

FIVE NATIONS ENERGY INC.

**RESPONSES TO INTERROGATORIES FROM
ENERGY PROBE RESEARCH FOUNDATION**

INTERROGATORY # 1

Ref: Exhibit 1, Tab 1, Schedule 10, Page 1 of 1

The Evidence at Lines 17-19 refers to assets that “are owned by De Beers Canada, but will be transferred to FNEI once certain permits to be issued under the *Indian Act* (Canada) are obtained.”

- (a) Please advise when FNEI expects to receive the permits referred to above.
- (b) How long would it take to transfer the assets after the permits are issued to FNEI?
- (c) Will transferring those assets from De Beers Canada to FNEI cause any new operating expenses for FNEI?

RESPONSE

- (a) Please see response to Board Staff IR 11(a).
- (b) Once the permits are issued, the assets could be transferred in a matter of days.
- (c) Any additional operating expenses will be covered under the Connection Cost Recovery Agreement.

INTERROGATORY # 2

Ref: Exhibit 1, Tab 1, Schedule 13, page 3

This page refers to the Insurance Reserve fund.

(a) Please explain how FNEI's bankers arrived at the figure of \$4 M as an appropriate insurance reserve.

(b) Line 2 states that the amount of the insurance reserve was "driven in part (emphasis added) by the requirements of FNEI's lenders" Please describe what other factors were considered in arriving at the \$4 M amount.

RESPONSE

Please see responses to Board Staff IR 2(a) and (b).

INTERROGATORY # 3

Ref: Exhibit 1, Tab 1, Schedule 13, page 5

Lines 6-9 of this page refer to using funds from the insurance reserve to “repair damaged system components”

(a) Does FNEI have a materiality limit that must be exceeded before repairs to damaged system components is considered to be an insurance matter rather than routine OM&A costs? If yes, please describe the materiality policy as it applies to use of insurance funds. If no, please explain how the insurance fund differs from ordinary operations and maintenance budgets?

(b) Has FNEI made use of the Insurance fund since it’s inception to repair damaged system components? If yes, please describe the circumstances under which funds were used?

RESPONSE

(a) Please see response to Board Staff IR 2(a) and (d).

(b) Please see response to Board Staff IR 2(f).

INTERROGATORY # 4

Ref: Exhibit 1, Tab 1, Schedule 13, page 5

Lines 8-10 of this page suggest that FNEI might use funds in its Operating Fund and Capital Reserve to achieve corporate objectives not necessarily related to the transmission of electricity.

- (a) Please explain what other types of projects might be financed from these funds and under what circumstances.**
- (b) Have any such projects been funded by FNEI since its last rate application? If so please provide details.**
- (c) If FNEI is able to determine an appropriate amount of operating and capital reserve that would be prudent to ensure the continuing viability of its system and service to its customers, why should those caps not be reached prior to any funds being used for other activities?**
- (d) Notwithstanding that its Letters Patent authorize FNEI to expend funds on activities unrelated to its electricity transmission business, why does FNEI think that its ratepayers should fund these unrelated activities?**

RESPONSE

Please see responses to Board Staff IR 3, 5 and 6.

INTERROGATORY # 5

Ref: Exhibit 1, Tab 1, Schedule 13, page 8

Lines 8-10 of this page suggest that FNEI concedes the Board's jurisdiction to ensure that that FNEI does not compromise the operation of its transmission system or service to its customers by using funds in the operating and capital reserves for other purposes.

(a) If that interpretation is correct, please explain how the Board should determine what level of funds is necessary in the operating and capital reserves to ensure that those objectives are met?

RESPONSE

Please see responses to Board Staff IR 3 and 6.

INTERROGATORY # 6

Ref: Exhibit 1, Tab 1, Schedule 13, page 10

Lines 5-6 refer to expenditures made since FNEI's last rate application.

(a) Please provide a summary of “unanticipated operating matters” that have arisen since the last rate application including their cost and how they were funded.

RESPONSE

(a) There have been three “unanticipated operating matters” that have arisen since the last rate application:

- In April 2006, the spring ice-break up on the Albany River destroyed two pole structures at the river crossing. See Exhibit 4, Tab 2, Schedule 2, page 10, lines 12 to 15. The amount was funded out of FNEI's operating funds.
- In 2007, FNEI's Operations Manager became seriously ill. While FNEI's group insurance policy covered the Operations Manager's salary, FNEI had to engage external consultants (at greater cost) to carry out the work that would've been done by the Operations Manager. Generally speaking, this work was done by three people on an as-needed part-time basis. See Exhibit 4, Tab 2, Schedule 2, page 12, lines 15 to 19. The amount was funded out of FNEI's operating funds.
- In the summer of 2008, two children accessed the substation in Kashechewan by digging under the entrance gate. One of the children was seriously injured. FNEI covered certain costs associated with ensuring family representatives were able to travel and stay with the child that was seriously injured during his treatment and recuperation in Toronto. Insurance covered the majority of costs, but FNEI did utilize some of its operating funds as well.

INTERROGATORY # 7

Ref: Exhibit 1, Tab 1, Schedule 13, page 12

Lines 8-12 set out the rationale for FNEI not adopting the TIER mechanism for rate setting.

- (a) Why does regulation by the OEB have an impact on whether or not the TIER mechanism is appropriate?**
- (b) Why does the source of debt financing have an impact on whether the TIER mechanism is appropriate?**
- (c) What funding other than debt does FNEI have? What other utilities is it comparing itself to in the statement on lines 10-11?**

RESPONSE

(a) and (b) FNEI's position is that the nature of the regulatory environment does impact whether the TIER mechanism is appropriate. In order to Energy Probe and the Board with a better understanding of FNEI's position, a more detailed discussion of the TIER mechanism rationale is provided herein.

As noted at Exhibit 1, Tab 1, Schedule 13, lines 11 through 13, the TIER ratemaking mechanism remains almost wholly designed for rural electric cooperatives ("RECs") in the United States. The origins of the RECs can be traced back to the United States *Rural Electrification Act of 1936*. The purpose of this statute was to bring about rural electrification in the United States by making low-interest loans available to rural communities that organized themselves into RECs for the purposes of constructing and operating electricity distribution systems. Loans and loan guarantees were provided directly by the Administrator of the Rural Electrification Administration (now the Rural Utilities Service – hereinafter referred to as "REA"). In addition to distribution, some RECs are engaged in the production or acquisition of power supply for sale to their members (i.e., generation and/or transmission). As a result of these measures, about 99% of American farmers now have electric power (compared with about 10% when the *Rural Electrification Act of 1936* was enacted). There are about 1,000 RECs in the United States today, 60 of which are focused solely on generation and transmission.

For the most part, the Federal Energy Regulatory Commission ("FERC") and State power commissions do not regulate RECs and the rates they charge to their customers. The rationale for regulatory exemption for RECs is two-fold: (a) RECs are non-profit and run for the benefit of their members, so rate regulation is unnecessary; and (b) the REA does have some oversight of RECs through its lending agreements. On this latter point (and as mentioned above), REA is the primary lender to RECs (and where it is not the lender, it typically remains guarantor of borrowed funds). Through its lending agreements, the REA has the ability to review all major

financial activities of RECs, accounting records must be maintained in accordance with the REA's uniform system of accounts, and there may be mortgage covenants related to rates charged by RECs. However, in many instances the rates are established by the REC's Board of Directors, although the REA standard mortgage requires that rates be set at a level that preserves certain minimum operating ratios (known as the Times Interest Earned Ratio or "TIER", which is really a factor of the RECs interest expense).

(c) None.

INTERROGATORY # 8

Ref: Exhibit 1, Tab 2, Schedule 2, page 2

The Evidence, beginning at Line 2 of page 2, refers to the FNEI using a conservative forecasting model “to protect against unforeseen reductions in revenues.”

(a) Please provide details and a description of your conservative forecasting model.

RESPONSE

(a) Each year, FNEI uses its Board-approved revenue requirement as the basis for its total budget, and works within that amount to budget individual line items (having regard to historic expenses).

INTERROGATORY # 9

Ref: Exhibit 2, Tab 1, Schedule 1, page 3

This page describes the transformer moving project undertaken in 2003 at Fort Albany substation:

- (a) Did FNEI consider installing the spare transformer on its own foundation in the station yard so that it could be rolled into place if needed? If not, please explain why this would not be an alternative that could reduce the outage time required to change out a faulted transformer.**
- (b) Has FNEI identified contract resources that can undertake the moving of a transformer if it is needed? If not, how will this be managed in the short time frame available for replacing the transformer if it fails?**
- (c) Lines 5-8 on page 4 suggest that the contract for this storage and moving system was awarded without competitive bidding. Please explain FNEI's purchasing policy in regard to sole source suppliers.**

RESPONSE

(a) The design by the engineering firm of SNC Lavalin was carried out in 1999/2000. SNC Lavalin assessed that the unit could be relocated in approximately seven days. The capital value of the project was a concern regarding the added cost of an additional 11.2 metres of concrete foundation adequate to support 30 tons to bridge the distance between the in-service and the spare transformer. FNEI still faced the issue of pulling the existing failed unit off the base to allow the relocation of the spare transformer, which meant transporting it over the spill containment walls, and creating another 10 metres of foundation needs. The final assessment deemed this was a greater expense than any relocation efforts with temporary equipment (if ever needed). As well, the longer term plan from year 2000 was that the spare transformer would eventually be an energized spare in place, negating the relocation need.

Relocating the transformer across an expanded foundation could possibly have reduced the estimated work time by one day. FNEI decided that the capital cost impact to the station was too great and the benefit of a one day shorter outage insufficient versus the associated probability of failure and the cost of portable materials. FNEI carried out an assessment of emergency materials that would be required on site, and which materials could not easily be transported in the available aircraft in an emergency. These larger/heavier materials (or materials that were not readily available) also needed to be stored and secured, so a container was also included in the project. The same container would also serve as a workshop for on site crews.

(b) FNEI identified two experienced organizations at the time:

- (i) The original company that placed the transformers -- Mammoet in Cambridge

(ii) Western Mechanical in Barrie

Both companies agreed to be available if contacted and were prepared to assist in the relocation efforts. The disconnection, rewiring, testing etc. would be covered by the Hydro One contract.

Please note that since 2009, FNEI no longer requires the relocation of transformers, as the spare is now energized and ready for service. Materials associated with this plan have been redeployed.

(c) FNEI requested a list of materials that Mammoet would deem critical in such an emergency based on their installation experience in 2000. From that list Mammoet identified their prices on the various components and FNEI compared the prices with other "retail" suppliers. For example, hardwood timbers were purchased based on local prices from lumber suppliers in Timmins. FNEI did not purchase all the identified equipment and materials from Mammoet. The statement at Exhibit 2, Tab 2, Schedule 1, page 4 that "This vendor was able to provide a complete containerized package" was perhaps too broad, since materials bought from other sources by FNEI were added to that package.

With respect to sole source supplying (as opposed to competitive tendering) generally, Energy Probe correctly notes in this question and others that much of FNEI's purchasing is not done via competitive tendering. There are a couple of reasons for this. First, FNEI prefers to, where possible, retain the services of companies that are: (a) familiar with FNEI's system; (b) familiar with the three communities (or remote First Nation communities more broadly); and/or (c) located locally. With respect to the first factor, it is not only that FNEI prefers that the existing constructors and service providers continue to service, upgrade and maintain FNEI's assets, but also the fact that not all companies are capable of working on FNEI assets. The whole of the FNEI system runs through muskeg in a very harsh environment and only companies familiar with working in such an environment could carry out the work. With respect to the second factor, while the contractor or service provider need not have worked in the three communities before, FNEI believes that companies with experience working in remote communities are better suited to carry out work for FNEI because they will have a better understanding of the contingencies required, the limited services available in the communities, etc. With respect to the final factor, the preference for local contractors and service providers is not necessarily a preferential purchasing policy for the communities per se, but a reflection of the fact that travel costs to the communities are so significant because they are fly-in only, if local providers are available for services they will undoubtedly be more cost-effective.

Please note section 9.2 (Sole Source Contracting Principles) in FNEI's Financial Policies and Procedures (at Exhibit 1, Tab 1, Schedule 15).

INTERROGATORY # 10

Ref: Exhibit 2, Tab 1, Schedule 1, page 5

This page describes the Attawapiskat garage project undertaken in 2004. Reference is made at lines 15-16 to the possibility of renting space from Attawapiskat First Nation Technical Services. This option was rejected as unsuitable to “FNEI’s short term and long term requirements.

- (a) Please describe the short and long term requirements that could not be satisfied by rental space.**
- (b) What was the rental price offered by Attawapiskat First Nation Technical Services for space?**
- (c) Lines 10-12 reference heated space in the garage. Does this mean that the entire garage is heated or just a small portion where crews can work?**
- (d) If the entire garage is heated what is the annual cost for this? Why does the line truck require a heated space when a block heater would be sufficient to ensure that it would start in cold weather?**
- (e) Was this project competitively tendered? If yes, how were bids solicited, how many bids were received, how was the successful bidder chosen and who was the successful bidder? If not, please explain why FNEI did not use a competitive process to award the contract.**
- (f) Please describe the “unique challenges of constructing a building such as this in a remote First Nation community” referred to in lines 2-3.**

RESPONSE

(a) FNEI’s short term requirements were for a heated secure building where the line truck could be stored. FNEI’s long term requirements were for ongoing availability of a heated storage and work area on extremely short notice in the case of a line or substation emergency. Attawapiskat is a remote First Nation community with very little infrastructure. Attawapiskat First Nation Technical Services has a garage (with a bay) that FNEI may have been able to rent on a temporary basis; however, their own operational requirements normally have them using the entire space for maintaining their own heavy equipment.

(b) After initial discussions, FNEI determined that the space available would not meet FNEI’s requirements. Consequently, discussions were terminated before the subject of costing was discussed.

(c) The entire garage is heated. It can also serve as a full workshop for vehicle and equipment repairs and a place for workers to use (i.e., washroom, lunch facilities). It can also serve as emergency accommodation for two or three workers if the somewhat limited rental accommodation space in Attawapiskat is unavailable.

(d) Heating costs are in the range of \$2,500 to \$3,000 per year. The line truck hydraulics (boom and bucket combination) are impacted by the extreme cold, so in an emergency, the ability to use the truck is limited to transportation only if only plugged in. The ability to use the boom or lift would be delayed at best and possibly damaged at worst if used with frozen hydraulics.

(e) The construction of this facility was carried out under the direct on-site supervision of FNEI's past General Manager . He solicited material prices (for the actual structure itself) from various suppliers and selected the supplier that could provide a fair price and a reasonable delivery commitment . He hired local labourers to complete these projects at the hourly rates negotiated with the local First Nations offices.

(f) Attawapiskat is a remote First Nation community accessible only by air with the exception of several weeks in the winter when a 275km ice road is constructed from Moosonee, and by barge service for a few months during the summer. There are huge logistics involved in transportation of materials, temporary storage of materials, labour resources, equipment resources, etc. The construction of this facility requires work equipment only locally available from the local First Nations. Transportation and storage of equipment from a non-local contractor was not seen as economical and many contractors are reluctant to transport equipment to these sites (security, insurance coverage for loss, storage, repairs, fuel access, unpredictable transportation schedules to and from the sites by winter road or barge). Further, directly contracting with the local First Nation, FNEI could control the costs and ensure local participation resulting in the project operating smoothly, with no resource issues or conflicts on scope, physical location, approval of water, sewer, and electrical connections, or local material supplies with the local First Nation.

INTERROGATORY # 11

Ref: Exhibit 2, Tab 1, Schedule 1, page 7

This page describes the addition of a second feeder position at the Attawapiskat station in 2004.

- (a) What is the secondary voltage at this station? What is the normal feeder capacity?**
- (b) What was APC's peak load at the time it was decided to provide a second feeder position?**
- (c) Does FNEI have a policy regarding feeder loading and the supply of additional feeder positions? If yes, please describe the policy. If not, please explain how FNEI decides whether or not a distributor request for an additional feeder position is reasonable.**
- (d) Was this project competitively tendered? If yes, how were bids solicited, how many bids were received and how was the successful bidder chosen? If not, please explain why FNEI did not use a competitive process to award the contract and how did it satisfy itself that the price was competitive.**
- (e) Please break down the \$280,613.08 cost of this project into the original fixed price contract value, any extra work claims by the contractor, any other outside costs such as engineering, material procurement, project supervision etc., and any overheads applied by FNEI.**
- (f) At the time of this project, FNEI appears to have had very limited staff. Who provided supervision of design, supply and construction mentioned in lines 14-16?**

RESPONSE

(a) The Attawapiskat distribution voltage is 4.16/2.4 kV. The feeder capacity is defined by the underground 250 kcmil 5kV Teck cable from the low voltage breaker in the station to the in-line voltage regulators . The design limit is approximately 300 amp. This equates to an approximate load of 2000 kW. The original design in the year 2000 had anticipated that Attawapiskat loads would grow from the then 1300 kW +/- over the next 5 or 6 years and the 2nd feeder would then be installed.

(b) At the time of the transfer to the FNEI station in December 2003 (18 months later than expected due to negotiation delays between INAC & Hydro One), the community load was peaking at about 1600 - 1700 kW. A number of factors developed from the time of the design of the Attawapiskat supply to the actual final connection to the FNEI station

- (i) The community started building houses and new facilities in anticipation of the transfer from the diesel supply to the grid. Over those last few years, some growth was

not permitted in the period earlier as the diesel supply was at full capacity, so some new facilities remained unconnected until the grid connection was completed.

(ii) The community suddenly saw a significant economic boost associated with the nearby mining exploration activity from the DeBeers Canada project (with an associated increase in electrical demand).

By Christmas 2003, three weeks after the initial connection, the normal loading was soon hitting 290 amp on the very cold days . Cold load pick up was an immediate concern in any loss of supply to Attawapiskat . The forecasted new loads that would materialize by fall 2004 placed an urgency to get a 2nd feeder before the winter of 2004/2005. Loss of the sole feeder from overload was a real concern. Over the summer of 2004, Attawapiskat Power Corporation built a 2nd line into the community, and FNEI arranged for its 2nd feeder connection. Both parties completed their work in the fall of 2004.

(c) FNEI currently only has three delivery points associated with low voltage feeders, each remote from the other. There are only five feeders in total over those three points, so a specific policy was not created. Decisions on the supply of additional feeders are based on:

(i) FNEI and LDC load forecast, and FNEI observations of community electrical load growth plans versus feeder capacity.

(ii) The risk and consequence in the loss of a feeder at the FNEI supply point (i.e., can FNEI restore the supply to the community load in a reasonable time?)

(iii) The agreement and evidence that the local distribution company carries out the mutually agreed modifications to their distribution system to utilize the added feeder.

(iv) The impact and permanence of any load management activities that the local distribution company can implement to manage peaks on FNEI feeders.

(d) This project was not tendered. The factors in that decision were:

(i) The low voltage breaker supplier could only be ABB to be compatible with the recently installed existing switchgear housing and connections. Since FNEI/ SNC Lavalin had completed the major project for the overall stations in 2003, the information on that project was used by SNC Lavalin (the engineering firm) to negotiate an added breaker at competitive costs.

(ii) Similarly for the voltage regulators from Cooper, the recent costs of the original contract were used to establish a reasonable cost for the added set of regulators.

(iii) The construction work force of Powertel also was a known source and familiar with the challenges of these locations. SNC Lavalin negotiated with Powertel for the anticipated labour expense based on past experience and a set fixed price contract and a specific delivery date were established.

(iv) Since the ability to get large materials into the community was reliant on the limited summer/fall barging season, and some materials could take 13 to 16 weeks to FOB Moosonee, FNEI reached an agreement with Powertel in the spring 2004 to ensure that winter loading of 2004/2005 could be met.

FNEI was satisfied that the price was as reasonable to any competitively bid price that could be expected based on the above, with the added assurance of no extras and a reasonable expectation of completion by the desired timetable.

(e) The fixed price contract was \$275,869.96. Additional materials were \$1,643.12 and air freight/travel charges were \$3,100.00. There were no extras paid or claimed.

(f) SNC Lavalin prepared the specifications, which were a simple extension of the original station design. Later, SNC Lavalin provided an on-site inspector at the final stages of commissioning. This person verified that specifications were met. During the final stages of the work, the same inspector gave the FNEI representatives (General Manager and the contract Technical Advisor) operational instructions and verification of the final commissioned feeder functionality.

INTERROGATORY # 12

Ref: Exhibit 2, Tab 1, Schedule 1, page 13

This page describes the second transformer installation project at Attawapiskat station in 2007.

(a) Lines 5-6 state that electricity supply to Attawapiskat at the time was “entirely dependent on the existing transformer”. Later on page 14 at lines 9-10, reference is made to using the diesel generators for electricity supply during outages. Please explain why the diesel backup option would not have been acceptable during the time required to replace a faulted transformer at the station.

(b) Line 3 makes the statement that having spare transformers is “standard practice for utilities in Ontario”. Reference is then made to Hydro One’s pool of spare transformers. Is FNEI aware of any other utilities in Ontario more comparable in size and complexity to itself that also have spare transformers? If yes, please provide details.

(c) Was the contract to SNC competitively bid? If yes, how were bids solicited, how many bids were received and how was the successful bidder chosen? If not, please explain why FNEI did not use a competitive process to award the contract and how it satisfied itself that the price received was competitive.

(d) Was the other work listed for metering, control room and civil costs also provided by contractors? If so, were the contracts competitively bid? If not, why not?

(e) Who owns, operates and maintains the diesel generators? Has this project now eliminated the need for the diesel generators? If yes, have they been decommissioned? If not, please explain why they are still needed.

RESPONSE

(a) In the original station design, a failed transformer in Attawapiskat could be replaced in seven days according to SNC Lavalin. In FNEI's assessment, while this was somewhat optimistic, it would still would mean a total reliance on the existing community diesels for an extended period of time.

Power supply reliability in the event of transformer failure was supported by the community owned diesels as back up for four years until 2007. In colder months, and even at peak periods in cooler weather, the community loading now easily exceeded the capacity of the units. Rotational load shedding, at worst in the cold of January on James Bay, was the only option, plus the need for fuel in an extended emergency would be a significant challenge as long term large volume storage (enough for 10 days operation) leads to fuel deterioration. The cost of operating such units has escalated significantly as well in the past decade. Lastly, the availability

of the diesels were a local responsibility. FNEI could not rely on this alternative for extended outages.

For the above reasons, FNEI resolved that there was a need to establish a ready to serve second transformer to meet its desired reliability standards as a transmitter for this delivery point.

(b) There are a number of high voltage "distribution" stations (high voltage input, with <50 kV output) in the north that have a spare high voltage transformer fully energized and ready to serve. Examples are the Hydro One Moosonee Distribution Station (which has 3 x 115 kV / 25 kV transformers) but loading requires only two units at best. As well, Northern Ontario Wires in Kapuskasing takes service from Kapuskasing DS with a ready to serve spare. A third example is Smooth Rock Falls DS serving Hydro One customers.

The consequence of failure of a remote "distribution" station with high voltage input and the inability to transfer load to another station is significant. In the FNEI case, the effort to replace the failed high voltage transformer is very time consuming even in a perfectly planned operation with perfect weather conditions. A transformer failure in the dead of winter would certainly lead to a potential community evacuation declared by local officials.

(c) The contract was competitively bid for the supply of the major switchgear component. FNEI hired SNC Lavalin to carry out a design, required tender and commission contract for the energization of the existing spare transformer. The switchgear which was a competitive bid won by Siemens, with another bid from ABB. Other components were duplicates of existing equipment installed only a few years earlier, so past pricing was used as a measure on the cost. The labour cost component was also compared against past work at the site. Duplicating equipment where possible to that already in service would reduce the emergency inventory needs and maintenance.

(d) Completion of metering was carried out by the contracted Meter Service Provider ("MSP", in this case Hydro One). The switchgear manufacturer (Siemens) included the installation of instrument transformers and metering wiring in the bid, and the certification and provision of meters is carried out by the MSP. FNEI selected its MSP from competitive bidding three years previous to this work.

The control room and civil costs were included in the DeBeers Canada site modifications which were tendered and awarded to Valard Construction. FNEI pre-negotiated with DeBeers Canada representatives AMEC for modifications needed for their 2nd transformer - namely a slightly larger control room (and footprint) than originally needed for the Victor Mine modifications. A cost sharing understanding was based on the competitive price received by AMEC for that work.

(e) The generator plants are owned by the local First Nation and operated on their behalf by the local distribution company. Decisions about the operability of the generators is a local First Nation decision. The generators in Attawapiskat and Kashechewan are still operational, by local choice. The Fort Albany plant is not.

INTERROGATORY # 13

Ref: Exhibit 2, Tab 1, Schedule 1, page 16

This page describes the Ice Protection Berm Wall project undertaken in 2008.

- (a) Lines 12-13 note that under ice breakup conditions water levels in the Albany River can rise 20-30 feet. The picture provided on page 18 shows a berm that appears to be less than 10 feet high protecting structure 909. Please explain how berm height was determined for this location.**
- (b) The same picture appears to show the steel facing terminating in loose fill at the left side rather than encircling the pole structure. What prevents water and ice from eroding the fill on the unprotected sides and exposing the poles?**
- (c) Please describe how FNEI arrived at the berm design used for this project. Were any alternatives to the chosen construction method considered?**
- (d) Was this project competitively tendered? If yes, how were bids solicited, how many bids were received, how was the successful bidder chosen and who was the successful bidder? If not, please explain why FNEI did not use a competitive process to award the contracts.**

RESPONSE

- (a) The Berm Wall height is actually about 15 feet high . This location of the Berm walls are on the top of the river bank which itself is another 15 feet in height from the normal river levels. FNEI assessed that this height of the river bank plus the Berm wall height should provide protection.**
- (b) The Berm wall is rounded to redirect the ice flow and potential pressure on the poles and guys away from the base. The river current takes the water past the structure, and not around it. While some washout may occur, it is not expected to be significant as the real pressure moves ice and water past the structure, not into it. There seemed to be little benefit of the cost of a greater Berm wall extension.**

The real purpose of a Berm wall is to "redirect the flow" and not act as a dam to the flow.

- (c) Initial designs using wood pole structures as barriers were unsuccessful in 2006. DeBeers' contractor (Valard) designed a Berm Wall for the new circuit, similar to that shown here, with the sectional steel protections used in highway construction . We evaluated their design as more sturdy and no more expensive than the past design, and added these to the existing FNEI circuit, plus repaired the damaged barriers where possible with this design.**

(d) The steel component materials were priced competitively for delivery to Cochrane by the FNEI contract Civil and Mechanical Supervisor. He hired local labourers to complete these projects at the hourly rates negotiated with the local First Nations offices. He directly supervised the work. Projects such as this enable FNEI to directly provide employment opportunities to the local community, and still exercise cost control.

INTERROGATORY # 14

Ref: Exhibit 2, Tab 1, Schedule 1, page 21

This page describes the purchase of two ARGO all terrain vehicles in 2008.

(a) Are the two machines pictured in Exhibit 2-1-1 page 41, the ARGOS referred to?

(b) Line 15 on page 21 to line 4 on page 22 describe the complications of shipping the ARGOS to and from the desired patrol location. Where are the vehicles stored between the end of the fall patrol and the time when winter road access allows them to be trailered out of the patrol area? How are they protected from theft and vandalism in the meantime?

RESPONSE

(a) Yes.

(b) The machines are stored inside a double axle enclosed utility trailer that is locked. These trailers are currently being stored in Moosonee. Depending on maintenance plans, these trailers are positioned either by barge or winter road in the community nearest to the planned maintenance portion of the line. The trailers are stored inside a locked compound in Moosonee, and are stored inside the substation fence when stored in one of the three communities.

INTERROGATORY # 15

Ref: Exhibit 2, Tab 1, Schedule 1, page 26

This page describes the second transformer installation project at Fort Albany station in 2008.

- (a) Lines 5-6 state that electricity supply to Fort Albany at the time was “entirely dependent on the existing transformer”. Later on page 25 at lines 7-8 reference is made to the community relying on diesel generators for electricity supply during outages. Please explain why the diesel backup option would not have been acceptable during the time required to replace a faulted transformer at the station.**
- (b) Was the contract to SNC for this project competitively tendered? If yes, how were bids solicited, how many bids were received and how was the successful bidder chosen? If not, please explain why FNEI did not use a competitive process to award the contract and how it satisfied itself that the price received was competitive.**
- (c) Was the other work listed for metering, control room and civil costs also provided by contractors? If so, were the contracts competitively bid? If not, why not?**
- (d) Who owns, operates and maintains the diesel generators? Has this project now eliminated the need for the diesel generators? If yes, have they been decommissioned? If not, please explain why they are still needed.**

RESPONSE

- (a) The reference to “relying on the diesel generators during outages” was an error. Fort Albany does not have any community diesel back up. Please see response to Energy Probe IR 12(e).**
- (b) See response to Energy Probe IR 12(c), as the Attawapiskat and Fort Albany projects were contracted as one commitment to be carried out over two years.**
- (c) See response to Energy Probe IR 12(d).**
- (d) See response to Energy Probe IR 12(e).**

INTERROGATORY # 16

Ref: Exhibit 2, Tab 1, Schedule 1, page 27

This page describes the structure 908 erosion control undertaken in 2008.

- (a) Engineering and contracting costs are noted as \$73,872.59. Was this project competitively tendered? If yes, how were bids solicited, how many bids were received, how was the successful bidder chosen and who was the successful bidder? If not, please explain why FNEI did not use a competitive process to award the contracts.**
- (b) Net capital expenditure is noted on page 27 as \$153,516.61 whereas project costs at the bottom of page 28 total only \$106,517.81. Please explain the difference.**
- (c) The project appears to have consisted of digging a trench around the structure to permit melt water to run off without eroding the river bank in the vicinity of the structure. Please describe the extent of the trench work that would account for the high cost of the project.**

RESPONSE

(a) The engineering costs were not tendered. FNEI contracted with a known soil speciality company (UMA from Manitoba), which was recommended to FNEI by an Ontario engineering firm in Sudbury. They agreed to a pre-determined fee to travel and evaluate, plus prepare a report on the site conditions. They recommended that FNEI carry out two actions (at a minimum):

- placement of mid size to large rocks on the eroding bank in a designated area to reduce/eliminate the ice and water damage each spring; and,
- provide a drainage trench from the middle of the island to the river downstream as spring melt and rain was creating a pond some 100 meters from the river. This ponded water would reach the river below the surface of the ROW and significantly destabilized the riverbank soil.

The UMA report included more technical solutions for FNEI to consider should the low cost alternatives not curtail the erosion. At this point, FNEI is monitoring the erosion situation annually.

The contracting costs were a result of comparison costs using local Fort Albany construction forces. The Fort Albany First Nations Technical Services and Gilles Contracting in Fort Albany were asked for prices to supply and deliver the rocks to the site. FNEI selected Gilles Contracting.

(b) The initial draft of the evidence neglected to include UMA engineering expenses of \$46,998.80 which were expended from April 29 to November 30, 2005. The total \$153,516.61 is correct.

(c) As discussed in the response to (a) above, the project was both the installation (over two winters) of adding rock for stabilization plus the initial trench, then inspection/removal of any trench blockages the following years. The trench (site only accessible in early spring while ice still in place) was about 0.5 m deep, 1 meter wide (backhoe scoop size). It would be about 200 metres in length from the center of the pond area to the downstream portion of the riverbank.

INTERROGATORY # 17

Ref: Exhibit 2, Tab 1, Schedule 1, page 29

This page describes the Fort Albany Garage project undertaken in 2009.

(a) Total cost of this garage is noted as \$117,349.93. The similarly sized garage constructed at Kashechewan in 2006 cost \$64,177.61 according to the evidence on page 11 of the exhibit. Please explain why the Fort Albany garage cost so much more.

(b) The Fort Albany garage start date is noted as January 2, 2008 and the in-service date is September 2009 giving a construction period of about 21 months. By contrast the Kashechewan garage took only about 9 months. Please explain why the Fort Albany project took so much longer.

(c) Was this project competitively tendered? If yes, how were bids solicited, how many bids were received, how was the successful bidder chosen and who was the successful bidder? If not, please explain why FNEI did not use a competitive process to award the contracts.

RESPONSE

(a) The Fort Albany garage is larger (16'x 30' x13' 8", versus Kashechewan 16 ' x 26 ' x 12'). FNEI chose to place the Fort Albany garage inside the Fort Albany Transformer Station yard for security and due to unsuccessful negotiations for ongoing property costs for other sites in the community. The transformer station yard was extended requiring modification to fencing, station grounding and the footing/base and drainage. The result of a larger building and these modifications are the reasons for the cost difference.

The Kashechewan garage is located on provincial land, within the fenced and controlled access Kashechewan Airport (which is 2 kilometres from the community) . FNEI has no property fees associated with its location. As well, no significant site work was required to construct the building.

(b) The Fort Albany garage was generally ready for use in the summer of 2008 (after seven to eight months). An insulation package was ordered for the garage in the winter of 2008/09 and installed in the spring and summer of 2009. So the garage was essentially constructed in two stages.

(c) The construction of these facilities was assigned to FNEI's contract Civil Mechanical Supervisor. He solicited material prices from various suppliers and selected the supplier that could provide a fair price and a reasonable delivery commitment . He hired local labourers to complete these projects at the hourly rates negotiated with the local First Nations offices. He directly supervised the work.

INTERROGATORY # 18

Ref: Exhibit 2, Tab 1, Schedule 1, page 31

This page describes Station Civil Upgrades undertaken in 2009.

(a) Reference is made to a child being seriously injured as a result of gaining access to the station interior. Was this an electrical contact accident?

(b) Was the civil work at these stations competitively tendered? If yes, how were bids solicited, how many bids were received, how was the successful bidder chosen and who was the successful bidder? If not, please explain why FNEI did not use a competitive process to award the contracts.

RESPONSE

(a) Yes .

(b) The improvements were assigned to FNEI's contract Civil Mechanical Supervisor. He solicited material prices from various suppliers He hired local labourers to complete these projects at the hourly rates negotiated with the local First Nations offices. He directly supervised the work.

INTERROGATORY # 19

Ref: Exhibit 2, Tab 1, Schedule 1, page 33

This page describes the second transformer project at Kashechewan.

(a) The cost of this project is noted as \$3,840,470.98. Similar projects at Attawapiskat and Fort Albany were undertaken at approximately half that cost. Please explain why the Kashechewan project was so much more costly.

(b) Was the contract to SNC for this project competitively tendered? If yes, how were bids solicited, how many bids were received and how was the successful bidder chosen? If not, please explain why FNEI did not use a competitive process to award the contract and how it satisfied itself that the price received was competitive.

RESPONSE

(a) The Kashechewan project was different than the others. This project required the supply, transportation and installation of the 2nd transformer. In Attawapiskat and Fort Albany, the spare transformers were already located at the new stations in the original 2001/2002 construction contract that created the system. The associated site civil work (foundation, spill containment and grounding) were all part of the original project.

In Kashechewan, the existing transformer station did not have sufficient space to add the transformer and associated civil works. FNEI negotiated additional space in the new Kashechewan yard being created for FNEI modifications to supply the DeBeers Canada Victor Mine. The significant contributors to the added costs were:

- the purchase and delivery of a 10 MVA transformer
- the transformer foundation in the new station
- the cabling to connect the new transformer and switchgear in the new station yard to the existing station some 60 meters away and the existing feeder into the community
- increasing the size of the original planned spill containment pit to accommodate the transformer.

(b) SNC Lavalin was hired for this project by FNEI. They were chosen for their past knowledge, location familiarity and documentation on the existing facilities. SNC Lavalin were requested to prepare the engineering specifications, call tenders for the supply of the transformer and switchgear, and carry out project management as well as final commissioning verification.

SNC Lavalin called for bids on the supply and delivery (FOB Moosonee) of the transformer. There were three bids. In terms of price, the successful bidder was the middle price, but had an

established reputation. As well, witnessing and verification of testing at the USA manufacturer site was considered in the total cost of the bids.

SNC Lavalin called for bids on the switchgear supply and delivery FOB Kashechewan . There were two bidders, and Siemens was awarded the contract based on low bid.

SNC Lavalin negotiated a contract with Powertel for the construction labour and with ABB for testing on site. The contract price was determined from past experience on similar projects.

The FNEI allocation of costs for civil works of transformer base and spill containment pit expansion were the result of quotes for DeBeers Canada's (AMEC) tender awarded to Valard Construction for the new Kashechewan high voltage yard.

FNEI was involved in the assessment of each of these costs and was satisfied that the costs were competitive using either historical costs for equivalent works or tender results. .

INTERROGATORY # 20

Ref: Exhibit 2, Tab 13, Schedule 1, page 8

Lines 2-4 refer to FNEI's plans to build a second feeder in Kashechewan in 2011 "to provide redundancy and better load shedding". The term "feeder" usually applies to distribution voltage lines.

- (a) If this is a distribution line, please explain why FNEI would be involved with it.**
- (b) If it is a transmission line please elaborate on the specifics of the project and how it will improve redundancy and load shedding capability.**
- (c) Is FNEI seeking Board approval for the project in this rate Application?**

RESPONSE

(a) and (b) FNEI is referring to the work it would do to accommodate the second feeder. The second feeder would be at low voltage and be undertaken by Kashechewan Power Corporation.

(c) No.

INTERROGATORY # 21

Ref: Exhibit 1, Tab 2, Schedule 1, page 1

Exhibit 2, Tab 13, Schedule 1, page 9

Lines 10-11 of the first reference refer to FNEI's head office in Moose Factory and main operations center in Timmins. Lines 2-4 of the second reference refer to the prospect of FNEI establishing its own operating and control centre "...to reduce costs and maximize efficiency"

- (a) Please identify which FNEI staff are located at its Head Office and at its operations centre.**
- (b) Where would this control center, identified in the second reference, be located?**
- (c) How would owning its own control center reduce costs and maximize efficiency considering that operation of the system is contracted to Hydro One?**
- (d) Is FNEI requesting Board approval for this project in this rate Application?**

RESPONSE

- (a) All FNEI staff are located in Timmins.**
- (b) Likely Timmins.**
- (c) It may or may not reduce costs. It may be a necessity/contingency.**
- (d) No.**

INTERROGATORY # 22

Ref: Exhibit 4, Tab 2, Schedule 1, page 13

Line 10 refers to auditor fees amounting to \$40,000 annually. Since FNEI is a non share capital, not for profit corporation, this seems unusually high for auditing costs.

- (a) Please explain why these fees should be so high.**
- (b) How long has FNEI used the same auditors?**
- (c) How often does FNEI seek other quotations for auditing services to check that it is getting competitive pricing?**

RESPONSE

- (a) This includes the preparation of quarterly financials, which is required by FNEI's lenders and useful for FNEI management. The auditor also presents the quarterly financial statements to FNEI's finance committee.**
- (b) FNEI has always used its current auditors. Ross Pope knows FNEI's business, will travel to the communities and Board meetings, and acts for two of the three distribution companies along the James Bay coast (i.e., understands the business).**
- (c) FNEI has not felt the need to seek quotes for other auditor services. It believes it is getting good value from its existing auditors.**

INTERROGATORY # 23

Ref: Exhibit 4, Tab 2, Schedule 1, page 14

Lines 1-3 refer to “transmission consulting services” costing \$120,000 per year and “transmission project coordination services” costing \$80,000 per year.

- (a) Please identify the contractors providing these services.**
- (b) What do the services consist of in each contract?**
- (c) How long have the contracts been running and when do they expire?**
- (d) Were the contracts competitively tendered? If yes, how were bids solicited, how many bids were received and how was the successful bidder chosen? If not, what process did FNEI follow to acquire this consulting help?**

RESPONSE

(a) The Transmission Consulting Services is Larry J. Brooksbank (retired, Ontario Hydro). The Transmission Project Coordination Services is Ed Chilton. Both Mr. Brooksbank and Mr. Chilton have been associated with FNEI since the earliest days (i.e., mid-1990s), and thus have a significant amount of institutional history.

(b) Mr. Brooksbank provides technical services to FNEI. Mr. Chilton provides a variety of services related to project management and other matters. Mr. Chilton has more historical knowledge of FNEI’s operations than anyone else, so he can provide input into all aspects of FNEI’s business.

(c) Although Mr. Brooksbank and Mr. Chilton have been associated with the Omushkego Ishkotayo project since the very beginning, they are currently both on annual contracts (since 2009). The work of Mr. Brooksbank and Mr. Chilton has decreased fairly materially in 2010. Mr. Chilton’s workload has declined with the hiring of Mr. Joe Gaboury as CEO. Mr. Brooksbank has continued to provide FNEI with advice and expertise beyond the initial construction of the line because: (i) the De Beers project necessitated continuance of the relationship with Mr. Brooksbank; and (ii) FNEI’s initial General Manager passed away, and his replacement went on long-term disability. With new technical staff hired on a permanent basis in 2010, Mr. Brooksbank’s work in 2010 has diminished.

(d) The contracts were not competitively tendered, for reasons noted above.

INTERROGATORY #24

Ref: Exhibit 4, Tab 2, Schedule 2, page 2

The Evidence beginning at Line 1, states:

“In addition, as mentioned in Exhibit 4, Tab 2, Schedule 1, as 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.”

(a) Please identify what work presently done by external consultants will be taken over by internal employees, what the expected cost savings will be and when this is expected to take place.

RESPONSE

(a) See response to Energy Probe IR 24. To date in 2010, Mr. Chilton and Mr. Brooksbank have provided about one-third the quantum of services provided in previous years. In addition, FNEI only uses the services of McLeod Wood & Associates a nominal amount. McLeod Wood was a consulting firm that provided substantial services to FNEI in its initial years, up until the past couple of years. This work was largely the “day-to-day” running of the business, which has been assumed by the CEO and Administrative Assistant.

INTERROGATORY # 25

Ref: Exhibit 4, Tab 2, Schedule 2, page 3

Lines 15-17 describe a position hired in 2007 of Operations Technician. Elsewhere in the evidence reference is made to only 3 employees which appears to include a CEO, Operations Manager and Administrative Assistant. The Operations Technician would then be a 4th employee.

(a) Please explain the apparent discrepancy.

RESPONSE

At the end of 2007, FNEI had three employees:

- John Sucee (Operations Manager, was hired on October 7, 2007, after Mr. Cecil Macdonald, FNEI's General Manager/Transmission Manager, passed away on July 1, 2007)
- Chris Innes (Operations Technician)
- Rose Anna Campbell (Administrative Assistant)

There are now five employees at FNEI, although one (John Sucee) is on long-term disability leave:

- Joe Gaboury (CEO)
- John Sucee (Operations Manager) – on long-term leave
- Chris Innes (Operations Technician)
- Vladimir Govorov (Maintenance Supervisor)
- Rose Anna Campbell (Administrative Assistant)

INTERROGATORY # 26

Ref: Exhibit 4, Tab 2, Schedule 2, page 8

Starting at Line 7, Account 5415 - Energy Conservation, the Evidence refers to conservation initiative involving compact fluorescent light bulbs and pamphlets being distributed to every household within the territory of its customer LDCs.

(a) Does the Applicant plan for any other future conservation measures in the upcoming years? If yes, please provide an outline of your plan.

RESPONSE

Yes. FNEI submitted an application to the OPA's Conservation Fund to carry out conservation measures in the three communities. FNEI plans to contribute \$235,000 for these conservation measures from June 2010 to December 2011. FNEI believes that this work is consistent with its corporate objectives. FNEI's costs to do this work would not be included in FNEI's revenue requirement, but would be funded via FNEI's unappropriated equity (i.e., its revenues in excess of costs). Thus, whereas a for-profit company would pay a dividend to its shareholder, who then could choose to do with that fund whatever it wishes, FNEI would instead fund conservation measures (consistent with its corporate objectives).

The opportunities for conservation in these communities is significant. The quality of the housing stock is poor, the climate severe and the vast majority of homes heated via baseboard heating.

INTERROGATORY # 27

Ref: Exhibit 4, Tab 2, Schedule 2, page 12

Lines 15-19 refer to the Operations Manager leaving on long term sick leave.

(a) Is this the same individual referred to in Exhibit 4-2-1 page 12 lines 14-15 as the Transmission Manager who left on long term disability in 2008?

RESPONSE

No. Cecil Macdonald was FNEI's General Manager (sometimes referred to as /Transmission Manager) passed away on July 1, 2007. John Succee was hired as FNEI's Operations Manager on October 7, 2007 after Mr. Macdonald's passing. Mr. Succee became seriously ill and went on long-term disability in December 2008. He has not returned to work.