Five Nations Energy Inc. - EB-2009-0387

Board Staff Interrogatories

1. Ref: Ex 1/T1/S12/ Appendix A – Board of Directors

(a) At Appendix A, FNEI has identified its current Board of Directors. The appendix identifies 8 positions. Of these eight positions, two seats are vacant (Fort Albany Power & Moose Cree First Nation). For each of the Directors that are listed, please identify the LDC/ related First Nations organization they are associated with and their position in that utility/organization. With respect to the two vacancies, when does FNEI propose to fill these vacancies?

(b) Section 2.1.2 of the Affiliate Relationship Code states "A utility shall ensure that atleast one third of its Board of Directors is independent from any affiliate". Please indentify if FNEI complies with section 2.1.2. If FNEI's current Board does not reflect the split referred to in section 2.1.2, please explain why that is the case and what is FNEI's proposal to rectify this situation.

2. Ref: Ex 1/T1/S13 – Insurance Reserve

(a) At page 3, FNEI states that the quantum of the Insurance Reserve was determined by a credit agreement between Manulife Financial Corp. and Pacific Western Bank of Canada. Please provide the terms and conditions agreed to between FNEI and its lenders with respect to operation and design of the insurance reserve.

(b) How was the upper limit for the Insurance Reserve determined? Please describe the methodology. Please also confirm that FNEI is not proposing an increase to the Insurance Reserve in 2010.

(c) The Insurance Reserve is reflected in FNEI's financial statements as "RESTRICTED DEPOSITS". From an accounting point of view and from a reserve design perspective, please provide FNEIs understanding of "restricted" deposits.

(d) Does FNEI have a reserve policy that outlines the process that is to be followed when funds are withdrawn from the Insurance Reserve? Please provide the policy. If such a policy is not available, please describe the process that is used.

(e) Please provide the schedule of payments to the Insurance Reserve, from 2002 to 2007.

(f) Were there any withdrawals from the Insurance Reserve between 2002-2009? Please identify the withdrawals, if any, and the reason for the withdrawals. In your response, please identify the instances, when the withdrawals from the

3. Ref: Ex 1/T1/S13/p. 6 – Operating & Capital Reserves & Ex 1/T1/S15 - Financial Policies and Procedures

At page 6, FNEI states – “Amounts required for capital projects and unbudgeted operating requirements can be somewhat unpredictable, due to new customers, new regulatory requirements and unanticipated revenue declines. For these reasons FNEI does not support any caps (i.e. upper limits) for the Capital Reserve or Operating Reserve (as it does for the Insurance Reserve)”.

(a) Given that FNEI is not forecasting any new customers or loss of an existing customer, please elaborate why a cap for the Operating Reserve and Capital Reserve is not appropriate?

(b) Section 6.1.2 of FNEI’s Financial Policies and Procedures states, “The maximum amount in the Operating Reserve shall be reviewed annually with the amount to be recommended by the Finance and Human Resources Committee and approved by the Board of Directors.” While no limit for the Operating Reserve is proposed, it appears that a maximum amount in the Operating Reserve is determined, albeit internally by the Company. Please provide the maximum limit for the Operating Reserve in 2010, as determined by the review under section 6.1.2

4. Ref: Ex 1/T1/S13 – Operating & Capital Reserves

(a) Please provide FNEI’s Operating and Capital Reserve policy. If a such a policy has not been developed, please provide the following:

- i) Please identify if FNEI utilizes its annual business planning and budgeting process to review, establish, and monitor the level for its operating and capital reserves. If yes, please provide evidence and information regarding that process. If not, please describe what mechanism FNEI uses for monitoring and establishing various reserve levels.
- ii) Please describe in detail, what are the internal control mechanisms with respect to the transfer of funds from one reserve category to another category?
- iii) What triggers a transfer from one reserve category to another reserve category?

iv) Who approves the transfer from one reserve category to another reserve category? In your response, please describe the review and approval process.

v) Does FNEI's management acquire approval from its Board of Directors for transfer of funds from one reserve category to another reserve category? If no such approval is required, what involvement does the FNEI's Board of Directors have in relation to the management of the operating and capital reserves?

(b) Please provide a description of the accounting mechanism and the specific accounts used by FNEI to record, track and monitor amounts in the proposed reserves?

5. Ref: Ex 1/T1/S13 – Operating & Capital Reserves

(a) At page 4 of Exhibit 1, Tab 1, Schedule 13, lines 1 to 3, FNEI states, "The amount in the Capital Reserve represents the equity set aside for future capital expenditures. The balance of the Capital Reserve is expected to be nil at December 31, 2009". Please explain the reasons for the above approach. In your response, please explain why the balance in the reserve was expected to be nil at December 31, 2009.

(b) At page 4 of Exhibit 1, Tab 1, Schedule 13, lines 7, FNEI states that "Thus, the Operating Fund and Capital Reserve are linked (in the current earnings are held in the Operating Fund in any current year, and then transferred at year's end)…".

i) FNEI has used the terms "Fund" and "Reserve" in its evidence. These terms are also used in the financial statements. Please provide the definition of "Operating Fund" and "Operating Reserve. In your response, please elaborate on how the two are distinguished and highlight the different characteristics of each.

ii) Why are the "Operating Fund" and "Capital Reserve" linked? In your response, please also explain why such an approach is appropriate and the rationale for this approach.

iii) When transferring funds from the "Operating Fund" to the "Capital Reserve", does FNEI transfer partial amounts or full amounts? What are the decision criteria for the transfer? If FNEI transfers the partial amount from "Operating Fund" to "Operating Reserve" at the year-end, why is a partial amount transferred and how is the remaining amount used?

iv) If FNEI transfers the full amount from “Operating Fund” to “Operating Reserve”, then why did FNEI create an “Operating Fund”? Why doesn’t FNEI transfer the amounts directly to the “Capital Reserve”?

v) For the period 2002 to 2009, please provide a schedule that shows, the transfer of funds to and from the Capital Reserve and Operating Reserve.

(c) At page 5 of Exhibit 1, Tab 1, Schedule 13, lines 11 to 13, FNEI states that “Now that the Insurance Reserve is fully funded, FNEI will start to build up its Capital Reserve and Operating Fund”

i) What is the purpose for building the Capital and Operating Reserve?

ii) What is FNEI’s schedule/plan for building these reserves in 2010 and beyond? Please provide a schedule that shows the amounts and the associated timelines (i.e., over what period this would take place)? If such a plan is not available, please provide a reasonable estimate for the purposes of completing this interrogatory.

(d) At page 5 of Exhibit 1, Tab 1, Schedule 13, lines 16 to 17, FNEI states that “Obviously, if funds in the Insurance Reserve need to be used to repair FNEI system, FNEI will immediately replenish the Insurance Reserve out of whatever funds are available in the Operating Fund or Capital Reserve”. Please elaborate how this process would work.

(e) At page 6 of Exhibit 1, Tab 1, Schedule 13, lines 1 to 5, FNEI states, “FNEI does not propose to set any “caps” (i.e., upper limits) for the Capital Reserve or Operating Fund (as it does for the Insurance Reserve). Amounts required for capital projects and unbudgeted operating requirements can be somewhat unpredictable (e.g. new customers, new regulatory requirements, unanticipated revenue declines, etc.) and require a more dynamic approach to management of funds set aside for these purposes”.

i) What is FNEI’s understanding of the use of Reserves in relation to dealing with “unpredictable” or “extraordinary” events?

ii) Please explain the statement “a more dynamic approach to management of funds set aside for these purposes”. In your response, please elaborate on the types of activities that FNEI proposes to uses the Reserves for.

iii) Does FNEI believe that "funds can be set aside for these purposes" or not? If not, why not?

iv) If FNEI believes that funds cannot be set aside for these purposes, does FNEI accept that the fact that the planning for setting aside funds for various purposes is a dynamic process and may not necessarily result in the desired outcome given the reality of the business environment and challenging nature of planning under uncertainties?

v) If planning under uncertainties is a challenge for any management of an organization and management still needs to do planning based on its best knowledge of the business environment and its planned assumptions, why does FNEI believe that it is not appropriate to set "upper limits" for the Capital Reserve and Operating Reserve"?

6. Ref: Decision with Reasons, EB-2001-0036

The Board in its Decision in FNEI's last rate case, RP-2001-0036, noted that the operating reserve was intended to provide a cushion for unanticipated expenses and the capital reserve was intended to create sufficient funds for planned equipment replacements. In this application, FNEI argues "…a cap on these reserves implies that FNEI cannot use its funds in <u>other ways</u> that are consistent with its corporate objectives until such time as these caps have been reached".

(a) Given that the operating and capital reserves are for a specific purpose, please explain why FNEI believes that it is appropriate to use these reserves for purposes, other than those noted by the Board?

(b) Please explain in what "other ways" FNEI proposes to use these funds. In your response, please indentify the specific projects/initiatives, the funding needed and the associated timelines for these initiatives.

7. Ref: Decision with Reasons, EB-2005-0233, dated October 14, 2005

The Board in its Decision in an application by *Attawapiskat Power Corporation* (APC), EB-2005-0233, approved the utility's request for an operating reserve and established a "cap" of $350,000 for that reserve. With respect to the utility's request for a capital reserve, the Board disallowed APC's request noting that it was "premature to establish a capital reserve until the limits and uses were more clearly understood".

Given the Board's Decision in EB-2005-0233, please prepare the following scenarios:

(a) Please provide a reasonable preliminary estimate for the maximum amount of the capital reserve required to support FNEI's capital expenditure plan. Please explain the methodology used to calculate the cap and the period over which this reserve will be funded. If FNEI does not have a capital plan, please indicate when such a plan will be available and complete the interrogatory using reasonable assumptions.

(b) Please provide a reasonable preliminary estimate for the maximum amount of the operating reserve. Please describe the methodology used to calculate the cap and the period over which the reserve will be funded.

8. Ref: Ex 1/T1/S13 – Status of Board Directives

At page 8, FNEI states that "FNEI's status as non-profit has only two implications for the Board's jurisdiction as it relates to rate regulation: (a) FNEI does not pay income tax as long as it remains non-profit, so there is no income tax expense included in FNEI's revenue requirement; .."[1]

However, a Non-Profit Organization is not tax exempted automatically by maintaining its non-profit status. As stated in FNEI's decision RP-2001-0036, "the Board is aware that a non-profit corporation that accumulates funds that are excess to its current expenditures must give careful consideration to maintaining its non-taxable status."

Income Tax Act 149 (1)(l) provides the listing of the conditions for a NPO to qualify for tax-exempt status. The interpretation bulletin number IT-496R issued by CRA which interprets the 149 (1) (l) states: "Whether a particular association meets all of the above conditions and qualifies under 149 (1) (l) as a tax-exempt NPO is a question of fact that can only be determined after we review the purposes and activities of the association." Paragraph 9 of IT-496R further states "the amount of accumulated excess income considered reasonable in relation to the needs of an association to carry on its non-profit activities and goal is a question of fact to be determined with regard to the association's particular circumstance…. Where the present balance of accumulated excess is considered excessive or an annual excess is regularly accumulated that is greater than an association's needs to carry on its non-profit activities, it may indicate that the association's aims are two-fold: to earn profits and to carry out its non-profit

[1] (b) is not reproduced here because it is not relevant to this IR.

purposes…In such case, the operated exclusively requirement in paragraph 149(1) (l) would not be met."

(a) Please explain if FNEI has considered maintaining its non-taxable status in the context of a non-profit corporation earning excess revenues over its expenditures. If so, please provide any evidence including FNEI's policies, plans or any other documents, which supports your consideration of maintaining the non-taxable status. If not, please provide your rational why it is not an issue for FNEI.

9. Ref: Ex 1/T2/S3 – Methodology & Changes to Methodology

FNEI states, "Certain assets with immediate and ongoing value, such as berms and transformer energization projects, are capitalized as they are constructed, rather than upon completion of the project".

(b) What is the rationale for this approach?

(c) Is FNEI aware of any other utility that has received Board approval for such an approach?

(d) What is the impact on the 2010 rate base if the Board were to disallow FNEI's proposed approach?

RATE BASE AND CAPITAL EXPENDITURES

10. Ref: Ex 1/T1/S15 - Financial Policies and Procedures, Section 7.4 & Harmonized Sales Tax Impact on OMA

The provincial government has announced plans to harmonize the provincial sales tax (PST) with the goods and services tax (GST) effective July 1, 2010 to create a harmonized sales tax (HST). Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures. Based on the proposed elimination of the PST effective July 1, 2010:

(a) Please confirm that FNEI has not made any adjustments to the capital expenditure forecast to reflect the elimination of the 8% provincial sales tax.

(b) Please provide the estimated costs of the provincial sales tax included in the capital expenditure forecast for 2010.

(c) Please provide the amount of provincial sales tax paid by FNEI on capital expenditures in each of 2007, 2008 and 2009.

(d) Does FNEI see any reason why the reductions in capital expenditures cannot be captured in a variance account?

11. Ref: Ex 1/T1/S10/p.1 – Organizational Structure

At line 17 of the above reference, FNEI states that the assets FNEI is currently operating that are owned by De Beers Canada will be transferred once certain permits to be issued under the Indian Act (Canada) are obtained.

(a) What is the status of this transaction? When does FNEI expect the transfer to be completed?

(b) Are these assets currently in FNEI's 2010 rate base?

12. Ref: Ex 2/T1/S1/p.1/lines 3-6 & Filing Requirements for Transmission and Distribution Applications, May 27, 2009 (Filing Requirements")

At the above reference, FNEI states that the methodology used for calculating rate base is "… the total of the average of the forecasted opening and closing net fixed assets". However, the schedules provided in Ex 2/T11/S1 for 2010 and other historic years suggest that gross assets (and accumulated depreciation) are calculated as an average of total assets by month. For example, the Total Asset of $33,226 appears to be an average of total monthly asset balance in Ex 2/T11/S2/p.1 and not an average of 2010 opening and closing balances.

It also appears that FNEI's methodology for calculating asset balances and accumulated depreciation does not use December closing balance from the past year as the opening balance for the following year. For example, the December 2008 Asset balance differs from the January 2009 balance.

(a) Is Board staff's interpretation of the methodology to calculate total assets, accumulated depreciation and the approach used to determine the opening/closing balances correct? If staff's interpretation is incorrect, please clarify the approach used.

(b) Please explain why has FNEI not relied on the approach outlined in Section 2.3 of the Filing Requirements (i.e. average of opening and closing balances) to calculate total assets and accumulated depreciation?

(c) In the rate base calculations, please explain why December balances from the prior year, were not used as the opening balance for the following year. In your response, please also explain why this particular approach was used to estimate rate base, while a different approach was used to calculate the depreciation expense.

(d) Please provide a detailed description of the methodology used to calculate Total Assets, Accumulated Depreciation and Net Assets.
(e) How long has FNEI been using this approach?
(f) Please identify other distributors, transmitters or regulated entities that follow this approach.

13. Ref: Section 2.3 & Appendix 2-C - Filing Requirements

Section 2.3 of the Filing Requirements, state, "For Rate Base, the applicant must include the opening and closing balances, and the average of the opening and closing balances for gross assets, accumulated depreciation and allowance for working capital." The guidelines further state "The information outlined in Appendix 2-C should be provided for each year".

(a) Please calculate the historical (2002-2008), bridge and test year rate base using the approach described under section 2.3 of the Board's Filing Requirements. Please also complete Appendix 2-C and provide the MS Excel worksheets with all formula and links left active. Please note, as per section 2.3.3, the "Continuity statements should be reconcilable to the calculated depreciation expenses (under Operating Expenses) and presented by asset account".
(b) Please provide the impact on the test year revenue requirement of the above scenario.

14. Ref: Treatment of 2010 Capital Additions

FNEI is adding $275,000 in capital additions to the test year rate base. For the net asset calculations, these are added to rate base in June 2010, i.e. mid-year.

(a) Have these additions been recorded in June to reflect the Board's ½ year rule, or are these additions meant to be used and useful as of June 2010?
(b) If the depreciation expense is calculated on a monthly basis, please explain why the additions are not included in rate base in the month that they are used and useful as opposed to mid-year.

15. Ref: Accumulated Depreciation (Rate Base); Depreciation Expense (OM&A) and Section 2.5.7 Filing Requirements

Preamble: In the rate base calculations, the accumulated depreciation is not a function of opening and closing balances and is an average of total monthly-accumulated depreciation. However, the methodology used to estimate the depreciation expense (under OMA), uses the December balances from the prior year as the opening balance for the following year.

(a) Please explain the rationale for using different methodologies for calculating accumulated depreciation as part of rate base versus OMA.

16. Ref: Ex 2/T1/S3 & Ex 2/T13/S1 – Capital Expenditures & Section 2.3.5 - Filing Requirements

Preamble: FNEI is proposing to spend $275,000 in capital expenditures in the test year. However, it appears that the information requested under section 2.3.5 of the Board's Filing Requirements has not been provided.

(a) As noted in the Filing Requirements, please complete Appendix 2-B and provide the following information on a project specific basis:

- i) Overall summary of capital expenditures over the past five historical years, the bridge year and the test year, showing capital expenditures, treatment of contributed capital and additions and deductions from Construction Work in Progress (CWIP). The applicant should group projects appropriately and avoid presentations that result in classification of significant components of the capital budget in the miscellaneous category. (One suggested format for filing this material is in Appendix 2-B);
- ii) Need, scope, purpose of project, related customer attachments, volumes and capital costs for projects over the applicable materiality threshold, as well as any applicable cost-benefit analysis;
- iii) Detailed breakdown of starting dates and in-service dates for each project;
- iv) Drivers of capital expenditure increases for the Test year;
- v) Components of Other Capital Expenditures (Reconcile components to Total Capital Budget);
- vi) Written explanation of variances;
- vii) The proposed accounting treatment, including the treatment of costs of funds for capital projects that have a project life cycle greater than one year.
- viii) Please provide a prioritization of the projects. Please also explain, how were the projects prioritized? In your response, please provide a description of FNEI's prioritization policy.

17. Ref: Asset Management Plan ("Plan") and Ref: Transmission System Code, section 4.5 – Performance Standards

Preamble: FNEI states that it is currently developing and formalizing its first comprehensive Plan. An outline of the Plan is provided in Ex 3/T13/S1/Appendix A.

(a) Please provide the final version of the Plan. If the Plan is not finalized, please indicate when the final Plan will be available?

(b) Pursuant to section 4.5 of the Transmission System Code, has FNEI developed performance standards? If FNEI has not developed any performance standards, please explain the reason for that approach.

(c) Please also explain if the lack of such standards affects the reliability of FNEI's maintenance (capital and OMA) budgets.

OPERATING REVENUE AND CHARGE DETERMINANTS

18. Ref: Exhibit 3, Exhibit 8 and Filing Requirements

As noted at page 6 of the Filing Requirements, please file an electronic copy of the Revenue Requirement Work Form, found at Appendix 2-T. A blank electronic copy of this form is available on Board's website at, http://www.oeb.gov.on.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms

19. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues

Preamble: At Ex 3/T1/S1/p.2, FNEI states, "For the 2010 test year, FNEI has used the 2009 forecast. FNEI has reviewed the IESO's most recent 10-Month Outlook (covering the period from December 2009 to June 2011). The IESO projects electricity demand to show a slight increase over the forecast horizon as the economy recovers from the recent recession (a forecast 141.1 TWh in 2010 compared to a forecasted 140.5 TWh in 2009), but that peak demands are expected to decline due to conservation programs, the introduction of time of use rates and the growth in embedded generation. Based on this, FNEI believes it reasonable to assume relatively flat revenues over 2009 and 2010".

(a) Please explain why is it appropriate to rely only on IESO demand projections, given that these projections do not specifically address the demand of FNEI's customers. Please file the IESO report indentifying the sections in the report relied on by FNEI.

(b) In addition to the IESO report, did FNEI analyse other factors such as industrial activity, residential and commercial building activity or regional economic activity when developing its revenue forecast? Please describe the analysis undertaken by FNEI.

20. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues

Preamble: FNEI is forecasting transmission revenue of $4.9 million in 2010. The 2010 forecast is based on 2009 revenues. However, based on the proposed charge determinants and existing rates, staff estimates the test year revenues to be $5.2 million. Further, FNEI's 2009 Audited Financial Statements indicate 2009 revenues to be $5.0 million.

	Source	*Network*	*LC*	*TC*	
Proposed Charge Determinants (MW)	Ex 8/T2/S1/p.4	247,270	238,342	206,387	
Current UTRs ($/kW-m)	Ex 8/T2/S1/p.3	2.97	0.73	1.71	
Current FNEI Factors	Ex 8/T2/S1/p.3	0.00411	0.00411	0.00411	
Revenue per Pool		$ 3,018,349	$ 715,096	$ 1,450,508	
Total Revenue at Existing Rates					**$ 5,183,953**
Revenue as per 2009 Audited Fin. Statements					**$ 5,023,982**
As-filed Revenue					**$ 4,978,000**

(a) Please provide the impact on revenue deficiency if the revenue at existing rates ($5,183,953) is used as the revenue forecast for 2010.

(b) In this application, FNEI has used an estimate of 2009 revenues as the basis for its as-filed 2010 forecast. Based on FNEI's 2009 Audited Financial Statements, the actual revenue for 2009 was $5,023,982. Given that the actual revenue in 2009 was higher than initially estimated, is FNEI agreeable to updating its as-filed revenue estimate?

(c) FNEI states that it is reasonable to assume relatively flat revenues over 2009 and 2010. Further, Board staff notes that the 2010 forecast of transmission revenues of $4.9 million, is the lowest in 8 years. Please explain with supporting analysis, why the decline in 2009 revenues, is expected to continue in 2010?

(a) Please provide in table format for the years 2002 to 2009, the total Ontario transmission revenue and demand for each asset pool and the allocation of revenues to FNEI. Please provide all calculations preferably in MS Excel format and reconcile the total revenue with those presented in Ex 3. Please explain any variances between the as-filed revenues and those presented in response to this interrogatory. For 2009, please provide the full year's actual revenue. If needed please source this information from the IESO. Please provide the information for each year in the format below:

Year	Network		Line Connection		Transformation Connection		Total Revenue
	Charge ($)	Demand (MW)	Charge ($)	Demand (MW)	Charge ($)	Demand (MW)	
Jan							
Feb							
Mar							
Apr							
May							
Jun							
Jul							
Aug							
Sep							
Oct							
Nov							
Dec							
Total							
FNEI Factor							
FNEI Revenue (FNEI Factor * Total Revenue)							

(b) Please provide FNEI's forecast of 2009 revenues and compare this forecast to actual 2009 revenues. The suggested format is below.

Year 2009	**Actual Revenues**	**Forecasted Revenue**	**Forecast Error**	**% Difference**
Jan-09				
Feb-09				
Mar-09				
Apr-09				
May-09				
Jun-09				
Jul-09				
Aug-09				
Sep-09				
Oct-09				
Nov-09				
Dec-09				
TOTAL				

(c) Please provide the month-to-date actual revenues remitted to FNEI for the period Jan 2010 to April 2010. Please provide FNEI's forecast for the same January to April period. The suggested format is below:

-	Year 2010	Actual Revenues	Forecasted Revenue	Forecast Error	% Difference
	Jan-10				
	Feb-10				
	Mar-10				
	Apr-10				
	TOTAL				

(d) Please provide FNEI's monthly revenue forecast for the period May 2010 to December 2010.

21. Ref: Ex 3 and Ex 8 – Transmission Operating Revenues & Charge Determinants

(a) Please provide the actual charge determinants by customer and by asset pool for the period 2002 to 2009 and forecast for 2010, in the format below. If needed please source this information from the IESO.

Years	Historical Annual Charge Determinants	Kasheshwan	Fort Albany	Attawapiskat	De Beers	Total FNEI Load
2002	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2003	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2004	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2005	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2006	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2007	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2008	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2009	Network (MW) Line Connection (MW) Transformation Connection (MW)					
2010	Network (MW) Line Connection (MW) Transformation Connection (MW)					

22. Ref: Ex 8 – Charge Determinants – Alternate Forecast Scenarios

(a) *Update:* The test year charge determinants forecast is based on an average of 2007, 2008 and 2009 peak load by pool. With respect to 2009 load data, it appears that this may be a blend of actual and forecast. If that is case, please restate the 2010 forecast using actual 2009 load data.

(b) *Average of Full Data Scenario:* FNEI has used the average of 3 years of load data by pool to estimate the 2010 Charge Determinants. For the purposes of this interrogatory, please provide the 2010 Charge Determinant forecast based on an average of 2002 to 2009 load data by asset pool. If the full extent of the historical data is not available, please identify why it is not available and use the available data to complete the interrogatory.

(c) *Simple Linear Trend using Full Data Scenario:* Please provide the test year Charge Determinant forecast based on a simple linear trend using 2002 to 2009 actual charge determinant by pool data. If the full extent of the historical data is not available, please identify why it is not available and use the available data to complete the interrogatory.

23. Ref: Ex 8 – Charge Determinants – Forecast Accuracy

To test the forecast accuracy of FNEI's forecasting methodology, please provide the following ex-post analysis.

(a) *3-Year Average Method:* Please estimate the charge determinant by pool for 2007, 2008 and 2009, using the 3 year average method proposed in this application. (i.e. for the 2007 estimate use 2004-2006 data, for the 2008 estimate use 2005-2007 data, and for the 2009 estimate use 2006-2008 data). Please compare this estimate to the actual charge determinant in each respective year and identify the forecast error in each year.

(b) *Average of Full Data Method:* Please provide a charge determinant forecast for 2007, 2008 and 2009 using the average of full historical data. (i.e. for the 2007 estimate use 2002 to 2006 data, for the 2008 estimate, use 2002-2007 data and for the 2009 estimate, use 2002-2008 data). Please compare the estimates to the actual charge determinant in each of those years and identify the forecast error. Please also provide the MS Excel worksheets if available.

(c) *Simple Linear Trend using Full Data Method:* Please provide a charge determinant forecast by pool for 2007, 2008 and 2009 using a simple linear trend based on the full extent available data. (i.e. for the 2007 estimate use 2002 to 2006 data, for the 2008 estimate, use 2002-2007 data and for the 2009 estimate,

24. Ref: Ex 8 – Charge Determinants

(a) FNEI has used a simple 3 year average peak load by pool to calculate the test year charge determinants. Please explain why FNEI has not relied on an econometric or end-use model to forecast charge determinants.

(d) The charge determinants are based on actual load and are not weather normalized. Please explain how FNEI's forecast methodology deals with issues of weather normalization.

(e) Did FNEI refer to any regional economic forecasts, population growth estimates, industrial activity or residential and commercial building activity to test the appropriateness of the charge determinant forecast?

(f) Why has FNEI not developed a more sophisticated approach to forecasting and weather normalizing the charge determinants?

25. Ref: Ex 3/T1/S2 – Other Revenues – Miscellaneous Revenues

Preamble: FNEI's 2009 Audited financial statements indicate that FNEI earned $189,130 in miscellaneous revenues. FNEI's as-filed forecast of miscellaneous revenues is $50,000. The source of this revenue is the work performed by FNEI for De Beers. Please provide the following information:

(a) Please provide a copy of the cost recovery agreement, with De Beers referenced at Ex 3/T1/S1/p.2. Please identify the services performed by FNEI and the pricing structure for these services.

(b) How was the as-filed estimate for miscellaneous revenues developed? Please explain.

(c) What are the drivers that contributed to the significant increase in actual 2009 miscellaneous revenues compared to FNEI's as-filed forecast of $50,000? Are these factors likely to affect the 2010 estimate as well? Please explain.

(d) Given that the actual misc. revenue in 2009 was higher than initially estimated, is FNEI agreeable to updating its as-filed misc. revenue estimate?

26. Ref: Ex 8/T2/S1/p.3 & 4 - Calculation of Uniform Transmission Rates

(a) At page 3 of the above reference, FNEI has provided a table of Actual 2010 Uniform Transmission Rates. Under the section titled "Total Charge Determinants", the total Line Connection Charge Determinant of 263,217.555

(b) At page 4 of the above reference, FNEI has provided a table of Proposed 2010 Uniform Transmission Rates. The sum of the Line Connection Charge Determinants is 238,341.627 MW. According to Staff's calculations, this should be 238,361.627 MW. Please confirm if the above calculations are correct and file revised tables.

OPERATIONS, MAINTENANCE AND ADMINISTRATION

27. Ref: Harmonized Sales Tax Impact on OMA

Preamble: The provincial government has announced plans to harmonize the provincial sales tax (PST) with the goods and services tax (GST) effective July 1, 2010 to create harmonized sales tax (HST). Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures. Based on the proposed elimination of the PST effective July 1, 2010:

(a) Please confirm that FNEI has not made any adjustments to the OM&A forecasts to reflect the elimination of the 8% provincial sales tax.
(b) Please provide the estimated costs of the provincial sales tax included in the OM&A forecast for 2010.
(c) Please provide the amount of provincial sales tax paid by FNEI in each of 2007, 2008 and 2009 on OM&A expenses.
(d) Is there any reduction in compliance costs that will result from the reduction in the administrative burden on FNEI to comply with two separate sets of tax rules?
(e) In the event that PST and GST are harmonized effective July 1, 2010, does FNEI see any reason why the reductions in OM&A cannot be captured in a variance account?

28. Ref: Accumulated Depreciation (Rate Base); Depreciation Expense (OM&A) and Section 2.5.7 Filing Requirements

Board staff understands FNEIs approach to estimating the depreciation expenses to be the following:

2010 Depreciation Calculation - Ref: Ex 4/T3/S3/p.10

		A/c 1715 - Station Equipment	Formula Used
Opening Gross PPE	$	13,440.2	*Col. 1 : Jan-2010 Gross Asset (Ex 2/T11/S2/p.1)*
Addition	$	150.0	*Col. 4 : Ex 4/T3/S3/p.10*
Adjusted Cost Base	$	13,590.2	*Col. 6 : (Opening Asset + Additions)*
Average Cost Base	$	13,527.7	*Col. 7 : (Avg. of Monthly Gross Asset - Ex 2/T11/S2/p.1)*
Depreciation Rate		2.5%	*Col. 8*
Depreciation Expesne	**$**	**338.2**	*Col. 9*
Opening Accumulated Depreciation	$	1,158.0	*Col. 2 : (Depreciation Expense at Dec 2009 - Ex 2/T10/S2/p.2)*
Closing Accumulated Depreciation	$	1,496.2	*Col. 11: (Depreciation Expense + Op. Acc. Dep.)*
Closing Net Book Value	$	12,094.0	*Col. 12 : (Col 6. - Col. 11)*

(a) Is Board staff's understanding of FNEI's methodology accurate? Please explain. If it is not accurate, using the above example, please explain the methodology.

(b) Please explain the reasons for the difference in net book value in the Depreciation Expense schedules under OMA, versus under rate base.

(c) Please provide a description of the methodology used by FNEI and as per section 2.5.7 please provide FNEI's depreciation policy. If such a policy is not available, please state when it will be available.

(d) As per the Board's Filing Requirements, please provide the depreciation expense in the format presented in Appendix 2-N. Please provide the calculations in MS Excel with all links and formula left active. Please note, as per section 2.3.3, the "Continuity statements should be reconcilable to the calculated depreciation expenses (under Operating Expenses) and presented by asset account". If the depreciation expense is different from the as-filed expense, pleased indentify the reasons for the difference and calculate the impact on the as-filed revenue requirement.

29. Ref: Ex 4/T3/S1 - Depreciation and Amortization Expense

The depreciation rates used by FNEI for assets recorded in Account 1908 Buildings & Fixtures, Account 1915 Office Furniture & Equipment and Account 1940 Tools, Shop & Garage Equipment are higher than the depreciation rates in the 2006 EDR Handbook (EDRH).

(a) Please recalculate the depreciation expense for the above three accounts using the EDRH depreciation rates. Please identify the impact on the test year depreciation expense and revenue requirement, of using the EDRH depreciation rates.

(b) Has FNEI undertaken a depreciation study to justify the use of different depreciation rates for the above three accounts?

30. Ref: Ex 4/T1/S1; EB-2004-0545 – Decision and Order dated July 18, 2005; EB-2009-0395 – Interim Order dated December 18, 2009 – Depreciation related to De Beers' transmission assets

Preamble:

(1) The Board issued a decision in 2005 stating in part that, "FNEI will own the new line that will run from the Moosonee TS to the Kashechewan TS. Under the Revised TSC, the transmitter is obligated to pay a transfer price that is the lower of the cost to the load customer or the transmitter's reasonable cost to do the same work." The Board also stated that, "the estimated transfer costs based on the Revised TSC would be $23.4 million for Hydro One and **$28.5 million for FNEI**." (Emphasis added)

(2) The Board granted interim approval of the proposed licence amendment effective November 3, 2009, providing approval to own and operate a 138-kV line from Moosonee to Kashechewan and associated switching facilities in Kashechewan.

Questions:

(a) With respect to Preamble (1) and (2), and for the record, what was the transfer price of the assets cited from DeBeers' to FNEI?

(b) Has FNEI accounted for increased depreciation charges associated with the newly transferred assets? Has FNEI taken into account the recent transfer of the De Beers' assets in its calculation of forecast depreciation costs for both 2009 and 2010? Please provide an explanation as well as a numerically worked example that confirms FNEI's response.

(c) If increases to depreciation charges have not been included for 2010, please provide an updated to FNEI's evidence.

31. Ref: Ex 4/T2/S1/p. 2/line 14-15; Ex 4/T2/S2/p. 2/line 4 – Operating Costs, Employee Complement

Preamble:

(1) FNEI states because of its small size that, "it is often more cost-effective to hire certain operations and administration expertise on a part-time or contractual basis, because in most cases this is more cost-effective than a full-time employee position."

(2) FNEI states that, "FNEI now moves from a capital expansion phase to more of a maintenance phase, FNEI expects to move some costs normally done by external consultants and workers to an internal employee position (which is reflected in an increase in Accounts 5605 and 5610, and a decrease in Account 5630).

Questions:

(a) In light of Preamble (2), citing increased maintenance activities, has FNEI considered the potential value of employing additional staff on a full-time basis?

(b) Has FNEI considered replacing functions covered by part-time employees with full-time employees local to the transmission system area to provide continuity and institutional knowledge from a regulatory standpoint?

32. Ref: Ex 4/T2/S1/p.34 – Maintenance program

Preamble: FNEI indicates in the reference that it sets its maintenance program to ensure compliance with a number of factors.

Questions:

(a) Please provide the Board a copy of FNEI's maintenance program.

(b) Can FNEI provide evidence which demonstrates that the maintenance program incorporates good utility practice, industry reliability standards, safety, and environmental stewardship as stated in the pre-filed evidence? If so, please provide concrete examples for each of the criteria listed above

(c) Please explain how FNEI prioritizes maintenance work.

(d) How does FNEI make allowance and plan for unexpected work or unplanned outages?

33. Ref: Ex 4/T2/S1/p.5 – Fibre Optic line operating and maintenance costs

Preamble: FNEI refers to its old telephone system, used primarily for station communications purposes. FNEI states in part that:

> "The average fixed monthly cost per [telephone] line was approximately $75, with the long distance charges required to call from Moosonee every 30 minutes ranging from $2,000 to $5,000 per month depending upon the quality of the connection. With the installation of the fibre optic line, these costs are now all avoided with the exception of one voice line for emergency purposes at each site. Thus, while the primary purpose of the fibre optic network was not cost savings, there are certain costs that are now avoided going forward."

Questions:

(a) What is the approximate total operating cost of the new fibre optic system per month compared with the total operating cost per month of the old ‘plain old telephone system’ (POTS)?

(b) What is the budgeted cost of ongoing maintenance of the fibre optic system compared against the POTS configuration?

(c) What are the benefits of the new fiber optic system, and have these benefits been reflected elsewhere on other items in the budget? Do the new monitoring capabilities of the fiber optic system reduce maintenance and repair costs, and can this be determined from FNEI’s 2010 operating and maintenance expenses budgets? Please provide a breakdown of the benefits and costs, to the extent possible in a table, providing references to the FNEI application and additional evidence where necessary.

(d) Will the fiber optic asset also be used by the 3 member utilities? If it will, what agreements has FNEI entered into with the three member LDC’s. Please file the agreements and summarize any discussions that may have taken place on this issue.

34. Ref: Ex 4/T2/S1/p.6/lines 9-10 – Operating Services Agreement with Hydro One

Request: Please provide a copy of the Operating Services Agreement.

35. Ref: Ex 4/T2/S1/p.6 – Increases to Account 4810 and 4815

Preamble: The following increases are observed in Account 4810 & 4815:

Account 4810	Account 4815
2009: $198,900	2009: $86,900
2010: $238,700	2010: $104,200
y/o/y: 20%	y/o/y: 20%

Question: Please explain the drivers of the approximately 20% increases to costs from 2009 to 2010 in these each of these two accounts.

36. Ref: Ex 4/T2/S1/p.7/line 7; Affiliate Relationships Code for Electricity Distributors and Transmitters ("ARC"), dated March 15, 2010 – Labour Costs: Account 4820

Preamble:

(1) FNEI indicates at Exhibit 4 that labour is provided by each of the three local distribution companies to FNEI. FNEI indicates that this work is carried out pursuant to a contract with each LDC.

(2) Under section 2.3.1 of the ARC, the term of an Affiliate Contract between a utility and an affiliate shall not exceed five years, unless otherwise approved by the Board.

(3) Section 2.2.1 of the ARC states that:

> Where a utility provides a service, resource, product or use of asset to an affiliate or receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Services Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code.

The Services Agreement shall include:
(a) the type, quantity and quality of service;
(b) pricing mechanisms;
(c) cost allocation mechanisms;
(d) confidentiality arrangements;
(e) the apportionment of risks (including risks related to under or over provision of service); and
(f) a dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.

Request:

(a) Please provide copies of the Services Agreements with each of the three LDCs for the labour sharing arrangement contemplated in Preamble (1), and providing a summary of the details as outlined in Preamble (3), as well as the term of each agreement pursuant to Preamble (2).

(b) Pursuant to Preamble (2), if the answer to part (i) above does not provide information on each of the six criteria listed above, please provide additional details or any document which may clarify these arrangements, as well as how FNEI intends to address any shortcomings in the parameters set out in their Service Level agreements.

37. Ref: Ex 4/T 2/S1/p.8 – Maintenance Costs: Account 4916

Preamble: FNEI indicates at the reference that:

> "FNEI has an Operating Response and Maintenance Contract (effective as of January 1, 2003) with HONI to provide emergency services as required…Depending upon the work carried out, additional charges are billed on a fee-for-service basis."

Request:

(a) Please provide a copy of Operating Response and Maintenance Contract.

(b) Please provide a fee schedule for fee-for-service items.

(c) Please provide a summary of total charges incurred under this contract in 2009, and the forecast charges for 2010, inclusive of the $50,000 annual fee.

38. Ref: Ex 4/T 2/S1/p.8 – Meter Service Provider Contract

Please provide a copy of the Meter Service Provider contract with HONI.

39. Ref: Ex 4/Tab 2/S1/p.9/lines 4-9 – Right-of-Way (ROW) Maintenance

Preamble: FNEI intends to undertake a ROW clearing program beginning in 2011. FNEI indicates in evidence that it may amortize these costs over subsequent years in order to avoid a spike in one year's expenditures.

Request:

(a) Please indicate if FNEI is forecasting any amount with respect to ROW clearing in 2010.

(b) Has FNEI prepared a budget and/or plan with respect to its ROW clearing program? Were there costs associated with preparing this information? If so, please file estimates and associated materials.

40. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.5; Ex 4/T2/S2/p.7; Ex 4/T2/Sch/ 3/p.1 – Account 5410 - Community Relations Sundry

Preamble: With respect to charitable donations, the Board indicates in its filing requirements that:

> "The recovery of charitable donations will not be allowed for the purpose of setting rates, except for contributions to programs that provide assistance to the distributor's customers in paying their electricity bills and assistance to low income consumers. If the applicant wishes to recover such contributions, it must provide detailed information for such claims.

> The applicant must review the amounts filed to ensure that all other non-recoverable contributions are identified disclosed and removed."

Request: With respect to Preamble (3), please indicate any amounts in Account 5410 in the 2010 test year are related to charitable work, or community events, and provide an explanation for the basis for the recovery of these amounts from ratepayers, including their ability to improve a customer's ability to reduce their usage costs or otherwise pay their utility bill.

41. Ref: Ex 4/T2/S1/p.12/lines 13-16 – Employee on long-term disability

Preamble: FNEI evidence states that, "[Account 5610 – Management Salaries and Expenses] in the past has included the salary and benefits of a Transmission Manager, but FNEI's employee that held this position has been on long-term disability since December 2008."

Questions/Requests:

(a) If the salary and benefits of the Transmission Manager are no longer included in this account, what is the source of the long-term disability funding?

(b) If the source of the long-term disability is not currently paid for by FNEI, please indicate if the insurance payments will cease at some later date and become the liability of the company. If the opposite case is true, please explain.

(c) Does FNEI intend to bring back the former Transmission Manager, or to hire someone to replace this position? Is this amount factored into FNEI's proposed overall 2010 forecast OM&A budget?

42. Ref: Ex 4/T2/S1/p.10-11; Ex 4/T2/S2/p.6 – Account 5335 - Bad Debt

Preamble:

(1) FNEI discusses certain bad debts at p.10-11 of the reference. FNEI was directed by the Board to add its operating costs to the price that it charged to distribution companies. FNEI claims that the distribution companies in FNEI's service territory had no cash reserves in place to cover the additional cost of pancaked transmission costs. FNEI was forced to carry significant accounts receivable for quite some time, eventually writing off the unpaid amounts. Activity in this Account in previous years shows some of the bad debt recovery that did take place. Going forward, FNEI states that it anticipates no activity in this Account.

(2) At the same reference, FNEI states that, "An allowance of $904,000 was made in this account in the last quarter of 2002. While a certain portion of this amount was

recovered in subsequent years, FNEI decided to cease collection efforts for the outstanding amounts in 2007, as these activities negatively impacted Fort Albany Power Corporation's and Kashechewan Power Corporation's ongoing operations.

Request:

(a) Please provide the total amount of bad debt written off of the $904,000 allowance. Also provide the total amount which was subsequently recovered in future years, and any revision to the allowance for doubtful accounts or bad debt expense.
(b) Are there corresponding bad debt amounts which the served distributors have written off as unrecoverable from customers? If not, please explain.
(c) In Preamble (2), FNEI indicates that it ceased collection efforts as it "negatively impacted FAPC and KPC ongoing operations". Please describe yearly efforts, in dollars, spent on bad debt collection efforts.

43. Ref: Ex 4/T2/S2/p.2 – Account 4810 – Increase in Operating Costs

Preamble:

(1) Load dispatching costs pursuant to an Operating Services Agreement with Hydro One have increased from $100,000 Board approved in 2001, to $198,000 in 2009. For the test year, FNEI has applied for $238,000 for the cost of the services recovered through this account.

(2) FNEI noted that the increases in this account are attributable to (a) increases in Hydro One's labour costs, and (b) the increasing size and complexity of the FNEI transmission system.

(3) FNEI also noted that, 'the value of transformation assets has increased significantly as a result of the connection of three spare transformers. This further explains the increased costs in this Account."

Questions

(a) For the 138% increase over the 2001 Board approved amount, please split the drivers of the cost increase into "(a)" and "(b)" as noted in the above preamble.
(b) For the 20% increase year over year from 2009 to 2010 test year, please split the drivers of the cost increase into "(a)" and "(b)" as noted in the above preamble.
(c) Please indicate the increase in costs directly attributable to the operation of the three spare transformers which are now connected.

44. Ref: Ex 4/T2/S2/p.3/lines 12-13; Ex 4/T2/S2/p.12/lines 18-20 – Account 4820

Preamble:

(1) In 2004, FNEI began using the services of local utility workers in each of the three communities for station checks.

(2) Given the expanded system, FNEI envisions employing a second Operations Technician in May of the 2010 test year.

Questions:

(a) Please explain the business reasons why the use of local utility workers began in 2004 and not at some earlier or later date?

(b) Are the affiliate transactions contemplated in this question governed by a contract with each distribution utility? If so, please provide these contracts. If not, please explain.

(c) With respect to Preamble (2), are the costs of the new staff person as of May 2010 included in this application and budgeted for in the 2010 test year? If not, please provide compensation information for this new position, and adjust any of FNEI's evidence as necessary.

45. Ref: Ex 4/T2/S2/p.5 – Account 4850 – Land Survey and Locating Assets

Preamble: It has recently come to light to FNEI that a portion of the Attawapiskat station is located on Indian Reserve 91A, and an amount estimated at $25,000 will have to be paid to the Attawapiskat First Nation.

Questions/Requests:

(a) Please provide a copy of the survey showing the location and name of the station, the Reserve 91A boundaries, and indicate what governing body performed the survey.

(b) Did the survey performed cause changes to the boundaries of the Reserve 91A First Nation?

(c) Did FNEI survey the land prior to construction of the station to confirm that the station would not be located on First Nation lands?

(d) Was it possible to locate the station on adjacent lands that were not on a First Nation reserve?

46. Ref: Ex 4/T2/S2/p.9-10 – Capital Plans cost increases in Account 5605 and 5610

Preamble:

(1) FNEI states with respect to Account 5605 that, "FNEI sought more frequent assistance from its Board of Directors during FNEI's significant capital expansion (and in the case of the De Beers connection, unexpected expansion).

(2) FNEI states with respect to Account 5610 that, "additional travel costs [were] incurred by FNEI's Operation Manager to travel to the remote sites in order to familiarize himself with the installations and provide supervision over some of the capital work being done at that time.

Requests:

(a) What are the costs attributable to more frequent meetings on account of DeBeers in years 2004 through 2010? Are these amounts already sufficiently covered by capital contributions provided by De Beers?
(b) Costs have increased in this account four-fold (> 300% increase) from the amounts approved in the Board approved 2001 application to the 2010 test year. Can FNEI provide further explanation of why these increases to executive guidance costs are necessary, and commensurate with increased complexity of FNEI's system?
(c) With respect to Preamble (2), what were these increased costs, and were they covered by capital contributions by De Beers?

47. Ref: Ex 4/T2/S2/p.11– Account 5615 – Lineworkers

Preamble: FNEI states that, "Having lineworkers stationed in each community has proven to be extremely valuable to FNEI by significantly reducing FNEI's operations costs."

Question/Request:

(a) How is the budget for account 5615 developed? What are the assumptions that make up the forecasted amount, and what reasons can FNEI provide to support its assumptions?
(b) What are the specific drivers of the increase from $39,000 in 2008 to $115,000 in 2010?
(c) How have FNEI's operating conditions changed from the past to 2010, in such a manner that would warrant stationing of staff in each community? How did the Board at FNEI come to this decision?

(d) Can FNEI demonstrate the benefits of having lineworkers stationed in each community?
(e) Can FNEI demonstrate specific cost savings, for example: reduced travel time, reduced downtime and associated economic cost?

48. Ref: General OM&A – Employee Performance Measurement

Please provide details and basis for each of the following employee management tools at FNEI: performance pay, goals, measures, and any review processes which are in place and used to determine compensation of employees.

49. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.1 – Inflation rates

Preamble: The Filing Requirements require that the transmitter provide inflation rates applied to general OM&A and Wages/Benefits.

Questions/Requests:
(a) Please indicate the inflation rate used in each year from the last Board approved year, through the 2010 test year.
(b) If FNEI has not used a prevailing inflation rate to adjust general OM&A, wages, and benefits, please provide an explanation and rationale for doing so.

50. Ref: OEB's Filing Requirements for Transmitters and Distributors, Appendix 2-F – Summary of OM&A Expenses, Appendix 2-F

Preamble: The Filing Requirements require that FNEI complete a table that provides a Summary of OM&A expenses, with certain parameters that are not included in the summary documents provided in evidence by FNEI in the pre-filed evidence.

Questions/Requests: Please complete the Table provided at Appendix 2-F of the Filing Requirements. Please state any and all assumptions made to fully complete the table.

51. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.5 – Shared Services and Corporate Cost Allocation

Preamble:
(1) FNEI has not provided a Tab or Schedule describing how it receives shared services or performs corporate cost allocation. Staff would direct FNEI to refer to Section 2.5.5 and Appendix 2-A of the Filing Requirements for information required in the application

and definitions regarding what constitutes shared services and corporate cost allocation activities.
(2) Staff believes it is clear that FNEI has a number of agreements with other companies, including local distribution companies, and transmission companies, that would qualify for consideration and listing as shared services and/or corporate cost allocation activities.

Questions/Requests:
(a) Please provide a completed Appendix 2-M, including all historicals, actuals, bridge year, and test year amounts (or forecasts) as per the OEB's Filing Requirements. Additional rows may be added if required to provide further data or explanation.
(b) Please provide any 3rd party review(s) of the cost allocation methodology applied.

52 A. Ref: Ex 4/T2 – OM&A Variance Analysis
Please complete the following table for all FNEI OM&A accounts:

Table - Variance Analysis, on percentage basis

	Actual or Forecast Amount ($000)					**%increase**		
Account # and Description	**2007**	**2008**	**2009**	**2010**		**2008**	**2009**	**2010**
4810 (as example)	59.5	71.4	86.9	104.2		20%	22%	20%
…								
…								
…								
…								
Total OM&A								

(a) For each account, and for each variance that exceeds a 10% increase in costs year over year, please indicate:

i. the drivers of the increase and in the case of forecasted amounts, the assumptions used to determine the forecasted increase; and
ii. provide all reasons for the assumptions made in determining the amounts.

52 B. Ref : OEB's Filing Requirements for Transmitters and Distributors, s.2.5.2, and Appendix 2-H – OM&A Cost Driver Tables

Preamble:

(1) The Filing Requirements require that the company file a table of OM&A cost drivers, Appendix 2-H, for each account. For each year, a detailed explanation of the variance for each account is required. Please use a materiality threshold of $25,000 when deciding whether to include an item as part of a miscellaneous "cost driver".

(2) In order for Board staff to test prudence of FNEI's 2010 budget, it is necessary to determine how the budgets were developed, what is driving the increase, and what are the benefits of the increased costs.

Questions/Requests:

(a) Please complete the Table at Appendix 2-H (see below) for each of FNEI's OM&A accounts, defining cost drivers for amounts exceeding a materiality threshold of $25,000, and for each account:
   i. Indicate how FNEI generated the budget for the account, in general;
   ii. How FNEI developed the budget for the account for the 2010 test year.
   iii. For each cost driver that exceeds the materiality threshold, please provide the drivers of the increase, and in the case of forecasted amounts, the assumptions used to determine the forecasted increase for the particular cost driver.

53. Ref: OEB's Filing Requirements for Transmitters and Distributors, s.2.5.2; Ex 4/Tab/S3/p.1 – Account 5655 - Regulatory Costs

Preamble: The Filing Requirements state that the utility is to complete a table of regulatory costs incurred over a number of years, and there are significant increases year over year from 2009 to 2010 in this account.

Questions:

(a) Please complete Appendix 2-I of the Filing Requirements for regulatory costs.
(b) Regulatory expenses have increased from $220,000 in 2009 to $343,000 in the test year. An increase of 56% year over year. Please provide the cost drivers behind

(c) Does the increase in costs make the assumption that the proceeding will require an oral hearing, technical conference, and settlement conference? If so, how much cost is attributed to these items? In the event that some of these events are not required, does FNEI intend to revise its forecast for regulatory expenses to be incurred in 2010?

54. Ref: Ex 4/T2/Sch.3/p.1 – Numerical Summary of Operations

Preamble: There are amounts that either appear anomalous, or that represent significant year over year increases in certain accounts. Discussion of these accounts provided below.

Questions:

(a) Account 4916 – Maintenance of Transformer Station Equipment reports figures of $346,200 and $348,000 in 2007 and 2010 test year, respectively. Please explain the drivers of these increases over other years in the period shown in the table.

(b) Account 5605 – Executive Salaries & Expenses reports $246,700 for 2008, $437,100 for 2009, and $665,500 for 2010 test year. Please explain the drivers of these year over year increases in these accounts.

(c) Account 5630 – Outside Services Employed reports a step increase to outside services employed from 2003 to 2004, which remains at a constant higher level from 2004 through 2010 test year. Please provide the drivers of this sustained increase, and comment on any offsetting effect of capital and operating contribution from De Beers in respect of its Victor Diamond Mine project and the twinned line installation and operation.

55. Ref: Exhibit 4 – OM&A

Are there any one-time costs in the 2010 OMA forecast? Please identify these costs and explain how the utility proposes to deal with these costs.

56. Ref: Exhibit 4 – OM&A - Services to and from third parties and 2009 Financial Statements, Related Party Transactions, p. 7

Preamble: At various places in its OMA evidence FNEI has noted that it provides and receives services from member LDC’s. Further at page 7, note 5 of FNEI’s 2009 Financial statements, indentifies accounts receivable and payable as a result of Third Part Transactions.

(a) For the 2010 test year, what portion of total OM&A expenses is related to contracted services from <u>third parties</u>? If there is an increase in 2010 from 2009, please identify the reasons for the increase.
(b) Please identify how these contracted services are selected?
(c) For each contracted service, please identify the year in which a tendering process was used to obtain the contract.
(d) Please provide the contracts. If these contracts have been filed in response to a previous interrogatory, please provide that reference.
(e) The 2009 Financial statements indicates an offset to accounts receivable. This offset is categorized as "Allowance for doubtful accounts". Given that FNEI does not have a Bad Debt expense in 2009, please explain this entry. Please also explain how this relates to FNEI's 2010 Bad Debt forecast.
(f) For the period 2002 to 2009, please provide the OMA expenses related to contracted services from <u>third parties</u>?

57. Ref: Exhibit 4/Tab 2/Sch. 1/p.13 – IFRS Costs

Preamble: FNEI has included $100,000 in administration costs to cover the transition cost to IFRS.

1. AcSB/PSAB Bulletin: "Not-for-Profit Organizations – Future Financial Reporting Directions Update", November 18, 2009

Page 1 of attached PDF, paragraph 6

"**The existing accounting standards used by the not-for-profit sector — those from the CICA Handbook – Accounting— will continue to apply, unchanged, until proposed new directions for not-for-profit organizations in both the public and private sectors are developed and published for comment, consultation is conducted and the standards are finalized.**" [Emphasis Added]

Page 1 of attached PDF, paragraph 7

"It is important to note that although Canadian publicly accountable enterprises are required to adopt IFRSs on January 1, 2011, not-for-profit organizations are not required to make a choice or to follow the same transition schedule. The transition to a new strategy for not-for-profit financial reporting will be based on a separate timeline that allows adequate time to plan and transition successfully."

[Emphasis Added]

Page 2 of attached PDF, paragraph 4

“The AcSB and PSAB plan to release an Exposure Draft for public comment in the first half of 2010 that proposes the possible reporting options for the sector. They encourage all organizations involved in the public and private not-for-profit sector to provide comments on the proposed reporting options. **Until a new direction has been established, all organizations should continue to follow the existing accounting standards found in the CICA Handbook – Accounting.”** [Emphasis Added]

Questions:

(a) As the AcSB/PSAB Bulletin: “Not-for-Profit Organizations – Future Financial Reporting Directions Update”, November 18, 2009 stated in above, not-for-profit organizations are not required to make a choice or to follow the same transition schedule. Why does FENI believe it is different from other not-for-profit organizations and can depart from the direction provided by the AcSb and PSAB for not-for-profit organizations?

(b) As stated in above, the transition to a new strategy for not-for-profit financial reporting will be based on a separate timeline that allows adequate time to plan and transition successfully. Why does FENI believe that it should depart from a separate timeline that would allow adequate time to plan and transition for not-for-profit organizations?

58. Ref: Exhibit 4/Tab 2/Sch. 1/p.13 – IFRS Costs & Report of the Board – Transition to International Financial Reporting Standards, July 29, 2009

The Report of the Board - Transition to International Financial Reporting Standards, states, at page 33, “The Board has determined that it would not require modified IFRS filing and reporting from distributors that are not otherwise required to adopt IFRS for financial reporting purposes.”

Further at page 9, (footnote 1) the Board states that “**Examples of utilities that may not be required to use IFRS are utilities owned by First Nations incorporated as not-for-profit organizations under the Canada Corporations Act**, as well as utilities that may not meet the Canadian Accounting Standards Board criteria for being publicly accountable and for whom some other form of generally accepted accounting principles has been accepted by their auditors as more appropriate. Note that government business enterprises are required by the Public Sector Accounting Board to adopt IFRS, e.g., municipally owned utilities". [Emphasis Added]

Questions:

(a) Given the fact that FENI is a not-for-profit organization, Please explain how this request complies with section 8.2 of the July 28, 2009 Board Report, Transition to International Financial Reporting Standards.

(b) Why is FENI not following the Report of the Board when it stated that it would not require modified IFRS filing and reporting from entities such as FENI that are not required to adopt IFRS for financial reporting purposes?

(c) How does FENI, as a not-for-profit organization, justify a departure from the Report of the Board regarding IFRS filing and reporting?

(d) However, if FNEI believes that the IFRS costs are justified please provide the following information with respect to as-file proposal.

(i) Please explain whether these costs are one-time administrative costs or ongoing compliance costs.

(ii) Please explain if all of the costs requested is for 2010, or whether the amounts are being requested in instalments over a series of years, as in other 2010 distribution and transmission rate applications.

(iii) Can FNEI provide specific information regarding the individual cost drivers that make up the $100,000 budgeted cost?

(iv) If the Board approves the administration costs request by the company, is the company planning on establishing a variance account to record the variances between the approved costs and actual costs of transitioning to IFRS, as per section 8.2 of the Board Report.

(v) If the answer to a) above is yes, what account number is the company planning to use to record such variances?

COST OF CAPITAL

59. Ref: Ex 5/T1/S1/p.1-2 – Capital Structure – short and long term debt

Preamble: FNEI has indicated in evidence that it has the following four debt financing arrangements:

Table - Partial List of Debt Instruments

Inst.	**Type**	**Amount**	**Interest rate**
Pacific & Western Bank (“PWB”)	Term facility	$11,000,000	Gov’t CND bond + 140 bps
Pacific & Western Bank	Operating facility	$500,000	Prime + 250 bps (floating)
Bank of Montreal (“BMO”)	Operating facility	$500,000	Prime “plus” (floating)
Northern Ontario Heritage Fund Corporation (“NOHFC”)	Loan	$3,500,000*	4%**

*loan was originally for $4.9 million, but a portion of principal has been paid back.

**Interest free loan; no longer interest-free as of October 2010, and rate agreed is 4%.

Questions/Requests:

(a) Please file a copy of the agreements or contracts associated with each of the debt instruments listed above. If FNEI has other debt instruments that are not listed, please add these instruments to the table above and file summaries of the terms of those agreements with the Board.

(b) With respect to the BMO instrument, what does FNEI mean when it refers to the “prime rate for the time during the month that the account was in an overdraft position”? Please provide an explanation clearly indicating how the rate is determined, with examples, and the current prevailing rate.

(c) Has FNEI overdrawn on the BMO operating facility in the past? Please indicate the number of times this has occurred and the drivers behind the overdraft.

(d) Please explain the reference to the overdraft “rate” and provide the interest rate (in prime plus basis points) for the BMO instrument.

(e) Please provide a copy of the agreement ceasing principal only repayments for the NOHFC loan.

(f) Why did FNEI cease making principal repayments on the interest free loan from NOHFC? Was this on account of insufficient operating funds? Under what circumstances will loan and interest payments resume?

(g) What was the original maturity date of the NOHFC loan?

(h) Please provide a table showing the cash flows towards principal repayments for the NOHFC instrument.

60. Ref: Ex 5/T1/S1/p.1; Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "2006 Cost of Capital Report"), dated December 20, 2006, Section 4.1 – Debt to Equity Split; staged implementation options

Preamble: Based on a reading of the evidence, it appears that FNEI is moving from a 50/50 deemed debt/equity split in 2009, to a 60/40 deemed equity split in 2010. The Board's 2006 Cost of Capital Report indicated that a utility had the option to transition to the new required capital structure over distinct periods, depending on the utilities' existing capital structure. Board staff is aware the report names "distributors" but not transmitters. The passage as it relates to FNEI is on page 43 of the 2006 Cost of Capital Report:

> **"For distributors starting at equity of 50%, the equity component will move in equal increments over 3 years until it reached 40%."**

Questions/Requests:

(a) With respect to Preamble (1), was FNEI aware of the ability to phase in a change in its debt/equity structure?

(b) Has FNEI considered the effect of this change in its debt/equity structure on its operating costs?

(c) Does FNEI have sufficient debt financing to pay operating costs under a 60/40 debt-to-equity split?

(d) Has FNEI ever experienced a shortage in operating funds necessary for day-to-day operations?

61. Ref: Ex 1/T1/S1; Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, (the "2009 Cost of Capital Report") issued December 11, 2009 – Cost of Capital

Preamble:

(1) The 2009 Cost of Capital Report established updated requirements and methodologies for determining the cost of capital in rate-setting for rate-regulated entities, including electricity transmitters. The Board's new guidelines are established for setting rates beginning in 2010.

(2) It should be noted that the capital structure used for rate-setting purposes and a firm's actual capital structure may differ. The amount of working capital and the use of a deemed capital structure are two reasons for such differences.

Questions:

(a) Does FNEI accept that the Board should apply the updated guidelines and methodologies documented in the 2009 Cost of Capital Report? In particular, is FNEI still proposing a deemed short term debt rate of 4.75%, and a long term debt rate of 4.41%? Or is FNEI planning to amend its Application to adopt the short and long term deemed debt rates to be calculated in accordance with the methodology documented in Appendix B of the Board's Cost of Capital Report?

(b) If FNEI is proposing that its cost of capital be determined in accordance with the Board's Cost of Capital Report, please provide updates to Exhibit 5, where and to the extent possible, that reflect the Board's 2009 Cost of Capital Report.

(c) If and where FNEI does not believe that the guidelines in the 2009 Cost of Capital Report should apply to it, please identify where FNEI is proposing to deviate from the Board's Cost of Capital Report. Please explain and support any requested deviation(s).

62. Ref: Ex 5/T1/S1 - Capital structure and Short-term Debt

Preamble: In its rate regulation of Ontario's natural gas distributors, short-term debt is used to reconcile actual and deemed long-term debt capitalization. The Board's 2009 Cost of Capital Report states the following:

"For rate regulated natural gas distributors, short-term debt is used for an unfunded portion to true-up the deemed capitalization to the utility's actual capitalization. As the variance between actual and deemed capital structures is generally small, the unfunded portion is typically a small fraction of total capitalization for rate-setting purposes.

In a Cost of Service application, the applicant natural gas distributor forecasts the cost of short-term debt for the test year, and this is subject to review. The Board notes that no participant questioned the Board's policy and practice for natural gas distributors, and **has determined that it is appropriate to continue with this approach.** With the development of a new deemed short-term debt rate for use in the electricity transmission and distribution sector, the Board notes that it and other participants may take into consideration the deemed short-term debt rate, as discussed below and documented in Appendix D." [pp. 55-56, emphasis in original]

Please provide FNEI's views, in detail, as to the appropriateness of the approach outlined above for determining its Cost of Capital for rate setting purposes.

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