

### ABOUT ALGOMA POWER

Algoma Power provides local distribution service to a rural area that extends approximately 93 km east and 255 km north of the City of Sault Ste. Marie. Algoma Power delivers electricity over 1861 km of distribution lines to approximately 12,000 customers.

Algoma Power's low customer density (customers per km) results in higher than average costs per customer. As a result, rates for residential, commercial and industrial customers are subsidized (see "Rate Setting and Rate Relief").

### ABOUT THE APPLICATION

Algoma Power applies to the OEB every year to approve rates for the following year. These applications are on a five-year cycle, with a detailed "Cost of Service" review in Year 1, followed by inflationary adjustments in Years 2-5. Much of the Cost of Service application relates to reviewing Algoma Power's costs and setting its base distribution rates.

Algoma Power does not own transmission lines or electricity generation plants, however it does include these costs on its bills. Costs related to transmission are approved by the Ontario Energy Board (OEB) in similar applications by electricity transmitters. Some generation costs are also approved by the OEB, while other costs are a product of either the competitive wholesale market, or long-term power purchase contracts. Algoma Power passes through these costs without any markup or profit margin.

The pass-through transmission rates that Algoma Power charges to its customers are reviewed and approved by the OEB each year. For low-volume customers, the OEB also approves Time of Use and Tiered Electricity Rates (for generation costs) on a province-wide basis. Since Algoma Power's revenue from these pass-through rates is typically different than its actual costs, every rate application includes requests for "rate riders" that true-up any past differences. Depending on the year, these rate riders can either be charges or credits.

### CUSTOMER ENGAGEMENT AND PERFORMANCE METRICS

Algoma Power has a broad customer and stakeholder engagement program that includes satisfaction surveys, meetings with First Nation and Municipal councils, forestry outreach programs, electrical contractor and road authority meetings, and participation in community-based events.

Algoma Power also conducted online customer surveys specific to this application, which provided multiple opportunities for customers to identify their need and priorities, and to provide feedback on programs and spending levels.

Algoma Power has considered feedback from all of the above activities with a goal of meeting the needs and preferences of our customers.

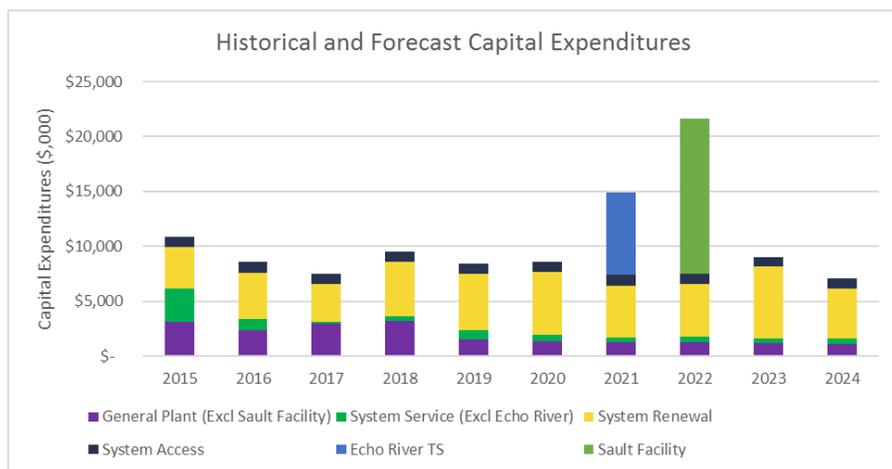
The OEB expects utilities to measure their performance across a number of categories: Customer Focus, Operational Effectiveness, Public Policy Responsiveness, and Financial Performance. Every year, the OEB publishes a scorecard that compares Algoma Power's performance against targets and trends over the past five years, which can be accessed on Algoma Power's website. The following OEB website has additional information on utility performance: <https://www.oeb.ca/utility-performance-and-monitoring>

### ALGOMA POWER'S GOALS

Algoma Power operates according to six core values: Respect for People; Safety and the Environment; Financial Success; Customer Service; Productivity; and Community Involvement. Based on a combination of these values, customer preferences and OEB expectations (discussed above), Algoma Power identified six strategic objectives for its Five-Year Plan, which are discussed in Algoma's 2020 Business Plan (Appendix 1B of Exhibit 1 of the application).

## SUMMARY OF ALGOMA POWER’S FIVE-YEAR PLAN

Algoma Power prepared a 2020-2024 Distribution System Plan that outlines its strategy and proposed spending levels for capital investments, and the ongoing operation and maintenance of its system. The following chart summarizes Algoma Power’s actual and planned capital investments for 2015-2024:



## OTHER PROPOSALS AND REQUESTS

The chart above shows large one-time projects planned for 2021 and 2022. Algoma Power is proposing an approach that would help pay these additional costs, while avoiding rate increases for the majority of customers that are eligible for rate subsidies (see “Rate Setting and Rate Relief”).

Algoma Power’s 2020 costs include integrating the distribution system in Dubreuilville, and Algoma Power is proposing an approach that avoids passing these costs onto its existing customers.

Algoma Power is also requesting a continued exemption from using time-of-use rates in the most remote portions of its system to avoid additional costs.

## RATE SETTING AND RATE RELIEF

Algoma Power’s forecasted 2020 costs of approximately \$26 million includes operating costs, payments for capital investments that are spread over the life of the assets, the cost of debt and equity to support capital investments, and various taxes.

These total costs are divided between groups of customers (residential, commercial/industrial, seasonal and street lighting), and rates are calculated based on forecasted 2020 load and customer counts.

Revenue from seasonal and street lighting customers in 2015 was less than the costs assigned to them, requiring higher than inflationary rate increases for these customers from 2015 to 2019. Distribution revenues and costs are now in line which will limit 2021 to 2024 rate adjustments to inflationary increases.

Distribution rates for residential, commercial and industrial customers are subsidized by Rural and Remote Rate Protection (RRRP). These customers pay significantly less than Algoma Power’s calculated distribution rates. Rates for these customers are not tied to Algoma Power’s costs, but instead are adjusted annually based on the average rate increase for all other distributors.

A number of other rate relief programs under the Fair Hydro Plan (lower time-of-use rates, caps on distribution rates for residential customers and credits for First Nation residential customers) are not affected by the application.

Finally, annual adjustments to transition residential and seasonal customers towards fixed monthly distribution rates continue to be applied.

## BILL IMPACTS

For the distribution portion of the bill, API has forecasted increases of \$2.33 for a typical residential customer (750 kWh per month) and \$7.44 for a typical small commercial customer (2000 kWh per month). These adjustments are the result of the annual RRRP adjustment described above, and changes to rate riders for pass-through costs.