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SENT BY COURIER

Toronto, November 15, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board ("OEB")
Suite 2700, 2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**RE: Five Nations Energy Inc. – 2010 Transmission Rates Application
Board File No. EB-2009-0387 (Implementation Proposal)**

We are counsel to Five Nations Energy Inc. ("FNEI").

In its November 1, 2010 Decision and Order (the "**Board Decision**"), the Board directed Five Nations Energy Inc. ("**FNEI**") to file a proposal for the implementation of the recovery of FNEI's revenue requirement established by the Board Decision. In doing so, the Board noted its preference for minimizing, where appropriate, the number of changes to Uniform Transmission Rates ("**UTRs**").

To that end, the Board directed FNEI to establish a deferral account (Account 1574, Deferred Rate Impact Amounts Account ("**DRIAA**")) to capture any lost revenue with respect to the increase to FNEI's revenue requirement from the effective date (March 1, 2010) until such time as the UTRs are implemented as part of Hydro One's 2011 rates proceeding (EB-2010-0002). The Board noted that it recently approved a similar implementation approach in the Great Lakes Power Transmission ("**GLPT**") rate proceeding (EB-2009-0408). FNEI appreciates the Board's preference to minimize the frequency of changes to the UTRs, and is filing this implementation proposal in accordance with the Board approval in the GLPT proceeding, adjusted to reflect the fact that GLPT had an offsetting balance in its DRIAA (i.e., an amount to be credited to ratepayers). If approved, this implementation proposal would avoid the need for any immediate change to the UTRs.

New Revenue Requirement Calculation

At the outset, FNEI notes that as a result of the Board Decision, FNEI's 2010 revenue requirement is calculated to be $6,377,089 (see explanation below). Of this amount, $50,000 is from other sources (i.e., non-rate revenue). Consequently, the FNEI revenue requirement to be recovered through rates (i.e., for the purposes of setting the provincial transmission revenue requirement and revenue allocators) is $6,327,089.

This amount was calculated in the following manner:

- OM&A: A deduction of $31,225 was made to the applied-for OM&A amount (of $3,386,100). This is the only change to OM&A. The resultant OM&A amount is $3,354,875.

- Depreciation Expenses: No change was made to the applied-for depreciation expense of $1,187,427.

- Cost of Debt: This applied-for amount was reduced to reflect two changes resulting from the Board Decision, as follows: (a) FNEI's working capital allowance component of its rate base decreased from $507,900 to $503,321 (to reflect a lower OM&A amount); (b) a reduction in FNEI's short-term debt rate. As a result, FNEI's total debt cost was reduced to $744,817 (comprised of $37,174 for short-term debt and $707,643 for long-term debt).

- Return on Equity: The applied-for ROE amount decreased for two reasons: (a) a modest decrease to rate base (i.e., the working capital allowance component of rate base noted above); and (b) a reduction in the rate of ROE from 9.85% to 9.5%. This yields an annual ROE figure of $1,089,970.

Numerically, the adjustments to FNEI's revenue requirement as a result of the Board Decision are as follows:

	Applied-for Amount	**Board-Approved**
Operations, Maintenance & Administration	$3,386,100	$3,354,875
Depreciation Expense	$1,187,427	$1,187,427
Debt Cost	$762,300	$744,817
Return on Equity	$1,130,000	$1,089,970
Annual Revenue Requirement	$6,466,100	$6,377,089
Less: Non-Rate Revenues	$50,000	$50,000
Annual Revenue Requirement in Rates	**$6,416,100**	**$6,327,089**

As noted, the Board Decision is effective March 1, 2010. There will likely be no change to the UTRs until January 1, 2011 (at the earliest).

It is important to note that the change to FNEI's revenue requirement does not alter the rates in the UTR schedule, but does alter the provincial transmission revenue allocators.

Period Prior to UTR Changes

In respect of the period from the Board-approved effective date of March 1, 2010 for the recovery of FNEI's 2010 revenue requirement until the date that FNEI's approved 2010 revenue requirement is implemented through changes to the UTRs (which date has yet to be determined) (the "**Pre-Change Period**"), FNEI proposes as follows:

For each month during the Pre-Change Period, FNEI will record an increase in its monthly revenue that is in proportion to the annual increase from the current Board-approved revenue requirement to the 2010 Board-approved revenue requirement. In particular, as described below, the incremental monthly revenue amount arising from the revenue requirement increase would be calculated by multiplying the revenue received from the IESO under current rates by an increment that is equal to the percentage increase from FNEI's current revenue requirement (arising from RP-2001-0036) to FNEI's approved 2010 revenue requirement (arising from EB-2009-0387), i.e., the annual deficiency experienced under current rates.

FNEI believes that this method will determine monthly revenues that are consistent with revenues that FNEI would receive if the UTRs were updated to incorporate FNEI's Board approved 2010 revenue requirement as of the effective date of March 1, 2010. All volume variance exposure will remain with FNEI. Below is an illustrative example in which it is assumed for simplicity (and to eliminate the effect of volume variance) that FNEI receives the revenue to recover its annual revenue requirement in equal monthly instalments. Depending on volumetric changes, the monthly revenue could deviate from the average. However, the monthly revenue would be subject to the proportionate increment.

Current Approved Revenue Requirement[1]	[A]	$5,178,000
Revenue Requirement Effective March 1, 2010[2]	[B]	$6,327,089
Annual Revenue Requirement Increase	[C] = [B] – [A]	$1,149,089
Percentage Increase in Revenue Requirement	**[D] = [C] / [A]**	**22.19%**

[1] Arising from the Board's Decision with Reasons in RP-2001-0036 (April 24, 2002).

[2] FNEI's approved 2010 revenue requirement is $6,377,089. Of this amount, $50,000 will be received from non-IESO sources, resulting in $6,327,089 being required from the IESO.

Hypothetical Scenario:		
Current Average Monthly Revenue	[E] = [A] / 12	$431,500
Proportional Increases @ 22.19%	[F] = [D] * [E]	$95,757
Average Monthly Revenue with Proportional Increase	[G] = [E] + [F]	$527,257
Total Annual Revenue	**[G] * 12 = [B]**	**$6,327,089**

The application of this methodology and the accounting treatment for actual results of a representative month (March 2010) is set out in Appendix "A" attached hereto.

Consistent with the direction by the Board, FNEI will record the monthly incremental revenue in the DRIAA[3].

The first entry to be made in the DRIAA will occur in the month that FNEI receives the final Board Order approving this methodology. This entry will represent a catch-up for all months between March 1, 2010 and the month of the final Board Order. For each month after the Board Order is received, the accrual will be recorded for the current month only.

Post UTR Changes

In respect of the period following the implementation of FNEI's approved 2010 revenue requirement through changes to the provincial UTR, which date has yet to be determined (the "**Post-Change Period**"), there are two possible approaches to recovering the amount in FNEI's DRIAA. In both approaches, FNEI would cease recording the monthly incremental revenue amounts in its DRIAA at the point in time when new UTRs are established.

The possible approaches are slightly different than the approach taken in the GLPT matter because the circumstances are different. GLPT had an existing credit of $2,577,664 (to the benefit of ratepayers) in its DRIAA. GLPT and intervenors in that proceeding had agreed (by way of a Settlement Agreement approved by the Board) that the amounts in the DRIAA would be disbursed over three years following the establishment of new UTRs. Consequently, GLPT proposed an implementation approach for the Post-Change Period that reduced the amount to be credited to ratepayers over the three-year period by the amount that had accrued in the DRIAA during the Pre-Change Period. In that way, GLPT's implementation proposal dove-tailed with related issues in its Board-approved Settlement Agreement.

[3] Unlike GLPT's implementation proposal, FNEI has no amounts currently recorded in its DRIAA. In GLPT's case, the monthly incremental revenues to be recorded in its DRIAA partially offset an existing balance in that account (i.e., a balance to the credit of ratepayers).

Thus, GLPT already had a credit in its DRIAA that needed to be returned to ratepayers (i.e., GLPT was not "out" any money), and a methodology had been agreed to for the return of those DRIAA amounts. In FNEI's case, there is no offsetting amount in its DRIAA as there was in the case of GLPT. The question becomes, then, whether the GLPT methodology for the Post-Change Period that the Board approved in GLPT's case is appropriate for FNEI, or whether there is another methodology that is more appropriate. To that end, FNEI is providing two different approaches for the Board's consideration.

Post-Change Period: Proposal #1

The Board could simply order the other transmitters to pay FNEI the amount recorded in its DRIAA in accordance with the revenue allocators as set out in the UTRs in 2010 (i.e., in accordance with each transmitter's share of the transmission revenue pool). The rationale for this approach is as follows:

- It is simple. There would be one lump sum payment made to FNEI (in early 2011) to "correct" the allocation of transmission revenues from 2010. The lump sum payment would be the end of the matter (i.e., nothing further would need to be done in 2011), which is simpler than the approach taken in the GLPT proceeding (and Proposal #2 below).

- It is fair. Had the Board Decision in this proceeding been issued in February 2010 (with a March 1, 2010 effective date, and a corresponding change to the UTRs made on March 1, 2010), there would have been no change to the actual rates in the UTR schedule, but there would have been a change to the revenue allocators in the UTR schedule. That change to the revenue allocators would have resulted in FNEI receiving a greater share of transmission revenues (and other transmitters receiving a smaller share) in 2010. A lump sum payment would have the effect of re-distributing the transmission revenues from 2010 in a manner consistent with the Board's determinations regarding 2010 transmission revenues.

- The one cautionary note to this approach is that it is not clear whether the Board has jurisdiction to make such an order (i.e., an order requiring a lump sum payment). It is FNEI's preliminary view that the Board does have such jurisdiction, but FNEI has not considered this issue in any great detail. FNEI should point out that it has not discussed this proposal with Hydro One or any other transmitter.

Post-Change Period: Proposal #2

Under this proposal, the Board would enable FNEI to recover the amount recorded in its DRIAA in equal amounts going forward in 2011 (terminating in December 2011). This approach is also straightforward, and is more consistent with the Board's decision in the GLPT matter. There are a few implementation points worth noting with this approach:

- This approach would involve a change to the revenue allocators for FNEI at two points in time: (a) when the new UTRs are put in place (assume January 1, 2011 for the purposes of this proposal); and (b) on January 1, 2012. The rationale for this is as follows. First, as of January 1, 2011, FNEI's new revenue allocator would be adjusted to reflect FNEI's new Board-approved revenue requirement of $6,327,089 as well as the amount in the DRIAA. In effect, FNEI's revenue allocator for 2011 would be higher than its Board-approved revenue requirement (to compensate for having a revenue allocator that was lower than its Board-approved revenue requirement for ten months in 2010). Once the DRIAA amount is cleared (end of 2011), the revenue allocator for FNEI would have to be adjusted downward (i.e., as of January 2012) to remove the DRIAA component (i.e., to make the revenue allocator match the $6,327,089).

- There is a minor timing issue associated with this proposal. As noted above, FNEI's revenue allocator effective January 1, 2011 would have to include the DRIAA amount (i.e., FNEI's under-recovery in 2010). The difficulty is that this DRIAA amount will not be definitively known until later in January 2011 (i.e., after January 1, 2011), when FNEI receives its monthly payment from the IESO for December 2010.

- This proposal must have the recovery period for the DRIAA end at a calendar year end (or more accurately, at a point in time when there is a change to the UTRs, which FNEI presumes to be the calendar year end). If, for example, FNEI asked for its DRIAA to be cleared via twelve monthly instalments going forward, and changes to the UTRs were not made until February 1, 2011, then a twelve-month recovery period would mean the revenue allocator for FNEI would have to be adjusted as of February 1, 2012 (to reduce it to correspond to the $6,327,089 revenue requirement). Given that it is likely that the Board will continue with the approach of annual UTR changes corresponding to the calendar year, this would create a "new" problem in 2012. This problem is avoided by having the DRIAA recovery period end at a calendar year end.

FNEI has no preference as to which approach the Board should utilize. Both are appropriate, and fulfill the Board's objective of delaying the change to the UTRs until such time as a change is necessitated by the outcome of Hydro One's current transmission rate proceeding. Proposal #2 is more consistent with the approach the Board took in the GLPT proceeding, but it does raise some minor complicating issues, and the circumstances in this proceeding are slightly different than the circumstances in the GLPT proceeding.

The one difference between the approach taken in the GLPT proceeding and FNEI's Proposal #2 above is that the Board ordered the amount in GLPT's DRIAA to be cleared over three years, and FNEI is proposing that the amount in its DRIAA be cleared over a shorter period of time (i.e., the period ending December 2011, which, if the UTRs are changed as of January 1, 2011 will be a one-year period). FNEI's rationale for a shorter period are straightforward. First, the three-year period in the GLPT proceeding was tied to a Settlement Agreement in that same proceeding that required GLPT to clear its DRIAA over three years. So the three-year period made sense. Second, GLPT was not in a position of being "owed" transmission revenues. The amount in the DRIAA that was to the credit of ratepayers outweighed the amount that GLPT would have earned in 2010 as a result of the higher Board-approved revenue requirement. GLPT already had excess transmission revenues, and the effect of their implementation proposal was to decrease the amount to be returned over the three year period. In FNEI's case, FNEI has no current amount in its DRIAA. By the end of 2010, FNEI will have approximately $1 million accrued in its DRIAA.[4] In terms of the annual provincial transmission revenue requirement, the amount is immaterial. It is, however, a material amount to FNEI. Third, the amount of $1 million to be paid to FNEI will not come from higher rates, but rather from a higher allocation of transmission revenues for a period of time going forward. In effect, it essentially amounts to other transmitters (but almost wholly Hydro One) paying $1 million to FNEI. The question then is whether Hydro One needs to spread the "return" of that $1 million to FNEI over a period that is longer than one year. FNEI does not believe so. Based on the relative size of the two companies, it is obvious that the $1 million amount is more material to FNEI than Hydro One. For these reasons, FNEI is proposing that if the Board's preference is for the methodology in Proposal #2, it allow FNEI to recover amounts accrued in its DRIAA by the end of December 2011.

Please do not hesitate to contact me should you have any questions or concerns.

Yours very truly,

Richard J. King

RK/mnm
Encl.

cc: Derek Stephen, Interim CEO, FNEI *(via email)*
Ed Chilton, Secretary-Treasurer, FNEI (*via email*)
Intervenors in EB-2009-0387 (*via email*)

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[4] This is an estimate. FNEI has calculated that the amount to be recorded in the DRIAA for the period from March 1 to September 20, 2010 is approximately $740,000.

APPENDIX "A"

Accounting entries in DRIAA to recognize revenues that would have been collected had FNEI's rates been implemented March 1, 2010

To record the difference between the approved monthly revenue requirement and the actual monthly revenue collected in rates

Debit Account	1574, DRIAA
Credit Account	4110, Transmission Services Revenue

For the purposes of this entry, the monthly DRIAA shall be calculated as described above, and as follows:

DRIAA = approved monthly revenue requirement (revenue collected at current rates, plus proportional increase in revenue requirement) – monthly revenue collected at currently approved rates

Using March 2010 as a sample month:

Current Approved Revenue Requirement[5]	[A]	$5,178,000
Revenue Requirement Effective March 1, 2010[6]	[B]	$6,327,089
Annual Revenue Requirement Increase	[C] = [B] – [A]	$1,149,089
Percentage Increase in Revenue	**[D] = [C] / [A]**	**22.19%**

Revenue Received from IESO for March 2010[7]	[E]	$401,075
Approved Monthly Revenue Requirement	[F] = ([E]*[D])+[E]	$490,074
Proportional Increase @ 22.19% (DRIAA Entry)	**[G] = [F] - [E]**	**$88,998.54**

The accounts in this proposal are prescribed by the Board for use under the Accounting Procedures Handbook for Electric Distribution Utilities.

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[5] Arising from the Board's Decision with Reasons in RP-2001-0036 (April 24, 2002).

[6] FNEI's approved 2010 revenue requirement is $6,377,089. Of this amount, $50,000 will be received from non-IESO sources, resulting in $6,327,089 being required from the IESO.

[7] Cash received from IESO on Thursday, April 22, 2010.