

FIVE NATIONS ENERGY INC.
2016 TRANSMISSION RATES
EB-2016-0231
OEB STAFF INTERROGATORIES
February 28, 2017

Exhibit 1 – Administration

1-Staff-1

Ref: Responses to Letters of Comment

Question(s):

- a) Going forward, please ensure that responses to letters of comment that may be submitted are filed on the record of this proceeding. All responses must be filed before the argument (submission) phase of this proceeding.

1-Staff-2

Ref: Exhibit 1 / Tab 1 / Schedule 1 / p. 1 UPDATED
Exhibit 1 / Tab 1 / Schedule 3 / p. 1
Revenue Requirement Workform / p. 7

Question(s):

- a) Please explain why the revenue deficiency amount of \$1,567,100 set out at Exhibit 1 / Tab 1 / Schedule 1 / p. 1 does not match the revenue deficiency provided at Exhibit 1 / Tab 1 / Schedule 3 / p. 1 or in the Revenue Requirement Workform. If there are errors, please explain.

1-Staff-3

Ref: Exhibit 1 / Tab 1 / Schedule 2 / p. 11 UPDATED

Question(s):

- a) Please confirm that the Uniform Transmission Rates (UTRs) were calculated using the transmission revenue requirement of \$7.839 million (as opposed to \$7.989 million – as cited in Exhibit 1 / Tab / Schedule 2 / p. 11).

1-Staff-4

Ref: Exhibit 1 / Tab 1 / Schedule 2 / Appendix I

Question(s):

- a) Please explain how the return on equity (ROE) was calculated in the table at Exhibit 1 / Tab 1 / Schedule 2 / Appendix I. Please show the calculation for each year.
- b) Please advise whether “other revenues” are included in the total transmission revenue requirement amount in the table at Exhibit 1 / Tab 1 / Schedule 2 / Appendix I. If so, please explain why other revenue would be included in the calculation of transmission revenue requirement.

1-Staff-5

Ref: Revenue Requirement Workform (RRWF)

Question(s):

- a) Please file the RRWF in live excel format as previously requested and required by the OEB.
- b) Please explain why Five Nations Energy has set the working capital rate in the RRWF to 3.46% (as opposed to the applied for working capital rate of 3.55%)?
- c) If necessary, upon responding to all interrogatories from OEB staff and intervenors, please provide an updated RRWF in working Microsoft Excel format with any corrections or adjustments that the Applicant wishes to make to the amounts in the previous version of the RRWF filed as part of the initial application. Entries for changes and adjustments should be included in the middle column on Sheet 3 - Data Input Sheet. Please include documentation of the corrections and adjustments in the final sheet of the model, such as a reference to an interrogatory response or an explanatory note.

1-Staff-6

Ref: Exhibit 1 / Tab 2 / Schedule 1

Question(s):

- a) Please advise whether any of Five Nations Energy's transmission customers raised concerns with service reliability (or other issues) in any of the meetings / communications referenced in Exhibit 1 / Tab 2 / Schedule 1 / pp. 1-2. If so, please advise how Five Nations Energy addressed these concerns.

1-Staff-7

Ref: Exhibit 1 / Tab 3 / Schedule 2

Question(s):

- a) Please update the pro-forma financial statement for 2016 based on the best available information.
- b) Please advise when Five Nations Energy's audited financial statements for 2016 will be available. If available, please file the 2016 audited financial statements.

1-Staff-8

Ref: Exhibit 1 / Tab 5 / Schedule 9

EB-2015-0368 / Five Nations Energy Letter – Request for Interim Revenue Requirement / December 17, 2015

EB-2015-0368 / Decision and Interim Order / December 29, 2015

EB-2016-0231 / OEB Incomplete Letter / August 18, 2016

Preamble:

On December 17, 2015, Five Nations Energy notified the OEB that it intended to file a cost of service application for transmission revenue requirement and charge determinants for the 2016 rate year in April 2016. In its letter, Five Nations Energy also requested that the OEB declare its existing transmission revenue requirement and charge determinants to interim effective January 1, 2016. In its EB-2015-0368 Decision and Order, the OEB approved Five Nations Energy's request.

In the Decision and Order, the OEB stated that the establishment of an interim revenue requirement and charge determinants in no way fetters the OEB's discretion to determine the 2016 revenue requirement and charge determinants to be ultimately set nor the effective date. Specifically in regard to the effective date issue, the OEB stated that given the expectation that the issue of the appropriate effective date will arise in the

course of the 2016 proceeding itself, this determination is also not to be construed as prejudicial to any party's ability to argue for any effective date.

Five Nations Energy filed its 2016 revenue requirement application on July 27, 2016.

The OEB sent a letter to Five Nations Energy requiring certain updates to the originally filed application on August 18, 2016 as the application was not complete in accordance with the OEB's filing requirements for cost of service applications.

Five Nations Energy filed a completed version of its application in accordance with the OEB's August 18, 2016 letter on November 25, 2016.

Question(s):

- a) Please provide detailed rationale supporting Five Nations Energy's request for a January 1, 2016 effective date in the context of the late filing of its completed application.
- b) Please provide Five Nations Energy's position on changing the effective date to January 1, 2017 with the revenue requirement for 2017 being based on the proposed 2016 revenue requirement (as adjusted by the OEB in its decision). The term would be changed to January 1, 2017 to December 31, 2021 with rates during the 2018-2021 period adjusted through an IR mechanism (if approved by the OEB). Please provide the answer in the context of the completed application being filed near the end of 2016 (November 25, 2016).
- c) Please provide Five Nations Energy's position on changing the effective date to January 1, 2017 with the revenue requirement for 2017 being based on the proposed 2016 revenue requirement (as adjusted by the OEB in its decision) plus an IRM-based adjustment for inflation minus productivity. The term would be changed to January 1, 2017 to December 31, 2021 with rates during the 2018-2021 period adjusted through an IR mechanism (if approved by the OEB). Please provide the answer in the context of the completed application being filed near the end of 2016 (November 25, 2016).

1-Staff-9

Ref: Exhibit 1 / Tab 5 / Schedule 17

Question(s):

- a) Please describe any non-utility activities that Five Nations Energy is currently (or plans to be) involved in.

1-Staff-10

Ref: Exhibit 1 / Tab 5 / Schedule 18 / OEB Directive #1

Question(s):

- a) Please provide the date on which the Master Service Agreements (MSAs) with each of Attawapiskat Power Corporation, Fort Albany Power Corporation, and Kashechewan Power Corporation were filed with the OEB in accordance with the OEB's directive. Please confirm that the MSAs were filed on the record of the EB-2009-0387 proceeding.

1-Staff-11

**Ref: Exhibit 1 / Tab 5 / Schedule 18 / OEB Directive #2
EB-2009-0387 / Decision and Order / pp. 14-15**

Preamble:

Five Nations Energy stated that it tracked the incremental tax credit for a period of six months and determined the applicable amount to be approximately \$5,000 during this period. Therefore, Five Nations Energy did not establish a deferral account on the basis that such an amount was well short of Five Nations Energy's materiality threshold.

The OEB's EB-2009-0387 decision stated "the Board directs that, beginning July 1, 2010, FNEI shall record in a deferral account, the incremental input tax credit it receives on revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of FNEI's next rate application. While the actual amounts recorded in such an account may well be small as FNEI contends, there is insufficient evidence at this point to determine whether the administrative costs outweigh the benefits. As a result the Board finds that in order to ensure consistency across regulated utilities, a deferral account is appropriate."

Question(s):

- a) Please explain why Five Nations Energy did not establish a deferral account for tracking incremental tax input credits as the OEB was already aware, in making

its decision, that it was possible that the amounts recorded in the deferral account could prove to be minimal.

- b) Please provide an estimate of the total incremental input tax credit that would be recorded in the account as of December 31, 2016 if the account had been established. Please provide 50% of the amount that would be recorded in the account as of December 31, 2016 if the account had been established.

1-Staff-12

**Ref: Exhibit 1 / Tab 5 / Schedule 18 / OEB Directive #2
Exhibit 1 / Tab 3 / Schedule 1
EB-2009-0387 / Decision and Order / pp. 17-24**

Preamble:

The OEB's EB-2009-0387 Decision and Order stated that it "remains very concerned that FNEI's current Operating fund and Capital reserve remain unfunded. In the Board's view, reserves provide a cushion against unplanned expenses and therefore FNEI must maintain sufficient operating and capital reserves."

In its decision, the OEB further directed that the Insurance Reserve was appropriate as configured but made specific findings related to the Operating Reserve and the Capital Reserve.

The OEB approved the recovery of revenue in excess of costs amounting to 9.5% to be used to fund Operating and Capital reserves (and directed Five Nations Energy to refer to these amounts as Internally Generated Funds).

The OEB established caps for both the Operating Reserve and the Capital Reserve. The Operating Reserve was capped at an amount equal to the sum of the highest six months of OM&A expenses incurred by the utility over the previous two years of operation. The Capital Reserve was capped at \$275,000.

The OEB directed Five Nations Energy to file a reserves policy within three months of the date of the decision. The OEB also set out a number of accounting rules regarding the operation of the Operating and Capital reserves in Appendix A to the EB-2009-0387 Decision and Order. The OEB stated that any deviation from those rules would be strictly on consent of the OEB and acquired in advance.

The OEB also ordered that once both reserves were fully funded, Five Nations Energy would file an application for revised rates and stated that “under no circumstances shall the Company collect any funds in excess of revenue requirement once the Reserves are fully funded.”

Five Nations Energy stated that it prepared and filed with OEB staff a draft reserves policy on August 8, 2011. Five Nations Energy stated that it subsequently (in 2012) met with senior OEB personnel to discuss the implications of the OEB’s directive on Five Nations Energy’s ability to operate.

In Five Nations Energy’s audited financial statements, the following note is included: “pursuant to the OEB rate decision dated November 1, 2010, the company must establish an operating reserve fund and a capital reserve fund. The OEB requires that these be cash funded. The maximum permitted amounts of these funds is currently \$1,750,000 and \$275,000 respectively. The policies for funding and accessing these reserves have been established and approved by the company and are subject to OEB approval. Application of the policies will commence upon approval by the OEB. Once fully funded, transmission rates will be reduced by approximately \$1,000,000 annually.”

Question(s):

- a) Please advise whether the Operating and Capital Reserves were established by Five Nations Energy in accordance with the OEB’s EB-2009-0387 Decision and Order. As part of this response, please discuss whether the requirements set out in Appendix A of the EB-2009-0387 Decision and Order were met. If not, please provide an explanation.
- b) Please file the “draft reserves policy” that Five Nations Energy filed with OEB staff on August 8, 2011.
- c) Please summarize any guidance provided by OEB staff on the “draft reserves policy.”
- d) Please advise whether the “draft reserves policy” was filed on the record of any proceeding. If not, please explain why Five Nations Energy never filed the policy on the record of an OEB proceeding.
- e) Please provide Five Nations Energy’s actual annual profit (or revenues in excess of costs) for each year of the 2010-2016 period. Please also provide the actual annual profits (or revenues in excess of costs) in terms of an ROE (%).

- f) Please advise whether Five Nations Energy earned in excess of the 9.5% ROE (or revenue in excess of costs) that was approved by the OEB in any year(s) during the 2010-2016 period.
- g) Please provide the length of time (years / months) it took (or would have taken) to fully fund the Operating and Capital reserves based on actual revenues in excess of costs and using the caps established by the OEB in its EB-2009-0387 Decision and Order.
- h) Please provide the length of time (years / months) it would have taken to fully fund the Operating and Capital reserves based on the OEB's approved revenues in excess of costs (deemed) and using the caps established by the OEB in its EB-2009-0387 Decision and Order.
- i) Please advise whether Five Nations Energy earned revenues in excess of costs in years after which the Operating and Capital reserves were (or would have been) fully funded. If so, please provide the revenues in excess of costs earned during the 2010-2016 period incremental to the amount required to fully fund the Operating and Capital reserves.
- j) Please advise whether Five Nations Energy sought approval to adjust its revenue requirement at any time between the EB-2009-0387 Decision and Order and its current filing (EB-2016-0231).
- k) Please provide the amount of cash that Five Nations Energy had in its accounts (excluding the Insurance Reserve) at the end of each year during the 2010-2016 period. Please discuss whether Five Nations Energy maintained sufficient cash in its accounts (excluding the Insurance Reserve) to fully fund the Operating and Capital reserves at all times during the 2010-2016 period (if they were not already fully funded). Please also provide the amount of cash that Five Nations Energy currently holds in its accounts (excluding the Insurance Reserve).
- l) Please provide a detailed explanation of how revenues in excess of costs that Five Nations Energy earned during the 2010-2016 period were accounted for and used if they were not directed towards the funding of the Operating and Capital reserves.

Exhibit 2 – Transmission System Plan

2-Staff-13

Ref: Exhibit 2 / Tab 1 / Schedule 1

Question(s):

- a) Please file the annual capital budgets approved by Five Nations Energy's Board of Directors, referenced at Exhibit 2 / Tab 1 / Schedule 1, for each year in the 2010-2017 period.
- b) Please provide a list of all material approvals granted by the Finance Committee for capital projects that were not part of a capital budget. Please provide documentation supporting those approvals.
- c) Please provide all examples of capital projects that resulted in OM&A savings. Please provide estimates of the OM&A savings.

2-Staff-14

**Ref: Exhibit 2 / Tab 1 / Schedule 2
Exhibit 2 / Tab 1 / Schedule 2 / Appendices
Exhibit 6 / Tab 3 / Schedule 3**

Question(s):

- a) Please confirm that the maintenance schedules set out Appendix I and Appendix II have been followed during the 2010-2016 period. Please advise when the maintenance schedules were first established.
- b) Please advise whether the inventory of assets provided at Appendix III is for the 2012 end of year. If so, please explain why information for 2012 was provided as opposed to more recent information.
- c) Please explain why the useful life estimates for a large number of assets were revised in Appendix III. For each asset where the useful life estimate was revised, please provide an explanation.
- d) Please advise whether the revised useful life estimates, set out in Appendix III, were used to calculate the depreciation expenses at Exhibit 6 / Tab 3 / Schedule 3. Please explain why or why not.

- e) If applicable, please provide an inventory of assets in the same format as provided at Appendix III for the 2016 year-end. If 2016 year-end is not available, please provide the 2015 year-end.
- f) Does Five Nations Energy's asset inventory include asset condition information? (Exhibit 2 / Tab 1 / Schedule 2 / p. 3)
 - i. If not, how does Five Nations Energy have asset condition information from its inspections?
- g) Does Five Nations Energy categorize asset condition information into levels (e.g., a ranking of 1 for poor condition, etc.)? If so, please describe the asset condition levels used by Five Nations Energy. If not, please describe how Five Nations Energy tracks asset condition.
- h) Please provide a summary of asset condition by major asset type (e.g., poles, conductor, transformers, breakers, etc.).
- i) How does Five Nations Energy use asset condition information to determine which assets would require no action, maintenance, refurbishment, or replacement?
- j) Please provide Five Nations Energy's historical capital expenditures on sustainment (replacing assets), development (new assets) and operations (assets to support operations).
- k) Please provide Five Nations Energy's forecast capital expenditures on sustainment (replacing assets), development (new assets) and operations (assets to support operations).

2-Staff-15

Ref: Exhibit 2 / Tab 1 / Schedule 3

Needs Assessment Report / May 27, 2016 / Five Nations Energy's Website

Question(s):

- a) Please file all of the annual reports that Five Nations Energy filed with the OEB in accordance with section 3C.3.3. of the Transmission System Code (TSC).

- b) Please file the document titled, “Needs Assessment Report – Western James Bay Territory – North of Moosonee,” dated May 27, 2016 (available on the Five Nations Energy website) on the record of this proceeding.
- c) Please advise whether the above noted report is the needs assessment that Five Nations Energy filed with the OEB in accordance with section 3C.4.4 of the TSC. If not, please explain the purpose of the report cited above and please advise as to any progress made on the needs assessment required to be completed by August 27, 2017 (as discussed in the evidence).
- d) Please explain the statement that “the Needs Assessment for this Region was triggered on March 12, 2016 and was completed on May 4, 2016” (p. 4 of Needs Assessment Report). Please explain the cited statement in the context of Five Nations Energy’s evidence that there has been no need for FNEI to complete a needs assessment to date.
- e) Please advise whether it is Five Nations Energy’s view that there will be 5% annual load growth (after the conservation adjustment) from 2015 to 2025 (p. 5 of Needs Assessment Report).
- i. If not, please explain.
 - ii. If so, please explain whether that forecast of load growth is reflected in Five Nations Energy’s evidence. If it is not reflected in Five Nations Energy’s evidence, please explain.
- f) The “Needs Assessment Report” states that the 132 kV side of the transformer stations in Kashechewan and Fort Albany require modifications to allow bypass options for required regular maintenance procedures. These modifications will reduce the frequency and duration of planned outages otherwise required for regular station maintenance work. These upgrades are planned to be completed in 2016. Please advise whether this project is included in the Five Nations Energy’s capital plan. If so, please provide a reference to this project in the evidence. Please also advise whether the project was completed in 2016.
- g) The “Needs Assessment Report” references the “study team’s recommendation that no further coordinated regional planning is required for this region at this time.” The “Needs Assessment Report” also states that the next regional planning cycle is expected to be undertaken in Q1 2021.
- i. Please advise who was part of the study team.

- ii. Please confirm that Q1 2021 for the next regional planning cycle is in accordance with the TSC.

- h) If applicable, please update the evidence in the relevant sections to reflect that the needs assessment required under section 3C.4.4 of the TSC was completed and summarize the results as part of Five Nations Energy's evidence. Please also explain how the Needs Assessment Report impacted Five Nations Energy's Transmission System Plan.

2-Staff-16

Ref: Exhibit 2 / Tab 2 / Schedule 1 / pp. 1- 12 (Historic Major Capital Projects)

Question(s):

- a) Please provide the sale price to Hydro One of the 80 km of transmission line sold in 2000 (Exhibit 2 / Tab 2 / Schedule 1 / p. 1). Please advise whether the sale was made at net book value.

- b) Please provide the total depreciation on the 80 km transmission line sold to Hydro One from the sale date to the repurchase date (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).

- c) Please advise whether Five Nations Energy will use the same depreciation rate for this asset as Hydro One used during the period that Hydro One owned the line (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).

- d) Five Nations Energy stated that "the purchase has always been a priority for FNEI, subject to the availability of capital to complete the transaction" (Exhibit 2 / Tab 2 / Schedule 1 / p. 1). Please explain how the purchase was financed.

- e) Please advise whether the Timmins Head Office is a combined administrative / operations / storage facility (Exhibit 2 / Tab 2 / Schedule 1 / p. 3). If not, please advise as to the functions that it serves.

- f) Please provide the total space (Sq. Ft) of the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

- g) Please provide the total land (acres) purchased for the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

- h) Please provide the amount of inside square footage at the Timmins Head Office that is used for:
- i. administrative functions;
 - ii. operational functions;
 - iii. storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- i) Please provide the amount of outside square footage at the Timmins Head Office that is available for storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- j) Please advise whether Five Nation's Energy's previous leased location was a combined administrative / operations / storage facility (Exhibit 2 / Tab 2 / Schedule 1 / p. 3). If not, please advise as to the functions that it served.
- k) Please provide the total space (Sq. Ft) of Five Nation's Energy's previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- l) Please provide the total land (acres) of Five Nation's Energy's previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- m) Please provide the amount of inside square footage at the Five Nation's Energy's previous leased location that was used for:
- i. administrative functions;
 - ii. operational functions;
 - iii. storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- n) Please provide the amount of outside square footage at Five Nation's Energy's previous leased location that was available for storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- o) Please provide the total amount of: (i) space for administrative functions; (ii) space for operational functions; and (iii) space for storage (inside and outside storage separately) that Five Nations Energy actually requires. Please provide evidence supporting the space requirements. As part of this answer, please also provide the overall utilization of the Timmins Head Office (separated by function – administrative, operational and storage) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- p) Please provide a detailed breakdown of the costs for the Timmins Head Office (land, construction, etc.) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

- q) Please explain how the purchase of the Timmins Head Office was financed (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- r) Please provide Five Nations Energy's total number of FTEs and the total number of FTEs that work at the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- s) Please show the total cost of the Timmins Head Office on a \$/FTE basis and a \$/Sq. Ft. basis (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- t) Please provide Five Nations Energy's total number of FTEs and the total number of FTEs that worked at the previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- u) Please provide the annual cost of Five Nation's Energy's previous leased location (including any maintenance costs) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- v) Please provide the amount included in the general plant maintenance category (\$80,000 for 2016) (Exhibit 6 / Tab 2 / pp. 2 and 7) that is for maintenance of the Timmins Head Office.
- w) Please provide the annual cost of the Timmins Head Office (on a revenue requirement basis including the associated maintenance expenses) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- x) Please provide a detailed list of all of the alternatives considered when deciding to move the locations of Five Nations Energy's head office. The list should include a detailed description of the alternative and rationale for not selecting the alternative (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- y) Please provide the documentation provided by and / or provided to the Five Nations Energy's Board of Directors associated with the decision to move locations of the head office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).
- z) Provide any cost-benefit analysis comparing the Timmins Head Office to other alternatives (including staying at the previous leased location) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

- aa) Five Nations Energy stated that “FNEI has self-completed the brushing work in this manner during the last four winters and expects to undertake a portion of brush clearing every winter on a go-forward basis.” Please provide a % breakdown of the brush clearing work that will be completed by Five Nations Energy and third-parties on a go-forward basis (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).
- bb) Please advise whether the proposed annual OM&A costs associated with the brush clearing activities is \$450,000. Please provide the OM&A costs separately by work that will be completed by Five Nations Energy and by third-parties (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).
- cc) Five Nations Energy stated that it “compared the relative benefits of (i) subcontracting out all brushing work, (ii) completing brushing work with FNEI staff and rented equipment, and (iii) completing brushing work with FNEI staff and FNEI owned equipment.” Please provide the cost-benefit analysis associated with each of the scenarios listed above (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).
- dd) Please provide a breakdown of the total cost of the Fort Albany Garage (land, construction, etc.) (Exhibit 2 / Tab 2 / Schedule 1 / p. 7).
- ee) Please provide a detailed list of the alternatives that were considered when making the decision to construct the Fort Albany Garage. The list should include a detailed description of the alternative and rationale for not selecting the alternative (Exhibit 2 / Tab 2 / Schedule 1 / p. 7).
- ff) Please discuss whether, when determining the appropriate sizing of the storage facilities that were being constructed at the Timmins Head Office, Five Nations Energy considered that in the future it may require storage space in locations other than Timmins for reliability reasons (Exhibit 2 / Tab 2 / Schedule 1 / pp. 3 & 7).
- gg) What capital contribution, if any, was made by the respective LDCs for the station work associated with the Attawapiskat Third Feeder and Kashechewan Second Feeder projects? (Exhibit 2 / Tab 2 / Schedule 1 / p. 8 and 12)
- hh) Please discuss the reasons that the noted ABB protective relays had internal failures (Exhibit 2 / Tab 2 / Schedule 1 / p. 10).

- ii) Please provide the age of the ABB protective relays that required replacement and how many years away they were from their expected end of useful life (Exhibit 2 / Tab 2 / Schedule 1 / p. 10.).
- jj) Please provide a breakdown of the cost of emergency communication equipment by community (Exhibit 2 / Tab 2 / Schedule 1 / p. 11).
- kk) Please advise whether there have been any communication blackouts experienced since the installation of the emergency communications systems (Exhibit 2 / Tab 2 / Schedule 1 / p. 11).

2-Staff-17

**Ref: Exhibit 2 / Tab 2 / Schedule 1 / pp. 13- 20 (Proposed Major Capital Projects)
Exhibit 2 / Tab 2 / Schedule 1 / Appendix I**

Preamble:

Five Nations Energy provided a list of three major capital projects that it proposes to complete in the test year and forecast period (2016-2020). The total cost of the proposed major capital projects is \$5.36 million. None of the listed major capital projects are expected to conclude later than 2017.

Five Nations Energy proposed 2016 capital expenditures of \$2.12 million.

Question(s):

- a) For each of the proposed major capital projects, please provide a breakdown of spending by year.
- b) For the proposed major capital projects that are already under construction, please provide the amount spent to date and the amount remaining to be spent.
- c) For 2016, please provide all of the projects (listed individually) that comprise the \$2.12 million of proposed capital spending (Exhibit 2 / Tab 2 / Schedule 1 / Appendix I). Please update the 2016 capital spending amount if the actual spending was different than what is proposed in the application.
- d) Please discuss any capital projects that Five Nations Energy is planning to undertake during the 2017-2021 period. If there are projects over that period, please provide detailed information for each project. If there are no forecast

projects, please provide rationale. Please also provide a detailed capital budget for 2017 (similar to what is requested in part (c) above).

- e) Currently, when Five Nations Energy performs maintenance work on a transformer station does it result in an outage (Exhibit 2 / Tab 2 / Schedule 1 / p. 13)?
- f) Are there switches capable of opening under load at Five Nations Energy's stations that could be used to isolate equipment? If so, could the switches be used as an alternative to installing breakers?
- g) Please provide a single-line diagram of each of the three stations both before and after the proposed bus isolation project (Exhibit 2 / Tab 2 / Schedule 1 / p. 13).
- h) Please discuss the health and safety requirements that are being met through the Transformer Station Stone Replacement project (Exhibit 2 / Tab 2 / Schedule 1 / p. 15).
- i) Please advise whether Five Nations Energy would be willing, for its next rebasing application, to complete a review of North American transmitters to determine whether there are any transmission utilities that could form part of a peer group for the purposes of developing a cost benchmarking study (or utility cost comparison) (Exhibit 2 / Tab 2 / Schedule 1 / p. 18 Updated).

Exhibit 3 – Rate Base

3-Staff-18

**Ref: Exhibit 3 / Tab 1 / Schedule 1
Exhibit 3 / Tab 1 / Schedule 1 / Appendix I
Exhibit 3 / Tab 1 / Schedules 2-9**

Preamble:

Five Nations Energy stated that its proposed rate base for 2016 is calculated based on its gross Property, Plant & Equipment (PP&E) (based on the average of the test year monthly asset values at cost) less accumulated depreciation plus an allowance for working capital.

Question(s):

- a) Please advise whether Five Nations Energy used the average of monthly asset values at cost methodology for determining its rate base in its last rebasing application (Exhibit 3 / Tab 1 / Schedule 1 / p. 1).
- b) Please advise whether both the gross PP&E and accumulated depreciation are calculated on the basis of an average of monthly average balances or an average of monthly closing balances for the purposes of calculating rate base. Please provide rationale supporting the proposed methodology and explain the difference between the two methodologies (Exhibit 3 / Tab 1 / Schedule 1 / p. 1).
- c) Please advise whether the schedules showing “asset values at cost” reflect gross PP&E. Please advise whether the asset values at cost amounts have been reduced in situations where a portion of the asset class has been fully depreciated (Exhibit 3 / Tab 1 / Schedules 2-9).
- d) Please explain the heading in a number of tables included as part of Exhibit 3 / Tab 1 / Schedules 2-9 that state, “Property, Plant & Equipment – Average of Opening & Closing Balances.” Please advise whether this heading is incorrect and the summary schedules (as part of Exhibit 3 / Tab 1 / Schedules 2-9) actually reflect the average of monthly balances for gross PP&E, accumulated depreciation and the resulting net fixed assets.
- e) Please file updated versions of the tables set out at Exhibit 3 / Tab 1 / Schedule 1 / Appendix I and Exhibit 3 / Tab 1 / Schedule 9 using actual 2016 PP&E and depreciation amounts.
- f) Please explain why the amounts set out in the Inventory of Assets for PP&E, Accumulated Amortization and Net Book Value as of December 31, 2012 (Exhibit 2 / Tab 1 / Schedule 2) do not align with the amounts set out in Exhibit 3 / Tab 1 / Schedule 1 / Appendix I for 2012. Please reconcile the two schedules.

3-Staff-19

Ref: Exhibit 3 / Tab 2 / Schedule 2

Question(s):

- a) Please advise whether Five Nations Energy’s capitalization policy has changed since its last rebasing. If so, please describe each change and provide rationale for the change.

Exhibit 4 – Service Quality and Reliability

4-Staff-20

**Ref: Exhibit 4 / Tab 1 / Schedule 1
Exhibit 4 / Tab 1 / Schedule 1 / Appendix I**

Question(s):

- a) Does Five Nations Energy agree to adopt the final approved Hydro One performance scorecard (EB-2016-0160) with certain adjustments to reflect the differences between the two transmitters?
- b) Does Five Nations Energy agree to undertake to file a proposed performance scorecard as part of the current proceeding after the OEB issues its decision on the performance scorecard issue in Hydro One's rates proceeding (EB-2016-0160)? The proposed scorecard should reflect the final approved performance scorecard for Hydro One with the adjustments that Five Nations Energy considers appropriate (as discussed at Exhibit 4 / Tab 1 / Schedule 1).
- c) Please populate the Hydro One proposed scorecard (Exhibit 4 / Tab 1 / Schedule 1 / Appendix I) with the information that is relevant to Five Nations Energy. Please populate the measures that Five Nations will consider for its own proposed performance scorecard. For the measures that Five Nations Energy does not intend to include in its own performance scorecard, please provide a specific explanation for each measure.

4-Staff-21

Ref: Exhibit 4 / Tab 1 / Schedule 2

Question(s):

- a) Please explain the increase in the number of interruptions and the duration of interruptions as between 2014 and 2015.
- b) If available, please update the SAIDI and SAIFI information provided at Exhibit 4 / Tab 1 / Schedule 2 to reflect 2016 actuals.

Exhibit 5 – Operating Revenue

5-Staff-22

Ref: Exhibit 5 / Tab 1 / Schedule 1

Exhibit 5 / Tab 1 / Schedule 2

Question(s):

- a) Please summarize and file the DeBeers' cost recovery agreement (Exhibit 5 / Tab 1 / Schedule 1 / pp. 1-2).
- b) Please provide the amount of revenue earned each year, on an actual basis, during the 2010-2016 period related to the DeBeers' cost recovery agreement (Exhibit 5 / Tab 1 / Schedule 1 / pp. 1-2).
- c) Please provide the annual amount of miscellaneous revenue for the 2010-2016 period that was related to the OPA/IESO funds for CDM (Exhibit 5 / Tab 1 / Schedule 1 / p. 2).
- d) If available, please update the operating revenue table to reflect 2016 actuals (Exhibit 5 / Tab 1 / Schedule 2).

Exhibit 5 – Operating Revenue

5-Staff-23

Ref: Exhibit 5 / Tab 1 / Schedule 3 Updated

Question(s):

- a) Please provide further details as to why Five Nations Energy believes that using a historical average of the peak load data for the 2013-2015 period is more appropriate than using the linear trend method as ordered by the OEB in the EB-2009-0387 proceeding.
- b) Please advise which of the two illustrative charge determinant estimates, based on the linear trend methodology (using two different underlying data sets), Five Nations Energy believes is more appropriate. Please explain why.

Exhibit 6 – Operating Costs

6-Staff-24

**Ref: Exhibit 6 / Tab 1 / Schedule 1
Exhibit 2 / Tab 2 / Schedule 1**

Question(s):

- a) Please explain why Five Nations Energy used “All-Items CPI” for its calculation of the impact of inflation on OM&A expenses over the March 2010 – January 2016 period (Exhibit 6 / Tab 1 / Schedule 1 / p. 4). Please provide supporting rationale.
- b) Five Nations Energy stated that “from a systems perspective, it was viewed as inefficient to have both Five Nations Energy and Hydro One maintaining 80 km of parallel facilities” (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).
- i. Please explain the maintenance arrangement that was in place during the time that Hydro One owned the 80 km transmission line (e.g. did Hydro One handle the maintenance or was that maintenance work done by Five Nations Energy) (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).
 - ii. If Hydro One maintained the line, please provide the annual maintenance costs incurred by Hydro One (as referenced at Exhibit 6 / Tab 1 / Schedule 1 / p. 4, this information was provided to Five Nations Energy by Hydro One).
 - iii. Please provide the annual maintenance expense that Five Nations Energy included in its revenue requirement related to the maintenance and operation of the 80km of line acquired from Hydro One (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).
 - iv. Please provide an estimate of the annual cost savings expected to arise from Five Nations Energy maintaining the line as it is parallel to its existing infrastructure (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).
- c) Five Nations Energy listed the following initiatives aimed (in part) at improving efficiencies: moving external services in-house, coordinating activities and goods/services with distributors in the region, and regular budget reviews. For each category of efficiency improvements, please provide specific examples and estimated cost savings.

6-Staff-25

Ref: Exhibit 6 / Tab 2 / Schedule 1

Question(s):

- a) If available, please provide a version of Table 6-2-1-A that reflects actual 2016 OM&A spending by category (Exhibit 6 / Tab 2 / Schedule 1 / p. 1).
- b) Please provide a description for each category of OM&A expenses (e.g. Load Dispatching, Outside Services Employed, etc.). Please also include a detailed breakdown of the 2016 costs that are included in each category of OM&A expenses (Exhibit 6 / Tab 2 / Schedule 1 / p. 1).
- c) Please file both the previous version and the current version of the Operating Services Agreement with Hydro One (Exhibit 6 / Tab 2 / Schedule 1 / p. 3).
- d) Please provide a breakdown of the \$91,000 of proposed incremental load dispatching expenses for 2016 (relative to 2015) between: (i) the addition of services associated with the extra 80 km to the operating agreement; and (ii) Hydro One moving to a new cost model (Exhibit 6 / Tab 2 / Schedule 1 / p. 3).
- e) Please provide a table that highlights the increases in Account 4820 over the 2011-2016 period and the related reductions in Account 4815 and 4916 (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).
- f) Please provide further rationale supporting Five Nations Energy's decision to hire additional technical staff (as opposed to relying on external service providers). Please specifically discuss whether there were, or are expected to be, any cost savings achieved due to this decision (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).
- g) Please discuss on an itemized basis the proposed \$340,000 of Transformer Station Equipment Labour incremental costs (88% increase between 2015 and 2016) (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 4).
- h) Five Nations Energy states that its "existing operational employees have had an increase tied to CPI over the past few years. In order to retain operational staff, FNEI is proposing a one-time increase of 10% to FNEI's operational staff in 2016" (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).
 - i. Please discuss whether this 10% pay increase was already applied to employees in 2016 (or if Five Nations Energy is awaiting OEB approval of this proposal).
 - ii. Please provide detailed evidence and rationale supporting a 10% pay increase for operational staff in 2016.

- iii. Please explain why the previously applied pay increase based on inflation is not still appropriate for 2016.
 - iv. Please advise whether Five Nations Energy is aware of any other utilities in Ontario providing a 10% pay increase in 2016 for operational staff.
 - v. Please provide the number of FTEs that this proposed pay increase would be applicable to.
 - vi. Please provide the total cost for 2016 of the proposed 10% pay increase. Please provide this amount as a percentage of the total compensation expense increase requested for 2016 (compared to 2015).
 - vii. Please provide the total cost for 2016 of a salary increase in accordance with the inflationary increases provided by Five Nations Energy during the historic period.
-
- i) Five Nations Energy cites “emergency station maintenance” as the cause for the \$97,000 (42%) increase in Maintenance – Transformer Station Equipment expenses between 2015 and 2016. Is Five Nations Energy expecting to perform significant emergency maintenance during the forecast period (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 4-5)?
 - j) Please provide a breakdown of the Maintenance – Poles, Towers and Fixtures expenses, on actual basis, as between the Right-of-Way (ROW) clearance program and the other programs included in this category of expenses for each year 2010-2016. Please also provide an estimated breakdown of expenses in this category for the forecast period (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 5).
 - k) Please provide the total 5-year cost of the ROW clearance program (2016-2020). Please provide the proposed 2016 expense associated with the ROW clearance program (Exhibit 6 / Tab 2 / Schedule 1 / p. 5). Please confirm that the 2016 amount associated with the ROW clearance program reflects one-fifth of the total cost of that program over the 2016-2020 period (in accordance with Five Nations Energy’s statement to that effect at Exhibit 6 / Tab 2 / Schedule 5).
 - l) Five Nations Energy stated that the energy conservation expenses (Account 5415) are outside of Five Nations Energy’s cost structure as the costs were exactly offset by revenues received from the OPA / IESO. Therefore, the

conservation expenses do not impact Five Nations Energy's revenue requirement (Exhibit 6 / Tab 2 / Schedule 1 / pp. 5-6).

- i. Please explain why there is \$30,000 included for energy conservation expenses in 2016 (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 5-6). Please explain the 2016 conservation expenses in the context of Five Nations Energy's statement that the funding arrangement with the OPA / IESO for conservation initiatives was discontinued as of January 1, 2016 (Exhibit 5 / Tab 1 / Schedule 1 / p. 2).
 - ii. Please confirm that, if the OEB approves \$30,000 in energy conservation expenses in 2016, that Five Nations Energy expects to continue incurring that expense during the forecast period.
 - iii. Please advise whether Five Nations Energy has included \$30,000 in offsetting revenues derived from the funding arrangement with the IESO / OPA for each year during the 2016-2020 period. If not, please explain how the energy conservation costs do not form part of Five Nations Energy's cost structure and why it is appropriate for the OEB to approve these energy conservation expenses.
- m) Please provide a table that shows a breakdown of the total increase in salaries and related expenses between 2010 and 2016 and the decrease in outside services costs. If there is a net increase in labour costs (between the increase in employee salaries and the decrease in outside employee costs), please explain what benefit ratepayers are receiving due to Five Nations Energy's decision to bring additional staffing in-house (Exhibit 6 / Tab 2 / Schedule 1 / pp. 6-7).
- n) Please advise whether the expenses included in the executive salaries and expenses category (Account 5605) is only related to Five Nations Energy's Board of Directors. If not, please provide a detailed breakdown of the executive salaries and expenses category (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).
- o) Please provide a breakdown of Five Nations Energy's Board of Director costs by year (2010-2016) and by category (honorarium, travel costs, disbursements, etc.) (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).
- p) In 2013, an average Board of Directors meeting cost approximately \$35,000. Please explain what is included in that cost and provide a breakdown of the cost of an average Board of Directors meeting. Please advise whether Five Nations

Energy has considered holding Board of Directors meetings through teleconference or online meeting to avoid some of the costs (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).

- q) Please provide the appraisal report that resulted in Five Nations Energy increasing its property insurance coverage (Exhibit 6 / Tab 2 / Schedule 1 / p. 7).

6-Staff-26

Ref: Exhibit 6 / Tab 2 / Schedule 2

- a) Please advise whether the Board of Director costs are included in Table 6-2-2-A (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).
- b) If available, please update Table 6-2-2-A to reflect actual salary and benefits costs incurred in 2016 (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).
- c) Please provide a table that reconciles where the salary and benefit amounts in Table 6-2-2-A (Executive / Management and Non-Management) are captured in Table 6-2-1-B (cost categories and amounts) (Exhibit 6 / Tab 2 / Schedule 2 / p. 1 and Exhibit 6 / Tab 2 / Schedule 1 / p. 2).
- d) Five Nations Energy stated that it plans to hire two apprentices and one substation electrician in 2016 (Exhibit 6 / Tab 2 / Schedule 2 / pp. 1-2).
 - i. Please advise whether these positions were filled in 2016. If not, please explain.
 - ii. Please explain why the total number of FTEs only increased by 2 between 2015 and 2016. Are some of the planned new hires part-time?
- e) Please provide the job title and a summary of responsibilities for each of Five Nations Energy's employees (and indicate whether the job is part-time or full-time – including the FTE amount associated with the position). Please also indicate whether the position is considered Executive / Management or Non-Management (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).
- f) Please discuss the proposed salary increases reflected in Table 6-2-2-A. Specifically, please provide the proposed salary increases that Five Nations Energy intends to provide to each category of employee (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

- g) Please provide a breakdown showing the amount of the increase in salary and benefit costs (between 2015 and 2016) that is caused by hiring additional employees and by pay increases (\$ amount and %). Please provide the breakdown for each line in Table 6-2-2-A (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

6-Staff-27

Ref: Exhibit 6 / Tab 2 / Schedule 3

Preamble:

Five Nations Energy noted that it procures the services of Attawapiskat Power Corporation, Fort Albany Power Corporation, and Kashechewan Power Corporation to assist with maintenance work (at the stations) and emergency response.

Five Nations Energy procures the services of the three LDCs in accordance with MSAs. The MSAs do not have a fixed fee (for annual services) or fixed scope of work. Instead, the MSAs allow Five Nations Energy to procure services (at fixed labour rates and equipment rental rates) on an as-needed basis, pursuant to a prescribed form of purchase order.

Question(s):

- a) Please file the MSAs on the record of the current proceeding (Exhibit 6 / Tab 2 / Schedule 3 / pp. 1-2).
- b) If the MSAs do not set out the fixed labour rates and equipment rental rates, please provide those fixed rates (Exhibit 6 / Tab 2 / Schedule 3 / p. 2).
- c) Please file the "prescribed form of purchase order" on the record of the current proceeding (Exhibit 6 / Tab 2 / Schedule 3 / p. 2).
- d) Please provide the total cost of services procured from the three LDCs in each year during the 2010-2016 period. Please provide a breakdown of the LDC costs between maintenance work and emergency response (Exhibit 6 / Tab 2 / Schedule 3 / pp. 1-2).
- e) Please provide the amount included in the proposed 2016 revenue requirement associated with the costs for procuring services from the LDCs (Exhibit 6 / Tab 2 / Schedule 3 / pp. 1-2).

- f) Please discuss where the costs of procuring services from the LDCs is included in Table 6-2-1-B (cost categories and amounts) (Exhibit 6 / Tab 2 / Schedule 3 / pp. 1-2 and Exhibit 6 / Tab 2 / Schedule 1 / p. 2).

6-Staff-28

Ref: Exhibit 6 / Tab 2 / Schedule 4

Question(s):

- a) Please provide the date when Five Nations Energy's purchasing policy first came into effect (Exhibit 6 / Tab 2 / Schedule 4).
- b) Please confirm that all non-affiliate purchases have been made in accordance with the purchasing policy during the historic period (Exhibit 6 / Tab 2 / Schedule 4).

6-Staff-29

Ref: Exhibit 6 / Tab 2 / Schedule 6

Preamble:

Five Nations Energy stated that it is forecasting regulatory costs in 2016 of \$324,000. This amount was calculated by taking the actual average regulatory costs during the previous four years (actual 2012 through 2015 - \$274,000), and adding \$50,000 to that amount (which reflects one-fifth of the forecast cost of the rebasing proceeding).

Five Nations Energy noted that actual regulatory spending in 2011 and 2012 were unusually high. Therefore, Five Nations Energy determined that including only 2012 costs in the average (used to develop the 2016 forecast) was more appropriate.

Question(s):

- a) Please provide a detailed breakdown of the regulatory costs incurred in each year during the 2011-2015 period (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).
- b) If available, please provide a detailed breakdown of actual 2016 regulatory spending (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

- c) Please explain why Five Nations Energy's regulatory expenses in 2011 and 2012 were unusually high (\$340,800 – 2011 and \$352,400 – 2012) (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).
- d) Please explain why the regulatory costs for 2012 (which Five Nations Energy stated were unusually high) have been included in the average used to develop the 2016 forecast (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).
- e) Please provide the average annual regulatory costs incurred over the 2013-2015 period (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).
- f) Please explain why the average annual regulatory costs incurred during the 2013-2015 period would not be more reflective of the expected regulatory costs (excluding the rebasing proceeding costs) for 2016 (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).
- g) Please provide a detailed breakdown (legal, consultant, intervenor, etc.) of the \$250,000 in regulatory costs associated with the rebasing proceeding (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

6-Staff-30

**Ref: Exhibit 6 / Tab 3 / Schedule 1 Updated
Exhibit 6 / Tab 3 / Schedule 2
Exhibit 6 / Tab 3 / Schedule 3
Exhibit 3 / Tab 1 / Schedules 4-9
Exhibit 2 / Tab 1 / Schedules 2 / Appendix III
Exhibit 3 / Tab 2 / Schedule 2 / p. 4**

Question(s):

- a) OEB staff understands that the revised useful lives at Exhibit 2 / Tab 1 / Schedule 2 / Appendix III are in accordance with Five Nations Energy's Capitalization Policy and the Kinectrics Study commissioned by the OEB. Please explain why the revised useful lives are not used for calculating the depreciation expense at Exhibit 6 / Tab 3 / Schedule 3. Please recalculate the depreciation expense, and provide an update to Exhibit 6 / Tab 3 / Schedule 3, for 2016 using the revised useful lives set out in Exhibit 2 / Tab 1 / Schedule 2 / Appendix III.

- b) Please update Five Nations Energy's revenue requirement using the depreciation expense calculated based on the revised useful lives in part (a) above.
- c) If available, please provide the actual 2016 depreciation expense (Exhibit 6 / Tab 3 / Schedules 2-3).
- d) Five Nations Energy stated that "in instances where availability **is not** dependent on project completion, expenditures are accumulated in an assets under construction account until such time as they are available for use." Please advise whether this statement is accurate (Exhibit 6 / Tab 3 / Schedule 1 Updated / p. 1).
- e) Please provide a table that sets out the depreciation rates proposed by Five Nations Energy for each asset class (Exhibit 6 / Tab 3 / Schedule 1 Updated / p. 1). Please also provide the depreciation rates that were approved by the OEB in Five Nations Energy's most recent rebasing proceeding (EB-2009-0387).
- f) Please provide rationale supporting the depreciation rates used for: Office Furniture and Equipment, and Tools, Shop and Garage Equipment (Exhibit 6 / Tab 3 / Schedule 3).
- g) Please confirm that for 2011-2013, the information included in the Detailed Depreciation and Amortization tables set out at Exhibit 6 / Tab 3 / Schedule 3 show the following:
 - i. Opening Assets at Cost reflects the previous year December asset values at cost (e.g. 2011 opening assets at cost reflects December 2010 asset values at cost) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6. Please advise whether these amounts reflect gross PP&E.
 - ii. Opening Accumulated Depreciation reflects the previous year December accumulated depreciation (e.g. 2011 opening accumulated depreciation reflects December 2010 accumulated depreciation) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.
 - iii. Opening Net Book Value reflects the previous year December net book value (e.g. 2011 opening net book value reflects December 2010 net book value) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.

- iv. The Adjusted Cost Base equals Opening Assets at Cost + Additions – Disposals.
 - v. The Closing Accumulated Depreciation reflects the current year December accumulated depreciation (e.g. 2011 closing accumulated depreciation reflects December 2011 accumulated depreciation) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.
 - vi. The Closing Net Book Value reflects the current year December net book value (e.g. 2011 closing net book value reflects December 2011 net book value) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.
- h) For 2014-2016, the amounts included in the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3) do not match the rate base schedules in the same manner as they did for the 2011-2013 period (Exhibit 3 / Tab 1 / Schedules 7-9). For example, the 2015 Opening Net Book Value is \$29,642,600 in the Detailed Depreciation and Amortization Table (Exhibit 6 / Tab 3 / Schedule 3 / p. 8) and the December 2014 Net Book Value is \$29,729,400 (Exhibit 3 / Tab 1 / Schedule 7). Please explain and reconcile these differences.
- i) Please explain what is included in Additions and Disposals columns in the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3).
- j) Please explain how the depreciation expense is calculated each year. Please provide the formula used by Five Nations Energy for the calculation of the annual depreciation expense. Please provide rationale supporting the depreciation expense calculation methodology. Please explain why the depreciation expense does not equal the Average Cost Base * Depreciation Rate (Exhibit 6 / Tab 3 / Schedule 3).
- k) Please explain how fully depreciated assets are accounted for by Five Nations Energy when calculating the depreciation expense (Exhibit 6 / Tab 3 / Schedule 3).
- l) Please add a column to all of the Detailed Depreciation and Amortization Tables, which sets out the fully depreciated amount associated with each asset class and shows how the fully depreciated amounts are accounted for in the depreciation expense calculation (Exhibit 6 / Tab 3 / Schedule 3).

- m) Five Nations Energy used a PP&E account (#1995) for capital contributions. According to APH article 430, capital contributions are treated as deferred revenue (and recorded in APH Account 2440) to be included as an offset to rate base and amortized to income over the life of the facilities to which they relate. Please advise whether Five Nations Energy reviewed APH Articles 430 and 510 and has accounted for contributions in aid of construction in accordance with the APH for regulatory purposes? If not, please provide adjusted schedules to ensure that all IFRS related transitional items have been filed in accordance with the APH.
- n) There is no depreciation rate applied to the Building & Fixtures, and Power Operated Equipment asset classes in the Detailed Depreciation and Amortization tables. However, there is a depreciation expense (Exhibit 6 / Tab 3 / Schedule 3).
- a. Please explain the depreciation expense incurred associated with Buildings & Fixtures, and Power Operated Equipment for each year 2013-2016.
 - b. Please provide the depreciation rates used to calculate the depreciation expense for the above noted asset classes.
 - c. Please advise whether Five Nations Energy is seeking approval of the depreciation rates applied to these asset classes and provide rationale supporting the depreciation rates.
 - d. In regard to the depreciation expense for the Buildings and Fixtures asset class, please explain why the expense was \$690,000 in 2013 and fell to \$130,000 for the 2014-2016 period.
- o) Please explain what is included in the accumulated depreciation adjustments column. For each accumulated depreciation adjustment made, please describe the adjustment and provide rationale supporting the adjustment (Exhibit 6 / Tab 3 / Schedule 3).
- p) In the 2014 Detailed Depreciation and Amortization table, the Average Cost Base seems to reflect the 2014 accumulated depreciation (based on the average of monthly closing balances). Please advise whether this is an error. If

so, please update the table to reflect the correct information (Exhibit 6 / Tab 3 / Schedule 3 / p. 7).

- q) For 2010-2011, Five Nations Energy used depreciation rates of 20% for computer hardware and 50% for computer software. Beginning in 2012, the depreciation rate for both computer hardware and computer software was set at 20%. Please explain this change (Exhibit 6 / Tab 3 / Schedule 3) and discuss whether the depreciation rates used are in accordance with the OEB's findings in EB-2009-0387.
- r) Please file live Excel spreadsheets for the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3) and the rate base schedules (Exhibit 3 / Tab 1 / Schedules 2-9).

6-Staff-31

Ref: Exhibit 6 / Tab 5 / Schedule 1

Question(s):

- a) Please confirm that the Z-factor materiality threshold of \$100,000 proposed by Five Nations Energy is on a revenue requirement basis.

Exhibit 7 – Cost of Capital / Capital Structure

7-Staff-32

Ref: Exhibit 7 / Tab 1 / Schedule 1

Question(s):

- a) Please confirm that the debt rates set out in Table 7-1-1-A are actual debt rates (Exhibit 7 / Tab 1 / Schedule 1 / p. 2).
- b) Please advise when the three loans set out in Table 7-1-1-A were originally procured by Five Nations Energy (Exhibit 7 / Tab 1 / Schedule 1 / p. 2).
- c) Please discuss the process undertaken by Five Nations Energy when selecting the loan providers (Exhibit 7 / Tab 1 / Schedule 1 / p. 2).
- d) Please advise whether Five Nations Energy is forecasting any new debt during the 2017-2021 period (Exhibit 7 / Tab 1 / Schedule 1 / p. 2).

- e) Please explain the rate base amount of \$35,809,700 used in the cost of capital calculation (Exhibit 7 / Tab 1 / Schedule 1 / p. 3). Please explain why this amount is different than the rate base amount of \$35,776,319 cited in Exhibit 3 / Tab 1 / Schedule 1. If the amount used in the cost of capital calculation is incorrect, please revise the cost of capital calculation and revise the related evidence as necessary.

7-Staff-33

Ref: Exhibit 7 / Tab 2 / Schedule 1

EB-2009-0387 / Decision and Order

EB-2009-0387 / Exhibit 1 / Tab 1 / Schedule 13 / pp. 10-12

Preamble:

In Exhibit 7 / Tab 2 / Schedule 1, Five Nations Energy set out its legal and practical arguments as to why it should be allowed to earn a ROE in the same manner as a for-profit utility and use its revenues in excess of costs to complete its corporate objectives. Five Nations Energy argued that some of its corporate objectives are not solely related to the development and operation of a transmission system.

Question(s):

- a) Please provide the types of investments Five Nations Energy is considering making as part of achieving its corporate objectives that extend beyond the development and operation of a transmission system and provide examples. Please explain how these investments directly link to Five Nations Energy's corporate objects (Exhibit 7 / Tab 2 / Schedule 1 / pp. 2 and 11).
- b) Five Nations Energy noted that in the US, a number of utility commissions have accepted the principle that a not-for-profit cooperative utility is entitled to earn a reasonable return. In a number of these cases, the commission applies the TIER method (Times Interest Earned Ratio) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).
- i. Please provide any examples of decisions by utility commissions in the US or Canada that have approved the payment of returns for not-for-profit corporations in the same manner as Five Nations Energy has requested as part of its current application (i.e. a true ROE) as opposed to evaluating returns using the TIER method (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).

- ii. Please provide Five Nations Energy's understanding of how the TIER method could be applied to Five Nations Energy in calculating the appropriate level of return (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).
 - iii. Please provide Five Nations Energy's position on using the TIER method for determining an appropriate level of return. Does Five Nations Energy continue to be of the view that the TIER methodology is not appropriate? Please provide your response in the context of the evidence filed by Five Nations Energy in EB-2009-0387 at Exhibit 1 / Tab 1 / Schedule 13 / pp. 10-12.
 - iv. Please advise whether there is a TIER range that is generally used in the US to determine the appropriateness of a not-for-profit corporations level of return (and provide evidence supporting the range) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).
 - v. Please provide the TIER calculation using both generally accepted methodologies: (a) net income plus interest on debt divided by interest on debt; and (b) net income divided by interest on debt for each year 2010-2016 (for 2016 show both before and after the applied for changes in the application are implemented) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).
- c) Please further discuss why Five Nations Energy believes that the OEB should not be concerned with the potential loss of the non-profit status. Does Five Nations Energy agree that the loss of the non-profit status would result in an increase in costs recoverable from ratepayers (Exhibit 7 / Tab 2 / Schedule 1 / pp. 15-16)?
- d) Five Nations Energy states that it accepts that the OEB has jurisdiction to require it to establish its revenue requirement on a basis that allows it a sufficient cushion to address unforeseen contingencies. However, it believes that there is no basis for requiring the establishment of specific reserve funds and precluding Five Nations Energy from earnings revenues in excess of the amount required to fund those reserves (Exhibit 7 / Tab 2 / Schedule 1 / p. 17).
- i. Please discuss the differences between not-for-profit and for-profit regulated utilities.

- ii. Please discuss whether Five Nations Energy believes that a for-profit utility is in a better position than a not-for profit utility to invest capital back into the utility. Please provide rationale for the response.
 - iii. In the absence of reserve funds and approval from the OEB to allocate revenues in excess of profits towards non-utility activities, please discuss how the OEB can be confident that there will be “sufficient cushion” to manage unexpected utility costs that may arise?
 - iv. Please advise whether Five Nations Energy intends to maintain its existing Insurance Reserve Fund under its proposal. If yes, please explain the response in the context of Five Nations Energy’s argument that the ROE and the availability of a Z-factor allow for a utility to maintain sufficient funds in order to address unforeseen circumstances.
- e) Five Nations Energy stated that if it were not allowed to earn revenue in excess of its costs to operate the transmission system, it would be off-side of its debt coverage ratios and subject to repayment obligations that are greater than its interest costs (Exhibit 7 / Tab 2 / Schedule 1 / p. 22).
- i. Please provide Five Nations Energy’s: (a) current actual debt to capitalization ratio; and (b) 2010 actual debt to capitalization ratio (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-22).
 - ii. Please provide Five Nations Energy’s: (a) current ratio of EBITDA to debt service; (b) ratio of EBITDA to debt service if Five Nation’s Energy’s application is approved as filed; and (c) ratio of EBITDA to debt service if no ROE is approved as part of the current application. Please show all of the calculations (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-22).
 - iii. Please provide the minimum amount of total annual revenue (with the return component shown separately and also shown as an ROE %) that would be required to stay on-side of Five Nations Energy’s financing requirements (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-21).
 - iv. Please provide Five Nations Energy’s position on the establishment of a reserve fund that would hold sufficient funds to make loan repayments for two-years (and would be strictly used to make loan payments in circumstances where Five Nations Energy does not have sufficient funds to make those payments in the normal course). Please advise whether a

reserve fund designed in this manner may be sufficient to satisfy Five Nations Energy's lenders (even in the absence of meeting the EBITDA to debt service requirement).

- f) Please provide the following information related to potential reserve funds that could be made applicable to Five Nations Energy:
- i. Any additional reserve funds that Five Nations Energy may want the OEB to consider beyond what was approved in the EB-2009-0387 proceeding.
 - ii. A definition for each reserve fund that was previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve fund that Five Nations Energy may want the OEB to consider.
 - iii. The purpose, goals and intended use of each reserve fund that was previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve fund that Five Nations Energy may want the OEB to consider.
 - iv. Updated cap amounts for the reserve funds calculated based on the methodologies set out in the OEB's Decision and Order in EB-2009-0387; and updated cap amounts calculated based on alternative methodologies that Five Nations Energy believe are appropriate. Please provide the calculations and describe the methodologies used.
 - v. The mechanism and the process to build (a timeframe for funding the reserves should be provided if the reserve funds are not already fully funded), use and maintain the reserve funds that were previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve funds that Five Nations Energy may want the OEB to consider.
 - vi. The roles and responsibilities of Five Nations Energy's Board of Directors and management with regard to establishing and preserving the amounts for each type of reserve fund.
 - vii. The authorization and approval process for access and use of each reserve fund.
 - viii. Investment objectives and policies for the reserve funds.
 - ix. Reporting requirements related to the reserve funds.

- x. An updated “draft reserves policy” in a similar format to what was filed with OEB staff in response to the OEB’s Decision and Order in the EB-2009-0387 proceeding. The updated “draft reserves policy” should reflect any changes that would be applicable for the test year.

- g) Please file a detailed calculation of an alternative test year revenue requirement, which is calculated based on a sum of all proposed test year costs plus the annual amount required to build up the reserve funds (if they are not already fully funded). The annual amount required to build up the reserve funds should be based on a proposal from Five Nations Energy as to a reasonable amount of time over which the reserves should be funded.

Exhibit 8 – Deferral and Variance Accounts

8-Staff-34

Ref: Exhibit 8 / Tab 1 / Schedule 1

Question(s):

- a) Five Nations Energy requested a new deferral account to record revenue requirement deficiencies incurred from January 1, 2016 (the date when rates were declared interim) to when the final approved rates are implemented. Please provide a Draft Accounting Order with sample entries that would be posted to this account.

Exhibit 9 – Cost Allocation to Rate Pools

9-Staff-35

Ref: Exhibit 9 / Tab 1 / Schedule 1

Question(s):

- a) Please provide the Hydro One cost allocation that Five Nations Energy used as the basis for its cost allocation calculation. Please provide a reference to the case number and exhibit. Please confirm that this is the most recent approved allocation for Hydro One.

- b) Please advise whether Five Nations Energy will update its proposed cost allocation to the UTR asset pools if an updated cost allocation is approved for Hydro One prior to the OEB’s decision in this proceeding.

Exhibit 10 – Incentive Regulation Plan

10-Staff-36

Ref: Exhibit 10 / Tab 1 / Schedule 1

Question(s):

- a) Please advise whether Five Nations Energy intends to file an annual rates application each year of its proposed IRM term. If so, please provide the proposed timing of that annual filing (Exhibit 10 / Tab 1 / Schedule 1 / p. 1).
- b) Please provide detailed rationale supporting Five Nations Energy's proposal for a 0.3% stretch factor as part of its revenue requirement adjustment formula. Specifically, please explain why the mid-range stretch factor for electricity distributors is appropriate for Five Nations Energy (Exhibit 10 / Tab 1 / Schedule 1 / p. 2).
- c) Please advise whether Five Nations Energy is seeking approval of a Z-factor deferral account as part of the current proceeding (Exhibit 10 / Tab 1 / Schedule 1 / p. 3).

Exhibit 11 – Uniform Transmission Rates

11-Staff-37

Ref: Exhibit 11 / Tab 1 / Schedule 1

Question(s):

- a) If necessary, upon responding to all interrogatories from OEB staff and intervenors, please provide an updated UTR calculation in the same format as shown in Exhibit 11 / Tab 1 / Schedule 1. If necessary, please also update the bill impact analysis.