifetime pension	$34,500	$30,600
Average age	70.6 years	70.9 years

**** For confidentiality reasons, information is not shown for groupings with less than two members*

The membership movement for all categories of membership since the previous actuarial valuation is as follows:

	Actives	Deferred Pensioners	Pensioners and survivors	Total
Total at 31.12.2019	34	2	34	70
New entrants	4			4
Terminations:				
• Transfers/lump sums		(1)		(1)
• Deferred pensions	(1)	1		0
Deaths			(6)	(6)
Retirements	(5)		5	0
Beneficiaries			1	1
Total at December 31, 2022	32	2	34	68

The distribution of the active members by age and pensionable service as at the valuation date is summarized as follows:

	Years of Pensionable Service							
Age	0-4	5-9	10-14	15-19	20-24	25-29	30 +	Total
Under 20								
20 to 24								
25 to 29	3							3
30 to 34	1	6	1					8
35 to 39	2	1	1					4
40 to 44				1				1
45 to 49	1		1	2				4
50 to 54	1		3	2		1	1	8
55 to 59					2	1		3
60 to 64								
65 +					1			1
Total	8	7	6	5	3	2	1	32

The distribution of the inactive members by age as at the valuation date is summarized as follows:

Age	Deferred Pensioners			Pensioners and Survivors	
	Number	Average Pension		Number	Average Pension
< 45	1	**			
45 – 49	1	**			
50 – 54					
55 – 59				2	**
60 – 64				5	$39,215
65 – 69				13	$34,858
70 – 74				7	$32,235
75 – 79				4	$30,839
80 – 84				1	**
85 – 89					
90 – 94				2	**
95 – 99					
Total	2	*		34	$34,495

***** For confidentiality reasons, information is not shown for groupings with less than two members.*

Appendix F

Summary of plan provisions

Mercer has used and relied on the plan documents, including amendments and interpretations of plan provisions, supplied by FortisOntario Inc.. If any plan provisions supplied are not accurate and complete, the results of any calculation may differ significantly from the results that would be obtained with accurate and complete information. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and the results of estimates under each of the different interpretations could vary.

This valuation is based on the plan provisions in effect on December 31, 2022. Since the previous valuation, the Plan has not been amended.

DB Component

The following is a summary of the main provisions of the Plan in effect on December 31, 2022. This summary is not intended as a complete description of the Plan.

Background	The Plan was created as of July 1, 2009 exclusively for members of the Retirement Plan of Great Lakes Power Limited (the “GLPL Plan”) who were formerly employed in the distribution business of Great Lakes Power Limited.
Eligibility for Membership	Each member of the GLPL Plan on June 30, 2009 who was formerly employed in the distribution business of Great Lakes Power Limited became a member of the Plan on July 1, 2009. Each full-time employee who is a member of the union becomes member of the Plan following completion of three months of Continuous Service. Each employee, who is a member of the union and is employed on a less than full-time basis, may join the Plan following completion of 24 months of Continuous Service provided that the employee has: A. earned at least 35% of the YMPE; or B. worked 700 or more hours in each of the two immediately preceding consecutive calendar years.
Employee Contributions	Members are required to contribute to the Plan at the rate of 6.5% Gross Earnings up to the YMPE and 8.5% of Gross Earnings in excess of the YMPE.
Retirement Dates	Normal Retirement Date • The normal retirement date is the first day of the month coincident with or next following the member’s 65th birthday. Early Retirement Date • If a member has been in the Plan for at least two years, the member may choose to retire as early as age 55.

Postponed Retirement	An active member may postpone retirement beyond the normal retirement date, but not beyond the end of the calendar year in which they attain age 71. Under these circumstances, members are entitled to continue membership in the Plan and have the right to continue to accrue pension benefits. The pension benefit accrued up to Normal Retirement Date shall be actuarially increased to reflect such postponement.
Normal Retirement Pension	a) 2.0% of the member's average annual Gross Earnings for the five consecutive years, during the 10 calendar years preceding Normal Retirement Date that produce the highest such average, times the number of years of Credited Service (subject to a maximum of 40 years); Less b) 0.7% of such earnings not in excess of the average YMPE for the five calendar years, immediately preceding the calendar year of the Normal Retirement Date, times the number of years of Credited Service since January 1, 1966, (maximum 35 years). Credited Service is equal to Continuous Service from date of employment with the Company for members who joined the Plan when first eligible prior to January 1, 1991. For other members, Credited Service is equal to Continuous Service from the date of entry. In no event, however, will the members' benefit exceed the applicable maximum pension limits as prescribed by the Income Tax Act.
Early Retirement Pension	If a member retires early, the member will be entitled to a pension that is calculated the same way as for a normal retirement. The basic pension payable, however, will be reduced by 0.25% for each month prior to age 65. Members who have attained age 55 and for whom the sum of age plus continuous years of service amount to not less than 85, may retire early with an unreduced pension.
Early Retirement Bridge Pension	If a member retires early, the member will be entitled to bridge pension of 0.7% of the portion of the Member's average annual Gross Earnings not exceeding the average of the YMPE for the five (5) calendar years immediately preceding the calendar year in which the Member's early retirement occurs, multiplied by the Member's years of Credited Service on and after January 1, 1966, to a maximum of thirty-five (35) years of Credited Service; and the aggregate annual pension to which the Member would be entitled under the Canada Pension Plan and the Old Age Security Act, had he attained age 65 at the date the temporary monthly pension commences to be paid, reduced by ¼ of 1% for each month by which the date on which the temporary monthly pension commences to be paid to the Member precedes the Member's attainment of age 60; and if the Member has not completed ten (10) years of membership in the Predecessor Plan and the Plan, by 10% for each year by which the Member's years of membership in the Predecessor Plan and the Plan totals less than ten (10) years.

Maximum Pension	**Pre-1992 Service Maximum Pension** The member's pension shall not exceed the member's years of pensionable service, prior to January 1, 1992, to a maximum of 35 years multiplied by the lesser of: i. $1,715; and ii. 2.0% of the average of the member's best three consecutive years' remuneration **Post-1991 Service maximum Pension** The member's pension shall not exceed the member's years of pensionable service, on or after January 1, 1992, multiplied by the lesser of: i. $3,506.67 or such greater amount permitted under the Income Tax Act; and ii. 2.0% of the member's highest average indexed compensation, as defined in the Income Tax, Act.
Post Retirement Adjustment	Each member who retires from the Plan, will have their pension adjusted annually. The annual adjustment will be granted in January of each year, based on the increase in the Consumer Price Index (CPI) for the 12 months ending the previous September 30th. If the CPI increase is less than 2.0%, then the annual adjustment is equal to 100% of the CPI increase. Otherwise the annual adjustment is equal to 50% of the CPI increase, with a minimum adjustment of 2.0% and a maximum adjustment of 5.0%. Members who have retired less than 12 months prior to the January adjustment will receive a pro-rata share of the increase based on the number of months since commencement.
Disability Retirement	A member who suffers total and permanent disability will receive, commencing at his normal retirement date, a pension calculated as for normal retirement, except that: a) the service of the member with the Company will include the period during which the member is totally and permanently disabled; and it will be assumed that the member continued to receive remuneration from the Company at the rate of his earnings at the time of disability.

Death Benefits	Pre-retirement: For Service Prior to January 1, 1987 • In the event of death before retirement, the designated beneficiary will receive a lump sum refund of the member's contributions, if any, with interest. For service On and After January 1, 1987 • In the event of death before retirement, the designated beneficiary will receive the commuted value of the deferred pension plus a refund of excess contributions, if any. Excess contributions are employee contributions, if any, plus interest, in excess of those required to fund 50% of the commuted value of the deferred pension. Post retirement: Upon death of the member after retirement, the member's spouse, if then surviving, will receive an annuity for life equal to 50% of the pension that the member had been receiving. Under the Pension Benefits Act (Ontario), married members must receive a joint and survivor pension that pays at least 60% of the amount of pension that member had been receiving, unless both the member and spouse waive this option. The amount of pension would be actuarially equivalent to the normal form of pension. In the case of a member without a spouse at retirement, the normal form of pension guarantees a minimum return equal to the member's contributions with interest to date retirement. The member may also elect an optional form of pension prior to retirement.
Termination Benefits	If the member terminates employment by reason other than death or retirement, he shall be entitled to a deferred pension, payable from his normal retirement date, equal to his accrued vested pension at his date of termination. In addition, a member is also entitled to a refund of excess contributions, if any. Notwithstanding the above, a member who is required to or who elects a deferred pension may, in lieu of this deferred pension, elect to: i. transfer the commuted value of the deferred pension to another registered pension plan, if the other pension plan permits; ii. transfer the commuted value to a Locked-In Retirement Account; or iii. apply the commuted value to purchase an immediate or deferred annuity.

Appendix G

Plausible adverse scenarios

In this Appendix, the financial impact on the Plan's going concern results (i.e., going concern financial position at the valuation date and current service cost from the valuation date to the next valuation date), on the Plan's hypothetical wind-up and solvency financial positions at the valuation date and on the special payments of plausible adverse scenarios that would pose threats to the Plan's future financial condition is summarized in the following tables for the following risks:

- Interest rate risk - an immediate parallel decrease in market interest rates of 110 basis points;
- Deterioration of asset values - an immediate decrease of 12.5% in the market value of non-fixed income assets; and
- Longevity risk - Longevity risk, that life expectancy from the valuation date at age 65 for a male and a female would increase by 1.6 years and 1.4 years, respectively.

Scenario	Going Concern Valuation Results as at 31.12.2022	Plausible Adverse Scenario Results as at 31.12.2022		
		Interest Rate Risk	Deterioration of Asset Values	Longevity Risk
Going Concern Financial Status				
Market value of assets	$29,987,100	$33,383,000	$28,112,900	$29,987,100
Going concern funding target	$23,982,500	$25,827,300	$23,982,500	$24,886,300
Provision for Adverse Deviation	$1,399,400	$1,497,400	$1,399,400	$1,440,600
Funding excess (shortfall)	$4,605,200	$6,058,300	$2,731,000	$3,660,200
Estimated Employer's Current Service Cost including expense allowance and Provision for Adverse Deviation				
January 1, 2023	$321,300	$399,600	$321,300	$348,400
January 1, 2024	$332,600	$413,600	$332,600	$360,600
January 1, 2025	$344,200	$428,100	$344,200	$373,200

Scenario	Hypothetical Wind-Up and Solvency Position as at 31.12.2022	Plausible Adverse Scenario Results as at 31.12.2022		
		Interest Rate Risk	Deterioration of Asset Values	Longevity Risk
Hypothetical Wind-up Financial Position				
Market value of assets	$29,987,100	$33,383,000	$28,112,900	$29,987,100
Termination expense provision	($140,000)	($140,000)	($140,000)	($140,000)
Wind-up assets	$29,847,100	$33,243,000	$27,972,900	$29,847,100
Wind-up liabilities	$29,307,200	$34,085,600	$29,307,200	$30,271,400
Wind-up excess (shortfall)	$539,900	($842,600)	($1,334,300)	($424,300)
Solvency Financial Position				
Reduction in wind-up liabilities due to difference in circumstances of assumed wind-up and to excluded benefits	($6,218,800)	($7,772,600)	($6,218,800)	($6,667,300)
Solvency liability adjustment	$4,605,500	$2,192,500	$4,605,500	$4,878,400
Asset smoothing adjustment	$4,955,300	$2,250,200	$6,466,300	$4,955,300
Surplus excess (shortfall)	$7,108,500	$6,987,700	$6,745,300	$6,319,900
Solvency ratio	130%	127%	122%	127%
Transfer ratio	102%	98%	96%	100%

If the employer sponsoring the Plan became insolvent and unable to continue making contributions to meet the minimum funding requirements described in the report, the Plan would likely be wound up. The impact of this adverse scenario, as measured at December 31, 2022, would be a surplus in the Plan of $539,900.

The balance of this Appendix provides details of the plausible adverse scenarios selected and the determination of their impact on valuation results.

Interest Rate Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that interest rates will be lower than expected. For this purpose, we have assumed an immediate parallel decrease in market interest rates underlying fixed income investments, where fixed income investments include the following categories as shown in the investment policy summarized in Appendix B.

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a parallel decrease in market interest rates of 110 basis points would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease in market interest rates would occur immediately on the valuation date and would have the following impact on the value of assets and going concern assumptions:

Defined Term	Description
Market value of assets	The decrease in market interest rates has been assumed to affect only the market value of the fixed income investments. The decrease is assumed to have occurred immediately on the valuation date.
Smoothed value of assets	Solvency: For purposes of determining the smoothed value of assets, 20% of the change in the market value of asset has been recognized in the smoothed value of assets.
Discount rate assumption	It was assumed that the decrease in market interest rates affects only the expected return on assets for the fixed income portion of assets. The same margin for adverse deviations was used. The discount rate assumption was therefore decreased from 5.85% to 5.30%. Hypothetical wind-up: The interest rates used in the valuation were reduced by 110 basis points Solvency: The interest rates used in the valuation were reduced by 110 basis points. The smoothed discount rates were recalculated with interest rates at the valuation date reducted by 110 basis points.
Other assumptions	Except as mentioned above, all assumptions used were the same as those used for this valuation. In particular, the discount rate used to value benefits assumed to be settled through a lump sum was not changed.
Provision for Adverse Deviations	The above changes would not affect the calculation of the Provision for Adverse Deviations

Deterioration of Asset Values

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to a deterioration of asset values. For this purpose, we assumed an immediate reduction in the market value of the Plan's non-fixed income assets, where non-fixed income investments include the following categories as shown in the investment policy summarized in Appendix B.

Using a methodology consistent with the one used to determine the going concern discount rate, we have determined that a decrease of 12.5% in the market value of value of non-fixed income assets would have a non-trivial probability (between 1 in 10 and 1 in 20) of occurring within the year following the valuation date. For purpose of this scenario, we have assumed that such a decrease would occur immediately on the valuation date and would have the following impact on the value of assets and valuation assumptions:

Market value of assets	The decrease in the market value of the non-fixed income portion of assets is assumed to have occurred immediately on the valuation date.
Smoothed value of assets	Solvency: For purposes of determining the smoothed value of assets, 20% of the change in the market value of assets has been recognized in the smoothed value of assets.
Going concern assumptions	This scenario is assumed to have no impact on the assumptions used for this valuation.
Wind-up & solvency assumptions	This scenario is assumed to have no impact on the assumptions used for this valuation.

Longevity Risk

The purpose of this scenario is to illustrate the sensitivity of the Plan's valuation results to the potential that pension plan members will live longer than expected. For this purpose, we have determined that a plausible adverse scenario would be to assume that future mortality improvements[10] will be in line with the average improvements experienced by the Canadian population[11] over the most recent 15-year period available, with uniform improvement rates for all future years but varying by age[12] and gender.

[10] i.e. starting one year after the valuation in this context

[11] Based on Canadian population experience from the Human Mortality Database from 2002 to 2016

[12] improvement rates below age 45 are set to those at age 45

Appendix H
Employer certification

With respect to the Report on the Actuarial Valuation for Funding Purposes as at December 31, 2022 of the Retirement Fund of Algoma Power Inc., I hereby certify that, to the best of my knowledge and belief:

- The valuation reflects the terms of the FortisOntario Inc's engagement with the actuary described in Section 2 of this report, particularly the decision to not reflect a margin for adverse deviations in the going concern valuation and the Company's decisions in regards to determining the going concern and solvency funding requirements.
- A copy of the official plan documents and of all amendments made up to December 31, 2022 was provided to the actuary and is reflected appropriately in the summary of plan provisions contained herein.
- The asset information summarized in Appendix B is reflective of the Plan's assets.
- The membership data provided to the actuary included a complete and accurate description of every person who is entitled to benefits under the terms of the Plan for service up to December 31, 2022.
- All events subsequent to December 31, 2022 that may have an impact on the Plan have been communicated to the actuary.

September 25, 2023
Date

Signed

Glen King
Name

Mercer

Mercer (Canada) Limited
120 Bremner Boulevard, Suite 800
Toronto, ON M5J 0A8
+1 416 868 2000
www.mercer.ca

Attachment 4B

Service Agreement

Algoma Power Inc.
EB-2024-0007

SERVICES AGREEMENT

CANADIAN NIAGARA POWER INC.,

- and -

CORNWALL STREET RAILWAY, LIGHT AND POWER COMPANY LIMITED,

- and -

ALGOMA POWER INC.,

- and -

FORTISONTARIO INC.

September 15, 2020

TABLE OF CONTENTS

SERVICES AGREEMENT

THIS AGREEMENT is made as of September 15, 2020,

B E T W E E N:

CANADIAN NIAGARA POWER INC.,
a corporation incorporated under the laws of the Province of Ontario,

(“CNPI”),

- and -

CORNWALL STREET RAILWAY, LIGHT AND POWER COMPANY LIMITED,
a corporation incorporated under the laws of the Province of Ontario

(“Cornwall”),

- and -

ALGOMA POWER INC.,
a corporation incorporated under the laws of the Province of Ontario,

(“Algoma”),

- and -

FORTISONTARIO INC.,
a corporation incorporated under the laws of the Province of Ontario,

(“FortisOntario” and together with CNPI, Cornwall, and Algoma, the “Fortis Entities” and each a “Fortis Entity”).

THIS AGREEMENT WITNESSES that, in consideration of the covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE 1 – GENERAL

1.01 Services

“Services” means and includes, without limitation:

a) building maintenance including security, janitorial services, snow plowing, lawn care, major and minor repairs;

b) purchasing including procurements, order tracking, delivery of operating and capital items, payment processing and vendor management;

c) stores management including maintaining stock levels, issuing and receiving, maintenance of SAP inventory management system and disposition of excess assets;

d) customer service and customer care services, including meter reading, (including verification, testing, approval, installation and removal systems) billing and collection services and related SAP systems;

e) health and safety monitoring including the development of policies and procedures, training (awareness and procedures), site inspections and field audits;

f) environmental compliance monitoring including the development of policies and procedures, training (awareness and procedures), regulatory reporting, government liaison and site inspections;

g) human resources administration including development of policies and procedures, union relations and negotiations, personnel file management, wholesale settlement services and management of employee benefit plans;

h) regulatory reporting and compliance services;

i) bookkeeping including the provision of statutory financial and regulatory reporting, management reporting and financial systems administration;

j) payroll including the maintenance of payroll records and payroll system, calculation of pay and payroll deductions, and facilitation of payroll payments;

k) financial management including cash administration, investments and debt management, treasury services, internal audit services, and development of financial and account policies and procedures;

l) executive, legal and secretarial services;

m) tax administration, filing and payment, including compliance, regulatory reporting and filing, planning, audit reviews, transfer of tax liabilities and the payments, filing of tax reports, and exposure management;

n) information technology including the provision and management of systems, system and hardware support services, major and minor repairs, development and policies and procedures, and monitoring of information technology developments;

o) monitoring the status of generating facilities using supervisory control and data acquisition (SCADA) technology;

p) operation services including any construction, maintenance, installation, inspection, testing, commissioning, repairs, engineering, and design; and

q) such other services as may from time to time be agreed upon between the parties.

1.02 Capacities of Parties

Pursuant to the terms of this Agreement, each of the Fortis Entities shall both provide Services to the other Fortis Entities, as requested, and receive Services that they have requested from one or more of the other Fortis Entities. A Fortis Entity in the capacity as a provider of Services is referred to as a “Service Provider”. A Fortis Entity in the capacity as a receiver of Services is referred to as a “Service Recipient”. When reference is made to the provision of Services by "the Service Providers" or "each Service Provider" to "each Service Recipient" or "the Service Recipients", it shall be interpreted to exclude any provision of Services by any Fortis Entity to itself.

1.03 Services

Subject to the terms and conditions hereof, each Service Recipient will, from time to time, request that one or more of the Service Providers carry out one or more of the Services and each Service Provider will render the Services requested by the Service Recipient as requested.

1.04 Term of Agreement

The provision of Services by the Service Providers to the Service Recipients hereunder shall commence on September 15, 2020, and shall continue until September 15, 2025, or earlier if terminated by the parties hereto as set forth in Article 5 hereof.

ARTICLE 2 – REMUNERATION OF SERVICE PROVIDERS

2.01 Fee for Services and Cost Mechanism

In respect of fee for services, the Service Recipients shall each pay their respective Service Providers for the Services provided under the Agreement a fee reflecting cost plus a reasonable rate of return and shall be reviewed at the option of either the respective Service Recipient or Service Provider. For the purpose of this Agreement, reasonable rate of return shall mean a return on invested capital that is the higher of the utility's approved rate of return or the bank prime rate.

Where a utility provides a Service, resource or product to a generating affiliate, the utility shall ensure that the sale price is no less than the utility's fully loaded cost of the Service, resource or product. Where a utility receives Services from a generating affiliate, the utility shall ensure that the sale price for such Services is no more than the generator's fully loaded cost of the Service. The fully loaded cost of an internal resource includes all attributable costs in accordance with mIFRS accounting.

For greater certainty (i) each Service Recipient shall only be liable to pay for Services provided to it, and shall not be liable to pay for any Services provided to any other Service Recipient; and (ii) each Service Provider shall only be liable for its own acts or omissions and shall not be liable for the acts or omissions of any other Service Provider.

2.02 Expenses

The Service Provider shall be responsible for all day to day expenses incurred in connection with the Services provided pursuant to Section 1.03. However, each Service Recipient shall reimburse its respective Service Provider for all extraordinary expenses actually and properly incurred by the Service Provider in the performance of the Services to such Service Recipient hereunder provided that such expenses shall be paid in accordance with the normal practices of the Service Recipient in force from time to time.

2.03 Invoices

Payment shall be made to the Service Provider with respect to the fees and expenses referred to in Sections 2.01 and 2.02. Upon request from the Service Recipient, the

Service Provider shall provide a report to the Service Recipient to which it has provided Services, outlining all expenses incurred in connection with the provision of Services pursuant to Section 1.03 hereof.

2.04 Cost Allocation Methodology

In respect of shared costs, costs shall be allocated based upon an appropriate cost allocation methodology to be determined by the respective Service Provider and Service Recipient. The cost allocation methodology, and the allocation factors that comprise the methodology, shall be reviewed by the respective Service Provider and Service Recipient at the option of either party, or at least every five years.

ARTICLE 3 – COVENANTS OF SERVICE PROVIDERS

3.01 Services

Each Service Provider shall render performance of the Services hereunder to the best of the Service Provider's ability and in a competent and professional manner.

3.02 Time of Services

Each Service Provider shall devote such of its time and attention to the business of its respective Service Recipients as may be agreed to by the Service Provider and its respective Service Recipient. The time of Services to be provided hereunder by the Service Providers shall be as agreed to from time to time by negotiations between each Service Recipient and its respective Service Provider. Subject to the obligations of the Service Providers hereunder, the Service Providers shall be free to offer such services to any other person.

3.03 Licences and Permits

The Service Provider shall be responsible for obtaining all necessary licences and permits and for complying with all applicable federal, provincial and municipal laws, codes and regulations in connection with its provision of the Services hereunder and the Service Provider shall, when requested, provide their respective Service Recipients with adequate evidence of its compliance with this Section 3.03.

3.04 Rules and Regulations

Each Service Provider shall (subject to applicable exemptions) comply, while on the premises used by the Service Recipients, with all the rules and regulations of the Service Recipients from time to time in force which are brought to its notice or of which it could reasonably be aware, and the applicable provision of the *Electricity Act, 1998* (Ontario) and the regulations thereunder, the *Ontario Energy Board Act*, 1998 (Ontario) and the regulations thereunder, applicable licences from the Ontario Energy Board, IESO market rules, the Affiliate Relationships Code, the Distribution System Code, the Transmission System Code, the Retail Settlement Code, and the Standard Service Supply Code and such other applicable codes, rules and regulations, which from time to time shall come into force.

3.05 Regulatory Compliance

Each Service Provider shall ensure that any order or measure made or taken by the Ontario Energy Board:

(i) that is brought to its attention or of which it becomes aware;

(ii) that is directed at or affects its respective Service Recipients; and

(iii) that, in order to be implemented or complied with, is dependent in whole or in part upon any Service or task that the Service Provider is obligated to perform hereunder;

shall be fully implemented or complied with to the extent of obligations hereunder. In connection with this section, each Service Recipient agrees that it will promptly notify its respective Service Providers of any order or measure of the Ontario Energy Board directed at or affecting such Service Recipient.

Nothing in this Agreement will prevent the Service Recipient(s) from taking any steps, including without limitation using the Service Recipient(s) own resources or those of a third party, that are necessary to implement or comply with the applicable Ontario Energy Board licence, or any other applicable provisions of the applicable legislation, regulations and market rules, or any order or measure made or taken by the Ontario Energy Board.

3.06 Insurance

Each Service Provider shall pay for and maintain for the benefit of the Service Provider and its respective Service Recipients, with insurers or through the appropriate government department and in an amount and in a form acceptable to the Service Recipients, appropriate insurance concerning the operations and liabilities of the Service Provider relevant to this Agreement including, without limiting the generality of the foregoing, workers' compensation and employment insurance in conformity with applicable statutory requirements in respect of any remuneration payable by the Service Provider to any employees of the Service Provider and public liability and property damage insurance.

3.07 Indemnity

The Service Provider shall indemnify and save its respective Service Recipients harmless from and against all claims, actions, losses, expenses, costs or damages of every nature and kind whatsoever which the Service Recipients or its officers, employees or agents may suffer as a result of the negligence of the Service Provider in the performance or non-performance of this Agreement.

3.08 Non-disclosure and Confidentiality

The Service Provider shall not (either during the term of this Agreement or at any time thereafter) disclose any information relating to the private or confidential affairs of any Service Recipient or relating to any secrets of any Service Recipient to any person other than with the consent of such Service Recipient. In the case of information supplied by a distribution facility to a generation facility, the information will be used solely for the purposes of efficiently operating the generation facility and shall not be shared with any other affiliate or any other party to which it may offer a competitive advantage.

3.09 Access to Confidential Information

All confidential information must be protected. Access to a utility's information services shall include appropriate computer data management and data access protocols. In the event that a utility shares employees with a generating affiliate, such employees shall be bound to maintain the confidentiality of information provided for herein, except as otherwise required by applicable law.

3.10 Monitoring Services

Each Service Provider shall provide to its respective Service Recipients all information that such Service Recipients require so that the Service Recipients can monitor the provision of its applicable licensed Services provided by the Service Provider. Each Service Provider will also provide information as requested by its respective Service Recipients which is required for such Service Recipients fulfillment of its applicable Ontario Energy Board licence.

ARTICLE 4 – TERMINATION

4.01 Termination by Service Recipients or Service Providers for Cause

Any Fortis Entity may terminate its relationship to provide or receive Services from any other Fortis Entity (the “Non-Compliant Entity”) in the event of the failure of the Non-Compliant Entity to comply with any of the provisions hereunder upon such Non-Compliant Entity being notified in writing by the Fortis Entity alleging such failure and failing to remedy such failure within 30 days of receiving such notice.

4.02 Termination by Service Recipients or Service Providers on Notice

Any Fortis Entity may terminate any agreement to receive Services from, or provide Services to, any other Fortis Entity upon the giving of 60 days written notice to the other party. Notwithstanding the foregoing, any Service Recipient may terminate its obligations to receive Services from any Service Provider immediately upon paying to the Service Provider 60 days’ fee for Services in lieu of such notice. Any termination effective between two Fortis Entities shall not effect any other obligation of such Fortis Entities to each other or to any other Fortis Entity.

4.03 Provisions which Operate Following Termination

Notwithstanding any termination of this Agreement for any reason whatsoever and with or without cause, the provisions of Sections 3.06, 3.07 and 3.08 and any other provisions of this Agreement necessary to give efficacy thereto shall continue in full force and effect following any such termination. Any termination effective between two Fortis Entities shall not effect any other obligation of such Fortis Entities to each other or to any other Fortis Entity.

4.04 Change of Control

To the extent that a Fortis Entity sells all or substantially all of its assets or there is a change of control of any Fortis Entity, either by way of change of the ownership structure of any of the Fortis Entities or otherwise, all obligations of any Fortis Entity to provide Services to, or receive Service from such changed Fortis Entity, pursuant to the terms of this Agreement, shall cease effective the date of such change of control. For greater certainty the immediately preceding sentence shall not effect Section 4.03.

ARTICLE 5 – ARBITRATION

5.01 Arbitration of Disputes

Any disputes arising between the parties relating to the interpretation of any provision of this Agreement or other matters which under the provisions of this Agreement are to be referred to arbitration shall be settled by arbitration in accordance with the provisions of Section 5.02.

5.02 Appointment of Arbitrator and Arbitration Procedures

a) In the event of disagreement, litigation or dispute with respect to the interpretation, application or execution of one or the other of the provisions of this Agreement the parties hereto renounce their right to institute legal proceedings and undertake to submit such disagreement, litigation or dispute to the final decision pursuant to Arbitration in accordance with Schedule “A” hereto.

b) The fees and disbursements of the arbitrator shall be shared equally by the Fortis Entities that are engaged in such dispute.

c) The arbitration provided for in this Agreement is subject to the provisions of the *Arbitration Act* (Ontario), to the extent that such provisions are not incompatible herewith.

ARTICLE 6 – INTERPRETATION AND ENFORCEMENT

6.01 Sections and Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “this Agreement”, “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

6.02 Extended Meanings

In this Agreement words importing the singular number only include the plural and *vice versa*, words importing any gender include all genders and words importing persons include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and *vice versa*.

6.03 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon successors and assigns of the Fortis Entities.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express implied or statutory between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by the parties hereto. No waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

Except as may be expressly provided in this Agreement, no Fortis Entity may assign his or its rights or obligations under this Agreement without the prior written consent of each other Fortis Entity.

6.07 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.08 Notices

Any demand, notice or other communication to be made or given in connection with this Agreement shall be made or given in writing and may be made or given by personal delivery or by registered mail addressed to the recipient as follows:

<u>To CNPI</u>:

Canadian Niagara Power Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2

Attention: Tim Lavoie (VP, Corporate Services and Indigenous Relations, Secretary)
Email: Tim.Lavoie@FortisOntario.com

And to:

Attention: Craig David (Legal Counsel)
Email: Craig.David@FortisOntario.com

<u>To Cornwall</u>:

Cornwall Street Railway, Light and Power Company Limited
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2

Attention: Tim Lavoie (VP, Corporate Services and Indigenous Relations, Secretary)
Email: Tim.Lavoie@FortisOntario.com

And to:

Attention: Craig David (Legal Counsel)
Email: Craig.David@FortisOntario.com

To Algoma:

Algoma Power Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2

Attention: Tim Lavoie (VP, Corporate Services and Indigenous Relations, Secretary)
Email: Tim.Lavoie@FortisOntario.com

And to:

Attention: Craig David (Legal Counsel)
Email: Craig.David@FortisOntario.com

To FortisOntario:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2

Attention: Tim Lavoie (VP, Corporate Services and Indigenous Relations, Secretary)
Email: Tim.Lavoie@FortisOntario.com

And to:

Attention: Craig David (Legal Counsel)
Email: Craig.David@FortisOntario.com

or such other address or individual as may be designated by notice by either party to the other. Any demand, notice or other communication made or given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if made or given by registered mail, on the 5th day, other than a Saturday, Sunday or statutory holiday in the province of the recipient Fortis Entity, following the deposit thereof in the mail. If the party giving any demand, notice or other communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of the mail, any such demand, notice or other communication shall not be mailed but shall be made or given by personal delivery.

6.09 Further Assurances

Each party must from time to time execute and deliver all such further documents and instruments and do all acts and things as the other party may reasonably require to effectively carry out or better evidence or perfect the full intent and meaning of this Agreement.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario, and the laws of Canada applicable therein.

6.11 Attornment

For the purpose of all legal proceedings this Agreement shall be deemed to have been performed in the Province of Ontario and, subject to Article 5 of this Agreement, the courts of the Province of Ontario shall have jurisdiction to entertain any action arising under this Agreement.

[*remainder left intentionally blank*]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

CANADIAN NIAGARA POWER INC.

Per: ______________________________

Name: Tim Lavoie
Title: VP, Corporate Services and Indigenous Relations, Secretary

CORNWALL STREET RAILWAY, LIGHT AND POWER COMPANY LIMITED

Per: ______________________________

Name: Tim Lavoie
Title: VP, Corporate Services and Indigenous Relations, Secretary

ALGOMA POWER INC.

Per: ______________________________

Name: Tim Lavoie
Title: VP, Corporate Services and Indigenous Relations, Secretary

FORTISONTARIO INC.

Per: ______________________________

Name: Tim Lavoie
Title: VP, Corporate Services and Indigenous Relations, Secretary

SCHEDULE "A"

ARBITRATION

Any dispute between the parties hereto, or any matter to be submitted to arbitration hereunder, whether arising during the period of this Agreement or at any time thereafter which touches upon the validity, construction, meaning, performance or effect of this Agreement or the rights and liabilities of the parties hereto or any matter arising out of or connected with this Agreement shall be subject to arbitration pursuant to the *Arbitration Act* (Ontario) and as provided in this Schedule A and the decision shall be final and binding as between the parties hereto and shall not be subject to appeal.

Any arbitration to be carried out under this Schedule A shall be subject to the following provisions, namely:

The party desiring arbitration shall nominate one (1) arbitrator and shall notify the other party hereto of such nomination. Such notice shall set forth a brief description of the matter submitted for arbitration and, if appropriate, the paragraph hereof pursuant to which such matter is so submitted. Such other party shall within thirty (30) days after receiving such notice nominate an arbitrator and the two (2) arbitrators shall select a chairman of the arbitral tribunal to act jointly with them. If the said arbitrators shall be unable to agree in the selection of such chairman, the chairman shall be designated by a Judge of the Superior Court of Justice or any successor thereto upon an application. The arbitration shall take place in the Town of Fort Erie, Regional Municipality of Niagara, and the chairman shall fix the time and place in the Town of Fort Erie for the purpose of hearing such evidence and representations as either of the parties may present and, subject to provisions hereto, the decision of the arbitrators and chairman or any of two (2) of them in writing shall be binding upon the parties both in respect of procedure and the conduct of the parties during the proceedings and the final determination of the issues herein. Said arbitrators and chairman shall, after hearing any evidence and representations that the parties may submit, make their decision and reduce the same to writing and deliver one (1) copy thereof to each of the parties hereto. The majority of the chairman and arbitrators may determine any matters of procedure for the arbitration not specified herein.

If the party hereto receiving the notice of the nomination of an arbitrator by the party desiring arbitration fails within the thirty (30) days to nominate an arbitrator, then the arbitrator nominated by the party desiring arbitration may proceed alone to determine the dispute in such manner and at such time as he shall think fit and his decision shall, subject to the provisions hereof, be binding upon the parties.

Notwithstanding the foregoing, any arbitration may be carried out by a single arbitrator if the parties hereto so agree, in which event the provisions of this paragraph shall apply, *mutatis mutandis*.

Attachment 4C

FortisOntario Purchasing Policy

Algoma Power Inc.
EB-2024-0007

FORTIS ONTARIO

Purchasing Policy	Document:	PUR-001
	Owner:	VP Operations
	Revision:	0
	Issued:	2019.10.01
	Page:	Page 1 of 3

1. Purpose

a) The purpose of this Policy is to ensure that the purchase of materials, equipment and services (goods and services), by employees of the FortisOntario business units is performed in accordance with best business practices.
b) To obtain the best overall value (focusing on quality, price, reliability, service, safety, environment, support and delivery) for FortisOntario, the ratepayers and the shareholders.
c) To ensure accountability and transparency with a clear auditable trail for every acquisition.

2. Scope

a) Unless otherwise specified, any purchase of goods or services shall be made on a competitive basis, keeping with best practices, and in accordance with any applicable Federal, Provincial or Municipal legislation.
b) All subsidiaries and departments therein of FortisOntario excluding Wataynikaneyap PM Inc., shall have their purchasing requirements for goods and or services filled in accordance with this Policy.
c) No purchase of goods or services shall be authorized unless it is following this Policy.
d) No employee shall be exempt from this Policy.
e) All purchases under this Policy are to be entered and approved through the SAP Purchasing Module, or in accordance with Section 7 of the Authorization Policy.
f) Appropriate segregation should exist between initiating a purchase, approving, receiving and then issuing payment for that same purchase.
g) Employees shall endeavour to contribute to environmental, economic and social sustainability as it pertains to the purchasing of goods and services.
h) Changes to this Policy require the approval of the Vice President of Operations.
i) Supporting procedures and/or policies may be periodically updated provided there is no conflict with this Policy.

3. Exemptions to this Policy

a) The following list (but not limited to) are expenses that are not subject to this Policy:
   i. Training and education which includes, tuition, conferences, seminars, courses, and conventions;
   ii. Employee expenses which includes, meals, meal allowances, and travel;
   iii. Legal fees including, retainers, advances, and disbursements;
   iv. Company expenses which includes, utility bills, insurance, license fees, taxes, payroll, medical, and benefits;

v. Donations; and

vi. Examples outlined in “Invoices/Cheque Requisition Requiring Signature of Approval” within the Authorization Policy.

4. Requirement for Approved Funds

a) Any employee with the authorization to approve a purchase is accountable and responsible to ensure that either adequate budget exists or that any budget overage has been adequately justified, and that the purchase is not in violation of this Policy.

b) Where a requirement exists to initiate a purchase that is not part of the planned budget, the responsible employee must get approval from the executives and or the Board of Directors prior to any expenses being incurred.

c) All expenses must be approved by an authorized person in accordance with the Authorization Policy.

5. Emergency Purchasing

a) In the event of an emergency that requires the immediate purchase of any goods or services, reasonable effort shall be made to acquire the necessary authorization required under FIN-001 in advance of the purchase. Approval evidence may be obtained outside of SAP. An emergency is defined as a situation where there is an adverse effect on the health and safety of any person, the environment or a disruption of the services provided by the business units.

6. Business Ethics

a) All employees are subject to the policies and procedures of FortisOntario. The following policies in conjunction with PUR-001 shall provide the necessary guidance for ethical behavior during the purchasing process:

i. B101 Code of Conduct;

ii. B102 Reporting Allegations of Wrong Doing;

iii. B103 Anti Corruption Policy; and

iv. FIN-001 Authorization Policy

b) For clarity:

i. All employees are expected to act in an ethical manner (B101);

ii. No action or communication by any employee is to lead to one vendor or service provider having an advantage over another (B101);

iii. No one purchase shall be divided to avoid compliance with this Policy and the Authorization Policy (FIN-001); and

iv. The use of Company funds and resources to purchase personal goods or services is prohibited. Leveraging Company rates and discounts from vendors for personal gain is also prohibited, except in circumstances where a corporate agreement with a vendor explicitly considers extension of rates/discounts for personal use.

7. Pre-Payment

a) The following are expenses where milestone or pre-payments are allowed:
   i. Major equipment where there is more than one stage of production;
   ii. Services where mobilization is required; or
   iii. Non-tangible items such as software and licenses where the vendor requires prepayment in order to activate.

b) All milestone and pre-payment terms must be clearly defined in the Contract or Purchase Order. Payment approval must be in compliance with the Authorization Policy.

8. Shared Purchasing Arrangements

a) The business units may participate and enter into arrangements with other utilities or organizations where there are economical or logistical advantages for purchasing goods or services, provided that:
   i. Authorization requirements of FIN-001 have been met;
   ii. Any other policies and procedures of FortisOntario are not compromised; and
   iii. Each utilityor organization shall be responsible for their own purchases and payments.

9. Supporting Procedures

a) The following list of Procedures are supplemental to this Policy:
   i. PUR-001-01 Sourcing Procedure;
   ii. PUR-001-02 Purchasing Documents; and
   iii. PUR-001-03 Executive Approval Process

[end of document]

FORTIS ONTARIO

Purchasing Procedures Sourceing Methods	Document: PUR-001-01
	Owner: VP Operations
	Revision: Draft 1
	Issued: 2014.05.16
	Page: Page 1 of 4

1. Purpose

The purpose of this documents is to provide information on the accepted means of sourcing goods or services.

2. Scope

This procedure is applicable to all Employees at the FortisOntario business units and is subject to the corporate purchasing policy PUR-001.

3. Prerequisites

3.1 Identification of required goods or services

Before any Purchasing is to take place the Employee is to have an understanding of what is required. The following (but not limited to) are considerations that must be taken into account prior to any of the other steps:

a) Are budget funds available?
b) Is there a Scope of Work or Material Specification?
c) What is the quantity required?
d) What is the delivery and requirement dates?
e) Is there a list of qualified Vendors or Service Providers?
f) Is this a standalone Purchase or part of a larger Project?

For all intents and purposes, once Section 3.1 has been satisfied a request is to be sent to Procurement for further processing and sourcing using the online form.

3.2 Request for Information (RFI)

There may not be enough suitable information available to determine if a Vendor is qualified or has the resources to carry out the work required. An RFI may be issued to assist with determining if a Vendor is suitable to source from.

An RFI does not:

a) Reference a specific Scope of Work or Project.
b) Ask for prices or any type of rate.
c) Ask if a delivery date can be met.
d) Ask for signatures, bind or commit the Vendor.
e) Use the words “quote”, “proposal” or “tender”

An RFI may request (but is not limited to) the following information:

a) Work the Vendor is capable of doing.
b) Human resources (labour) available.
c) Equipment resources.
d) Training programs.
e) Health, safety or environmental practices.
f) If the Vendor is capable of working with different types of software.

4. Sourcing

4.1 Once all of the prerequisite information is confirmed then the Employee may proceed with soliciting Vendors for information and prices. The following shall be used as the minimum standard when soliciting Bids:

a) All efforts shall be made to find more than one source of supply.
b) Three Bidders is the ideal number for a competitive bid.
c) Generally bidding is by invite only and not open to the Public.
d) All Bidders shall have access to the same information in the process.
e) All proprietary information and bids submitted are to be considered confidential.
f) All compliant Bids submitted are to be considered for award.
g) Any practice used to skew the outcome of the Bid or give one Bidder an advantage over another is considered unethical and prohibited.
h) Information about the award is not to be shared with the other Proponents.

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For the Purpose of this Document, the following are the accepted means of Sourcing:

4.2 Request for Quote (RFQ)

a) Used for the purchase of goods or services where the value is less than $30,000.
b) The Goods or Services are clearly defined and usually less technical, i.e., inventory items, cost center expenses and low level services.
c) The bidding documents are simple, often being an email with price and delivery being the evaluation criteria.
d) Review committee of one person.
e) Output documents are Purchase Orders with terms and conditions as required for Services.

4.3 Request for Tender (RFT)

a) Used for the purchase of goods or services where the value is greater than $30,000.
b) The Goods or Services are clearly defined by the Business Unit in a Scope of Work.
c) The Bidding documents are more complex with the Contract A and Contract B scenario.
d) Evaluation criteria for the Bid must be established.
e) Review committee is to be more than one person including a representative from Purchasing and another from a different department.
f) Output documents are a Purchase Order and a Contract (for Services).

4.4 Request for Proposal (RFP)

a) Used for the purchases at any value where the work to be done is not part of our core business or where we do not have an internal subject matter expert.
b) If over 30k there is to be formal bidding process with Contract A/B.
c) A high-level scope or deliverables is to be provided by the Business Unit and the Vendor provides detail on how the deliverable is met.
d) Evaluation criteria for the Bid must be established.
e) Review committee is to be more than one person including a representative from Purchasing and another from a different department.

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f) Output documents are a Contract supplemented with a Purchase Order for tracking in SAP.

4.5 Single or Sole Source Procurement.

In circumstances where the source for supply does not allow for competitive bidding, or the value of the goods or services is under predetermined threshold, the following shall be an acceptable guideline for single/sole sourcing:

a) Sole Sourced – Only one Supplier is available to provide the goods or services.
b) Single Sourced – Annual or one time spend value is under $15,000.
c) Single Sourced – To meet technical or HS&E standards.
d) Single Sourced – Unique/Standized equipment requirements.
e) Single Sourced – An emergency exists.
f) Single Sourced – Under existing Fortis Inc. contract.
g) Single Sourced – Recent purchasing history exists that the Supplier is consistently lower priced than other Suppliers.
h) Single Sourced – Under Regional Manager or Executive approval provided it is within their approval limits.

5. Record of Change

A Record of Change shall be completed and maintained by the Corporate Buyer. Changes made to this document are to be recorded and submitted to the Vice President of Operations for review and approval prior to coming into effect.