OPERATING COSTS OVERVIEW

1.0 Overview

FNEI's operating costs include operations, maintenance and administration ("OM&A") expenses; depreciation and amortization; and taxes. This Schedule provides an overview of FNEI's operations, maintenance and administration ("OM&A") expenditures. More detailed OM&A information is provided in Exhibit 6, Tab 2, Schedules 1 through 7. Information on FNEI's depreciation and amortization expense is provided in Exhibit 6, Tab 3, Schedule 1. Information on FNEI's tax expense is provided in Exhibit 6, Tab 4, Schedule 1.

2.0 OM&A Levels (all figures in $'000s)

FNEI's proposed OM&A expenditures for the 2016 test year will allow for the continued safe, reliable, secure, cost-efficient and environmentally responsible operation of the transmission system. A summary of FNEI's OM&A expenses since its last rate proceeding is presented in Table 6-1-1-A below.

Table 6-1-1-A Summary of OM&A Expenses

(000's)	2010 OEB approved	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 proposed
Total OM&A	$3,354.9	$3,229.2	$3,045.8	$3,299.8	$3,426.0	$3,741.4	$4,336.0
Variance vs. Previous Year	--	- $125.7	- $183.4	$254.0	$126.2	$315.4	$594.6
% Variance vs. Previous Year	--	- 4%	- 6%	8%	4%	9%	16%
% vs. 2010 OEB approved	--	- 4%	- 9%	- 2%	2%	12%	29%

n) Please advise whether the expenses included in the executive salaries and expenses category (Account 5605) is only related to Five Nations Energy's Board of Directors. If not, please provide a detailed breakdown of the executive salaries and expenses category (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).

o) Please provide a breakdown of Five Nations Energy's Board of Director costs by year (2010-2016) and by category (honorarium, travel costs, disbursements, etc.) (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).

p) In 2013, an average Board of Directors meeting cost approximately $35,000. Please explain what is included in that cost and provide a breakdown of the cost of an average Board of Directors meeting. Please advise whether Five Nations Energy has considered holding Board of Directors meetings through teleconference or online meeting to avoid some of the costs (Exhibit 6 / Tab 2 / Schedule 1 / p. 6).

q) Please provide the appraisal report that resulted in Five Nations Energy increasing its property insurance coverage (Exhibit 6 / Tab 2 / Schedule 1 / p. 7).

Response:

(a) See table below:

(000's)	2010 OEB Approved	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Unaudited
Operations	$615.2	$545.6	$690.2	$676.7	$852.3	$825.7	$919.3
Maintenance	$450.0	$546.6	$433.3	$750.3	$747.4	$798.8	$891.2
Administration	$2,289.8	$2,137.6	$1,922.3	$1,872.9	$1,826.3	$2,116.9	$2,105.4
Total OM&A	$3,354.9	$3,229.2	$3,045.8	$3,299.8	$3,426.0	$3,741.4	$3,916.0

(b) A description and breakdown of the OM&A expense categories is as follows:

- *Load Dispatching* (Account 4810): The majority of costs in this Account (approximately $300,000) are incurred pursuant to an Operating Services Agreement between FNEI and Hydro One Networks Inc. ("HONI"). This Agreement covers transmission system monitoring, certain asset operation functions, emergency response, abnormal condition response, and associated record maintenance and IT support). The remainder of the costs in this category relate to telecommunications costs, and include $15,000 for telecommunications at each of the three stations, and $52,000 for a fixed price contract

FNEI is seeking an increase in OM&A in the test year of $981.1 (vs. the OM&A expense currently in FNEI's revenue requirement, based on EB-2009-0387). This increase is driven by inflation, the addition of FTEs as well as adjustments to employee compensation, and the acquisition of 80 km of additional transmission line from Hydro One Networks Inc. ("HONI").

FNEI has proposed these expenditure levels through its OM&A budgeting process and its asset management planning. FNEI's budgeting process is further discussed in Section 3.0 below, and its asset management planning is further discussed in Exhibit 2, Tab 1, Schedules 1 and 2. Based on this process, FNEI is seeking an OM&A expenditure of $4.336 million for 2016.

3.0 OM&A Budget Process

The goal of FNEI's budgeting process is to ensure that the budget is sufficient to operate a safe, reliable, secure, cost-efficient and environmentally responsible transmission system. The approach is very much a "bottom up" approach, based on assessing the needs of the organization and examining the most recent years' historical costs.

Operations and administration cost estimates are partially based on historical costs, and modified after gathering input from key employees and external service providers. Given FNEI's small size, FNEI is often assessing whether addressing an issue is more cost-effectively accomplished via outsourcing certain tasks, or taking on the task internally through existing or new internal resources. Preparation of the budget is ultimately the responsibility of the CEO, but it is very much developed in conjunction with the Financial Controller and the Finance Committee of the Board of Directors, before being approved by the Board of Directors.

Maintenance cost estimates are prepared based on information gathered through FNEI's asset management planning, which is described at Exhibit 2, Tab 1, Schedules 1 and 2. Capital asset information is gathered through ongoing inspections, testing and asset condition assessments carried out by FNEI's internal and external technical experts. This information is reviewed and informs the establishment of the maintenance budget, which incorporates: (a) industry reliability standards; (b) good utility practices; (c) employee safety considerations; (d) public safety considerations; (e) good environmental practices; (f) considerations of historical spending patterns; and (g) maximizing the operational life of FNEI's existing assets in service.

4.0 General Cost Drivers

The requested $981.1 increase in OM&A in the test year (vs. the OM&A expense currently in FNEI's revenue requirement, based on EB-2009-0387) is driven by three main factors: (a) inflation; (b) the addition of three FTEs, and adjustments to employee compensation; and (c) the acquisition of an additional 80 km of transmission line to FNEI's system. A more detailed variance analysis of specific OM&A expenses is provided in Exhibit 6, Tab 2, Schedule 1.

4.1 Inflation

The bulk of FNEI's OM&A expenditures arise from third party contracts, materials and supplies, or internal labour costs, all of which are subject to either inflation or wage and benefit changes. It is appropriate, then, to consider the impact of inflation on FNEI's OM&A expenses over the 70 month period from March 1, 2010 (effective date from EB-2009-0387) and January 1, 2016 (FNEI's proposed effective date in this proceeding).

Over that period, the increase in All-items CPI in Ontario was 9.97%. When applied to the OEB-approved 2010 OM&A cost of $3.355 million, the OM&A would have expected to increase by $334.5 by January 1, 2016 (i.e., the inflation-only adjusted OM&A in 2016 would be $3.689 million). This means that inflation accounts for just over one-third of the incremental OM&A sought by FNEI in this proceeding.

4.2 Additional FTEs and Adjustments to Employee Compensation

See Exhibit 6, Tab 2, Schedule 2 for details of hiring of additional FTEs and adjustments to employee compensation.

4.3 Acquisition of Additional 80 km

On October 15, 2015, FNEI purchased the southernmost 80 km of the Original Line (i.e., the first 80 km of the Original Line heading north out of the Moosonee station) from HONI. Thus, whereas prior to October 2015, FNEI was responsible for operating and maintaining 369 km of transmission line (190 km of the Original Line and 179 km of the Twinned Line), since October 2015, FNEI is responsible for operating and maintaining 449 km of transmission line (270 km of the Original Line and 179 km of the Twinned Line). This larger asset base will increase FNEI's operating and maintenance expenses by (in FNEI's estimation) at least $50,000 per year. This is based on the lowest actual OM&A figure provided to FNEI by HONI, based on HONI's ownership and maintenance of that 80 km. FNEI expects this maintenance costs associated with this additional 80 km to be lumpy (e.g., periodic brush clearing).

5.0 Cost Efficiencies

Looking at the table above you can see that the bulk of the increase in projected 2016 expense is the addition of two additional operational employees. The amount for 2016 proposed Operational Staff Wages (6) also includes the one time 10% salary adjustment discussed elsewhere in the evidence. $30k of the variance is due to the fact that FNEI did not receive any invoicing for the substation weekly checks in 2015. As noted above invoicing was received for station checks performed in 2016.

(h) i. At the time of FNEI's last rate case, FNEI management surveyed compensation rates for similar employment positions at other employers in the area. FNEI adjusted wage rates for operational staff at that time, and instituted an annual CPI wage increase. It was thought that this would keep FNEI's wages competitive with other similar employers in the area, the main ones being HONI, OPG, and the mining industry. It has since become apparent that FNEI's competitors (with respect to attracting employees) also included an approximate 2% annual increase in addition to CPI, with the end result being that by midpoint 2015, FNEI was once again falling behind in its compensation levels. FNEI management discussed this at length with the finance committee and a recommendation was made to implement this one time 10% adjustment. This was implemented January 1, 2016, and is not contingent on the outcome of this rate proceeding.

(h) ii. See answer to (h) i. above. Also, in order to further assess the appropriateness of this increase, FNEI went through the 2014 'sunshine' list for both HONI and OPG employees for positions that were similar to FNEI's operational staff job positions. This was not completely straightforward because HONI and OPG, due to their much larger size, had much more specialized positions in many cases. FNEI's staff, by contrast, are required to have a much broader skill set and job responsibilities. The positions identified in the 2014 'sunshine' list that correlated most closely with FNEI's operational staff job requirements had an annual salary range of $105,000 to $183,000 ("Protection & Control Technologist" and "Regional Maintainer 1 – Electrical"). FNEI's management recommendation to the Finance Committee was to set these positions in the $120,000 per year range with the apprentices set at standard journeyman rates for the industry. This translated to a 10% one-time adjustment for the operational staff.

(h) iii. As noted in the answer to (h) i. above, FNEI competes with employers in the area that have collective agreements with their staff. These collective agreements normally have annual salary increases of CPI plus 1.5 to 2%. These employers also do not require their employees to spend significant time away from home for work purposes. FNEI did not want to find itself in a position of acting as a training facility for other employers. As of today, FNEI has developed two individuals from first year apprentices to full-fledged journeyman substation electricians. This represents a significant investment in time and money. With this certification, these employees

are qualified to work almost anywhere should they choose to look elsewhere. Everyone is very much aware of HONI's and OPG's aging workforce and the inducements they are able to offer to individuals such as FNEI's current operational staff.

(h) iv. No. However, see previous responses in (h) i. and iii.

(h) v. The pay increase applies to 8 FTEs.

(h) vi. The total cost that this 10% increase comes to is: $59,566.50. This amount makes up 19.1% of the requested compensation increase proposed for 2016.

(h) vii. Assuming that the question is asking for the CPI-only increase for 2016 based on salary rates for existing positions as of December 31, 2015 the total increase in cost would be $9,530.64

(i) FNEI records its maintenance activities either as planned maintenance or unplanned (emergency) maintenance activities. FNEI has always included in its annual budgeting a certain amount for unplanned or emergency maintenance. In the previous rate proceeding, FNEI included an amount of $90,000 (based on $30,000 per station site) for unplanned maintenance. This application includes an amount of $45,000 per site for unplanned maintenance. The additional increase between actual 2015 and proposed 2016 is related to ongoing maintenance activities planned for 2016 and subsequent periods.

(j) Please refer to the table below for a comparison of ROW clearing activities and other transmission line maintenance activities (all figures in $):

	2010	2011	2012	2013	2014	2015	2016
Unplanned/Emergency Line Maintenance	67,019	17,233		48,762	16,573	52,9234	2,839
Reg. Line Maintenance	296,681	248,723	201,966	46,676	5,194	34,141	34,685
ROW Brushing			9,526	440,394	491,943	483,025	559,853
TOTAL	363,700	265,956	211,492	535,832	513,710	570,090	597,378

2010: Significant anchor replacement and guy wire re-tensioning work was done.

2011: Activities included insulator testing and replacement, as well as fibre line maintenance.

2012: Primarily anchor replacement and guy wire re-tensioning work.

Response:

(a) No. Board of Directors costs are not included in Table 6-2-2-A

(b) Table 6-2-2-A is updated immediately below with actual figures for 2016:

All figures except FTEs shown in $000's	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual
Number of FTEs (including part time)						
Executive & Management	2	2	2	2	3	3
Non-Management	4	5	5	6	6	6
Total	**6**	**7**	**7**	**8**	**9**	**9**
Total Salary & Wages ($)						
Executive & Management	245.8	276.2	260.8	277.9	432.7	407.1
Non-Management	188.1	260.5	295.8	403.1	360.7	328.3
Total	**433.9**	**536.7**	**556.6**	**681.0**	**793.4**	**735.4**
Total Current & Accrued Benefits ($)						
Executive & Management	32.2	33.0	31.0	33.3	48.0	60.0
Non-Management	30.3	46.9	49.7	67.9	87.6	111,9
Total	**62.6**	**79.9**	**80.7**	**101.2**	**135.6**	**171.9**
Total Compensation (Salary, Wages & Benefits) ($)						
Executive & Management	278.1	309.2	291.9	311.2	480.7	467.1
Non-Management	218.5	307.4	345.8	471.0	448.3	440.3
Total	**496.6**	**616.6**	**637.3**	**782.2**	**929.0**	**907.4**

(c) The amounts in Table 6-2-2-A are broken down between Executive & Management and Non-Management. As such, in Table 6-2-1-B (cost categories and amounts) Non-Management Salary and Benefits are contained in Account 4820 Transformer Station Equipment Labour, and Account 5615 General Admin Salaries and Expenses.

Executive & Management Salary and Benefits in Table 6-2-2-A are contained in Account 5605 Executive Salaries & Expense and Account 5610 Management Salaries and Expenses in Table 6-2-1-B (cost categories and amounts).

(d) i. FNEI only hired one additional apprentice in 2016. FNEI reached the maximum number of apprentices under the journeyman/apprentice ratio mandated by the Ministry of Training. FNEI was waiting for the rate application process to complete before hiring another substation electrician.

(d) ii. The text in the evidence at Exhibit 6/Tab 2/Schedule 2, page 2, line 3 is incorrect (where it states "…planning to add two apprentices and one substation electrician, to bring the total number of apprentices to three, and the total number of substation electricians to three"). FNEI

EMPLOYEE COMPENSATION

1.0 Compensation

In accordance with the Filing Requirements, FNEI has prepared Table 6-2-2-A setting out employee compensation for the period from 2011 Actual through to the 2016 Test Year. FNEI's employees are split, for the purposes of Table 6-2-2-A into: (a) Executive & Management; and (b) Non-Management. None of FNEI's employees are unionized.

Table 6-2-2-A Summary of Employee Compensation

All figures except FTEs shown in $000's	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 proposed
Number of FTEs (including part time)						
Executive & Management	2	2	2	2	3	3
Non-Management	4	5	5	6	6	8
Total						
Total Salary & Wages						
Executive & Management	245.8	276.2	260.8	277.9	432.7	404.3
Non-Management	188.1	260.5	295.8	403.1	360.7	463.8
Total	**433.9**	**536.7**	**556.6**	**681.0**	**793.4**	**868.0**
Total Current & Accrued Benefits						
Executive & Management	32.2	33.0	31.0	33.3	48.0	56.2
Non-Management	30.3	46.9	49.7	67.9	87.6	116.8
Total	**62.6**	**79.9**	**80.7**	**101.2**	**135.6**	**173.0**
Total Compensation (Salary, Wages & Benefits)						
Executive & Management	278.1	309.2	291.9	311.2	480.7	460.4
Non-Management	218.5	307.4	345.8	471.0	448.3	580.6
Total	**496.6**	**616.6**	**637.3**	**782.2**	**929.0**	**1041.1**

2.0 Employees

As explained in Exhibit 6, Tab 1, Schedules 1 and 2, FNEI has increased its employee count in recent years in order to move certain operations and maintenance functions in-house, keep pace

Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2013-0321

IN THE MATTER OF AN APPLICATION BY

ONTARIO POWER GENERATION INC.

PAYMENT AMOUNTS FOR PRESCRIBED FACILITIES FOR 2014 AND 2015

DECISION WITH REASONS

November 20, 2014

overstaffing issues, its compensation levels remained excessive and that there were serious concerns regarding a lack of management oversight and accountability. SEC recommended disallowances of $100M in each of the test years. Both LPMA and CCC argued for the same reductions, on largely the same basis. Staff argued for OM&A reductions totaling $170M over 2 years, of which the majority would be attributable to compensation.

OPG submits that its compensation costs should be accepted by the Board as filed. It argued that there is no evidence that OPG could have reached a more favourable result through its collective bargaining and arbitration processes. OPG submits that it achieved very positive results in its most recent collective agreements: a "net zero" result for the PWU, and a modest wage increase for the Society, which was imposed by an arbitrator. OPG argues that it is legally required to collectively bargain within the confines of the Ontario *Labour Relations Act*, and that it achieved the best results possible under that framework. It relies on the evidence[56] of Dr. Richard Chaykowski, who testified that general compensation benchmarking studies are of limited value in a collective bargaining environment. The PWU and Society made similar arguments.

Board Findings

The Board has determined that it will disallow $100M from OPG's proposed total OM&A expenses in each of 2014 and 2015. This OM&A reduction relates directly to what the Board finds to be excessive compensation, and it applies to both the nuclear and hydroelectric businesses.

OPG's high total compensation costs have been a matter of concern for the Board for many years. In OPG's first payments proceeding (EB-2007-0905) the Board disallowed $35M in OM&A costs related to poor performance at Pickering A. The Board also found that OPG had not been responsive to benchmarking recommendations. The Board ordered OPG to conduct additional benchmarking studies for its next application.

The Board revisited compensation issues in OPG's second payments proceeding (EB-2010-0008). In that decision, the Board stated that it was "of the view that OPG has opportunities to reduce the overall number of employees further as a means of controlling total costs and enhancing productivity."[57] The Board also found that, "the

[56] Exh F4-3-1 Attachment 1
[57] Decision with Reasons, EB-2010-0008, page 85

[compensation] analysis provides sufficient evidence to conclude that for a significant proportion of OPG's staff the compensation is excessive based on market comparisons." The Board disallowed $145M in nuclear compensation costs over the two year test period. The Board further directed OPG to retain an expert to conduct benchmarking studies on its nuclear staffing and on its overall compensation levels.

Since the last payments case, OPG undertook a number of measures in an attempt to control its overall compensation costs. In 2011, OPG introduced a Business Transformation initiative to reduce staff levels in response to expected decreases in capacity and energy production in the coming years. The Business Transformation initiative has resulted in a steady decline in the number of employees in both the regulated and unregulated sides of its business. From 2011 to 2015, OPG will reduce its staff numbers by approximately 1,300 in its regulated businesses, which is more than 10% of its complement. OPG estimates that these staff reductions result in savings of approximately $550M – i.e. absent the Business Transformation initiative OPG would have incurred $550M more in costs for the period 2011 to 2015.[58]

Despite OPG's reduction of 10% of its workforce in the regulated business, total compensation amounts are forecast to go up over the test period: from $1,581M in 2010 to a forecast of $1,618.1M in 2015. This is due to higher average compensation per employee. The large average increases are driven in part by increased pension costs resulting from changes to the discount rate.[59]

The Board is not the only body that has expressed concern regarding OPG's compensation levels. On December 10, 2013, the Auditor General of Ontario released its annual report which included a review of OPG human resources polices over a 10 year period. The Auditor General noted that "OPG's generous compensation and benefits negatively impact electricity costs."[60] The Auditor General stated that despite the Business Transformation process, there are still many areas relating to compensation and benefits practices that need further improvement.[61]

[58] Exh A4-1-1
[59] Tr Vol 8 page 40 - MS. LADAK: Yes, in terms of total compensation, wages are going down as a result of headcount reductions. But as a result of pension increases, due to, largely, discount rate changes, total compensation is going up.
[60] News Release, Office of the Auditor General of Ontario, December 10, 2013
[61] Exh KT2.4, Annual Report of the Auditor General, page 153

There is significant evidence on the record that OPG's overall compensation costs are higher than they should be. This evidence includes the Auditor General's annual report (the details of which were reviewed with OPG in the hearing), the Goodnight Consulting report and the AON Hewitt report. The nuclear benchmarking reports based on the ScottMadden methodology further details OPG's poor overall cost effectiveness. These reports are discussed below. The Board observes a number of factors that drive these excessive compensation costs: too many staff and management, too much compensation (including pensions) for many of OPG's unionized employees, and a lack of management oversight with respect to performance management and overtime.

4.1.1 Staffing Levels

The following table summarizes historic and test period staffing levels.

Table 18: Staffing Levels

Full Time Equivalent ("FTE")	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Plan	2015 Plan
Nuclear	8,445.4	8,215.1	6,761.8	6,554.2	6,579.7	6,519.9
Previously Regulated Hydroelectric	359.7	369.4	343.8	321.5	343.1	340.9
Newly Regulated Hydroelectric	584.3	617.4	600.9	584.0	599.5	582.2
Allocated Corporate Support	1,091.4	1,072.4	2,299.0	2,142.7	2,043.8	1,952.6
TOTAL	**10,480.8**	**10,274.3**	**10,005.5**	**9,602.4**	**9,566.1**	**9,395.6**
Management	1,101.7	1,099.2	1,095.6	1,091.0	1,101.0	1,076.3
Society	3,269.0	3,254.6	3,112.6	2,909.2	3,043.3	2,965.6
PWU	6,012.9	5,840.7	5,711.0	5,542.0	5,371.7	5,300.3
EPSCA	97.2	79.8	86.3	60.2	50.1	53.4
TOTAL	**10,480.8**	**10,274.3**	**10,005.5**	**9,602.4**	**9,566.1**	**9,395.6**

Source: J9.7, EPSCA - Electrical Power Systems Construction Association

The area where OPG has made the most progress is with respect to staffing levels, as demonstrated by the staff reductions they have achieved through the Business Transformation initiative. At the Board's direction, OPG retained Goodnight Consulting Inc. ("Goodnight") to conduct a staffing benchmarking study for the nuclear business specifically.[62] Goodnight compared OPG's nuclear staffing levels against the 16 largest

[62] Exh F5-1-1

4.1.3 Other Compensation Issues

The Board is also troubled by a lack of management oversight in some areas, which was noted in the Auditor General's report. Performance reviews of unionized staff, which are supposed to be conducted prior to an employee's advancement through the salary bands, appear to often not occur. In cross examination, OPG's witness stated that there was in fact no formal requirement for performance reviews at all.[87]

The Board also notes the Auditor General's comments in its report with respect to OPG's management of overtime. The Auditor General found that "management of overtime at OPG still required significant improvement" and that in a significant number of cases there was no supporting documentation for overtime approval.[88] This has been identified as an area of poor planning, and thus the Board finds this to be an area of potential improvement in efficiency.

The Board observes the link between OPG's poor performance in the three key metrics of nuclear benchmarking presented in the annual reports based on the ScottMadden methodology (Total Generating Cost, Unit Capability Factor and Nuclear Performance Index), and high staff compensation costs. As described in further detail in the Nuclear OM&A and Benchmarking section, OPG has failed to reach the targets it set for itself in the Total Generating Cost metric. Compensation costs are a major driver of the "costs" side of the Total Generating Cost equation, and OPG's high compensation costs are undoubtedly one of the reasons that it performs so poorly on this metric. OPG's poor productivity – in other words its poor performance on the key "bang for buck" metric – results in significant incremental expense. These are matters that are broadly speaking at least partially within the control of OPG's management, and it is not reasonable to pass all of these costs on to ratepayers.

For illustrative purposes and based on the 2012 OPG nuclear benchmarking report, Board staff estimated the savings if OPG's Total Generating Cost was at the median. Costs would be reduced by approximately $300M per year (Total Generating Cost Differential x production forecast). If OPG were to actually achieve top quartile, the savings would be $725M per year. The Board will not make disallowances even close to these amounts. However poor management controls, and overall productivity are a consideration in the Board's findings.

[87] Tr Vol 8 pages 121-123
[88] Exh KT2.4, Annual Report of the Auditor General, pages 174-175.

4.1.4 Conclusion with Respect to Disallowances to OM&A for Excessive Compensation

The Board disallows $100M in each of 2014 and 2015 due to the finding of excessive compensation. As detailed above, there are several drivers to this finding: excessive salaries (chiefly relating to the PWU), excessive pension costs, too many unionized and management staff, poor performance on the Total Generating Cost metric (which is related to excessive salaries and number of staff), and a lack of management oversight with respect to performance management and overtime.

One of the Board's important functions is to act as a market proxy. Regulation exists to prevent the abuse of monopoly power. Absent regulation, monopoly service providers would be able to pass on any cost to its captive consumers, and there would be little incentive for the provider to exercise cost control or seek efficiencies. The Board finds that it would not be reasonable to pass all of OPG's compensation costs on to ratepayers.

The Board has relied to some extent on the benchmarking evidence before it in making this decision. Benchmarking analysis is commonly used by both the Board and other regulators to assist with the assessment of the reasonableness of a utility's costs or performance. OPG itself recognizes the value of benchmarking, which is shown by its support of the ScottMadden nuclear benchmarking studies. OPG's shareholder is also a supporter of benchmarking: the Memorandum of Agreement between OPG and its shareholder in fact requires OPG to benchmark itself against other electricity generators, and to set performance measures against these benchmarks.

The Board is mindful that benchmarking, while useful, is not a precise tool. It provides a high level picture of OPG's compensation situation, but cannot be expected to produce an exact dollar figure by which OPG's compensation is too high (or, in theory, too low). For this reason, the Board will not simply make disallowances based on a straight mathematical differential between OPG and the 50th percentile of the appropriate benchmark. The Board also understands that there are limits to what OPG can achieve on a year to year basis,[89] and that it has made some progress in recent years. The Board is therefore making disallowances that are significantly less than what the

[89] For example, the Government of Ontario report released on August 1, 2014, *Report on the Sustainability of Electricity Sector Pension Plans* indicates that a reasonable phase-in period for achieving a pension contribution ratio of 1:1 would be 5 years.

Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2013-0416/EB-2014-0247

IN THE MATTER OF AN APPLICATION BY

HYDRO ONE NETWORKS INC.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2015 TO 2019

DECISION
March 12, 2015

As is the case with any benchmark comparison, the need for cogent evidence to justify a level of spending or level of service quality is commensurate with its deviation from the level demonstrated by similar distributors. For instance, if a company spends more for a particular service or activity than most other comparable companies, it must provide more evidence for the level of proposed spending than if its level of spending was less than comparable companies. The OEB uses benchmarking as a tool to focus and prioritize its attention on certain costs. Benchmarking increases the efficiency of regulatory oversight. It does not replace the need for substantiating evidence in support of spending levels.

Hydro One did not provide sufficient evidence in support of its proposed compensation spending. The company did not demonstrate that the market requires the level of compensation proposed in order to attract and retain the necessary employees. In the absence of such evidence the OEB will use the market median as a reference point for the percentage of compensation costs that will be included in the rates paid by Hydro One's customers.

As previously stated, in arriving at an appropriate OM&A budget it is critical to ensure that Hydro One has sufficient funds to operate a safe and reliable system. The OEB must balance the ability of Hydro One to perform the work that is necessary to maintain the system and the fairness to its customers in paying for a level of compensation that has not been satisfactorily substantiated. In the absence of evidence indicating that higher levels of compensation are justified, the market median compensation level provides an indication that Hydro One customers are being asked to pay too much for the provision of the service they receive. As noted above, Hydro One indicated that if its compensation level were set at the market median level it would result in a reduction of about $15.4 million per year in OM&A costs.

While the OEB recognizes the progress that Hydro One has made over the last few years in getting closer to the market median, the OEB does not find that it is fair that ratepayers pay for a 10% premium over the market median. The OEB, however, will not disallow the entire 10% premium. Rather, the OEB will require efficiency from Hydro One by disallowing half of that amount from the revenue requirement, or $7.7 million per year, each year for 2015, 2016 and 2017. The OEB still expects Hydro One

(d) FNEI has finalized the operating agreement with Hydro One for the costs recorded in Account 4810 (Load Dispatching). When the cost estimates were put together for the rate application the incremental cost for the additional 80 km was estimated to be around $51,073.51 with the overall contract cost estimated to be $300,000. The additional approximate $40,000 ($91k-$51k) can be attributed to the new cost model.

(e) Account 4820 compared to 4815 and 4916.

Account	2011	2012	2013	2014	2015	2016
4815	54.6	39.7	48.0	51.5	47.3	59.9
4916	280.6	221.8	214.4	233.7	228.7	325.7
Subtotal	335.2	261.5	262.4	285.2	276.0	385.6
Change		(73.70)	+0.9	+22.8	(9.2)	+109.6
Net Change						+50.4
4820	205.6	270.2	269.5	423.6	386.3	724.9
Change		+64.60	(0.7)	+154.10	(37.3)	+338.6
Net Change						+519.3

(f) As noted in the evidence, and at several points in these interrogatory responses, FNEI is a small company operating a complex system in a remote and harsh environment. Access to the station sites is by air only with surface access via train transportation and ice road available for only four to eight weeks during the winter. While transmission stations share some commonality across companies and regions, the fact remains that each station is unique and has its own operating and design characteristics. FNEI realized very early on that continued reliance on outside contractors would be problematic. The majority of contractors that are available specialize only in construction (e.g., station build) and their personnel tended to have very specialized expertise (i.e., each individual knowledgeable about a particular part of station operations and maintenance), meaning that contractors and subcontractors tended to require multiple trips or multiple personnel per trip in order to perform required maintenance. Even with the sourcing of appropriate outside contractors on this basis, FNEI still found itself being responsible for all the planning and logistical coordination of positioning materials, travel and accommodations, and interaction with the IESO. FNEI also found itself in the position of having to deal with staff turnover at the contractors, and delays and costs associated with new staff having to familiarize themselves with the specifics of FNEI's equipment. In terms of utilizing HONI's resources, FNEI always had the impression that its needs were secondary to HONI's internal priorities and requirements – which FNEI believes was causing delays in personnel being available to meet FNEI's needs. It was also challenging to find qualified personnel within these external contractors that were agreeable to spending the time very far away from home,

Response:

(a) FNEI understands that almost all utilities in Ontario use the All Items-CPI, and only a few use a different increase – and then, typically just for labour-related costs (salaries, wages, benefits, etc.) but still use All-Items CIP for the remainder of their costs.

(b)(i) Hydro One was responsible for maintenance of the 80 km when Hydro One owned the asset.

(b)(ii) Based on information received from Hydro One, their OM&A associated with the 80 km was:

Year	OM&A Cost
2002	$74,000
2003	$98,000
2004	$119,000
2005	$104,000
2006	$130,000
2007	$123,000
2008	$96,000
2009	$93,000
2010	$55,000
2011	$57,000

(b)(iii) FNEI has not split out its OM&A costs specifically for this 80 km of line, but has included it within its overall maintenance activities and planned expenditures.

(b)(iv) For the 80 km of line, FNEI is already responsible for performing maintenance on the twinned line immediately adjacent to the 80 km (as well as both lines from the 80 km mark north to Fort Albany – and then to Attawapiskat). Pre-acquisition, any helicopter patrols or ground-based maintenance activities by FNEI on the twinned line all began at Moosonee and (of necessity) travelled along the route of the 80 km of newly acquired line. The exact cost savings are difficult to quantify, but as an example a typical helicopter patrol of the line from Moosonee to Fort Albany is $15,000 (the helicopter and staff are mobilized from Cochrane). Pre-acquisition, the 80 km route would have to be patrolled by FNEI (for the twinned line) and HONI (for the 80 km of the original line). Now only one patrol is needed. This is an annual savings, as FNEI typically patrols once per year.

(c) Moving External Services In-House: As discussed in other parts of the evidence and these responses, FNEI is a young company working with fairly new assets. As these assets age, the maintenance requirement and associated costs increase. FNEI originally had a maintenance and emergency response contract with HONI. This responsibility is now performed by FNEI staff. To compare the cost of continuing with a service contract like this with work performed by staff

An account-by-account summary of FNEI's OM&A costs from 2011 actuals through the 2016 test year is provided in Table 6-2-1-B. FNEI's last OEB-approved OM&A amount was approved on an envelope basis, and not on an account-by-account basis, so the "2010 Board approved" column has been omitted from the following detailed OM&A tables.

Table 6-2-1-B OM&A Expenses by Uniform System of Accounts

($000s) USofA	Description	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 proposed
	Transmission Expenses – Operation						
4810	Load Dispatching	$207.3	$278.0	$273.3	$291.7	$305.9	$397.0
4815	Station Buildings and Fixtures Expense	54.6	39.7	48.0	51.5	47.3	59.9
4820	**Transformer Station Equipment - Labour**	**205.6**	**270.2**	**269.5**	**423.6**	**386.3**	**724.9**
4850	Rents	78.0	102.3	85.9	85.5	86.2	86.0
	Transmission Expenses – Maintenance						
4916	Mtce – Transformer Station Equipment	280.6	221.8	214.4	233.7	228.7	325.7
4930	Mtce – Poles, Towers and Fixtures	266.0	211.5	535.8	513.7	570.1	545.0
	Billing and Collecting						
5335	Bad Debt Expense	9.0	-	-	-	-	-
	Community Relations						
5410	Community Relations - Sundry	71.2	48.6	72.1	54.9	35.9	34.0
5415	Energy Conservation	250.6	198.6	114.1	58.3	93.3	30.0
5420	Community Safety Program	-	-	-	-	-	9.0
	Administration and General Expense						
5605	Executive Salaries and Expense	524.6	516.4	549.3	425.5	597.8	604.3
5610	Management Salaries & Expenses	163.4	159.3	169.3	185.0	275.2	318.7
5615	General Admin. Salaries and Expenses	68.2	85.7	104.3	103.2	115.2	115.7
5620	Office Supplies and Expenses	14.9	16.7	24.6	22.7	18.0	24.8
5630	Outside Services Employed	366.1	206.6	257.2	200.9	201.1	209.0
5635	Property Insurance	134.7	123.8	136.1	231.3	253.7	252.0
5640	Injuries and Damages	151.7	165.1	165.4	163.8	161.5	166.0
5655	Regulatory Expenses	340.8	352.4	246.8	255.3	240.6	324.0
5665	Miscellaneous General Expenses	-	-	-	35.7	21.0	30.0
5670	Rent	38.4	40.9	27.8	-	-	-
5675	Maintenance of General Plant	3.5	8.3	5.7	89.8	103.4	80.0
	TOTAL OM&A	**$3,229.2**	**$3,045.8**	**$3,299.8**	**$3,426.0**	**$3,741.4**	**$4,336.0**

2.0 OM&A Trends and Cost Drivers (all figures in $'000s)

This section of FNEI's written evidence explains any year-over-year variations (increases or decreases) of $50.0 or greater. Explanations are provided on an account-by-account basis over

with an external service provider for daily monitoring of the telecommunications system, responding to system faults, etc.

- *Station Buildings and Fixtures* (Account 4815): This Account includes FNEI's operating expenses at its transformer stations and fibre optic shelters, as follows: Attawapiskat ($8,300 in electricity costs; $5,000 in other costs), Fort Albany ($11,300 in electricity costs; $5,000 in other costs) and Kashechewan ($19,300 in electricity costs; $5,000 in other costs) and Moosonee ($6,000 in other costs). Other costs include snow removal, miscellaneous maintenance and repairs, and other building service expenses.

- *Transformer Station Equipment – Labour* (Account 4820): This Account includes salaries and benefits relating to the operation of the transformer stations, and include (as of 2016) three substation electricians and three apprentices (6 FTEs). This compares to just one substation electrician and no apprentices in 2013 (1 FTE). The increased labour personnel (and consequent costs) result from having more assets to manage (80 km, more robust telecommunications system, spare transformers, etc.), system assets that are starting to age (and hence require more active maintenance), and moving maintenance functions in-house. Also included in this Account are annual staff training costs of approximately $30,000, technician supplies and disbursements of approximately $15,000, and payments to LDC staff to carry out weekly checks of the stations (approximately $30,000 per year).

- *Rents* (Account 4850): This Account includes land rental fees to the provincial Crown (Ministry of Natural Resources and Forestry), pursuant to a land use permit for locating assets on Crown land ($30,000). It also includes annual fees to each of the three First Nations, pursuant to section 28(2) *Indian Act* permits ($56,000 in total), to locate assets on Reserve lands.

- *Maintenance – Transformer Station Equipment* (Account 4916): This Account includes the following costs: meter service provider costs (which varies each year), travel and accommodation for planned maintenance of the three transformer stations ($160,000, based on historical costs), maintenance costs associated with equipment used to support the telecommunications equipment ($25,000), unplanned station maintenance costs ($45,000) and costs for standby generators at Kashechewan and Attawapiskat ($60,000).

- *Maintenance – Poles, Towers and Fixtures* (Account 4930): This Account includes brush clearing along the right-of-way ($250,000), helicopter ground patrols, pole straightening and other identified maintenance activities ($200,000), unplanned

often 3 to 4 consecutive days at a time, to complete the tasks required. A work around would have been using chartered aircraft to fly personnel in for the work day and back home again in the evening, but this adds an extra $5,000 to $10,000 per day of maintenance work. Cost savings was not necessarily the main driver to hire additional technical staff (as opposed to relying on external contractors) – but rather due to the fact that it was not feasible to meet appropriate maintenance requirements and FNEI's delivery point performance standards with external contractors. The average hourly rate of external qualified personnel (in the $250/hr range) is, though, a factor.

(g) FNEI is forecasting an increase of $340,000 in Account 4820 (Station Equipment Labour) from actual 2015 expenditures. As noted in the evidence, FNEI has increased its staffing complement from one operations manager and one apprentice to two substation electricians and two apprentices. The forecasted increase in expenditures is due to FNEI's plans to increase the number of substation electricians to three and the number of apprentices to three. Please reference the following table for the individual line items that make up the forecasted cost increases:

Five Nations Energy Inc.

4820 Increase Itemized	2016 Proposed	2015 Actuals Audited	Variance
(a) 5068 Substation Electrician Wages (2)		219,630.57	
(b) 5069 Substation Electrician Benefits		41,268.94	
(c) 5072 Substation Electrician Apprentices (2)		203,220.37	
(d) 5074 Apprentice Benefits		32,240.14	
5068 Operational Staff Wages (6)	531,719	*422,850.94*	108,868.36
5069 Operational Staff Overtime (30%)	159,516		159,515.79
5070 Operational Staff Benefits (15%)	103,685	*73,509.08*	30,176.18
5071 Operational Staff Capitalized Wages	(150,000)	(152,106.38)	2,106.38
5078 Operational Staff PPE supplies	15,000	9,259.60	5,740.40
5079 Operational Staff Training Costs	35,000	32,835.76	2,164.24
5070 Substation Weekly Checks	30,000	-	*30,000.00*
4820 TransformerStnEquip.Operations Labour	**724,920**	**386,349.00**	**338,571.35**

Note: For Comparative purposes the 2015 separate amounts for labour and benefits were combined.
422,850.94 equals (a) plus (c).
73,509.08 equals (b) plus (d).
Note: (a) and (c) are actual wages paid including overtime.
Note: No invoicing from the ldc's were received for station checks in 2015.
Actual Station Checks invoicing for 2016 was $37,087.50

Numbers may not add due to rounding.

Table 2
Base OM&A - Nuclear ($M)

Line No.	Resource Type	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan	Test Period Percentage[1]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	**Labour[2]**	832.4	827.1	834.0	844.7	859.0	846.9	874.3	885.0	887.9	69.9%
2	**Overtime[2]**	48.6	46.7	54.5	47.8	46.1	46.5	46.1	47.4	47.8	3.8%
3	**Augmented Staff**	3.1	3.6	4.4	3.3	4.5	3.5	3.0	2.6	1.6	0.2%
4	**Materials**	85.1	73.4	83.4	70.5	68.4	68.2	68.5	71.1	70.8	5.6%
5	**License**	34.2	32.6	34.5	36.4	37.2	38.7	39.6	40.2	40.6	3.2%
6	**Other Purchased Services**	100.0	98.7	108.4	164.1	161.1	185.1	180.8	178.3	187.3	14.3%
7	**Other**	24.3	44.9	40.3	35.0	34.2	37.0	36.2	40.2	40.3	3.0%
8	**Total Base OM&A**	1,127.7	1,127.1	1,159.6	1,201.8	1,210.6	1,226.0	1,248.4	1,264.7	1,276.3	100.0%

Notes:
1 Test Period Percentage = Sum of Test Period Resource Costs divided by Sum of Test Period Base OM&A.
2 Includes Regular and Non-Regular staff

(l) iii. FNEI has not included $30,000 in offsetting revenue for each year during the 2016-2020 period as FNEI has no expectation of receiving this type of funding from the IESO for this period. FNEI believes that it will incur $10,000 per year in energy conservation related activities in each of its communities per year going forward and that it is appropriate for these expenses to be included in FNEI's cost of service.

(m) Please refer to the following table:

FNEI Salaries compared to Outside Services Employed

	2010	2011	2012	2013	2014	2015	2016
Total FNEI Salaries & Expense:	365,294	496,577	616,568	637,342	782,172	929,030	907,375
Percentage Increase 2016 Compared to 2010:							60%
Total Outside Services Employed:	312,808	281,526	185,861	239,577	184,425	196,179	119,389
Percentage Decrease 2016 Compared to 2010:							62%
Net Dollar Increase:							348,662

As described in the table above FNEI's 'in-house' salary and expenditures have increased from $365,000 to $907,000 from 2010 to 2016 while FNEI's utilization of outside services has decreased from $313,000 to $119,000. This translates into a net increase of spending of $348,662 in 2016 as compared to 2010. Setting up the juxtaposition of these line items (as this question does) seems to suggest that the "correct" outcome (for ratepayers) should be lower overall costs – and if they're higher, how can they be justified from a ratepayer standpoint. That might be a sensible approach in a static system, but as noted throughout the evidence, the FNEI system of 2016 is not the same system as it was in 2010. There have been significant capital additions, the acquisition of 80 km, and what was a fairly new system is now starting to age. In addition, as explained in the response to (h) above, FNEI's existing staff compensation levels required adjustment. Simply put, what FNEI requires of its employees (and external contractors) today is substantially more than what was required of its employees (and external contractors) in 2016. However, quite apart from this, there is a real benefit to ratepayers from FNEI now having the requisite expertise to operate and maintain its system in-house. A major factor in building FNEI's expertise in house was to mitigate the risk that outside advisors with the requisite skills and corporate memory and culture would no longer be available. FNEI needed to establish itself as largely self-sufficient. As discussed elsewhere, FNEI realized that as its assets aged, more maintenance work would be necessary, and reliance on outside advisors and contractors would no longer be responsible, or in many cases feasible.

(n) and (o) The amount in Account 5605 is not restricted to FNEI's Board of Directors. A detailed breakdown of Account 5605 is as follows:

Response:

(a) FNEI understands that almost all utilities in Ontario use the All Items-CPI, and only a few use a different increase – and then, typically just for labour-related costs (salaries, wages, benefits, etc.) but still use All-Items CIP for the remainder of their costs.

(b)(i) Hydro One was responsible for maintenance of the 80 km when Hydro One owned the asset.

(b)(ii) Based on information received from Hydro One, their OM&A associated with the 80 km was:

Year	OM&A Cost
2002	$74,000
2003	$98,000
2004	$119,000
2005	$104,000
2006	$130,000
2007	$123,000
2008	$96,000
2009	$93,000
2010	$55,000
2011	$57,000

(b)(iii) FNEI has not split out its OM&A costs specifically for this 80 km of line, but has included it within its overall maintenance activities and planned expenditures.

(b)(iv) For the 80 km of line, FNEI is already responsible for performing maintenance on the twinned line immediately adjacent to the 80 km (as well as both lines from the 80 km mark north to Fort Albany – and then to Attawapiskat). Pre-acquisition, any helicopter patrols or ground-based maintenance activities by FNEI on the twinned line all began at Moosonee and (of necessity) travelled along the route of the 80 km of newly acquired line. The exact cost savings are difficult to quantify, but as an example a typical helicopter patrol of the line from Moosonee to Fort Albany is $15,000 (the helicopter and staff are mobilized from Cochrane). Pre-acquisition, the 80 km route would have to be patrolled by FNEI (for the twinned line) and HONI (for the 80 km of the original line). Now only one patrol is needed. This is an annual savings, as FNEI typically patrols once per year.

(c) Moving External Services In-House: As discussed in other parts of the evidence and these responses, FNEI is a young company working with fairly new assets. As these assets age, the maintenance requirement and associated costs increase. FNEI originally had a maintenance and emergency response contract with HONI. This responsibility is now performed by FNEI staff. To compare the cost of continuing with a service contract like this with work performed by staff

is difficult; however, most contracted hourly rates for skilled workers performing station maintenance work is around $250/hr.

FNEI has also relied on external resources for general management advice, as well as transmission operation and maintenance advice. With the hiring of an operations manager and CEO, and the development of three fully qualified substation electricians, FNEI now performs operations and maintenance activities in house. Specific engineering services are contracted out as FNEI is too small to justify hiring an engineer in house. FNEI also relied on an external contractor for finance controller services however that work is now being performed by an internal staff member as well. Capital planning is also now performed entirely in-house, with only engineering and certain specific protection and control support provided by outside contractors. For an example, FNEI's actual costs in outside services employed has gone from a high of just over $720k in 2007 to $125k in 2016.

Coordination with Regional Distributors: FNEI has developed and maintained a very good working relationship with key suppliers in the region. FNEI has a reputation of paying promptly and honouring the terms of its arrangements. This allows FNEI to obtain very competitive pricing by regularly asking for competitive quotes. As noted in the evidence and in these responses, FNEI operates equipment in remote locations. It is very important that any tools or materials needed are transported to sites either ahead of time or along with maintenance personnel travelling to site. There is no option of going down the road to a hardware store to pick up supplies once on site. FNEI's suppliers understand this, and work to bundle orders together to make one shipment per site where possible. For example, the bus isolation project used several large 'sea-cans' shipping containers to move materials to Kashechewan and Fort Albany. This was done via rail and the winter road to avoid the cost of shipping the materials by air. Standard air freight rates from Timmins to FNEI's stations range from $1.70 per pound to $1.98 per pound. For those materials that are time sensitive or fragile, FNEI works with its suppliers to consolidate shipments and charters a plane directly to the sites. This can reduce the cost significantly as well as reduce handling requirements and associated costs. For example, a chartered flight with a payload capacity of 3,000 lbs from Timmins to Fort Albany can be done for around $3,000 while the equivalent cargo at normal freight costs would exceed $5,000.

Regular Budget Reviews: FNEI prepares its financial statements on a quarterly basis, as required under its various financing covenants. Part of this exercise is a meeting with both the Finance Committee and the Board of Directors. Opportunity is taken during this process to review the actual spend to date and compare that with the budget. Progress for various maintenance and capital activities are discussed and any suggestions made for improvements or costs savings are discussed as well. FNEI staff and management are also continuously monitoring actual progress and spend to estimated schedules and budgets. As an example, the bus isolation project actual cost to date is less than the original cost estimations. Through this review process FNEI was able to identify efficiencies by managing this project on its own instead of having only an outside contractor perform the work, purchasing equipment vs. renting or leasing equipment, and instead of a fixed price contract for the part of the work that an outside

contractor was required, FNEI chose to go with a time and materials agreement instead. The estimated cost savings for this project alone are between $500,000 and $1,000,000.

administer contracts involved in the civil, mechanical and electrical, needs of the FNEI system.

Substation Electrician FTE-2: Non-Management

Summary of Position: (excerpt from Job Description)

The Journeyperson Substation Electrician reports to the Operations Manager and works with other members of the operations department and assists other outsourced technical and engineering resources as directed within the scope of his qualifications. Duties of this position include testing of transformers; routine maintenance and testing of substation oil circuit reclosers; installation, operation and maintenance SCADA equipment and associated devices; operation and maintenance of high voltage substations, switches, voltage regulators, capacitors, fiber optic communication equipment; and keeping accurate system and equipment records. Supports a positive work environment that emphasizes the Company's current mission statement and core values.

Substation Electrician Apprentice FTE-2: Non-Management

Summary of Position: (excerpt from Job Description)

The Substation Electrician Apprentice reports to the Operations Manager and works under supervision of the designated Journeyperson/Substation Electrician who coordinates the activity of the apprentice with other departments assisting other classifications as directed within the scope of his/her qualifications. Duties of this position include testing of transformers; routine maintenance and testing of substation oil circuit reclosers; installation, operation and maintenance of SCADA equipment and associated devices; operation and maintenance of high voltage substations, switches, voltage regulators, capacitors, fiber optic communication equipment; and keeping accurate system and equipment records. The apprentice will actively support a positive work environment that emphasizes the Company's current mission statement and core values.

(f) Table 6-2-2-A shows the summary of employee compensation proposed for 2016. The table below shows the proposed salary and benefit cost increases for 2016 as compared to 2015.

All figures except FTEs shown in $000's	2015 Actual	2016 Proposed	2016 Increase
Number of FTEs (including part time)			
Executive & Management	3	3	0
Non-Management	6	8	2
Total	9	11	2
Total Salary & Wages			
Executive & Management	432.7	404.3	(28.4)
Non-Management	360.7	463.8	103.1
Total	793.4	868.0	74.7
Total Current & Accrued Benefits			
Executive & Management	48.0	56.2	8.2
Non-Management	87.6	116.8	29.2
Total	135.6	173.0	37.4

Total Compensation (Salary, Wages & Benefits)			
Executive & Management	480.7	460.4	(20.3)
Non-Management	448.3	580.6	132.3
Total	929.0	1041.1	112.0

(g) The table below shows the salary and staffing increases proposed for 2016 compared to the actual salary and staffing levels as at December 31, 2015. Please note that the total dollar value of the proposed salary and staffing increases does not equal the $112.0 total above for various reasons including actual overtime costs, one time staff turnover costs etc. for 2015.

All figures except FTEs shown in $000's	2016 Proposed	% Increase	Salary Increase	% Increase	Staffing Increase	% Increase
Number of FTEs (including part time)						
Executive & Management	0		0		0	
Non-Management	2		0		2	
Total						
Total Salary & Wages						
Executive & Management	$37.0	19.6%	$37.0	19.6%	$0	0%
Non-Management	$214.4	63.7%	$49.5	14.7%	$164.9	49.0%
Total	$251.4	47.9%	$86.5	16.5%	$164.9	31.4%
Total Current & Accrued Benefits						
Executive & Management	$5.2	21.1%	$5.2	19.8%	$0	0%
Non-Management	$40.8	66.0%	$9.2	14.7%	$31.6	51.1%
Total	$46.0	53.3%	$14.4	16.5%	$31.9	36.6%
Total Compensation (Salary, Wages & Benefits)						
Executive & Management	$42.1	19.8%	$42.1	19.8%	$0	0%
Non-Management	$255.2	64.1%	$58.7	14.7%	$196.5	49.3%
Total	$297.4	48.6%	$100.9	16.5%	$196.5	32.1%

revenues compared to forecast, FNEI maintained that its test year estimate of $4.978 was reasonable.

The Board disagrees. In the Board's view, FNEI's forecast of test year Transmission Service revenue of $4.978 million is unreasonably low.

FNEI argued that the test year estimate is consistent with the IESO's 18-Month Outlook, which forecasts an increase in load but a decline in peak demand. However, the IESO's analysis has been used to simply justify FNEI's "no growth" outlook and does not appear to have been actually used in the derivation of the test year forecast. Therefore, the Board is not persuaded by the evidence presented by FNEI. In the absence of relevant empirical analysis, the Board is guided by the observed historical trend in revenues.

Board staff submitted that the Transmission Service revenue forecast should be increased to $5.280 million. This estimate is based on a historical average and in the Board's view is a more reasonable level. However, the Board notes that the actual 2010 Transmission Service revenue for the period January to April shows a decline of 2% compared to the same period in 2009. Given this decline in actual 2010 revenues, the Board will reduce the Board staff estimate by 2% and directs FNEI to use $5.1744 million as the test year Transmission Service revenue forecast.

The Board accepts FNEI's 2010 forecast of Other Revenue.

Operations, Maintenance and Administration

FNEI proposed Operations, Maintenance and Administration ("OM&A") costs of $3,386,100 for 2010. This represents an increase of 78% over the previously Board-approved amount of $1,898,500 for 2001.[2] This is an average yearly increase of approximately 6.6% over that period.

FNEI employs a 'bottom-up' approach to OM&A budgeting. FNEI indicated in evidence that it is often more cost-effective to hire certain operations and administration expertise on a part-time or contractual basis, rather than to create a full-time employee position. FNEI has only three employees, with one currently on long-term disability. FNEI's

[2] Board-approved, RP-2001-0036.

OM&A costs have varied significantly from year to year, with a significant number of external consultants retained, as opposed to the use of full-time staff.

Board staff submitted that, in general, the level of OM&A expenditures appeared reasonable and that it appeared that FNEI did not foresee significant escalation of OM&A costs in future years. Board staff submitted that it would expect FNEI's OM&A budget to be reasonably static or decreasing over the coming years due to the fact that the significant build-out of the system is now largely complete. Among these significant additions were: transmission lines, including the De Beers system additions, the fibre-optic communications "sky wire" and connection of back-up transformers.

Board staff filed specific submissions with respect to OM&A on International Financial Reporting Standards ("IFRS") transition costs, Tendering and Service Agreements, and Fibre Optic line operating and maintenance. The Board is satisfied with the record on Fibre Optic line operating and maintenance, and provides its findings below with respect to the other issues. Energy Probe supported the submissions of Board staff and made an additional submission regarding Tendering and Service Agreements.

Board Findings

The Board finds that a general OM&A envelope of $3,386,100 is appropriate, but notes specific adjustments through the findings that follow. The overall level of OM&A expenditures appears reasonable, and the Board notes that FNEI does not foresee significant escalation of OM&A costs in future years.

IFRS Transition Costs

FNEI applied for total one-time IFRS transition costs of $100,000 to be amortized over 2010, 2011, and 2012. In a response to an interrogatory from Board staff[3], FNEI explained why, as a non-profit utility, it requested to transition to IFRS, claiming the associated amounts. FNEI indicated that it operates in the commercial mainstream, and its operations are like any other rate-regulated utility. In general, FNEI's overall position was that IFRS is likely the most suitable choice since it would provide reporting consistent with other rate-regulated utilities, particularly with respect to disclosures regarding capital assets.

[3] Response to Board staff interrogatory #57

maintenance ($45,000) and planned maintenance for the fibre line. As noted, the FNEI line is not accessible with heavy equipment during any season except a short period of time in winter.

- *Community Relations – Sundry* (Account 5410): This Account includes some outreach, and preparing and publishing newsletters about FNEI's operations.

- *Energy Conservation* (Account 5415): This account in the past has been where FNEI has recorded expenditures relating to the Ontario Power Authority's pilot energy conservation program. Currently FNEI uses this account to record expenditures relating to the IESO funded Aboriginal Community Energy Program (ACEP) that FNEI applied for on behalf of Attawapiskat, Kashechewan, and Fort Albany. This program will be done in 2017; however, due to the remote location of these communities and the transportation costs incurred in these activities FNEI will need to cover the costs exceeding the funding available for this program. FNEI has also in the past provided energy conservation materials such as light bulbs, etc. to be distributed at community energy fairs etc.

- *Community Safety Program* (Account 5420): This account in the past recorded the expenditures relating to providing energy safety awareness presentations at the elementary schools in Fort Albany, Kashechewan, and Attawapiskat. FNEI has worked closely with the Electricity Safety Authority to jointly make these presentations. FNEI purchased the teaching materials and provided these presentations on its own for numerous years. Recently staffing requirements as well as logistical issues with the elementary schools has made the provision of these presentations problematic and FNEI has been unable to undertake this activity. It is anticipated that this activity will, however, be restarted in the near future.

- *Executive Salaries and Expenses* (Account 5605): This Account includes those costs associated with FNEI's directors (stipends, travel costs and disbursements) and FNEI's CEO (salary, benefits, travel costs and other disbursements). It also includes the travel costs associated with the presence of the three First Nations' Chiefs at meetings (which is required periodically).

- *Management Salaries and Expenses* (Account 5610): This Account includes the salary and benefits of FNEI's management staff (e.g., Operations Manager, Finance Controller) as well as associated travel and disbursements.

(l) iii. FNEI has not included $30,000 in offsetting revenue for each year during the 2016-2020 period as FNEI has no expectation of receiving this type of funding from the IESO for this period. FNEI believes that it will incur $10,000 per year in energy conservation related activities in each of its communities per year going forward and that it is appropriate for these expenses to be included in FNEI's cost of service.

(m) Please refer to the following table:

FNEI Salaries compared to Outside Services Employed

	2010	2011	2012	2013	2014	2015	2016
Total FNEI Salaries & Expense:	365,294	496,577	616,568	637,342	782,172	929,030	907,375
						Percentage Increase 2016 Compared to 2010:	60%
Total Outside Services Employed:	312,808	281,526	185,861	239,577	184,425	196,179	119,389
						Percentage Decrease 2016 Compared to 2010:	62%
						Net Dollar Increase:	348,662

As described in the table above FNEI's 'in-house' salary and expenditures have increased from $365,000 to $907,000 from 2010 to 2016 while FNEI's utilization of outside services has decreased from $313,000 to $119,000. This translates into a net increase of spending of $348,662 in 2016 as compared to 2010. Setting up the juxtaposition of these line items (as this question does) seems to suggest that the "correct" outcome (for ratepayers) should be lower overall costs – and if they're higher, how can they be justified from a ratepayer standpoint. That might be a sensible approach in a static system, but as noted throughout the evidence, the FNEI system of 2016 is not the same system as it was in 2010. There have been significant capital additions, the acquisition of 80 km, and what was a fairly new system is now starting to age. In addition, as explained in the response to (h) above, FNEI's existing staff compensation levels required adjustment. Simply put, what FNEI requires of its employees (and external contractors) today is substantially more than what was required of its employees (and external contractors) in 2016. However, quite apart from this, there is a real benefit to ratepayers from FNEI now having the requisite expertise to operate and maintain its system in-house. A major factor in building FNEI's expertise in house was to mitigate the risk that outside advisors with the requisite skills and corporate memory and culture would no longer be available. FNEI needed to establish itself as largely self-sufficient. As discussed elsewhere, FNEI realized that as its assets aged, more maintenance work would be necessary, and reliance on outside advisors and contractors would no longer be responsible, or in many cases feasible.

(n) and (o) The amount in Account 5605 is not restricted to FNEI's Board of Directors. A detailed breakdown of Account 5605 is as follows:

Exhibit 4 – Service Quality and Reliability

4-Staff-20

Ref: Exhibit 4 / Tab 1 / Schedule 1
Exhibit 4 / Tab 1 / Schedule 1 / Appendix I

Question(s):

a) **Does Five Nations Energy agree to adopt the final approved Hydro One performance scorecard (EB-2016-0160) with certain adjustments to reflect the differences between the two transmitters?**

b) **Does Five Nations Energy agree to undertake to file a proposed performance scorecard as part of the current proceeding after the OEB issues it decision on the performance scorecard issue in Hydro One's rates proceeding (EB-2016-0160)? The proposed scorecard should reflect the final approved performance scorecard for Hydro One with the adjustments that Five Nations Energy considers appropriate (as discussed at Exhibit 4 / Tab 1 / Schedule 1).**

c) **Please populate the Hydro One proposed scorecard (Exhibit 4 / Tab 1 / Schedule 1 / Appendix I) with the information that is relevant to Five Nations Energy. Please populate the measures that Five Nations will consider for its own proposed performance scorecard. For the measures that Five Nations Energy does not intend to include in its own performance scorecard, please provide a specific explanation for each measure.**

Response:

(a) It is FNEI's understanding that the Board has not yet issued its final decision in EB-2016-0160 (including its decision on the performance scorecard). Without this, and without knowing what adjustments Board staff has in mind (i.e., whether they would be different from the four bulleted items provided by FNEI at Exhibit 4/Tab 1/Schedule 1), it is difficult to provide a useful response to this interrogatory.

(b) FNEI would be willing to file a proposed performance scorecard as part of this proceeding after the Board issues its decision in EB-2016-0160.

(c) Please see attached.

Proposed Transmission Regulatory Scorecard – Five Nations Energy Inc.

Performance Outcomes	Performance Categories	Measures		Historical Years 2011	2012	2013	2014	2015	2016	Trend
Customer Focus Services are provided in a manner that responds to identified customer preferences.	**Service Quality**									
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	**Safety**	Incident Rate (# of recordable injuries)		0	0	0	0	0	0	-
	System Reliability	SAIFI (Ave. # Interruptions per Delivery Point – FNEI Only)		0.50	1.00	1.50	0.00	3.00	2.30	▼
		SAIFI (Ave. # Interruptions per Delivery Point – System)		2.50	1.00	3.50	2.00	6.00	9.30	▲
		SAIDI (Ave. Minutes of Interruptions per Delivery Point – FNEI Only)		8.0	60.0	109.3	0.0	530.2	71.8	▼
		SAIDI (Ave. Minutes of interruptions per Delivery Point – System)		1395.0	60.0	2387.1	1537.3	2361.1	780.7	▼
Public Policy Responsiveness Transmitters deliver on obligations mandated by government.	**Regional Infrastructure**	Regional Infrastructure Planning progress - % Deliverables met		N/A	N/A	N/A	N/A	N/A	100	
[illegible] [illegible]	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)		1.924	1.471	1.639	2.106	2.786	1.918	
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio		1.75	2.13	2.19	2.67	1.86	1.97	
		Profitability: Regulatory	Deemed (included in rates) (%)	9.50	9.50	9.50	9.50	9.50	9.50	
		Return on Equity	Achieved (%)	8.58	9.28	8.52	6.50	3.57	0.87	

Legend:
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4-Staff-21
Ref: Exhibit 4 / Tab 1 / Schedule 2

Question(s):

a) **Please explain the increase in the number of interruptions and the duration of interruptions as between 2014 and 2015.**

b) **If available, please update the SAIDI and SAIFI information provided at Exhibit 4 / Tab 1 / Schedule 2 to reflect 2016 actuals.**

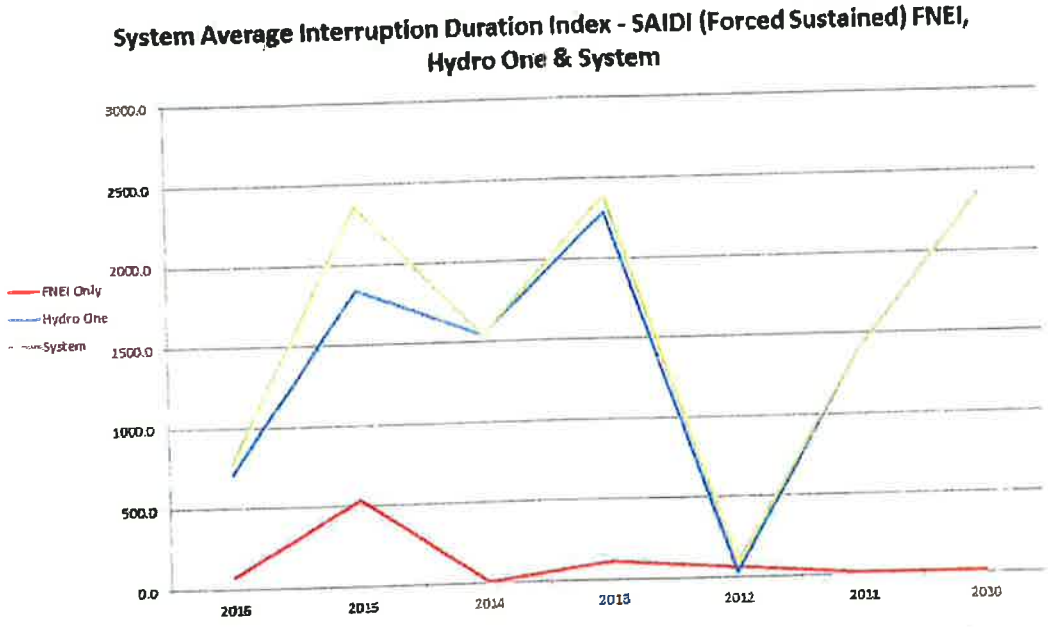
Response:

(a) The table below shows all unplanned FNEI outages for 2014 and 2015. Most outages, as explained in the evidence, were due to Hydro One assets south of Moosonee, which FNEI does not control.

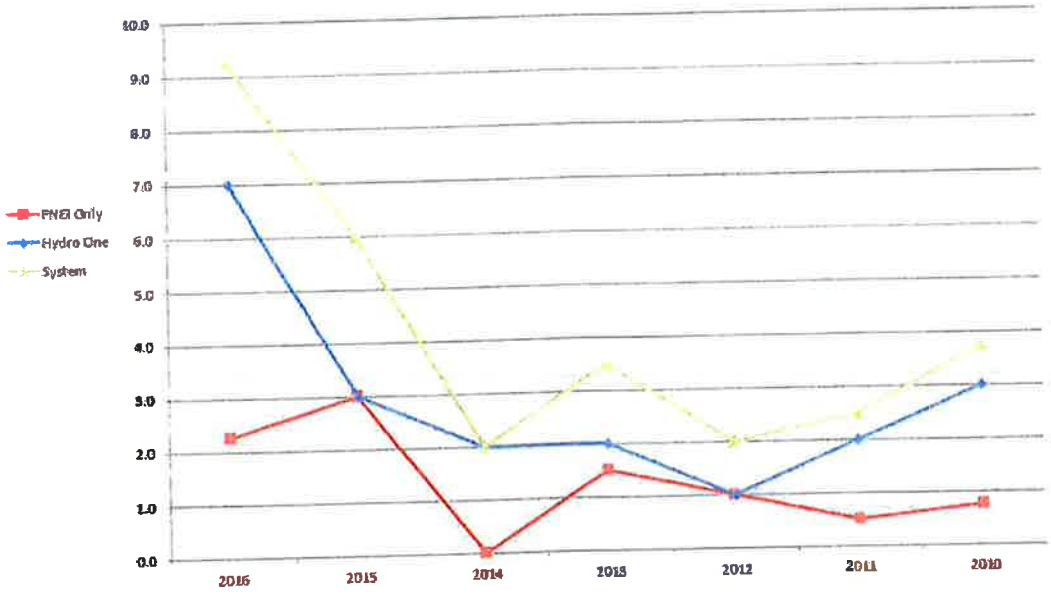
Date	Line affected by outage	Duration minutes	Comment
16/04/2014	T7M, M9K, M3K, K5A, A7V	54	Hydro One Pinard station outage
07/06/2014	T7M, M9K, M3K, K5A, A7V	1484	Hydro One T7M Broken insulator
06/08/2014	A7V	525	FNEI A7V disconnect planned maintenance
14/09/2014	T7M, M9K, M3K, K5A, A7V	604	Hydro One T7M repairs
17/09/2014	F1 and F2	57	FNEI cable relocation
04/03/2015	T7M M3K M9K K5A A7V Trip		Hydro One T7M Fault
03/04/2015	T7M M3K M9K K5A A7V Trip	409	Hydro One T7M Fault
03/05/2015	T7M M3K M9K K5A A7V Trip	1384	Hydro One T7M Fault - Power Restored 04.05.2015
18/05/2015	K5A Trip (ZM1 - Trip)	993	FNEI 66.113km (66%) from NQ3365 (L5B3) freezing rain

28/06/2015	M3K (ZM1 - Trip)	6	FNEI 101.278km (60%) from NQ3365
02/07/2015	M3K trip (ZM1 - Trip)	28	FNEI 45.961km (27%) from NQ3365
21/07/2015	M3K Trip (ZM5 - Start), Moose Trip	30	FNEI 10.993 km (6.466 %) from L3B3 – NQ3365
03/09/2015	M3K Trip From Moosonee	11	FNEI M9K is out of service, H1 fault read- 98 km north from Moosonee
08/11/2015	K5A Trip (ZM1 - Trip)	8	FNEI L2-N Fault, 75.14km from L5B3

(b) See below.



System Average Interruption Frequency Index - SAIFI (Forced Sustained) FNEI, Hydro One & System



1

2

Ontario Energy Board
Commission de l'énergie de l'Ontario

Ontario Energy Board

Filing Requirements For
Electricity Transmission Applications

Chapter 2

Revenue Requirement Applications

February 11, 2016

2.5.6 Capital Module

Applicants proposing a Revenue Cap index may request a capital increment for discrete projects being placed in service after the rebasing year that:

- Are part of the Transmission System Plan
- Are intended to come into service during the index period
- Involve costs that the transmitter cannot manage through the revenue established through the index

The request must address proposed approval criteria (materiality, need, prudence) and the process for implementation of the recovery of the capital increment.

2.6 Exhibit 4 - Service Quality and Reliability Performance and Reporting

2.6.1 Proposed Scorecard

The OEB initiated the use of scorecards to facilitate performance monitoring and benchmarking of electricity distributors in 2013. Each transmitter must, in its first revenue requirement application following the issuance of these revised filing requirements, propose a scorecard that could be used to measure and monitor the performance of the electricity transmitter and, where appropriate, enable comparison between transmitters. The format should be similar to the scorecard developed for distributors (available on the OEB's website) and include measures for public policy responsiveness, operational effectiveness, customer focus and financial performance, but the applicant may propose other performance categories and measures that it believes would be meaningful for their operations as an Ontario transmitter. The proposed scorecard should provide for the inclusion of data for at least a five year period. Transmitters may propose measures for which five years of data are not yet available conditional on a plan and commitment to collect such data through the course of the plan.

In creating the scorecard, applicants may wish to consider the data they are already required to file under the TSC and the Reporting and Record Keeping Requirements (RRR).

Applicants may also choose to propose in their applications other performance

measures to be reported annually that are applicable to their individual business. The OEB will expect transmitters to report on performance metrics, such as cost control and project completion, if a multi-year term is approved.

2.6.2 Reliability Performance

All applicants, whether proposing a single or multi-year term, must document in their applications achieved reliability performance, using measures developed by the Canadian Electricity Association including, transmission frequency of delivery point interruptions and transmission duration of delivery point interruptions, unsupplied energy in minutes and transmission system unavailability (percentage of system unavailable). The applicant must also document how it has addressed the performance standards for transmitters as set out in Chapter 4 of the TSC.

The applicant should compare the results for its system performance to those of other systems both nationally and internationally, where available.

2.6.3 Compliance Matters

While most compliance matters are normally resolved outside of the revenue requirement application process, transmitters must discuss any outstanding areas of non-compliance which have had an effect on the application, including any relief sought through this application to resolve the non-compliance.

2.7 Exhibit 5 - Operating Revenue

This exhibit includes evidence on the applicant's forecast of customers, energy and load, service revenue and other revenue, and variance analyses related to these items.

The applicant must provide its customer, volume and revenue forecast, weather normalization methodology, and other sources of revenue in this exhibit. The applicant must include a detailed description of the methodologies and the assumptions used. Estimates must be presented excluding commodity revenues.

The information presented must include:

1) Load and revenue forecasts

Exhibit 10 – Incentive Regulation Plan

10-Staff-36
Ref: Exhibit 10 / Tab 1 / Schedule 1

Question(s):

a) **Please advise whether Five Nations Energy intends to file an annual rates application each year of its proposed IRM term. If so, please provide the proposed timing of that annual filing (Exhibit 10 / Tab 1 / Schedule 1 / p. 1).**

b) **Please provide detailed rationale supporting Five Nations Energy's proposal for a 0.3% stretch factor as part of its revenue requirement adjustment formula. Specifically, please explain why the mid-range stretch factor for electricity distributors is appropriate for Five Nations Energy (Exhibit 10 / Tab 1 / Schedule 1 / p. 2).**

c) **Please advise whether Five Nations Energy is seeking approval of a Z-factor deferral account as part of the current proceeding (Exhibit 10 / Tab 1 / Schedule 1 / p. 3).**

Response:

(a) FNEI had anticipated having to file an annual rate application for each year in the IR term. Timing of such filing is really driven by the Board's processes for considering and disposing of the application, so FNEI will obviously accommodate the Board's needs in this regard. As an initial suggestion, FNEI suggests October 15th as a filing deadline for the application.

(b) As Board Staff knows, the key component of the OEB's IRM mechanism is the application of an annual price cap adjustment that is based on inflation, less a prescribed productivity factor, less a utility unique stretch factor. The Board applies a cohort benchmarking process to electricity distributors to establish stretch factors. It is FNEI's understanding that most distributors are evaluated and assigned the mid-range stretch factor (i.e., far fewer are determined to be more (or less) efficient, warranting a lower (or higher) stretch factor. Without a cohort comparator, FNEI has proposed application of the average stretch factor as a reasonable measure for FNEI.

(c) FNEI had not applied to the Board in this proceeding for a Z-factor DVA (see List of Specific Approvals – Exhibit 1, Tab 5, Schedule 8). Energy Probe had also inquired along these lines in

Empirical Research in Support of Incentive Rate-Setting: 2015 Benchmarking Update

Report to the Ontario Energy Board

July 2016

Pacific Economics Group Research, LLC

The views expressed in this report are those of Pacific Economics Group Research, and do not necessarily represent the views of, and should not be attributed to, the Ontario Energy Board, any individual Board Member, or Ontario Energy Board staff.

Table 5

Stretch Factor Assignments by Group

Group I	Group II	Group III		Group IV	Group V
Stretch Factor = 0%	Stretch Factor = 0.15%	Stretch Factor = 0.30%		Stretch Factor = 0.45%	Stretch Factor = 0.60%
Cooperative Hydro Embrun Inc.	**Collus Power Corporation**	**Atikokan Hydro Inc.**	**Milton Hydro Distribution Inc.**	Canadian Niagara Power Inc.	Algoma Power Inc.
E.L.K. Energy Inc.	Enersource Hydro Mississauga Inc.	Bluewater Power Distribution Corporation	Niagara Peninsula Energy Inc.	Chapleau Public Utilities Corporation	Hydro One Networks Inc.
Halton Hills Hydro Inc.	Entegrus Powerlines	Brantford Power Inc.	Niagara-On-The-Lake Hydro Inc.	Enwin Utilities Ltd.	Toronto Hydro-Electric System Limited
Hydro Hawkesbury Inc.	Espanola Regional Hydro Distribution Corporation	Brant County Power Inc.	North Bay Hydro Distribution Limited	Festival Hydro Inc.	West Coast Huron Energy Inc.
Northern Ontario Wires Inc.	Essex Powerlines Corporation	Burlington Hydro Inc.	**Oakville Hydro Electricity Distribution Inc.**	**Hydro Ottawa Limited**	
Wasaga Distribution Inc.	Grimsby Power Incorporated	Cambridge And North Dumfries Hydro Inc.	Orangeville Hydro Limited	Midland Power Utility Corporation	
	Haldimand County Hydro Inc.	Centre Wellington Hydro Ltd.	Orillia Power Distribution Corporation	Peterborough Distribution Incorporated	
	Hearst Power Distribution Company Limited	**Greater Sudbury Hydro Inc.**	Ottawa River Power Corporation	PUC Distribution Inc.	
	Kitchener	Erie Thames Powerlines Corporation	Powerstream Inc.	Renfrew Hydro Inc.	
	Lakefront Utilities Inc.	Fort Frances Power Corporation	Rideau St. Lawrence Distribution Inc.	Wellington North Power Inc.	
	London Hydro Inc.	Guelph Hydro Electric Systems Inc.	Sioux Lookout Hydro Inc.	**Woodstock Hydro Services Inc.**	
	Newmarket	Horizon Utilities Corporation	St. Thomas Energy Inc.		
	Oshawa PUC Networks Inc.	Hydro 2000 Inc.	**Tillsonburg Hydro Inc.**		
	Welland Hydro-Electric System Corp.	Hydro One Brampton Networks Inc.	Thunder Bay Hydro Electricity Distribution Inc.		
		Innisfil Hydro Distribution Systems Limited	Veridian Connections Inc.		
		Kenora Hydro Electric Corporation Ltd.	Waterloo North Hydro Inc.		
		Kingston Hydro Corporation	Westario Power Inc.		
		Lakeland Power Distribution Ltd.	Whitby Hydro Electric Corporation		

Ontario Energy Board

Commission de l'énergie de l'Ontario

EB-2013-0416/EB-2014-0247

IN THE MATTER OF AN APPLICATION BY
HYDRO ONE NETWORKS INC.

FOR APPROVAL OF DISTRIBUTION RATES FOR 2015 TO 2019

DECISION
March 12, 2015

- Overall lack of consistency and comparability with incentive rate-setting particularly with regard to the specification and use of a custom index approach to rate-setting that includes explicit, externally imposed improvement incentives.

In its May 30, 2014 evidence update, Hydro One provided eight outcomes by which to measure its five year plan. The company agreed to report annually on these outcomes, including the results achieved and actual amounts spent on the programs. Many parties submitted that additional reporting, for example, on actual capital spending and the results of the smart grid program, was necessary.

Parties submitted that the inadequacies of the application should be addressed by the OEB through either denial of the five year application (i.e. set rates for only one or two years) or substantive adjustments to the five year plan such as using 2015 as a base year and setting rates for 2016 – 2019 through an index.

Findings

The OEB has concluded, for the reasons set out below, that Hydro One's application is insufficient as a Custom IR application under RRFE and has determined that it will deny approval of the proposed five-year plan. Instead the OEB will approve rates for a three-year period based on the evidence provided. This change from what was applied for by Hydro One is due to a number of shortcomings with Hydro One's proposed approach. The OEB is directing Hydro One to address those shortcomings, set out below, over the next three years in preparation for the next rates application.

3.1 Inconsistency with outcome-based regulation

Hydro One chose to interpret the OEB's Custom IR option, referred to in the RRFE Report as "custom index", to include "custom cost of service". The OEB does not accept this interpretation. All three rate-setting methods are described in the Report as incentive rate-setting, not cost of service.

Cost of service rate-setting has an important role in performance-based regulation regimes to periodically examine in detail the costs and activities underpinning rates. However, the OEB continues to believe that multi-year incentive rate-setting, with its emphasis on results, is the most effective way to incent behaviour similar to that seen in commercially-oriented, consumer market-driven companies. Incentive rate-setting differs from cost of service rate-setting in that it relies less on a utility's internal cost, output, and service quality to establish rates, and more on benchmarks of cost, output, and service quality that are external to the utility revealing superior performance and encouraging best practice. The decoupling of rates from the utility's own costs simulates a competitive market environment and is more compatible with an outcomes-based approach to regulation.

The OEB finds that Hydro One's proposed plan is deficient in this regard, as it includes limited prospects for continuous improvement, lacks any externally imposed improvement incentives, includes limited cost and productivity benchmarking support, and fails to demonstrate value to customers commensurate with the forecasted spending.

3.2 Lack of externally imposed incentives

The OEB expects Custom IR rate setting to include expectations for benchmark productivity and efficiency gains that are external to the company. The OEB does not equate Hydro One's embedded annual savings with productivity and efficiency incentives. Incentive-based or performance-based rates are set to provide companies with strong incentives to continuously seek efficiencies in their businesses.

The OEB does not believe that Hydro One's plan contains adequate efficiency incentives to drive year-over-year continuous improvement in the company. Furthermore, the plan lacks measurement of increased efficiency year-over-year in a form illustrating trends in a transparent fashion.

It is not sufficient to embed savings in cost forecasts. As already noted, the OEB's Custom IR is an incentive rate-setting approach designed to drive efficiencies. Benefits

from explicit, objectively determined productivity and efficiency adjustments such as stretch factors include mimicking competitive market conditions, sharing anticipated savings with ratepayers "up front", and facilitating a more outcome-based approach to regulation.

As already noted, traditional cost of service review will continue to entail detailed input cost assessments. However, Custom IR proceedings are intended to be framed more like performance inquiries resulting in multi-year outcome commitments and measures that facilitate year-over-year performance assessment. The productivity and efficiency elements allow the OEB to move away from detailed input cost assessment and focus more on utility performance. These factors provide utilities with strong incentives to continually seek efficiencies and share expected savings with ratepayers "up front" avoiding "after the fact" regulatory scrutiny.

3.3 Weak benchmarking evidence

The RRFE policy articulates the importance the OEB places on benchmarking. Benchmarking evidence, whether it compares a utility's performance to itself year-over-year, or to other utilities, is a critical input to the OEB's assessment of utility performance.

Benchmarking, when used in combination with specific cost drivers and other sources of utility performance information, allows for an overall assessment of a utility's cost and outcome performance.

A majority of parties were critical of the lack of benchmarking in Hydro One's plan. Hydro One described eight benchmarking or similar studies it had undertaken. The OEB agrees with the submissions of OEB staff and the majority of the intervenors that the studies provided in this proceeding by Hydro One, lack:

1) a top-down perspective of what the appropriate level of costs should be; and

2) measures of Hydro One's cost performance against other comparable utilities.

The OEB sees value in Hydro One measuring its own total factor productivity over time to be able to demonstrate improvement in productivity to its customers and the OEB. The OEB requires Hydro One to conduct such a study. Given Hydro One's concerns, the OEB leaves it to Hydro One to determine its preferred total factor productivity study method. However, the period of the study should include years at least going back to 2002. The results of the study must be filed as part of Hydro One's next rates application.

3.4 Limited prospects for continuous improvement

The OEB is concerned that under Hydro One's proposed plan, lack of efficiency incentives lessens the probability of achieving continuous improvement.

Hydro One's forecasted annual savings built into its forecasted costs are summarized in the evidence[3]. Several parties noted, and Hydro One acknowledged, that most of the savings come from investments made in 2010 through to 2014. In its submission, OEB staff calculated Hydro One's new savings each year for 2015, 2016, 2017, 2018 and 2019 at $27.7 million, $8.1 million, $3.8 million, $1.0 million, and $0.2 million, respectively. In short, the savings are declining over time.

While Hydro One characterises its forecasted annual savings as ambitious, the OEB is concerned that the declining trend and relatively small savings do not show Hydro One to be a company with a strong orientation towards continuous improvement. Furthermore, Hydro One's proposed plan does not include any measure of continuous improvement. In response to questions from parties on how any savings beyond those forecasted will be measured and treated, Hydro One indicated that any such savings would be re-invested into the company's work plan. Hydro One explained that its customers would benefit from this re-investment though the additional work that Hydro One would be able to carry out.

Hydro One has stated that it is in the fourth quartile of North American utility performance with respect to system reliability and that it has no plan to improve on that

[3] Exhibit A Tab 19 Schedule 1, page 4, Table 2

Question(s):

a) **Please provide detailed rationale supporting Five Nations Energy's request for a January 1, 2016 effective date in the context of the late filing of its completed application.**

b) **Please provide Five Nations Energy's position on changing the effective date to January 1, 2017 with the revenue requirement for 2017 being based on the proposed 2016 revenue requirement (as adjusted by the OEB in its decision). The term would be changed to January 1, 2017 to December 31, 2021 with rates during the 2018-2021 period adjusted through an IR mechanism (if approved by the OEB). Please provide the answer in the context of the completed application being filed near the end of 2016 (November 25, 2016).**

c) **Please provide Five Nations Energy's position on changing the effective date to January 1, 2017 with the revenue requirement for 2017 being based on the proposed 2016 revenue requirement (as adjusted by the OEB in its decision) plus an IRM-based adjustment for inflation minus productivity. The term would be changed to January 1, 2017 to December 31, 2021 with rates during the 2018-2021 period adjusted through an IR mechanism (if approved by the OEB). Please provide the answer in the context of the completed application being filed near the end of 2016 (November 25, 2016).**

Response:

(a) A key driver for this rate application was FNEI's purchase of 80 km of transmission line from Hydro One Networks Inc. ("HONI") on October 15, 2015. In rough terms, this acquisition increased FNEI's rate base by 17%, which is material. FNEI is entitled to earn a fair return on this asset. However, given the timing of the acquisition in late 2015, FNEI would not have been in a position to prepare and file, and have the Board fully process and dispose of any rate application until well into 2016 at the earliest. FNEI had hoped to file its application in spring 2016, but a number of factors delayed this until summer: (i) the replacement of FNEI's Chief Executive Officer in late January 2016; and (ii) the Board's release of new, more robust, transmission filing requirements in February 2016. A rebasing application is a significant undertaking for all utilities, but particularly so for smaller utilities such as FNEI. These two additional factors, and FNEI's decision to propose a five-year IR Plan for the first time, delayed the filing by a few months.

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The following motion had then been made:

Motion 55-13:
The Board of Directors authorize the process to move forward with the purchase of the 80 kms of line north of Moosonee, Including the borrowing of up to $6.4 million (Six Million Four Hundred Thousand Dollars) as recommended by the Finance and Human Resources Committee at their November 26, 2013, Committee meeting.

Moved by: Mr. Andrew Solomon **Seconded by: Mr. Derek Chum**
All in favour.
Carried."

e. From the Sept. 16, 2014, Finance Committee Meeting minutes: Excerpt

"Update on the 80 km Line:
The CEO noted that FNEI is waiting on Manulife to respond to go ahead with the purchase of the line. Pacific and Western Bank of Canada were fine with the purchase but we need a formal response from them. Hydro One has indicated that this is doable. FNEI is currently in the process of compiling its information for the Rates Application and we are aiming to submit our application by January 1, 2015. For the OEB requirements, we need to send the formal approval from Pacific and Western Bank of Canada, and Manulife, to the OEB, and also to the BMO, and the Royal Bank of Canada, for financing.

The Finance Controller reported that the purchase price is just over $5 million (Five Million Dollars). We have $750,000 (Seven Hundred and Fifty Thousand Dollars), and the $500,000 (Five Hundred Thousand Dollars) at the BMO, which are sitting in the Guaranteed Investment Certificate (GIC) accounts. We also have the $250,000 (Two Hundred and Fifty Thousand Dollars) Letter of Credit with the City of Timmins that will be released once the City is satisfied that the construction of the FNEI office building has met the City's requirements. There is approximately $2 million (Two Million Dollars) in our Operating account.

The Finance Controller noted the FNEI Rates application should be forwarded to the OEB by the end of December, 2014, but as we get closer to the end of the year, we can revise the application to include the 80 km purchase, before submitting it to the OEB."

f. From the March 24, 2015, Board of Directors Meeting minutes: Excerpt

"10. Chief Executive Officer (CEO) Report:

The CEO provided an update on the 80 km line purchase, and indicated that Hydro One has now filed an application to the OEB to transfer the line to FNEI. Mr. Richard King, FNEI Lawyer from Osler, Hoskin, & Harcourt, LLP, Toronto, ON, is working on the legal aspects of this 80 km line purchase. FNEI will then include these assets in its Rates Application to the OEB."

g. From the Oct. 6, 2015, Board of Directors Meeting minutes: Excerpt

At law, FNEI is entitled to earn a fair return on its invested capital. FNEI's actual ROE for 2016 was 0.87%. These information requests suggest that delay may be a reason to prevent FNEI from earning a fair return on its asset base in 2016. FNEI disagrees, for the following reasons: (i) the timing of FNEI's acquisition meant that it would have been impossible to have a transmission revenue requirement for 2016 in place much before the latter half of 2016 at the earliest; (ii) the OEB has strictly held FNEI to compliance with filing requirements promulgated in February 2016 despite the fact that in many respects they are not well suited to a small non-profit utility; and (iii) FNEI's applied for revenue requirement in 2016 would have zero impact on transmission rates (i.e., no ratepayers will be prejudiced, or even affected, by allowing FNEI to earn a fair return in 2016). With respect to the last item, if this proceeding resulted in a new (higher) revenue requirement for 2016 for FNEI, there would be no issue of retroactive rate-making. What would happen is that the Board would require HONI to make a payment to FNEI so that FNEI would recoup its revenue requirement shortfall for 2016. In other words, a new revenue requirement for 2016 for FNEI would mean that FNEI should have received a greater allocation of provincial transmission revenues in 2016 (and HONI should have received less). This scenario is not unique, and the Board has required such payments to Great Lakes Power and FNEI in the past on the same basis.

(b) and (c) For the reasons in (a) above, FNEI does not support the OEB preventing FNEI from earning a fair return in 2016.

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In the initial development stages on the construction of the transmission line, FNEI was short approximately $12 million (Twelve Million Dollars), therefore, the Ontario government directed Hydro One Networks, as part of Ontario's responsibility to participate in the FNEI project, to negotiate with FNEI an agreement for Hydro One Networks to purchase the assets from the Moosonee Tapping station and the first 80 kms of the transmission line going north, for $11 million (Eleven Million Dollars) and that this investment was to be funded by redirecting the Remote and Rural Rate Assistance Program (RRRP) subsidies for Attawapiskat, Kashechewan, and Fort Albany. The amount was approximately $1.5 million (One Million Five Hundred Dollars) for the Communities, and these funds were re-directed to Hydro One Networks, to cover the costs of operating and maintaining the assets by Hydro One Networks. If there were surpluses identified by Hydro One Networks, the surpluses would be forwarded to the Power Corporations, and this calculation was to have been done every five years. When and if FNEI buys back the 80 kms of line, the subsidies would go straight to the Power Corporations provided the RRRP regulation doesn't change.

Manulife and Pacific and Western Bank of Canada were approached for financing but they have no funds to lend at this time. FNEI will continue to work the BMO to try and obtain financing for this purchase."

b. From the Sept. 19, 2013, Board of Directors Meeting minutes: Excerpt

"Other Business:
1. Presentation by Mr. Richard King, FNEI Regulatory Lawyer, Osler, Hoskin, Harcourt, LLP, Toronto, ON:

Possible Purchase of 80 kms of Line North of Moosonee:
Mr. Richard King noted that the first 80 kms of line north of Moosonee is owned by Hydro One. In the initial development stages of the transmission line, the project was short on financing, and an agreement was made with Hydro One to buy the first 80 kms of line, with the understanding that FNEI could purchase back the line. The best time frame to buy back the line is end of 2014, and FNEI can then add this amount into its rates application. This will also free up the Remote and Rural Rate Assistance Program (RRRP) funds that were going directly to Hydro One, for maintaining the line, to then go back to the Communities. Each Community will either receive their funds monthly or annually.

For the De Beers Canada line that runs from Otter Rapids to Moosonee, and running adjacent to Hydro One's old line, Hydro One has not indicated, at this point, to take over that line. It would be in the best interest of the Communities to have Hydro One take over the line as it is newer than Hydro One's old line. This would alleviate unplanned outages due to malfunctions on the old Hydro One line that ultimately affect the Communities.

The Ontario Energy Board (OEB) has amended their transmission code in that there are new obligations for transmitters. Under the new requirements, all transmitters are to undertake "regional planning" in various regions of Ontario. For FNEI, it would be responsible for the area North of Moosonee. The Ring of Fire is not included in this region, but rather in the Northwest Region. Mr. Andrew Solomon wanted clarification that the transfer of the De Beers Assets to FNEI south of Kashechewan does not have any impact on FNEI. Mr. Richard King noted that, at that time, the OEB provided two choices, either force FNEI to twin the line from Moosonee to Kashechewan or have De Beers construct a line, and De Beers chose to twin and construct the line. For the FNEI assets transferred from De Beers, there is no book value in the FNEI financial books. It is the same for Hydro One, the (De Beers) line will not be in their rate base. The transfer

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has to happen for one dollar though. Regarding the De Beers line south of Moosonee, it was further noted that the owner of the adjacent line, in this case, Hydro One, will take over the De Beers line, as per current government laws."

c. From the Nov. 26, 2013 Finance Meeting minutes: Excerpt

"1. Update on the 80 kms of Transmission Line north of Moosonee:
The Chief Executive Officer (CEO) indicated we need to put forth a recommendation to the Board of Directors to approve the process towards purchasing the transmission line north of Moosonee. She deferred to the Finance Controller to inform the Committee on the status of the financing. The Finance Controller indicated that FNEI is in a good financial position, and further indicated that FNEI's regulatory lawyer, Mr. Richard King, recommends to start the purchasing process in January, 2014, in order to include this possible purchase in FNEI's Rates Application in the fall of 2014, but approval is required by the Board of Directors to move forward."

The following motion had been made by the Finance Committee:

Motion 31-13:
To recommend to the Board of Directors to authorize the process to move forward on the purchase of the 80 kms of the transmission line north of Moosonee, including the borrowing of up to the purchase price of $6.4 million (Six Million Four Hundred Thousand Dollars).

Moved by: Mr. Brent Edwards **Seconded by: Mr. Derek Chum**
All in favour.
Carried."

d. From the Nov. 27, 2013, Board of Directors Meeting minutes-Excerpt

"Update on Status of Possible Purchase of the 80 kms of Transmission Line north of Moosonee:

The CEO noted that the possible financing for the 80 kms of line was talked about at the last Board of Directors meeting, and the financial forecast looks good to proceed with the possible purchase. This will benefit the Communities through the RRRP (Remote and Rural Rate Assistance Program) monies to be directed to them. We are asking the Board of Directors for a formal motion to proceed with the possible purchase of the 80 kms of line. The regulatory process to transfer assets from one transmitter to another will take a lot of time and effort. We had originally hoped to be able to have this transfer completed by the end of December for January 1, 2014, however, Hydro One can only make changes to its rate base once every two years. The next window for this is January 1, 2015. We need a firm commitment from the lenders to ensure that we have the funds in place for December 31, 2014 for this purchase. The Finance Controller noted that he is working for a commitment from the lenders by April 30, 2014, to allow for sufficient time for the regulatory process as well as to file a rate application for the additional cost of operating those 80 kms. We have the report of what Hydro One spent on those 80 kms of line since they purchased it to use as a basis for this rate application requesting additional funds to operation and maintenance of these 80 kms. We also need to keep in mind the bus isolation project which has an estimated cost of $4.5 million (Four Million Five Hundred Thousand Dollars) over the next three years. The actual purchase of the line from Hydro One is fairly straightforward as the original term sheet already anticipated FNEI eventually buying back this portion of the line. At this point, we are asking for authorization from the Board of Directors to move forward on purchasing back these 80 kms of line."

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The "*Amended and Restated Pari Passu Priority Agreement*" is the agreement between Manulife, PWB, and BMO, and FNEI, in that each Security Agreement has been granted by FNEI security of all personal properties of FNEI should FNEI become bankrupt, on an equal basis to each Security Agreement. Mr. Greg Walters noted that he does not anticipate any changes on the draft agreement, and the final agreement to be signed by November 15, 2015.

He asked if there were any questions. None was noted.

At this time, Mr. Richard King asked if the Board of Directors should deal with the Resolution first or have him do his presentation. The Board of Directors opted to have Mr. Richard King do his presentation first.

Mr. Richard King provided a brief background on the RRRP (Remote Rural Rates Assistance program) funds. When the FNEI transmission line was being built, FNEI was short on funds, and in order to complete the construction on the line, the Ontario provincial government directed H1 buy the 80 kms of line from FNEI with the option that FNEI can reacquire the line at a future date. The Term Sheet was signed back in February, 2000. The provincial government also amended the RRRP regulation in order to include Fort Albany, Kashechewan, and Attawapiskat, for RRRP funding, and that these funds would be redirected to H1, in order for H1 to have funds to own and operate the line. Each of the three Communities had to sign an agreement with H1 to assign their right of the RRRP funds to go to H1, and all three Communities signed Band Council Resolutions (BCRs) to this effect.

Now that FNEI has exercised their right to buy back the 80 km line, a termination agreement is being entered into in order to terminate the original agreement with H1, which will return the RRRP funds to the Power Corporations. The Power Corporations and the three Communities, in question, will have to sign the termination agreement by October 15, 2015. The three Communities, in question, will also have to pass BCR's allowing reversal of the original transaction. The RRRP funds will then go back to the Communities as opposed to going to H1. An FNEI Board resolution, however, is not required for this.

The Chair asked the Board, in his traditional language, if they understand what was just presented. The Board of Directors understood.

At this time, the Chair then referred to the "*Resolution*" which Mr. Richard King had eluded to earlier in the meeting. He indicated he will read out the "*Resolution*", and proceeded to do so for the Board's benefit.

The following motion had been made:

Motion 48-15:

FIVE NATIONS ENERGY INC.
(the "Corporation")
RESOLUTION OF THE BOARD OF DIRECTORS
RECITALS:
CREDIT FACILITIES

A. Pursuant to a credit agreement dated November 15, 2006 (as amended to the date hereof, the "**Original Credit Agreement**") among the Corporation, as borrower, and The Manufacturers Life Insurance Company ("**Manulife**") and Pacific & Western Bank of Canada ("**PW**" and together with Manulife, the "**Lenders**"), as lenders, the Lenders extended certain credit facilities to the Corporation.