ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an application by Five Nations Energy Inc. for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* approving or fixing just and reasonable rates and other charges for the transmission of electricity as of January 1, 2016.

APPLICATION

1. The Applicant is Five Nations Energy Inc. ("FNEI"), a non-profit, non-share capital corporation with its head office in Moose Factory, Ontario. FNEI carries on the business of owning and operating electricity transmission facilities in the western James Bay region of Ontario.

2. FNEI's forecasted revenue requirement for 2016 is $7,989,200, comprised of a transmission revenue requirement of $7,839,200 and other forecasted revenue of $150,000. Based on current transmission rates and forecasted load, FNEI forecasts a 2016 transmission revenue deficiency of $1,567,100.

3. FNEI hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the "OEB Act") approving a five-year incentive rate-setting plan ("IR Plan") which:

   a) establishes a base transmission revenue requirement of $7,839,200 for the 2016 test year (effective January 1, 2016) using a cost-of-service methodology;

EXECUTIVE SUMMARY

1.0 Introduction

This transmission rate application (the "Application") filed by Five Nations Energy Inc. ("FNEI") is based on a 2016 test year. FNEI is applying for rates that will allow FNEI to recover its forecast 2016 transmission revenue requirement of $7,839,200. Appendix I to this Schedule shows the calculation of the 2016 test year revenue requirement (as compared to historical years). FNEI represents such a small portion of the provincial transmission revenue requirement that the approval of FNEI's applied-for revenue requirement would not result in any change to the Uniform Transmission Rates.

FNEI is a non-profit, non-share capital, federally-incorporated corporation with its head office in Moose Factory, Ontario, and main operational office located in Timmins, Ontario. FNEI is a licensed transmitter of electricity in Ontario (ET-2003-0074), owning and operating transmission facilities along the western coast of James Bay. The FNEI transmission line serves the three First Nation communities of Attawapiskat, Fort Albany and Kashechewan, as well as the DeBeers Victor Diamond Mine.

FNEI was incorporated in 1997 by the three First Nation communities of Attawapiskat, Fort Albany and Kashechewan. The three members of FNEI are the Attawapiskat Power Corporation, the Fort Albany Power Corporation and the Kashechewan Power Corporation, each of which in turn is controlled by its respective First Nation (see Exhibit 1, Tab 5, Schedule 13, Appendix II). FNEI's Board of Directors contains representation from not only its three owner

First Nations, but also has representation from Moose Cree First Nation and Taykwa Tagamou First Nation, because FNEI's assets pass through the traditional territories of these two First Nations.

Prior to FNEI's coming into service in 2001, all three communities were electrically remote because the provincial transmission grid extended only as far north as Moosonee, Ontario (at the southern tip of James Bay). Each of the three First Nations was serviced by a localized electricity distribution system powered by a diesel generation plant. Hydro One Remote Communities Inc. ("HORCI") operated the diesel generation plants and local distribution systems in each of the three communities.

The FNEI project was conceived in the mid-1990s and had three components: (a) to extend the provincial transmission grid north from Moosonee to Attawapiskat in order to connect the three remote communities to the provincial transmission grid; (b) to transfer the electricity distribution system in each community from HORCI to local, First Nation-owned and operated distribution companies; and (c) improve the socio-economic well-being in the three communities, consistent with FNEI's Letters Patent. The entire project was initiated and implemented by the three First Nations, through a mix of public-sector and private-sector financing. Construction of the transmission line was not completed until March 2002, but the communities of Fort Albany and Kashechewan were connected in November and December 2001. Attawapiskat was energized in December 2003.

Since coming into service, FNEI has made substantial capital improvements to what was initially a "bare bones" radial line. These improvements include: installing and putting spare

transformers on potential, installing fibre optic communications to better monitor system outages, and twinning the line from Kashechewan to Moosonee in order to accommodate new load from the DeBeers Victor Diamond Mine.

FNEI's previous rate application was filed in February 2010 (EB-2009-0387). The Board rendered its decision in respect of that application on November 1, 2010. This Application will be FNEI's third rate case.

The remainder of this Schedule sets out the key aspects of this Application that the Board should consider.

2.0 Key Aspects

There are a few key aspects to this Application:

- FNEI's Non-Profit Status: In this Application, FNEI is requesting that the Board allow FNEI to earn a return on equity ("ROE") in the same manner as any other rate-regulated utility in the province. FNEI's status as a non-profit corporation should have no bearing on whether it is entitled to earn an ROE. In its last rate application, the Board directed FNEI to establish certain reserve accounts that, once fully funded, would cause FNEI to lose the ROE component from its revenue requirement. The Board's decision on this point is unsupported at law, and would impose significant negative consequences on FNEI for no good reason. Subsequent to that decision, FNEI met with senior Board representatives about the issue. A discussion of this issue is found at Exhibit 7, Tab 2,

Schedule 1 (Not-for-Profit Corporations). FNEI is, in essence, asking the Board to reconsider its earlier finding on the implications of operating as a non-profit utility.

- FNEI Operates in a High-Cost Environment: FNEI is a small company, operating assets in a very remote part of the province – the west coast of James Bay, a vast swampy plain (i.e., muskeg) that is not serviced by road or rail (with the exception of a winter ice road which is operational a few weeks each winter). The remoteness, harsh climate and difficult physical geography of the region means that the cost of doing business for FNEI is more expensive than if the assets could be more easily accessed, transported and stored. This includes not only the physical/technical work (e.g., inspection, maintenance, vegetation management, repairs, etc.), but also the administrative work of the company (e.g., travel for Directors' and Committee meetings, etc.). See Exhibit 1, Tab 5, Schedule 12 for a description of FNEI's service area.

- Value of FNEI System Far Outweighs Rate Base: Although FNEI's current Board-approved rate base is $28.683 million, the value of the system that FNEI owns and operates is significantly in excess of that amount. This is due to the fact that the bulk of the initial funding for the FNEI transmission line came via a multi-year funding agreement (i.e., grant) from INAC – the funds of which were disbursed directly to FNEI. As such, this amount was treated akin to an aid-to-construct, and excluded from FNEI's rate base. The multi-year funding agreement alone was in the amount of $33 million. The initial project constructed in 2001 had a capital cost of approximately $55 million.

3.0 Filing Requirements

3.1 Revenue Requirement

In this application, FNEI is applying for approval of a revenue requirement of $7,839,200, which is an increase of $1,512,100 as compared to the revenue requirement approved in FNEI's last rates application ($6,327,100). These amounts exclude Other Revenues that make up the full revenue requirement of FNEI. The $1,512,100 increase represents a 23.9% increase in revenue requirement over the six year period from 2010 (last OEB proceeding) to 2016 (test year).

This increase is being driven by higher OM&A costs, and a larger rate base, as follows:

- OM&A: FNEI's OM&A expenses are expected to be over $980,000 more in 2016 than they were in 2010, due to: (a) inflation; (b) the addition of three full-time equivalent staff positions, and adjustments to employee compensation; and (c) the acquisition of an additional 80 km of transmission line from Hydro One Networks Inc. ("HONI").
- Rate Base: FNEI's rate base for 2016 is $7.093 million greater than it was in its 2010 Board-approved revenue requirement (i.e., $35.776 million vs. $28.688 million), due to: (a) the purchase of the 80 km of transmission line from HONI; (B) the construction of a new head office; and (c) the commencement of a major Bus Isolation Project (started in January 2014).

3.2 Budgeting Assumptions

In developing its budget for the test year, FNEI assumed 2.0% annual inflation for both construction costs and OM&A expenses. In terms of load growth, FNEI has three small

electricity distributor customers ("LDCs"), and one large mining company (DeBeers). The three LDC loads are far smaller (in terms of peak demand and consumption) than DeBeers, and peak demand has remained relatively flat over the past few years. The DeBeers Victor mine is set to close in the near future, and the status of an extension project is uncertain. FNEI is proposing to utilize the average peak demand for years 2013 – 2015 to set the charge determinants for the test year.

3.3 Load Forecast Summary

FNEI's peak demand over the past three years (as compared to the OEB-approved peak demand) is shown in Exhibit 5, Tab 1, Schedule 3. Peak demand has remained flat over the past few years. Compared to the last Board-approved peak demands, the network pool and line connection pool demand is greater by just over 20%. This is due to the ramp up of the DeBeers Victor mine to full production, which reached commercial production in 2008 and increased its load gradually over the next few years. FNEI's last re-basing year occurred as the mine was ramping up production but had not yet reached its maximum load.

FNEI has only four customers: (a) three small LDCs that have indicated they expect little load growth in the coming years; and (b) the DeBeers mine, which expects wind-down to result in a lower peak demand in 2018 or 2019 (although an extension is also possible). Given these circumstances, FNEI is proposing to use the three-year average peak demand (2013 – 2015) to set the charge determinants for the test year.

3.4 Transmission System Plan

FNEI's forecasted material capital project for the next five years consists of three projects (detailed in Section 2.0 of Exhibit 2, Tab 2, Schedule 1), all aimed at maintaining and improving reliability: (a) continuation and completion of the bus isolation project initiated in 2014; (b) transformer station stone replacement; and (c) installation of back-up generators at the fibre optic shelters. In the test year, FNEI's proposed capital expenditures are $2,120,000, which is an increase of $1,845,000 (or 671%). That having been said, FNEI's proposed capital expenditures is only 32% of 2015 expenditures. Given FNEI's small size, year-to-year comparisons of capital spending is a worthless endeavour. Transmission system equipment is expensive, and in certain years when major projects are being undertaken, spending will be significant (relative to FNEI's size). In other years, when no major capital projects are being undertaken, spending can be fairly minimal.

FNEI's Investment Planning Process is explained in Exhibit 2, Tab 1, Schedule 1. FNEI's strategy in terms of system planning remains the same as the rationale for FNEI's creation in the mid-1990s – namely, to provide for the reliable supply of electricity to the western coast of James Bay. Given the cold climate and reliance on electric heating, this means trying to minimize the frequency and duration of outages.

Because of FNEI's small size, its limited number of customers, and uniformity of age of equipment, FNEI does not require extensive procedures for determining asset condition or customer needs. These are known to FNEI technical staff. Instead, FNEI's focus is to ensure that it has the governance processes in place to ensure that FNEI's limited financial resources are

allocated prudently to ensure reliability of service. FNEI identifies potential capital projects on the basis of need, ascertained through its asset management plan, as well as general technological developments and evolving industry practice. Capital projects above $50,000 require approval by FNEI's Board of Directors (or its Finance Committee) prior to implementation.

FNEI's Asset Management Plan is set out in Exhibit 2, Tab 1, Schedule 2, and is broken down by FNEI's asset categories (lines, stations, and telecommunications). Transmission lines are surveyed semi-annually and monitored in real-time via a SCADA system. Transformer stations are reviewed on an ongoing basis via visual inspections, functional tests, infra-red inspections, oil sampling and dissolved gas inspections. Telecommunication assets are monitored via real-time data and regularly scheduled inspections.

3.5 Rate Base

FNEI's rate base for 2016 is forecasted to be $35.776 million, being the average of the net fixed assets ($35.626 million) and allowance for working capital ($150,000). This represents an increase in the Board-approved rate base from RP-2009-0387 (which was $28.688 million) of $7.093 million, or 24.7% (2016 applied-for versus 2010 Board-approved).

An explanation of FNEI's material capital expenditures since its last rate proceeding are set out in Exhibit 2, Tab 2, Schedule 1 (section 1.0). The most significant expenditures include: (a) the purchase of 80 km of transmission line from HONI in late 2015; (b) the construction of a new head office in Timmins (completed August 2013); and (c) the commencement of the Bus Isolation Project (started in January 2014).

3.6 Performance and Reporting

FNEI is aware of the scorecard being proposed in HONI's current transmission rate application (EB-2016-0160). Given the size difference between FNEI and HONI, FNEI is not proposing to adopt HONI's proposed scorecard, but would be amenable to a scorecard that is narrower in scope. While FNEI has not proposed a specific scorecard in this application, but is proposing to await the outcome of the HONI proceeding. At Exhibit 4, Tab 1, Schedule 1, FNEI has outlined which aspects of the HONI proposed scorecard would be appropriate for FNEI, and aspects which FNEI believes would not be appropriate.

FNEI uses its Customer Delivery Point Performance Standards ("CDPPS") to monitor system quality and reliability. FNEI's system is comprised of the last 270 km of a long radial line, running north from Moosonee, and dependent upon supply from a very old HONI transmission line. Prior to HONI's energization of a new twinned line south of Moosonee in September 2015, the majority of outage issues (both frequency and duration) were attributable to outages on HONI's system. With the energization of that twinned HONI line, reliability will be improved. Looked at in isolation, FNEI has almost always exceeded its CDPPS.

FNEI is not aware of any outstanding areas of non-compliance.

3.7 OM&A Expenses

FNEI's OM&A expenses are estimated to be $4.336 million for 2016. The existing Board-approved OM&A from 2010 is $3.355 million. This represents an increase of $0.981 million (or 29.2%) over the six year period from 2010 (last Board-approved) to 2016 (test year).

The explanation for the increase, and year-over-year variances, is set out in out in Exhibit 6, Tab 1, Schedule 1, and Exhibit 6, Tab 2, Schedule 1. The increase in FNEI's OM&A expense is

driven by three main factors: (a) inflation, given that much of FNEI's OM&A expenditures arise from third party contracts; (b) the addition of three full-time equivalent staff positions, and adjustments to employee compensation; and (c) the acquisition of an additional 80 km of transmission line to FNEI's system.

Operations: FNEI's main operations expenses are those incurred under Account 4810 (Load Dispatching) and Account 4820 (Transformer Station Equipment – Operating Labour). In the 2016 test year, the amounts in these two accounts total $1,121,900. This compares to $412,900 in these accounts in 2011 (actual).

Maintenance: FNEI's maintenance expenses are made up of those in Account 4916 (Maintenance of Transformer Station Equipment) and Account 4930 (Maintenance of Towers, Poles & Fixtures). In the 2016 test year, the amounts in these two accounts total $870,700. This compares to $546,600 in these accounts in 2011 (actual).

Administration: FNEI's administration expenses are made up primarily of those in Account 5605 (Executive Salaries and Expenses), Account 5610 (Management Salaries and Expenses), Account 5630 (Outside Services Employed), Account 5635 (Property Insurance), and Account 5655 (Regulatory Expenses). In the 2016 test year, the amounts in these five accounts total $1.708 million. This compares to $1.530 million in these accounts in 2011 (actual).

For the purposes of forecasting OM&A for the 2016 test year, FNEI has assumed an inflation factor of 2% for any uncertain (i.e., not fixed) costs.

3.8 Cost of Capital

FNEI is proposing the Board's deemed capital structure of 60% debt (56% long-term and 4% short-term) and 40% equity, as well as the Board's approved cost-of-capital parameters for 2016 (i.e., return on equity of 9.19% and short-term debt rate of 1.65%). For the cost of long-term debt, FNEI is proposing to use the weighted cost of actual debt.

With respect to FNEI's debt, FNEI has a Credit Agreement with Manulife and Pacific & Western Bank ("PWB") which provides FNEI with a term credit facility of up to $11 million (at 5.49%), a second term loan with BMO of up to $1.675 (at 4.61%), and a more recent loan used to finance the transmission line purchase from HONI. This latter loan is for up to $5.8 million (at 4.71%). FNEI's total cost of capital, described in Exhibit 7, Tab 1, Schedule 1, is $2.365 million.

3.9 Cost Allocation and Rate Design

FNEI's evidence with respect to the calculation of Uniform Transmission Rates in the test year is set out at Exhibit 11, Tab 1, Schedules 1 and 2. In calculating Uniform Transmission Rates, FNEI has used the revenue requirement applied for in this Application (i.e., $7.989 million). Given FNEI's small size in relation to the provincial transmission system, an increase in FNEI's revenue requirement will have no effect on transmission customers.

FNEI is proposing for the first time the establishment of a five-year incentive rate-setting plan ("IR Plan") comprised of the following key elements:

- a base year (2016) revenue requirement of $7.989 million (effective January 1, 2016), established using a traditional cost-of-service methodology;

- an annual adjustment to the base year revenue requirement over the next four years of the IR period (ending December 31, 2020) by an inflation factor ("I"), a productivity factor ("X") and a stretch factor ("S");
- the incorporation of a Z-factor for prudently-incurred, material costs beyond the control of FNEI; and,
- the incorporation of a trigger mechanism for a regulatory review in the event of a 300 basis point variance in normalized earnings from the Board-approved ROE.

Details about the FNEI's specific IR Plan proposal are set out at Exhibit 10, Tab 1, Schedule 1.

3.10 Deferral and Variance Accounts

FNEI has no deferral or variance accounts, but is requesting one deferral account as part of this Application.

FNEI is requesting a deferral account for the purpose of recording the revenue requirement deficiencies incurred from January 1, 2016 until FNEI's proposed 2016 revenue requirement is approved by the Board. The deferral account will be updated monthly and interest will be applied consistent with Board-approved rates.

3.11 Bill Impacts

As shown at Exhibit 11, Tab 1, Schedule 1, there is no impact of this Application on Ontario transmission customers. The only impact is the revenue allocation as between transmitters.

APPENDIX I

CALCULATION OF TRANSMISSION REVENUE REQUIREMENT

LIST OF SPECIFIC APPROVALS

FNEI applies for an Order or Orders of the Board, issued pursuant to section 78 of the OEB Act approving:

a) FNEI's forecasted test year (2016) revenue requirement of $7.989 million, comprised of a transmission revenue requirement of $7.839 million and $150,000 of other revenue;

b) FNEI's proposed five-year incentive rate-setting ("IR") mechanism, which includes an inflation factor ("I"), productivity factor ("X"), stretch factor ("S"), Z-factor, and a trigger mechanism for a regulatory review in the event of a 300-basis point deviation from the ROE;

c) updated Uniform Transmission Rates for Ontario that allow FNEI to recover its forecasted test year (2016) revenue requirement; and

d) the establishment of a deferral account to track revenue requirement deficiencies incurred from January 1, 2016 until FNEI's proposed 2016 revenue requirement is approved.

3.0 Numerical Summary and Variance Analysis

Appendix I to this Schedule consists of a numerical summary of FNEI's capital expenditures (by asset class) from the Board-approved 2011 amounts through to the 2016 test year. The second page of Appendix I also shows year-over-year variances.

4.0 Accounting Treatment for Long-Term Projects

FNEI accounts for capital assets in accordance with IFRS. Costs included in the carrying amount of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of assets includes materials, services, direct labour and directly attributable overheads. Long-term projects are those projects that are under construction for a period of time greater than one year. Assets under construction are recorded as in progress until they are available for use, with the exception of enhancements to existing capital assets. These enhancements are recorded as capital assets as constructed and amortization commences in the month that the capital expense is incurred.

5.0 Cost Benchmarking or Utility Cost Comparisons

FNEI has not included a cost benchmarking study or utility cost comparisons to support its proposed expenditures, and does not believe inclusion of any such study or cost comparison would be productive in this or future rate cases, for several reasons. Most notably, though, there is, to FNEI's knowledge, no transmission utility that could be considered part of a peer group for FNEI. FNEI is a small transmitter in terms of rate base. It consists of a 270 km linear system with three stations, located at the terminus of a much larger network. FNEI serves four customers, one of which is far larger than the other three. It is located in a unique geological region (i.e., muskeg swampy plain lands) that is not services by road or rail (with the exception of a winter ice road which is operational only a few weeks a year when the muskeg freezes and an ice road is constructed). Without road access, and the need for major construction to occur during the narrow ice road season, construction costs are high.

Moreover, because FNEI is such a small transmitter, and the fact that many electricity transmission investments are expensive, FNEI's capital expenditures are unavoidably very "lumpy". There may be a material capital project going on during a particular year, followed by a few years without a major project. As a result, the size of FNEI's capital spend relative to FNEI's rate base in any given year, will vary widely. This is borne out in Appendix I (page 2) to this Schedule (year-over-year variances in capital expenditures). Finally, FNEI is such a small utility that the capital expenditure evidence FNEI can put before the Board is at a very granular level (i.e., detailed information on all capital projects) as noted in this Schedule, allowing for Board scrutiny at a very detailed level. For all of these reasons, FNEI is not sure how it would provide a cost benchmarking or utility cost comparison of any usefulness to the Board.

6.0 Capital Expenditure Year-over-Year Variance

As noted in section 5.0 above, FNEI's small size (coupled with the nature of transmission investments) makes capital expenditures seem "lumpy". Appendix I to this Schedule is comprised of two pages. The second page shows the year-over-year variances in FNEI's capital expenditures. The test year actual capital expenditures, as might be expected, was comparable to the Board-approved capital expenditures ($13,700 less), but is low compared to previous years.

The variances in subsequent years were all material (positively or negatively, depending upon the year). The most notable variations were actual expenditures in 2013 vs. 2012 (an increase of $6.7946 million), which largely reflects the completion of the new head office. The next year (2014) shows a drop in the previous year's capital expenditures by $7.2419 million, which reflects the completion of the head office. In the following year (actual 2015), spending increases by $5,7199 million (as compared to actual 2014) which in part reflects the commencement of the bus isolation project. For the test year, FNEI is forecasting a material drop in capital expenditures ($4.5921 vs. actual 2015).

As noted above, the variance is explained by the fact that in some years, FNEI may be undertaking a major project, followed by a year(s) without a major project. As a result, the size of FNEI's capital spend relative to FNEI's rate base in any given year, will vary widely.

APPENDIX I

NUMERICAL SUMMARY FOR CAPITAL EXPENDITURES AND YEAR-OVER-YEAR VARIANCES

RATE BASE OVERVIEW

1.0 Overview & Explanation of Numerical Schedules

As shown in the attached Appendix I to this Schedule, FNEI's proposed rate base for 2016 is forecasted to be $35,776,319.

This figure is calculated based on FNEI's gross PPE ($47,448,400, based on the average of the test year monthly asset values at cost) less accumulated depreciation ($11,822,100) plus an allowance for working capital ($150,000, based on a lead/lag study demonstrating an allowance for working capital of $153,900).

In early 2016, FNEI retained Navigant Consulting Ltd. ("Navigant") to undertake a lead/lag study. A copy of the study is found at Exhibit 3, Tab 1, Schedule 12. That lead/lag study recommended a working capital requirement of 3.55% of OM&A. FNEI has adopted this recommendation for the purposes of its proposed allowance for working capital.

The next several Schedules in this Tab (Schedules 2 through 9 inclusive) contain, for each year commencing with the Board-approved year through to the 2016 test year, the following:

- a single page summary of FNEI's gross PPE, accumulated depreciation, and net PPE, by asset class; and,
- a three page detailed schedule showing the monthly data underpinning the single page summary (i.e., the monthly asset values at cost, accumulated depreciation by month, and monthly net fixed asset values).

Exhibit 3, Tab 1, Schedule 10 contains (for each year from the Board-approved year through the 2015 year) a single page calculation of the allowance for working capital.

The following Schedule 11 of this Tab contains the allowance for working capital

calculation for the 2016 test year, using the results of the lead/lag study (instead of the previous Board-approved figure of 15% of OM&A expense).

The final Schedule 12 of this Tab contains the lead/lag study by Navigant.

2.0 Rate Base Variances

Appendix I to this Schedule provides the year-over-year variances in FNEI's rate base since FNEI's last rates case (EB-2009-0387). The rate base declines in the first three of the seven variance periods, reflecting the fact that the first material capital investment in FNEI's system was not brought into rate base until 2013 (outweighing FNEI's depreciation expense). From that period onward, FNEI's rate base increases in each year through to the test year – driven largely by the inclusion of FNEI's new office in rate base in 2013, its commencement of the bus isolation project in 2014, and of course its acquisition of the 80 km of transmission line from HONI in late 2015. The last three years of variances (using actuals) show rate base variances of $688,900 (2013 vs. 2012), $2,375,600 (2014 vs. 2013), and $1,286,400 (2015 vs. 2014). The test year rate base increases substantially (as compared to 2015) – by $4,118,100, reflecting the 80 km acquisition.

PERFORMANCE SCORECARD

FNEI is committed to achieving the outcomes outlined in the OEB's *Renewed Regulatory Framework for Electricity* ("RRFE") – namely, customer focus, operational effectiveness, public policy responsiveness and financial performance. The OEB's *Filing Requirements for Electricity Transmission Applications* contemplates the establishment of a transmitter scorecard as a key element of performance measurement. To date, no transmitter scorecard has been developed – although FNEI is aware of (and has reviewed) the Proposed Scorecard recently submitted by Hydro One Networks Inc. ("HONI") as part of its current transmission rate application (EB-2016-0160).

Due to the difference in size between HONI and FNEI, FNEI is not proposing to adopt HONI's Proposed Scorecard but would be amenable to a scorecard that is narrower in scope. Rather than propose an alternative scorecard in this rate application, FNEI will await the Board's determination on the HONI Proposed Scorecard. That having been said, FNEI offers the following thoughts on the HONI Proposed Scorecard, and what might or might not be applicable in the case of a small transmitter such as FNEI:

- Customer Focus: Because FNEI has only four customers (three of which are the owners of FNEI), FNEI would suggest that "Service Quality" be measured solely by Customer Delivery Point Performance Standards ("CDPPS") metrics. HONI's proposed customer satisfaction survey, and OGCC survey measuring satisfaction with outage planning performance are not applicable to FNEI's circumstances.

- Operational Effectiveness: FNEI would be amenable to an incident rate metric as a Safety performance measurement. In terms of a System Reliability performance metric, FNEI agrees that the CDPPS proposed by HONI make sense. As for Asset Management and Cost Control, FNEI would not be supportive of a metric that measures, for example, OM&A per Gross Fixed Asset Value; given that the value of FNEI's system is significantly greater than its rate base, as noted in Exhibit 1, Tab 1, Schedule 2 at page 4.

- Public Policy Responsiveness: In the case of FNEI, the only metric that may have relevance is the Regional Infrastructure metric (% Deliverables met).

- Financial Performance: The Financial Ratio metrics proposed in the HONI Proposed Scorecard appear to be relevant to any transmitter, including FNEI.

For convenience, the HONI Proposed Scorecard from EB-2016-0160 is attached as Appendix I to this Schedule.

CHARGE DETERMINANT FORECAST

1.0 Methodology

FNEI's proposed methodology for forecasting charge determinants involves two steps: (a) taking the historical average of the peak load data for FNEI's transmission customers (by asset pool) for the previous three calendar years (provided by the IESO via "Transmitter Reconciliation Final Data" files); and (b) communicating with FNEI's four customers about their expected usage in the test year (and near term) in order to determine whether any adjustments to the historical average is required.

[Filed on a confidential basis.]

2.0 Historical Information

[Filed on a confidential basis.]

3.0 Customer Input

[Filed on a confidential basis.]

4.0 Proposed Charge Determinants

FNEI's methodology yields the following proposed charge determinants for 2016 (as compared to FNEI's current Board-approved charge determinants):

Table 5-1-2-B Charge Determinants – Approved vs. 2016 Proposed

	Annual Charge Determinants (MW)		
	Network Pool	**Line Connection Pool**	**Transformation Connection Pool**
Current OEB-Approved	187.120	213.460	76.190
FNEI Proposed for 2016	231.743	256.124	73.986
Variance	44.623	42.664	(2.204)

5.0 Summary

FNEI believes that the forecasted charge determinants (which make up less than 1/10th of 1% of the total forecast of all transmitters in the Uniform Transmission Rate Calculation) are reliable, and based on the best available information.

APPENDIX I

Linear Charge Determinant Analysis

[Filed on a confidential basis.]

DEPRECIATION AND AMORTIZATION

FNEI uses the straight-line basis of calculating amortization on the cost of each asset, in accordance with IFRS.

The intent of the half-year rule is to provide an average amortization rate for additions throughout the year. FNEI has never used the half-year rule. Rather, amortization is calculated on a monthly basis, commencing on the date that an asset goes into service which is generally the date of purchase. By identifying additions and calculating amortization on a monthly basis, the expense is based on the in service date as opposed to arbitrarily assuming additions occurred equally throughout the year.

For capital projects, in service date is dependent upon the type of capital expenditure. In some cases amortization is taken monthly, as expenditures occur (e.g., gravel replacement project at a station) because the additional work/product is useful as constructed and availability is not dependent on project completion. In instances where availability is not dependent on project completion, expenditures are accumulated in an assets under construction account until such time as they are available for use which generally coincides with project completion.

The amortization rates used by FNEI are shown on the tables at Exhibit 6, Tab 3, Schedule 3, and have not changed since FNEI's last rates proceeding. As required by IFRS, the estimated useful lives of FNEI's assets are reviewed annually and differences from previous estimates are accounted for prospectively as a change in estimate.

Exhibit 6, Tab 3, Schedule 2 provides: (a) a numerical summary of FNEI's annual amortization expenses since its last rates case, broken down by asset class; and (b) the year-over-year variances in the amortization expenses noted in (a).

COST ALLOCATION TO RATE POOLS

1.0 FNEI's Current Cost Allocation to Rate Pools

FNEI and other transmitters have allocated their respective revenue requirements to the UTR asset pools on the same basis as Hydro One Networks Inc. ("HONI"). FNEI's Board-approved revenue requirement for 2016 (as set out in the current UTR) is as follows:

Table 9-1-1-A Approved Allocation for FNEI's Current Revenue Requirement

Network	Line Connection	Transformation Connection	Total
$3,701,645	$878,728	$1,746,716	$6,327,089

2.0 FNEI's Proposed Cost Allocation to Rate Pools

In this Application, FNEI is applying for a transmission revenue requirement of $7,839,200. Based on the current 2016 revenue requirement allocators, this applied-for revenue requirement would be allocated to the UTR asset pools as follows:

Table 9-1-1-B Allocation of FNEI's Applied-For Revenue Requirement

Network	Line Connection	Transformation Connection	Total
$4,586,301	$1,088,735	$2,164,164	$7,839,200

Table 11-1-1-B Proposed 2016 UTR Calculation

Transmitter	Revenue Requirement ($)			
	Network	Line Connection	Transformation Connection	Total
FNEI	$4,586,301	$1,088,735	$2,164,164	$7,839,200
CNPI	$2,608,113	$619,136	$1,230,705	$4,457,953
GLPT	$23,732,985	$5,633,935	$11,199,017	$40,565,936
HONI	$866,145,218	$205,612,810	$408,712,802	$1,480,470,830
B2M LP	$32,965,146	$0	$0	$32,965,146
All Transmitters	$930,037,763	$212,954,615	$423,306,688	$1,566,299,065

Transmitter	Total Annual Charge Determinants (MW)		
	Network	Line Connection	Transformation Connection
FNEI	231.743	256.124	73.986
CNPI	522.894	549.258	549.258
GLPT	3,498.236	2,734.624	635.252
HONI	249,552.000	241,956.000	207,936.000
B2M LP	0.000	0.000	0.000
All Transmitters	253,804.873	245,496.006	209,194.496

Transmitter	Uniform Rates and Revenue Allocators		
	Network	Line Connection	Transformation Connection
Uniform Transmission Rates ($/kW-Month)	**3.66**	**0.87**	**2.02**
FNEI Allocation Factor	0.00497	0.00515	0.00515
CNPI Allocation Factor	0.00280	0.00291	0.00291
GLPT Allocation Factor	0.02552	0.02646	0.02646
HONI Allocation Factor	0.93127	0.96549	0.96549
B2M LP Allocation Factor	0.03544	0.00000	0.00000
Total of Allocation Factors	1.00000	1.00000	1.00000

Table 11-1-1-C below shows the variances created FNEI's forecasted 2016 revenue requirement and charge determinant changes.

Table 11-1-1-C 2016 Variance in UTRs Driven by FNEI

Transmitter	Revenue Requirement ($)			
	Network	Line Connection	Transformation Connection	Total
FNEI	$884,656	$210,007	$417,448	$1,512,111
CNPI	$0	$0	$0	$0
GLPT	$0	$0	$0	$0
HONI	$0	$0	$0	$0
B2M LP	$0	$0	$0	$0
All Transmitters	$884,656	$210,007	$417,448	$1,512,111

Transmitter	Total Annual Charge Determinants (MW)		
	Network	Line Connection	Transformation Connection
FNEI	44.623	452.664	-2.204
CNPI	0	0	0
GLPT	0	0	0
HONI	0	0	0
B2M LP	0	0	0
All Transmitters	44.623	452.664	-2.204

Transmitter	Uniform Rates and Revenue Allocators		
	Network	Line Connection	Transformation Connection
Uniform Transmission Rates ($/kW-Month)	0	0	0
FNEI Allocation Factor	0.00099	0.00102	0.00102
CNPI Allocation Factor	-0.00001	0	0
GLPT Allocation Factor	-0.00002	-0.00002	-0.00002
HONI Allocation Factor	-0.00092	-0.00099	-0.00099
B2M LP Allocation Factor	-0.00004	0	0
Total of Allocation Factors	0.00000	0.00000	0.00000

4.0 Bill Impacts

As demonstrated in Table 11-1-1-C above, there is no impact of this application to Ontario rate-payers (i.e., there is no change to the network, line connection or transformation connection charge). The only impact is the revenue allocation as between transmitters.