<u>Administrative/Executive Summary</u>

1.0-Energy Probe-1

Reference: Exhibit 1, Tab 1, Schedule 1

Preamble: This Application is made in substantial accordance with Chapter 2 of the Board's *Filing Requirements for Electricity Transmission Applications,* dated February 11, 2016.

Please provide a Checklist relative to Chapter 2 of the TX Filing Guidelines.

<u>Response:</u>

The statement as to "substantial accordance" was not meant to single out anything specific in the filing requirements. It was merely meant as a general qualifier, given the generic nature of the filing requirements and the fact that FNEI is unique in many respects (size, non-profit status, operating environment, etc.). The Board has presumably determined that the application and evidence is now sufficiently complete to proceed. For these reasons, as well as the amount of time it would take for FNEI to prepare the checklist (for, in FNEI's submission, little benefit), FNEI believes such a checklist is not required for this proceeding.

1.0-Energy Probe-2 (See also 10.0- EP 13 & 14)

Reference: Exhibit 1, Tab 1, Schedule 1, Page 2

Preamble: FNEI has filed this Application for Rate Year 2016. It requests adjustments to the base transmission revenue requirement over the remaining four years of the IR period (ending December 31, 2020) by an inflation factor ("I"), a productivity factor ("X") and a stretch factor ("S").

Energy Probe would like to understand in more detail FNEI proposal(s) for setting rates in 2017-2020.

a) **Confirm whether in this proceeding (as opposed to a future application) FNEI is seeking specific OEB approval to set rates for 2017-20 by a Rate Cap Incentive Mechanism.**

b) **Please indicate whether, if the proposed IRM formula results in a deficit relative to the Revenue Requirement, how/will FNEI adjust rates (apart from general increases in the UTR due to Hydro One and Other Transmitters)?**

c) **Has FNEI considered if the proposed IRM Formula will provide adequate recovery of Capital Expense or whether an additional Capital Factor is required? Please Discuss.**

<u>Response</u>:

(a) and (b) See response at 10-Staff-46.

(c) FNEI did consider proposing a Capital Module, but did not, given that FNEI is not proposing extraordinary capital expenditures (see response at 2-Staff-17(d)) through 2020. Moreover, FNEI has (since its inception over 15 years ago) only had two rate hearings, meaning that FNEI has essentially managed its capital expenditures within a revenue requirement envelope set years earlier.

2. Transmission System Plan

2.0-Energy Probe-3

Reference: Exhibit 2, Tab 2, Schedule 1, Appendix I

a) Please provide a profile (chart) of FNEI major assets by major asset category (Lines, Transformation etc.).

b) Indicate for each group how FNEI defines age of assets and end of life assets.

c) Please provide FNEI's forecast 2016 capital expenditures on Sustainment (replacing assets), Development (new assets) and Operations (assets to support operations).

d) Please provide a 5 year outlook for Capex by category for 2016-2020.

Response:

See response at 2-Staff-14(h) to (k).

<u>3. Rate Base</u>

3.0-Energy Probe-4

References: Revised Exhibit 1, Page 46, Table 1-6, Exhibit 2, Page 52

Preamble: FNEI Rate Base

a) Please provide a Continuity Table Based in Exhibit 1-6 showing for 2015 and 2016 Capex, the In-service additions entering Rate Base in 2017.

b) For 2016 based on in-service date information, show Capex that will come in service and that flowing into later years.

c) Please provide the net in-service additions to Rate Base in 2016 and year end Rate Base.

d) Adjust the Return on Capital component of the 2016 Revenue Requirement to reflect actual In Service Additions (if material).

<u>Response</u>:

FNEI does not follow the references here.

<u>4. Service Quality and Reliability</u>

4.0-Energy Probe-5

References: Exhibit 4, Tab 1, Schedule 2, page 1; Table 4-1-2-A.

Preamble: FNEI uses its Customer Delivery Point Performance Standards (“CDPPS”), revised August 2008, to monitor service quality and reliability. CDPPS is comprised of two key metrics: (a) a System Average Interruption Frequency Index (“SAIFI”); and (b) a System Average Interruption Duration Index (“SAIDI”).

a) Please provide the period for the average DP System Reliability Indicators. TSAIDI and TSAIFI in Table 4-1-2-A

b) Please add 2016 data to Tables/Charts 4-1-2-B to 4-1-2-E.

c) Please indicate how many FNEI-related outages (SAIDI/SAIFI) were related to Hydro One and how many/duration were FNEI Outages.

d) Has twinning of the HONIs Moosonee Line produced reduced outages in 2016?

e) Does FNEI track other Reliability Indicators, as well as CDPPS, for example Worst Performing Circuits? If so, please provide historic Data for these.

f) Does FNEI track Outage Cause Codes? If so, please provide historic data including the Weather event of 2015.

<u>Response</u>:

(a) to (d) and (f) See response at 4-Staff-21.

(e) No. FNEI only has two circuits.

4.0-Energy Probe-6

Reference: Exhibit 4, Tab 1, Schedule 1, Page 1

Preamble: 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).

a) **Please explain FNEI position on the merits of a TX Scorecard.**

b) **Please explain why/why not tracking the 4 major components would assist FNEI and its customers.**

c) **Is FNEI willing to prepare a draft TX Scorecard for discussion with its customers? If so, please file a copy.**

<u>Response</u>:

See response at 4-Staff-20.

5. Operating Revenue

5.0-Energy Probe-7

References: Exhibit 1, Tab 5, Schedule 18 / OEB Directive #1: Exhibit 1, Tab 5, Schedule 17; Exhibit 6, Tab 2, Schedule 3

a) **Please provide an Affiliate Relations Chart and 2016 Transfers.**

b) **Please provide the recent/updated Master Service-level Agreements (MSAs).**

c) **Does FNEI Undertake non-regulated Businesses? If so, please describe these and provide a high level assessment of financial risks to the Regulated Utility Business.**

Response:

(a) FNEI has only one affiliate – Five Nations Developments Inc., which is a dormant/shell company. None of FNEI's three members are, strictly speaking, affiliates. FNEI's members are the three power corporations along the James Bay coast (Attawapiskat Power Corporation, Fort Albany Power Corporation, and Kashechewan Power Corporation). FNEI's response to 6-Staff-27 may be of assistance to Energy Probe.

(b) See response at 6-Staff-27(a).

(c) No.

5.0-Energy Probe-8

Reference: Exhibit 1, Tab 1, Schedule 3

Please provide an Updated/Corrected Revenue Requirement Work Form in Excel Format and provide an email copy to Energy Probe and its Consultants.

<u>Response</u>:

FNEI will provide.

5.0-Energy Probe-9

Reference: Exhibit 5, Tab 1, Schedule 3, Page 2 of 2 *Table 5-1-2-B*

a) Please indicate if the FNEI charge determinants for 2016 are based on the prior 3 year average, a customer projection for 2016 or both and the weighting applied to each to derive the numbers for each of Network, Line and Transformation.

b) Will FNEI stay with the 2016 determinants or provide updated Forecasts for the IRM Period and if so, will these be filed with the Board?

<u>Response</u>:

(a) The charge determinants are based on the three year average.

(b) FNEI had not planned on updating with annual filings, given FNEI's small size. Rather, FNEI anticipated only bringing forward new charge determinant evidence at its next re-basing.

6. Operations, Maintenance, and Administrative Expense

6.0-Energy Probe-10

References: Exhibit 6, Tab 1, Schedule 1, *Table 6-2-1-A*

a) Please provide a list and Revenue Requirement impact of the major drivers of the 18% increase in OM&A for 2016 over 2015.

b) Specifically provide a breakdown of major drivers for the increase in Operations costs from $825,000 to $1,267,800.

Response:

FNEI is not sure it can add much more than what has been said in respect of:

- Account 4820 (explanation at Exhibit 6/Tab 2/Schedule 1, page 4, lines 1 to 14)
- Account 4916 (Exhibit 6/Tab 2/Schedule 1, page 4, commencing at line 16)
- Account 5655 (Exhibit 6/Tab 2/Schedule 1, page 7, commencing at line 9)

6.0-Energy Probe-11

Reference: Exhibit 6, Tab 2, Schedule 2

a) Please provide more detail on Positions, Payroll and Compensation:
- **An organization chart showing positions added since 2010, including date of hire**
- **more detail on material salary/compensation changes in 2015/16, including specifically Executive Compensation.**

b) Please relate the changes/increases in Compensation to the increase in OM&A for each of 2015 and 2016

<u>Response</u>:

See response to 6-Staff-26.

7. Cost of Capital/Financial

7.0-Energy Probe-12

Reference: Exhibit 7, Tab 1, Schedule 1; *Tables 7-1-1-A & 7-1-1-B;* Tab 2, Schedule 1, p2

***Preamble:* To date, FNEI has re-invested all of its revenues back into its transmission business. However, FNEI may soon be in a position to be able to utilize some of its excess revenues (i.e., funds that would be considered "profit" if it were a for-profit corporation) to meet its other corporate objects.**

a) Please indicate FNEI's *actual* capital structure, including Embedded Debt.

b) Are the Term Loans fixed or variable rate? Please clarify.

c) Confirm if FNEI is planning any new debt in 2017-20 or relying on its Lines of Credit.

d) During the IRM period will FNEI accept OEB COC updates, or will it request relief, if its COC is higher than the OEB deemed/allowed?

e) Please provide current Liquidity, Leverage ratios and EBITDA/Debt ratio

f) Confirm FNEI has not paid dividends/shareholder payments. Based on the statement in the Preamble, please indicate future plans during IRM Period and indicate if these are contingent on the Board's Decision regarding whether to allow FNEI to earn a Return on Equity (or similar excess above the RR).

g) Please provide the Financial Statements for 2016 (Audited or Unaudited).

h) Please provide, in tabular form, the Regulatory Net Income and actual (notional) ROE for the period 2010-2016.

Response:

(a) FNEI's actual capital structure is approximately 30% debt and 70% equity.

(b) They are fixed.

(c) No new debt is currently planned.

(d) FNEI had not anticipated any cost of capital update during the IR term.

(e) See response at (a) above and the Performance Scorecard attached at 4-Staff-20(c).

(f) Confirmed.

(g) Please see attached.

(h) Please see the tables below. The latter provides updated information based on the most recent financial information.

2016 - Deemed	**Structure Principal ($000's)**	**Capital Component (%)**	**Indicated Cost Rate (%)**	**Return Component (%)**	**Return Component ($000's)**
Short Term Debt	1,431.1	4.00%	1.65%	0.07%	23.6
Long Term Debt	20,034.7	56.00%	5.10%	2.85%	1,021.1
Common Equity	14,310.5	40.00%	9.19%	3.68%	1,315.1
Total	35,776.3	100.00%		6.60%	2,359.9

2016 - Deemed *(2016-Draft Statements)*	**Structure Principal ($000's)**	**Capital Component (%)**	**Indicated Cost Rate (%)**	**Return Component (%)**	**Return Component ($000's)**
Short Term Debt	1,434.7	4.00%	1.65%	0.07%	23.7
Long Term Debt	20,085.5	56.00%	5.10%	2.85%	1,023.7
Common Equity	14,346.8	40.00%	9.19%	3.68%	1,318.5
Total	35,867.0	100.00%		6.60%	2,365.9

FIVE NATIONS ENERGY INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 & 2015

(Expressed in Canadian Dollars)

FIVE NATIONS ENERGY INC.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016 & 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	**$ 1,672,335**	$ 2,657,086
Accounts receivable (Note 7)	**1,236,989**	1,842,915
Prepaid expenses	**57,221**	-
Conservation and Demand Management Program (Note 9)	**546,110**	83,442
	3,512,655	4,583,443
RESTRICTED DEPOSITS (Note 8)	**4,500,000**	4,500,000
PROPERTY, PLANT AND EQUIPMENT (Notes 3, 5)	**36,088,905**	35,178,510
	$ 44,101,560	$ 44,261,953
LIABILITIES AND UTILITY EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	**$ 1,021,687**	$ 713,676
Conservation and Demand Management Program (Note 9)	**-**	-
Deferred revenue	**-**	-
Callable debt due in one year	**-**	-
Current portion of long-term debt (Note 10)	**772,411**	729,295
Current portion of finance lease (Note 11)	**-**	-
	1,794,098	1,442,971
Callable debt due thereafter	**-**	-
	1,794,098	1,442,971
LONG-TERM DEBT (Note 10)	**13,747,969**	14,506,749
	15,542,067	15,949,720
UTILITY EQUITY		
EQUITY IN GENERAL FUND (Notes 3, 12)	**2,990,967**	4,369,766
EQUITY IN INSURANCE RESERVE FUND (Notes 3, 12)	**4,000,000**	4,000,000
EQUITY IN CAPITAL FUND (Notes 3, 12)	**21,568,526**	19,942,467
	28,559,493	28,312,233
	$ 44,101,560	$ 44,261,953

Commitments, contingencies and subsequent events (Note 14)
Comparative figures (Note 17)

Approved by:

_________________________ _________________________

Director Director

See accompanying notes.

FIVE NATIONS ENERGY INC.

STATEMENT OF INCOME AND UTILITY EQUITY

YEARS ENDED DECEMBER 31, 2016 & 2015

	2016	2015
REVENUE		
Transmission services	**$ 6,263,342**	$ 6,271,819
Miscellaneous services	**90,829**	245,468
Interest income	**56,304**	81,502
	6,410,475	6,598,789
EXPENSES (Schedule 1)		
Administrative and general	**2,105,411**	2,116,810
Amortization	**1,473,350**	1,262,954
Interest	**772,962**	623,831
Transmission - Maintenance	**891,157**	798,753
Transmission - Operations	**919,260**	825,792
	6,162,140	5,628,140
INCOME BEFORE UNDERNOTED	**248,335**	970,649
GAIN ON DISPOSAL OF ASSETS	**(1,075)**	4,000
INCOME FROM OPERATIONS	**247,260**	974,649
UTILITY EQUITY, beginning of year	**28,312,233**	27,337,584
UTILITY EQUITY, end of year	**$ 28,559,493**	$ 28,312,233

See accompanying notes.

FIVE NATIONS ENERGY INC.

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 & 2015

	2016	2015
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 6,960,097**	$ 5,711,566
Cash paid to suppliers and employees	**(4,128,781)**	(4,458,748)
Interest receipts	**56,304**	81,502
Interest paid	**(772,962)**	(623,831)
CASH PROVIDED BY OPERATING ACTIVITIES	**2,114,658**	710,489
FINANCING ACTIVITIES		
Repayment of callable debt	**-**	(980,834)
Proceeds of long-term debt	**-**	5,800,000
Repayment of long-term debt	**(715,664)**	(622,454)
Repayment of capital lease	**-**	(71,354)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(715,664)**	4,125,358
INVESTING ACTIVITIES		
Purchase and construction of property plant and equipment	**(2,383,745)**	(6,712,069)
CASH USED IN INVESTING ACTIVITIES	**(2,383,745)**	(6,712,069)
CHANGE IN CASH	**(984,751)**	(1,876,222)
CASH, beginning of year	**2,657,086**	4,533,308
CASH, end of year	**$ 1,672,335**	$ 2,657,086

See accompanying notes.

NATURE OF BUSINESS

The corporation owns and operates electricity transmission lines along the western James Bay coast to the three First Nation communities of Attawapiskat, Kashechewan and Fort Albany, Ontario. The corporation is a non-profit corporation incorporated in Canada without share capital with its head office located in Moose Factory, Ontario, Canada. Its administration and operations office is located at 725 Highway 655 Timmins, Ontario. The Board of Directors is controlled by representatives of the participating First Nation communities.

The members are Attawapiskat Power Corporation, Fort Albany Power Corporation, and Kashechewan First Nation with the ultimate parents being the respective First Nations of the Power Corporations.

1. BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and using the accounting policies described herein.

The financial statements were authorized for issue by the Board of Directors on TBD.

(b) BASIS OF PRESENTATION

The financial statements have been prepared on a historical cost basis.

(c) FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest dollar.

(d) USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in Note 16.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) FINANCIAL INSTRUMENTS

Non-derivative financial assets

The corporation initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date, which is the date that the corporation becomes a party to the contractual provisions of the instrument.

The corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The corporation classifies non-derivative financial assets into the following categories: fair value through profit or loss and loans and receivables.

Fair value through profit or loss

Fair value through profit or loss are financial instruments either held for trading or designated as such upon initial recognition. Such assets are recognized at fair value, with changes in fair value recorded in net income in the period in which they arise.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and accounts receivables.

Non-derivative financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprises of accounts payable and amounts due to members. These liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date the corporation becomes a party to the contractual provisions of the instrument. The corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The corporation initially recognizes loans and receivables on the date that they are originated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) REVENUE RECOGNITION

The corporation recognizes revenue from transmission services when they are received by the customer, as determined by the Independent Electricity System Operator (IESO), a not-for-profit entity established by the Government of Ontario. Revenue is measured at the fair value of the consideration received or receivable.

Miscellaneous service revenue is recorded on the date of invoice, which generally coincides with the date of the service.

(c) HARMONIZED SALES TAX

Revenue, expenses and assets are recognized net of the amount of harmonized sales tax (HST). The net amount of HST recoverable from the taxation authority is included as part of accounts receivable. Cash flows are included in the cash flow statement on a net basis. The HST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(d) PROPERTY, PLANT AND EQUIPMENT, CONTRIBUTIONS IN AID OF CONSTRUCTION AND AMORTIZATION

All property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Funding received specifically for the construction of assets is credited to property, plant and equipment in accordance with International Financial Reporting Standards for utilities. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The annual depreciation rates used for each class of assets are as follows:

Station equipment	10 to 50 years
Poles and fixtures	15 to 40 years
Overhead conductors and devices	25 to 60 years
Buildings	20 to 40 years
Automotive and other equipment	2 to 10 years
Contributions in aid of construction	20 to 60 years

Gains or losses on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

(e) FUND ACCOUNTING

The corporation uses fund accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions. Funds are maintained as follows:

GENERAL FUND - reports on the general transmission activities of the corporation.

CAPITAL FUND - reports on the property, plant and equipment of the corporation, together with related financing.

INSURANCE RESERVE FUND - reports on the cash funded appropriated retained earnings set aside for damages to poles, fixtures, overhead conductors and devices.

OPERATING RESERVE FUND - reports on the cash funded appropriated retained earnings set aside for unanticipated operational requirements. There are currently no appropriations to this fund.

CAPITAL RESERVE FUND - reports on the cash funded appropriated retained earnings set aside for unanticipated future capital improvements. There are currently no appropriations to this fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these financial statements. The corporation does not plan to adopt these standards early and the extent of the impact has not been determined:

IFRS 9: Financial Instruments, changes in the classification and measurement of financial assets (effective for periods beginning on or after January 1, 2018).

4. FINANCIAL RISK MANAGEMENT

As at December 31, 2016, the financial instruments of the corporation consist of cash, accounts receivable, restricted deposits, accounts payable and accrued liabilities, due to conservation and demand program, callable debt, finance lease and long-term debt.

Overview
The corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk

Risk management framework
The Board of Directors of the corporation has overall responsibility for the oversight of the corporation's risk management framework and the objectives of minimizing risk. Risk management procedures are established to monitor the risk faced by the corporation. There have been no changes in risk management objectives in the period.

The corporation's risk management policies are established to identify and analyse the risks faced by the corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the corporation's activities. The corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all management understand their roles and obligations.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The corporation is exposed to this risk through various financial instruments, for example by granting loans and receivables to customers and by placing deposits. The corporation's accounts receivable consists primarily (2015: 86%, 2014: 56%) of amounts due from Independent Electricity System Operator, a not-for-profit established by the Government of Ontario, in respect of revenue from transmission services. As such, management is of the opinion that credit risk is negligible. No allowance for doubtful accounts has been established in respect to these amounts.

(b) Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The corporation manages its liquidity needs by monitoring scheduled debt servicing payments for callable debt, finance lease and long-term debt as well as forecast cash inflows and outflows due in day-to-day business.

The corporation ensures that it has sufficient cash on hand to meet expected operational expenses by preparing an annual budget; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the corporation maintains a $500,000 line of credit, for which interest would be payable at the rate of prime.

(c) Interest rate risk

The corporation is exposed to Interest rate risk through changes in interest rates through bank borrowings and other borrowings. The companies borrowings are all at fixed interest rates. The exposure to interest rates for the corporation is considered immaterial as the rates are fixed term.

5. PROPERTY, PLANT AND EQUIPMENT AND AMORTIZATION

	COST	ACCUMULATED AMORTIZATION	NET **2016**	NET 2015
Station equipment	$ 36,844,020	$ 9,037,953	**$ 27,806,067**	$ 26,778,443
Poles and fixtures	50,928,530	17,421,624	**33,506,906**	34,788,677
Overhead conductors and devices	20,441,101	6,018,211	**14,422,890**	14,800,475
Land and buildings	5,361,602	721,697	**4,639,905**	4,810,694
Automotive and other equipment	1,884,322	1,006,623	**877,699**	784,832
	115,459,575	34,206,108	**81,253,467**	81,963,121
Less contributions in aid of construction	(66,798,592)	(21,634,030)	**(45,164,562)**	(46,784,611)
	$ 48,660,983	$ 12,572,078	**$ 36,088,905**	$ 35,178,510

Contributions in aid of construction consists of Aboriginal Affairs and Northern Development Canada (AANDC) funding received for the acquisition and construction of station equipment, poles and fixtures, overhead conductors and devices, the transmission line between Moosonee and Kashechewan, Ontario and related station equipment constructed by De Beers and transferred to the corporation in December 2010 at the turn-key contract price. De Beers will reimburse the corporation annually for incremental costs of operating the line during the life of the Victor Mine near Attawapiskat, Ontario. The Victor Mine is currently expected to discontinue operations in December 2018. See schedule 2 for a full breakdown of property, plant and equipment.

6. BANK INDEBTEDNESS

The corporation has an authorized operating facility of $500,000 with the Bank of Montreal bearing interest at bank prime. The facility was not being utilized at December 31, 2016.

7. RELATED PARTY TRANSACTIONS

The corporation is related to the individual First Nations and their respective power corporations by virtue of significant influence. Accounts receivable includes the following amounts due for services in the regular course of business:

	2016	2015
Attawapiskat Power Corporation	**$ 105,564**	$ 17,802
Fort Albany Power Corporation	**91,448**	2,724
Kashechewan Power Corporation	**20,818**	2,858
	$ 217,830	$ 23,384

7. RELATED PARTY TRANSACTIONS (CONT'D)

Accounts payable and accrued liabilities include the following amounts due for services in the regular course of business:

	2016	2015
Attawapiskat Power Corporation	**$ 83,736**	$ 70,180
Fort Albany First Nation (Note 14)	**93,063**	36,583
Fort Albany Power Corporation	**13,091**	27,692
Kashechewan First Nation (Note 14)	**37,083**	42,857
Kashechewan Power Corporation	**19,532**	4,817
	$ 246,505	$ 182,129

The corporation purchases goods and services from the member power corporations in the normal course of operations including the following:

	2016	2015
Electricity at OEB approved rates	**$ 47,777**	$ 37,639
Station checks at exchange amount	**$ 37,088**	$ -
Construction and maintenance at exchange amount	**$ 608,926**	$ 398,458

Key management personnel compensation included:

	2016	2015
Salaries	**$ 407,127**	$ 432,720
Employee benefits	**59,994**	48,001
	$ 467,121	$ 480,721

8. RESTRICTED DEPOSITS

	2016	2015
Insurance Reserve (Note 12)	**$ 4,000,000**	$ 4,000,000
Bank of Montreal GIC as required by PWB/Manulife for additional BMO borrowing, bearing interest at 1.9%, maturing November 2016.	**500,000**	500,000
	$ 4,500,000	$ 4,500,000

9. CONSERVATION AND DEMAND MANAGEMENT PROGRAM

In September 2014, the corporation agreed to provide administrative services to the Conservation and Demand Management Program instituted by the IESO for the three member distribution corporations. Revenues and expenses for this program are not included in the statement of income. The balance consists of a receivable from the LDCs as a result of overexpending in program (unexpended receipts for the program in 2014).

10. LONG-TERM DEBT

	2016	2015
Pacific & Western Bank of Canada and Manulife Financial Corp. loan payable bearing interest at 5.5%, secured by a general security agreement, repayable in blended monthly payments of $75,246, maturing February 2028.	**$ 7,506,907**	**$ 7,986,907**
Bank of Montreal loan payable, secured by land, office building with a net book value of $4,308,732 and a general security agreement, bearing interest at 4.61% per annum, repayable in blended monthly payments of $10,897, maturing November 2020.	**1,498,060**	**1,558,249**
The Manufacturers Life Insurance Company and Pacific & Western Bank of Canada loan payable bearing interest at 5.5% secured by a general security agreement, repayable in blended monthly payments of $37,365, maturing December 2027.	**5,591,389**	**5,770,898**
	14,596,356	**15,316,054**
Less: Finance acquisition costs related to The Manufacturers Life Insurance Company and Pacific & Western Bank of Canada loan maturing December 2027 and amortized on a straight basis over the life of the loan.	**(75,976)**	**(80,010)**
	14,520,380	**15,236,044**
Less: Current portion	**(772,411)**	**(729,295)**
	$ 13,747,969	**$ 14,506,749**

Principal payments due within the next five years and thereafter are approximately as follows:

2017	$ 772,411
2018	803,181
2019	845,696
2020	883,084
2021	6,273,293
Thereafter	5,018,691
	$ 14,596,356

12. UTILITY EQUITY

	General Fund	Capital Fund	Insurance Reserve Fund	**Total**
Balance at January 1, 2015	$ 4,718,874	$ 18,618,710	$ 4,000,000	**$ 27,337,584**
Net income for year 2015	974,649	-	-	**974,649**
Appropriations for year 2015:				
Property, plant and equipment additions	(6,712,069)	6,712,069	-	**-**
Amortization	1,262,954	(1,262,954)	-	**-**
Gain on disposal of property, plant				
Proceeds on disposal of property, plant				
NET proceeds of long-term debt	5,177,546	(5,177,546)	-	**-**
NET proceeds of callable debt	(980,834)	980,834	-	**-**
NET proceeds of finance lease	(71,354)	71,354	-	**-**
Balance at December 31, 2015	4,369,766	19,942,467	4,000,000	**28,312,233**
Net income for year 2016	247,260	-	-	**247,260**
Appropriations for the year 2016:				
Property, plant and equipment additions	(2,383,745)	2,383,745	-	**-**
Amortization	1,473,350	(1,473,350)	-	**-**
Gain on disposal of property, plant				
Proceeds on disposal of property, plant				
Repayment / proceeds of long-term debt	(715,664)	715,664	-	**-**
Balance at December 31, 2016	$ 2,990,967	$ 21,568,526	$ 4,000,000	**$ 28,559,493**

Pursuant to the OEB rate decision dated November 1, 2010, the company must establish an operating reserve fund and a capital reserve fund. The OEB requires that these be cash funded. The maximum permitted amounts of these funds is currently $1,750,000 and $275,000 respectively. The policies for funding and accessing these reserves have been established and approved by the company and are subject to OEB approval. Application of the policies will commence upon approval by the OEB. Once fully funded, transmission rates will be reduced by approximately $1,000,000 annually.

Under the terms of the Pacific & Western Bank of Canada and Manulife Financial Corp. loan payable, the corporation must establish and maintain an insurance reserve fund of $4,000,000. Cash set aside for the insurance reserve are reported as restricted deposits.

13. CAPITAL MANAGEMENT

Capital is comprised of the corporation's utility equity and long-term debt. As at December 31, 2016, the corporation's utility equity was $28,559,493 and it's outstanding long-term debt was $14,596,356. The corporation's objectives when managing capital are to continue as a going concern to protect its ability to meet its on-going liabilities and to minimize expenditures over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum debt covenant levels and internally determined capital guidelines based on risk management policies.

The long-term debt is subject to loan covenants which require the corporation to maintain a minimum debt service ratio of 1.20:1 and a debt to equity ratio of 1.50:1. For the purposes of the debt to equity ratio, equity is calculated as utility equity plus 30% of contributions in aid as disclosed in Note 3.

The corporation was in compliance with these covenants at December 31, 2016.

14. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The corporation renewed an Operating Services Agreement with Hydro One Networks Inc. which expires September 2016. Under the agreement, the corporation is obligated to make minimum annual payments of $264,776 of which $62,993 is recoverable from De Beers pursuant to a connection and cost recovery agreement.

The corporation is involved in claims and litigation arising in the normal course of business. Any settlements or awards will be reflected in the period in which they become determinable. It is managements opinion that no damages will be payable by the corporation as a result of these claims and litigation.

The corporation has agreed to pay $110,000 per year for the period September 1, 2010 to August 31, 2016 ($45,980 to Fort Albany First Nation and $64,020 to Kashechewan First Nation) in respect to the transmission line's right of way across the Albany 67 reserve lands near the communities of Kashechewan and Fort Albany, Ontario. Pursuant to the connection and cost recovery agreement, $55,000 of the annual fee is recoverable from De Beers.

15. EMPLOYEE BENEFITS

The corporation and its employees contribute equally to a pension plan. The corporation's maximum contribution is between 5% and 9% of earnings, based on different criteria. The stipulations of this plan are: the employee must work a minimum of 20 hours a week and be in the corporation's employ for a minimum of three months.

Total employee benefits expensed in the income statement for year ended December 31, 2016 is $171,942 (2015 - $135,643).

16. CRITICAL ACCOUNT ESTIMATES AND JUDGEMENTS

The corporation makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) LEASES

In some cases, management is required to use judgment to determine whether leases are operating leases or finance leases where there is a transfer of risks and rewards incidental to ownership. Based on these judgements, management may classify the lease as a finance lease.

(b) USEFUL LIFE AND RESIDUAL VALUE OF PROPERTY, PLANT AND EQUIPMENT

Management is required to use judgment when determining the useful life and the residual value of the items included in property, plant and equipment. Differences in the estimated lives and residual values from those determined by management could result in material differences in the carrying amount of the assets and the amortization recorded as an expense.

(c) ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is managements opinion that accounts receivable are fully collectable and as such no allowance for doubtful accounts is required.

17. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current period's presentation.

FIVE NATIONS ENERGY INC.

SCHEDULES OF EXPENSES

YEARS ENDED DECEMBER 31, 2016 & 2015

	2016	2015
Administrative and general		
Community relations	$ 129,108	$ 129,226
Administration salaries and expenses	704,967	768,781
Insurance	424,932	415,216
Maintenance of general plant	92,211	103,426
Office and other	85,530	83,964
Outside services	125,241	201,089
Regulatory expenses	385,365	240,597
Travel	158,057	174,511
	2,105,411	2,116,810
Amortization	1,473,350	1,262,954
Interest	772,962	623,831
Transmission - Maintenance		
Transformer station equipment	323,047	252,313
Maintenance of towers, poles and structures	568,110	546,440
	891,157	798,753
Transmission - Operations		
Load dispatching	349,660	305,886
Stations buildings and fixtures	55,082	47,312
Station operations wages	396,741	386,349
Rent	117,775	86,244
	919,258	825,791
	$ 6,162,138	$ 5,628,139

FIVE NATIONS ENERGY INC.

SCHEDULE 2

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

YEARS ENDED DECEMBER 31, 2016 & 2015

	Cost				Accumulated Amortization				**NBV**	NBV
	Opening	Additions	Disposals	Closing	Opening	Amortization	Disposals	Closing	**Dec. 31, 2015**	Dec. 31, 2014
Station equipment	$ 34,742,936	$ 2,101,083	$ -	$ 36,844,019	$ 7,964,493	$ 1,073,460	$ -	$ 9,037,953	**$ 27,806,066**	$ 26,778,443
Poles and fixtures	50,926,533	1,997	-	50,928,530	16,137,856	1,283,768	-	17,421,624	**33,506,906**	34,788,677
Overhead conductors and devices	20,440,366	735	-	20,441,101	5,639,891	378,320	-	6,018,211	**14,422,890**	14,800,475
Land and buildings	5,344,505	17,097	-	5,361,602	533,811	187,886	-	721,697	**4,639,905**	4,810,694
Automotive and other equipment	1,614,302	285,200	(15,180)	1,884,322	829,470	177,152	-	1,006,622	**877,700**	784,832
	113,068,642	2,406,112	(15,180)	115,459,574	31,105,521	3,100,586	-	34,206,107	**81,253,467**	81,963,121
Less: Contributions in aid of construction	66,768,592	30,000	-	66,798,592	19,983,981	1,650,049	-	21,634,030	**45,164,562**	46,784,611
Total Dec. 31, 2016	$ 46,300,050	$ 2,376,112	$ (15,180)	$ 48,660,982	$ 11,121,540	$ 1,450,537	$ -	$ 12,572,077	**$ 36,088,905**	
Total Dec. 31, 2015	$ 39,587,981	$ 6,761,725	$ (49,656)	$ 46,300,050	$ 9,858,586	$ 1,312,610	$ (49,656)	$ 11,121,540		$ 35,178,510

8. Deferral and Variance Accounts

8.0-Energy Probe-13

Reference: Exhibit 10, Tab 1, Schedule 1, Page2

a) **Please provide the draft accounting Order for the 2017 Z-Factor Deferral Account.**

b) **How will FNEI Finance costs arising from major Z-factor events until recovery in rates?**

Response:

(a) See the response to 10-Staff-36(c).

(b) FNEI will finance these costs out of cash on hand or FNEI's operating line of credit. If it were a type of expense that would be covered by its Insurance Reserve, then the money would come out of that Reserve.

<u>10. Incentive Rate Setting Plan</u>

10.0-Energy Probe-14

References: Exhibit 6, Tab 5, Schedule 1, Page 1; Exhibit 10, Tab 1, Schedule 1, Page2

Preamble: As a threshold to establishing future Z-factor events, FNEI proposes to employ a materiality threshold of $100,000. This materiality threshold (referred to in this section as the "Z-Factor Materiality Threshold") is in excess of the materiality threshold of $50,000 applicable to this Application (referred to in this section as the "Application Materiality Threshold" and set out in Exhibit 1, Tab 4, Schedule 1). The Z-Factor Materiality Threshold has been proposed in excess of the Application Materiality Threshold to comply with Section 2.8.12 of the *Filing Requirements for Electricity Transmission Applications*, dated February 11, 2016 (the "Filing Requirements").

a) Is the Z factor intended, among other things, to allow for unexpected equipment failures? Please clarify scope of Z-factor criteria.

b) Has FNEI considered a higher Threshold given its unique circumstances? Please Discuss.

<u>Response</u>:

(a) and (b) FNEI would be amenable to a higher threshold of $400,000. Realistically, any unanticipated, required expenditures under that amount would be managed by FNEI in the normal course of business.

10.0-Energy Probe-15

Reference: Exhibit 10, Tab 1, Schedule 1

Preamble: This Application represents the first time that FNEI is proposing a multi-year incentive rate setting plan ("IR Plan"). In doing so, FNEI has had regard to the amended *Filing Requirements for Electricity Transmission Applications*, chapter 2, p. 5 (February 11, 2016). FNEI's proposal is a revenue cap index proposal.

a) Does FNEI accept that to date, the OEB has not approved an IRM for Transmission Companies?

b) If FNEI is seeking OEB approval <u>now</u> for its proposed Rate Setting Mechanism to set rates in 2017-2020, what is FNEI's Position regarding a hearing or separate phase of this hearing?

<u>Response</u>:

(a) Agreed.

(b) FNEI reads this question as being the same as 1.0-Energy Probe-2(a).

11. Uniform Transmission Rates

11.0-Energy Probe-16

Reference: Exhibit 11, Tab 1, Schedule 1, Page 2

If Hydro One TX's requested 2017-20 revenue requirement(s) is/are not approved by the OEB as applied for, how will this affect FNEI's "ask" and 2016 and 2017 Revenue Requirements? Please Discuss.

Response:

FNEI is unsure of what is being asked here. FNEI has requested a revenue requirement for 2016 and a mechanism for adjusting rates for the subsequent four years. The OEB can make any number of determinations in respect of FNEI's "ask". If this question relates to timing associated with setting a new base revenue requirement, please see response to 1-Staff-8.