EB-2016-0231

Five Nations Energy Inc.

2016 Revenue Requirement

OEB STAFF COMPENDIUM

Oral Hearing

July 6 and 7, 2017

TAB 1

1-Staff-8

Ref: Exhibit 1 / Tab 5 / Schedule 9
EB-2015-0368 / Five Nations Energy Letter – Request for Interim Revenue Requirement / December 17, 2015
EB-2015-0368 / Decision and Interim Order / December 29, 2015
EB-2016-0231 / OEB Incomplete Letter / August 18, 2016

Preamble:

On December 17, 2015, Five Nations Energy notified the OEB that it intended to file a cost of service application for transmission revenue requirement and charge determinants for the 2016 rate year in April 2016. In its letter, Five Nations Energy also requested that the OEB declare its existing transmission revenue requirement and charge determinants interim effective January 1, 2016. In its EB-2015-0368 Decision and Order, the OEB approved Five Nations Energy's request.

In the Decision and Order, the OEB stated that the establishment of an interim revenue requirement and charge determinants in no way fetters the OEB's discretion to determine the 2016 revenue requirement and charge determinants to be ultimately set nor the effective date. Specifically in regard to the effective date issue, the OEB stated that given the expectation that the issue of the appropriate effective date will arise in the course of the 2016 proceeding itself, this determination is also not to be construed as prejudicial to any party's ability to argue for any effective date.

Five Nations Energy filed its 2016 revenue requirement application on July 27, 2016.

The OEB sent a letter to Five Nations Energy requiring certain updates to the originally filed application on August 18, 2016 as the application was not complete in accordance with the OEB's filing requirements for cost of service applications.

Five Nations Energy filed a completed version of its application in accordance with the OEB's August 18, 2016 letter on November 25, 2016.

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.

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.

TAB 2

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April 4, 2017

PREPARED BY FNEI STAFF FOR THE PURPOSES OF ANSWERING 2-Staff-13

"Please provide a list of all material approvals granted by the Finance Committee for capital projects that were not part of a capital budget. Please provide documentation supporting those approvals."

Year 2011

2011: Purchase of land for FNEI office building: $ 250,682.78:

a. Initial Discussions on new FNEI office building: Excerpt for June 22/10 Finance Minutes

June 22, 2010, Finance & Human Resources Committee Meeting Minutes

- **Update on possible office move:**

Mr. Joe Gaboury noted that there could be a potential office move, and from the operations perspective, a warehouse will also be required to ensure our equipment is located in one area. We also need to maintain additional spare parts for the fibre optics, and can be stored in the warehouse.

Mr. Ed Chilton noted that there could be other organizations which might want to share an office building. Mr. Joe Gaboury indicated that an office move would not happen this year, but perhaps to start looking next year for other office accommodations that will meet our needs.

b. March 10/2011 Finance Committee meeting: Excerpt:

"Update on Possible Office Move:

Mr. Derek Stephen noted that the current office space of FNEI is too small, and a bigger office area is required to be able to accommodate all staff and our equipment. Mr. Vladimir Govorov indicated there is a building that is approximately 7000 square feet and the purchase price is $410,000. This building would also accommodate a boardroom.

Mr. Ed Chilton recommended that Mr. Derek Stephen and Mr. Vladimir Govorov develop a proposal on the estimate of costs, for the Board of Directors to review."

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c. From the Board of Directors Teleconference Meeting July 19/11 on purchase of land:

"Five Nations Energy Inc., (FNEI)
Board of Directors Special Board Meeting
Held via Teleconference, Tuesday July 19, 2011

In Attendance: Board of Directors
Mr. J. George Hookimaw, Attawapiskat Power Corporation
Mr. Peter Paulmartin, Attawapiskat Power Corporation
Mrs. Jessie Koosees, Kashechewan Power Corporation
Mr. Andrew J. Linklater, Fort Albany Power Corporation
Mr. Dwight Sutherland, Taykwa Tagamou Nation
Officers:
Mr. James A. Wesley Vice President, FNEI
Mr. Ed Chilton Secretary-Treasurer, FNEI
Staff:
Mr. Derek Stephen Interim CEO, FNEI
Mr. Vladimir Govorov Maintenance Supervisor, FNEI
Mr. Rod Reimer Finance Controller

Regrets:
Ms. Mary Williams Kashechewan Power Corporation

The meeting was called to order at 10:20 AM.

The purpose of this special teleconference meeting was to discuss the purchase of vacant land on the west side of highway 655 just north of the Timmins and District Hospital.

Mr. Govorov had prior to the call circulated a description of the land and proposed lot layout as well as proposed driveway access to the highway. The price quoted was around $75k per acre and FNEI staff are suggesting a purchase of four acres which comes up to $300k. There was some discussion on the total cost to develop this land, put up a building, services including telecommunications, etc. Rough estimates were given to the board to be in the $800k to $950k range. There is a possibility of buying a prefabricated steel building package from a company that originally wanted to purchase the land and setup a transportation company on that site but whose plans have changed. The price quoted for the building was about 40% less than the original purchase price.

There was some discussion about how this purchase would be paid for and whether or not the OEB or the lenders needed to have prior approval. It was stated that FNEI is currently in a position to pay for this with funds in the operating bank account. It was also stated that FNEI did not need the lender's approval as FNEI was not seeking additional lending to pay for it. Previous discussions with FNEI's regulatory lawyer confirmed that FNEI also did not need the OEB's approval. It was recommended to include 2012 expected expenditures for this building in the 2012 capital budget as part of FNEI's five year capital plan.

After some further discussion the following motion was passed:

Motion: "To authorize FNEI Staff to proceed with the purchase of four acres of land at an offer of around $240k and to pursue the purchase of the prefabricated steel building at a price in the $65k range."
Moved by: Andrew J. Linklater

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Seconded by: Peter Paulmartin
All were in favour and the motion carried.

The meeting was then adjourned at 10:35AM."

YEAR 2013

2013: Purchase of Brushing Equipment: $256,328.25

a. From the Sept. 18/12 Finance Meeting minutes - Excerpt on discussion of brushcutting machines:

"Review of 2012 Budget/Expenditures to Date including new FNEI Office Building:

"Further, FNEI has to have enough funds in the bank for the right of way clearing this winter on the transmission line. The Operations Manager researched costs to purchase two brushcutting machines and employ our own labour versus putting the work out for tender. Since it would provide the ability to manage our costs, the better option was to purchase two brushcutting machines via a 0% financing arrangement with the dealership, and FNEI then has more control on the costs rather than put the whole project out for tender, which we would have had to do, and it would have cost more with machine rental costs, labour costs, mobilization and demobilization costs. This way, FNEI has the machines, and FNEI can hire our power line contractor to do the work by the line where it needs it the most. The costs of this project will also be put into our next Rates Application plan, and Mr. Richard King, FNEI lawyer from Norton Rose, has been provided this information to keep on file as well."

b. June 4/13 Finance Meeting minutes: Excerpt on brushcutting machines

"Review of the 2013 Budget/Expenditures to Date:

Discussing the capital expenditures compared to budget the Finance Controller noted that the brushcutting machines were not included in the capital asset budget but the cost for these units were included in the maintenance budget. FNEI entered into a three year financing agreement with Roynat. The type of agreement that they had available is classified as a capital lease. This required that the entire purchase price of both units be recorded as a capital asset and not expensed every month as the payments are made. This makes the budget to actual capital expense report show expenses above what was budgeted for."

After review of the Expenditures and Budget to Date, the following motion had been made:
"Motion 16-13:

RESOLVED THAT the 2013 Budget/Expenditures, to Date, be hereby accepted for recommendation and approval by the Board of Directors at their next Board of Directors meeting, as amended.

Moved by: Mr. James A. Wesley **Seconded by: Ms. Kimberley Stephen**

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All in favour.
Carried."

YEAR 2015

2015: Oil Preservation system: $80.100.00

a. **From the May 12, 2016, Board meeting minutes – Excerpt**

"12. Maintenance and Operations Report:
The Operations Manager noted his report covers from September 22, 2015, to May 10, 2016.

The quarterly inspections at the substations were completed and oil samples were processed. There is increased moisture in one of the reactors and we are planning to install an oil preservation system which will be completed before the winter season is over. The oil moisture content in the voltage regulator at Feeder 1 in Fort Albany has been resolved using a new filtration system and a drying process. We will be ordering a new second voltage regulator, and the current voltage regulator can be used for parts, since to fix it would cost about the same as buying a new one."

b. From the draft Dec. 6, 2016, Board Meeting minutes: Excerpt from the Operations Manager's report

"Operations Manager's Report:

The Oil Preservation System is another big project. We purchased nine units, and six are already installed in Fort Albany and Kashechewan, and the rest installed in Attawapiskat. These automated units should keep the pressure in the tanks at acceptable levels in order to protect the transformers."

"Oil Preservation system.
It was necessary to compensate pressure fluctuations in the tanks from significant temperature difference between winter and summer, this automated units should keep pressure in the tanks in acceptable levels. Six of nine units already installed in Fort Albany and Kashechewan, week of December 5 planning to install the rest at Attawapiskat TS."

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2015: Fibre Shelters Backup Generators: $113,068.00

a. From the May 12, 2016, Board of Directors meeting minutes: Excerpt from the Maintenance Supervisor's report

"12. Maintenance and Operations Report:

Generators for fiber shelters.
Fiber optic initially installed by FNEI as remote access tools for the substations is currently start playing key role in communication link, high speed internet and telephone bell line now connected through our fiber- optic system. It is become critical to provide reliable services for this communication link, in 2015 FNEI purchased four generators to connect shelter, generators was delivered to each of 4 locations including Moosonee. We have installed two generators in place, prepared connection in Fort Albany and planning to do connection in Attawapiskat from May 10-12."

b. From the draft Dec. 6, 2016, Board Meeting minutes: Excerpt from the Operations Manager's report

"Operations Manager's Report:
We purchased backup generators for the fibre shelters, and are functioning well. They were tested during the last planned outage on November 29, 2016. We also purchased new batteries for the fibre shelters as the old ones were not efficient enough, which had an impact on the communication links during extended power outages. These batteries were unplanned purchases. This is important for the Communities to have fibre optic telecommunications."

2015: 80 km Line Purchase: $4,997,946.72

a. From the Sept. 18. 2013, Finance Committee meet8ing minutes: Excerpt

Update on the Possible Purchase of the 80 kms of Transmission Line North of Moosonee:
The CEO indicated that information was forwarded to the Bank of Montreal (BMO) for possible financing but the BMO is requesting further information. She indicated that Mr. Richard King, Regulatory Lawyer for FNEI, will be providing a presentation at the Board of Directors meeting September 19, 2013, on legal issues if FNEI makes a decision to purchase the 80 kms of line. Currently, the purchase price is at $6 million (Six Million Dollars), however, the purchase price could decrease.

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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 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

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"Review Process on the 80 km Line Purchase:

The Chair noted, that, for the Board of Directors information, the process on the 80 km line purchase running from Moosonee to the north, is what we must follow to complete this purchase. The legal counsel from Osler, Hoskin, and Harcourt, LLP, will explain the process.

He then turned it over to Mr. Richard King to start the review. Mr. Richard King noted that the work on the whole process to buy back the 80 kms of line from Hydro One (H1) was divided between he and his associates. He referred everyone to the document titled, *"Five Nations Energy M3K Transmission Line Transfer Closing Agenda-Draft",* and indicated the following:

Mr. Adam Gutkin: will speak on Items 1, 4, 5, 6, 7;
Mr. Greg Walters: will speak on Items 2 & 8;
Mr. Richard King: will speak on Item 3-The Remote Rural Rate Assistance Program (RRRP)

Mr. Adam Gutkin indicated that the "*Agreement of Purchase and Sale*" is fairly straightforward, and outlines the purchase by FNEI and sale by H1. The standard "*Bill of Sale*" outlines the purchase and sale of the assets, which is the 80 km line north of Moosonee.

The "*Receipt*" of the sale is, basically, an acknowledgement by H1 on receipt of funds from FNEI on FNEI's purchase of the 80 kms of line north of Moosonee. The "*Indemnity & Release*" document outlines the indemnity provisions to H1 from FNEI after closing of the sale.

Mr. Adam Gutkin asked if there were any questions/comments.

The Finance Controller noted that FNEI does not anticipate any significant changes to the draft documents put forth by H1. Other than that, these documents are final. He further indicated that, in the original Term Sheet signed between FNEI and H1, FNEI anticipated that it would buy back the 80 kms of line at a future date, and there really is no real negotiation on this. There should be no changes to the agreements between today, October 6, 2015, and October 15, 2015.

Mr. Greg Walters explained the background on the November, 2006, credit agreement between FNEI and Manulife/Pacific and Western (PWB) that was entered into for $11 million (Eleven Million Dollars), a construction term loan to assist in financing the construction of the FNEI transmission line, (the Omushkego Ishkotayo Project, as it was known back then), and the substations in the Communities of Fort Albany, Kashechewan, and Attawapiskat. This term loan expires in the year, 2027. There was also an operating line of credit with PWB in amount of $2 million (Two Million Dollars) for general operating purposes, which expired in 2009.

As part of the new purchase of the 80 km line north of Moosonee, Manulife has agreed, via a signed term sheet, that it would provide $6.2 million (Six Million Two Hundred Thousand Dollars) to FNEI on the purchase of the 80 km line north of Moosonee. The "*Amended and Restated Credit Agreement*" amends the original existing agreement between FNEI, Manulife, and PWB, in that the new facility of $6.2 million (Six Million Two Hundred Thousand Dollars) will be included, which is repayable over twenty (20) years. This new facility will be used to pay for the 80 km line purchase, and to also repay the callable debt with the Bank of Montreal (BMO) in amount of about $1 million (One Million Dollars). If FNEI chooses to prepay the loan with Manulife, FNEI must also pay interest on the prepaid portion. On prepaid loans, FNEI cannot re-borrow the amount of prepaids, these amounts would be applied to the loan repayments.

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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.

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B. Pursuant to an amended and restated credit agreement (the "**A&R Credit Agreement**") to be entered into by the Corporation, as borrower, and the Lenders, the Corporation and the Lenders have agreed to amend and restate the Original Credit Agreement and to maintain the existing credit facilities provided in connection with the Original Credit Agreement and Manulife has agreed to, among other things, provide a new acquisition credit facility in the maximum principal amount of $6,200,000 in favour of the Corporation (the "**Acquisition Credit Facility**" and together with the other credit facilities contained in the A&R Credit Agreement, the "**Credit Facilities**").

C. Pursuant to credit facilities (as amended, the "**BMO Credit Facilities**") between the Corporation and Bank of Montreal ("**BMO**"), the Corporation obtained financing from BMO and granted security interest in favour of BMO.

D. Manulife, PW and BMO have requested that the corporation enter into a pari passu priority agreement among the Corporation, Manulife, PW and BMO (the "**Pari Passu Agreement**") setting out the priorities of the Lenders, Manulife and BMO to the assets and undertakings of the Corporation.

RESOLVED THAT:

1. The Corporation is authorized to borrow from Manulife pursuant to the Acquisition Credit Facility and to continue to borrow from the Lenders under the Credit Facilities and to enter into and perform its obligations under the A&R Credit Agreement, all upon the terms and conditions set forth in the A&R Credit Agreement.
2. The Corporation is authorized to enter into and to perform its obligations under the Pari Passu Agreement.
3. Any director or officer of the Corporation, is authorized and directed, on behalf of the Corporation, to negotiate, finalize, execute and deliver the A&R Credit Agreement and the Pari Passu Agreement, with or without the corporate seal affixed, and with such additions, deletions or other changes to any such documents as such director or officer, in such director's or officer's sole discretion, may approve, such approval to be conclusively evidenced by such director or officer execution and delivery of the Credit Agreement and the Pari Passu Agreement, as the case may be.
4. Any director or officer of the Corporation, is authorized and directed, on behalf of the Corporation, to negotiate, finalize, execute and deliver, register or file such further documents, agreements, authorizations, elections, endorsements and instruments (with or without the corporate seal affixed) and to do all such other acts and things as are required or as such director or officer, in such director's or officer's sole discretion, may determine to be necessary or desirable in order to complete the transactions contemplated in this resolution and contemplated in the documents authorized hereby, such determination to be conclusively evidenced by such director's or officer's execution and delivery of any such documents or instruments or the taking of any such action, as the case may be.
5. Any agreements, instruments or other documents executed and delivered and any and all acts and things done by any officer or director on or before the date hereof determined to be necessary or desirable by such officer or director in order to complete the transactions contemplated by this resolution are ratified, approved and confirmed in all respects.

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6. These resolutions may be executed in counterparts and by means of facsimile signature or other electronic means, each of which when so executed and delivered shall be an original, and all such counterparts shall together constitute one and the same instrument.

The foregoing resolution is passed as evidenced by the signatures of the directors of the Corporation pursuant to the provisions of the *Canada Business Corporations Act*.
DATED _____ ___, 2015."
Moved by: Mr. George Reuben **Seconded by: Mr. Derek Chum**
All in favour.
Carried."

2015: Station Emergency Communication: $ 97,387.17

a. **From the March 10, 2011, Finance Meeting minutes: Excerpt**

"Year to Date Budget and Expenditures:

Off site retrieval fees is for work done on FNEI's communication system. Much time has been spent on this, and currently, FNEI has contracted with Mr. Dirk MacLeod's consulting firm, the Canadian Network Consulting and Services Group Inc. at a cost of approximately $4,000 a month to provide regular monitoring services to our communications system. It was noted that two thirds of the costs on the repair of the fibre optic communication system will be covered by De Beers. It was also noted that Western James Bay Telecom Network (WJBTN) looks after the connections in the Communities, and FNEI looks after the fibre optic line.

Mr. Vladimir Govorov indicated that a conference call was held on March 8, 2011, with the Western James Bay Telecom Network (WJBTN) regarding liability issues. WJBTN would like to look at a liability policy similar to Bell Canada's liability policy. FNEI does not receive any funds for the telecommunications and it is felt by the OEB that the Communities benefit from this service, therefore, FNEI has been absorbing the costs. If the fibre optic fails, WJBTN will call us. Metering software has been installed to monitor the system and if anything goes down, WJBTN has steps to take for liability."

YEAR 2016

2015: Fibre Shelter Battery Replacement: $83,609.00

a. **From the draft Dec. 5, 2016, Finance Meeting minutes: Excerpt**

"Review of 2016 Draft Budget/Expenditures to Date:

The Finance Controller continued and noted that the expenditures for the fibre shelters was over budget as FNEI had to purchase new batteries for the fibre shelters, which we did not anticipate. The old batteries

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would lose their capacity to provide power, thereby, causing an impact on the communication links during extended power outages. Therefore, new batteries were bought and installed by our technical employees."

The following motion had been made on the review of the financial report:
Motion 20-16:

RESOLVED THAT the Draft 2016 Budget/Expenditures to Date are hereby recommended to the Board of Directors for approval at their next scheduled Board of Directors meeting:

Moved by: Mr. Andrew J. Linklater Seconded by: Mrs. Patricia Sutherland
All in favour.
Carried."

b. From the draft Dec. 6/16 Board meeting minutes: Excerpt

"Review of the 2016 Budget/Expenditures to Date & 2017 Draft Annual Budget:

The Capital expenditures are close to the budget amount for 2016. We will be moving approximately $150,000 to the 2017 fiscal year for unplanned capital expenses related to replacement of batteries at all of the fibre shelters in Moosonee, Fort Albany, Kashechewan, and Attawapiskat."

The following motion had been made after review of the financial report:
Motion 29-16:

RESOLVED THAT the 2016 Budget/Expenditures, to Date; and the 2017 Annual Budget, are hereby approved as presented.

Moved by: Mr. Roger Archibald Seconded by: Mr. Edward Koostachin
All in favour.
Carried."

TAB 3

Ontario Energy Board

Commission de l'Énergie de l'Ontario

EB-2009-0387

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

AND IN THE MATTER OF an application by Five Nations Energy Inc. for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2010 transmission rates and related matters.

BEFORE: Paul Sommerville
Presiding Member

Paula Conboy
Member

DECISION AND ORDER

November 1, 2010

Background

Five Nations Energy Inc. ("FNEI", the "Company") filed an application with the Ontario Energy Board (the "Board") dated February 26, 2010 under section 78 of the *Ontario Energy Board Act*, *1998*, S.O. c.15, (Schedule B) (the "Act"). The Board assigned the application file number EB-2009-0387.

FNEI is a non-profit, non-share capital, federally-incorporated corporation with its head office in Moose Factory, Ontario, and main operational office located in Timmins, Ontario. FNEI is a licensed transmitter of electricity in Ontario (ET-2003-0074), owning and operating transmission facilities along the western coast of James Bay. FNEI currently serves four customers, which include three local distribution companies and one commercial customer.

This Board last reviewed FNEI's rates in 2001 (RP-2001-0036). In this application, FNEI is seeking Board approval for a forecasted revenue requirement of $6,466,100 for 2010. The application is based on a future test-year cost of service methodology.

FNEI's revenue requirement represents a small portion of the total provincial transmission revenue requirement used to establish the uniform transmission rates (UTR). Therefore, the increase in revenue requirement sought in this application is not large enough to trigger a change to the current UTRs. However, due to the change in revenue requirement, there is a slight increase in FNEI's revenue allocators to the UTR.

FNEI submitted an application for 2010 revenue requirement on February 26, 2010. Energy Probe Research Foundation ("Energy Probe") and the Independent Electricity System Operator ("IESO") applied for intervenor status. Both parties were granted intervenor status, while only Energy Probe was found eligible for an award of costs. In addition, the Board received and reviewed one letter of comment from a Mr. Geltman.

By Decision and Order dated April 27, 2010, the Board declared FNEI's current rates interim as of March 1, 2010. In this Order the Board also set the dates for filing interrogatories and responses to interrogatories. Board staff and Energy Probe filed interrogatories. The Company's responses to interrogatories were filed on June 4, 2010.

FNEI requested that its responses to Board staff interrogatories 21(a), 22(b), 22(c) and 23 (a, b and c) be treated as confidential. The Board approved FNEI's request and

issued its decision in Procedural Order No. 3. Further, also in Procedural Order No. 3, the Board decided to proceed by way of a written hearing and set out the dates for arguments. Pursuant to Procedural Order No. 3, FNEI filed its Argument-in-Chief on July 5, 2010 and its final reply on July 30, 2010. The Board received submissions from Energy Probe on July 19, 2010 and submissions from Board staff on July 16, 2010.

Board staff filed a redacted and an un-redacted version of its submissions. The redacted sections of the submission related only to the submissions on charge determinants. Board staff subsequently contacted Counsel for the Applicant to determine if certain sections of the redacted submission could be placed on the public record. After reviewing the submissions, Counsel for the Applicant informed staff that the entire submission on charge determinants could be placed on the public record as it did not refer to customer specific load data.

Summary of the Application

FNEI in its original filing requested Board approval for a revenue requirement of $6,474,700. In an updated application, filed on March 29, 2010, FNEI revised its revenue requirement to $6,466,100. The main components of revenue requirement are summarized below:

	2001 Board Approved ($ 000s)	**2010 Applied ($ 000s)**
Operations, Maintenance & Administration	1,898.5	3,386.1
Depreciation & Amortization	1,100.6	1,187.4
Interest on Debt	922.2	762.3
Internally Generated Funds (ROE)	1,256.7	1,130.3
Revenue Requirement	**5,178.0**	**6,466.1**

Issues

In reviewing the evidence, the Board has identified the following issues:

- Rate Base and Capital Expenditures
- Operating Revenue

- Operations, Maintenance and Administration (including Depreciation Expense and Harmonized Sales Tax)
- Cost of Capital
- Charge Determinants
- Implementation Matters

FNEI is a non-profit and non-share capital utility. Given its non-profit status, one of the key issues in this proceeding dealt with FNEI's request for a return on equity. Both Energy Probe and Board staff made significant submissions on the issue. The Board has addressed this issue and the related issue of how FNEI's revenue requirement should be determined under the Cost of Capital section.

Rate Base and Capital Expenditures

FNEI's rate base for 2010 is forecasted to be $28.688 million. This is the sum of the net book value of $28.180 million and working capital allowance of $0.508 million. The total test year rate base represents a 13% increase from the last Board approved rate base of $25.439 million, in RP-2001-0036.

Consistent with previous practice, the working capital allowance was estimated as 15% of total Operations, Maintenance and Administration expenses.

FNEI is proposing to spend $275,000 on capital expenditures in the test year. FNEI provided detailed evidence on historical capital expenditures and the test year capital budget. The main areas of spending in the test year are:

- $150,000 for station equipment, as well as the removal of old relay panels and wiring;
- $35,000 for poles and fixtures;
- $60,000 for overhead conductors and devices;
- $20,000 for building and fixtures; and
- $10,000 for miscellaneous expenditures.

No party objected to FNEI's test year rate base or the proposed level of capital expenditures.

Board Findings

The Board accepts FNEI's proposed test year rate base and working capital allowance. The Board also accepts FNEI's 2010 capital expenditure forecast of $275,000.

Operating Revenue

FNEI is seeking Board approval for a test year Operating revenue forecast of $5.078 million.[1] The Operating revenue forecast is comprised of Transmission Service revenue and Other revenue. FNEI's test year forecast of Transmission Service revenue is $4.978 million and the forecast of Other revenue is $0.1 million.

Board staff argued that FNEI's forecast of test year Transmission Service revenue is understated. Board staff submitted that a test-year forecast of $5.280 million is a more reasonable level and is consistent with the average of the last three years and the historic trend. Energy Probe supported Board staff's submission. No party objected to FNEI's Other revenue forecast.

FNEI argued that the as-filed Transmission Service revenue forecast of $4.978 million is appropriate. FNEI argued that the reliance on historical revenues is of limited value. FNEI further argued that its test year Transmission Service revenue forecast is consistent with the IESO's 18-month Outlook, which forecasts a decline in peak demand. FNEI also noted that its revenues do not fluctuate based on the transmission demand of its customers and are tied to the overall provincial demand. Therefore, any increases in revenue, such as those generated by DeBeers will be shared by all four transmitters and will not have a significant impact on FNEI's revenues. FNEI also noted that on a month-to-date basis, the actual 2010 revenues for the period January to April are 2% lower than 2009 revenues during the same period.

Board Findings

The Board notes that FNEI's forecast of Transmission Service revenue of $4.978 million is significantly lower than the historical average and is the lowest in its history. In fact, FNEI had forecasted the same revenues in 2009 as well. As noted by Board staff, that forecast was also low and the actual revenues in 2009 were in fact $5.023 million or approximately $45,982 higher than FNEI's forecast. Despite the increase in actual 2009

[1] FNEI Argument-in-Chief, p.16

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

FNEI indicated that the majority of the $100,000 requested is to complete a depreciation study, with the balance of the funds being primarily used to do a componentization of capital assets.

Board Findings

The Board accepts FNEI's budget with respect to total one-time IFRS transition costs of $100,000 to be reflected in equal three slices in 2010, 2011, and 2012. However, the Board notes that it is possible there will be a general delay to the adoption of IFRS for Canadian companies. The Board advises FNEI to track its spending on IFRS transition costs, and the applicant should be aware that any amounts awarded by this Board for IFRS transition costs, but not incurred in the period, will be subject to review and possible recapture.

Charitable Donations

FNEI stated in response to Board staff interrogatory #40 that amounts totaling $31,225 included in Account 5410 do not provide assistance to customers in paying their bills and assistance to low income consumers, as stipulated in the definition of that account. The $31,225 is made up of $10,000 for sponsorship of *Creefest*, $12,000 in scholarships for local students, and $9,224 for other sponsorship of educational events. FNEI stated that the remainder of the $86,000 recorded in Account 5410 contributes to providing assistance to customers in paying their bills and assistance to low income consumers.

Board staff submitted that the Board should deny the inclusion of $31,225 in Account 5410 related to sponsorship and events which do not further the purpose for which this account was established.

FNEI suggested that the Board's Filing Requirements are overly narrow, and submitted that the Board should have the flexibility to consider whether any expense in Account 5410 is a legitimate cost of doing business and therefore recoverable in rates.[4]

FNEI further submitted that maintaining a positive corporate reputation and profile in these communities makes good business sense and ought to be viewed as a legitimate business cost.

[4] Reply argument, para. 50

Board Findings

The costs totaling $31,225 shall be excluded from Account 5410, and as a consequence the approved OM&A envelope is reduced by $31,225. FNEI clearly indicated in its response to interrogatory #40 that the amounts totaling $31,225 do not fit the description of amounts that should be recorded in this account. The remaining $86,000 forecast to assist customers in paying their bills and assistance to low income consumers will be allowed in rates.

As noted in Board staff's submission, the Board clearly indicates in its Filing Requirements that:

> "The recovery of charitable donations will not be allowed for the purpose of setting rates, except for contributions to programs that provide assistance to the distributor's customers in paying their electricity bills and assistance to low income consumers. If the applicant wishes to recover such contributions, it must provide detailed information for such claims. The applicant must review the amounts filed to ensure that all other non-recoverable contributions are identified disclosed and removed." [5] (Emphasis added)

While the disallowed donations may be contributed towards laudable goals, the Board does not find that they are appropriately recovered through electricity rates. The Board notes in making its finding that FNEI is like any other transmission or distribution company with regard to qualification of charitable donations and is subject to the same conditions.

Tendering and Service Agreements

FNEI does not have service agreements with any of its member LDC distributors. In response to a letter from the Board regarding a compliance matter, FNEI filed a letter on May 17, 2010[6], which discussed at length the status of FNEI's relationship with its member distributors. That letter stated that they are not affiliates within the framework

[5] *Filing Requirements for Transmitters and Distributors*, Section 2.5.2, p.14
[6] Also filed as part of response to Board staff interrogatory #1(a)

described by the *Affiliate Relationships Code* (*ARC*). Board staff responded[7] confirming that FNEI and its member distributors are not affiliates as contemplated by the *ARC*.

The three First Nation communities of Attawapiskat, Fort Albany and Kashechewan are remote, and travel between them is via plane only. For practical purposes, FNEI has indicated in evidence that this remoteness limits the number of businesses that would likely submit competitive tender to provide services to FNEI. FNEI stated that the only practical parties to take on such work are the neighboring LDCs. Since January 1, 2006, the amount paid to the three member LDCs for these services totals to approximately $480,000[8], and the work has been completed and billed without any service agreements governing the work.

FNEI noted that it utilizes power line maintainers of the LDCs when doing maintenance on transmission lines, and also uses LDC staff to perform routine maintenance checks. FNEI does not have any full time power line maintainers located in the three communities. FNEI has further argued that, given the remote location and costly travel in the region, use of LDC staff is by far the most economical way for FNEI to have this work completed.

FNEI also indicated that it does not put out to tender the maintenance services provided by the LDCs claiming that there is no purpose in doing so[9], and that the work involved can be done far more economically by LDC lineworkers than anyone else.

FNEI noted that at present the work by LDCs is done on an "as needed" basis. FNEI submitted that it agrees with submissions of Board Staff that service agreements between FNEI and the three LDCs are required. FNEI submitted that it plans to put in place service agreements with the LDCs, and believes this can be done by the end of calendar year 2010.

FNEI indicated in reply argument that it has always procured maintenance services from its three member LDCs on a “cost plus 15%” basis.[10] When combined with zero travel costs, FNEI submitted that it makes these arrangements with the LDCs far better than anything FNEI could achieve through a competitive tendering process. However, FNEI

[7] Letter from the Board, Re: Compliance with Electricity Reporting and Record Keeping Requirements (“RRR”), dated June 22, 2010
[8] See FNEI letter dated May 17, 2010.
[9] Response to Board staff interrogatory #56(c)
[10] Where “cost” is comprised of: (a) non-unionized labour costs of $28 to $36 per hour; (b) equipment rental costs; and (c) minimal materials costs, since FNEI usually supplies these materials.

indicated in reply that having service agreements in place with the LDCs will make pricing of services transparent and provide a basis to assess the prudence of such costs in the future.[11]

Board staff submitted that FNEI should have formal agreements with each of the LDCs given that there appears to be frequent and ongoing work from LDCs. Board staff submitted that without agreements between FNEI and the LDCs, disputes could arise as to pricing, accusations of non-performance, liability, or other terms which could otherwise be more appropriately understood at the outset of any work via service agreement.

Board staff further submitted that the need for service agreements is made more necessary since FNEI does little in the way of competitive tendering to complete the necessary work.

Energy Probe expanded upon Board staff's concerns surrounding a general lack of a competitive tendering process. Energy Probe submitted that FNEI's tendering practices are lacking in the sort of customary controls used to ensure that fair value is received from contractors. Energy Probe cited a number of interrogatories[12] which suggest that significant amounts of consulting and construction work have been awarded by FNEI without competitive tendering. Energy Probe submitted that without competitive tendering it is difficult to determine whether the price quotations FNEI received for the work were reasonable and raises questions of prudence.

FNEI responded that it would not object to competitive tendering "when it makes sense" but wished to retain discretion to determine when it should single-source and when it should run a competitive tendering process. FNEI cited that in certain instances it has awarded work in a sole-source fashion to companies that had previously worked in the region due to experience working in its unique environment.

Board Findings

The record in this proceeding with respect to service agreements and tendering arrangements clearly demonstrates that there are important matters to address in this area. The Board has closely examined the commercial relationships between related

[11] Reply argument, para. 42
[12] Response to Energy Probe IRs 10, 11, 12, and 15

entities on previous occasions and in some instances has imposed a methodology to govern pricing for goods and services between such related entities.[13]

The Board finds that it is important that all work arrangements between the transmitter and its member LDCs should be governed by well-defined, commercial, competitively priced service agreements. The Board sees the applicant's proposal to secure such service agreements by the end of calendar year 2010 as satisfactory. Accordingly, the Board directs FNEI to file with the Board service agreements between FNEI and the three LDCs on or before December 31, 2010. The service agreements shall be based on, and shall conform to the format required under section 2.2 of the ARC, and shall contain the information mandated by that Code. The Board expects that the provision of the service agreement(s) will be supplemented by a dated letter from the FNEI's CEO, confirming that the service agreements are in place, and disclosing their effective dates.

With respect to tendering, the Board finds that FNEI should be required to put all requests for work out to competitive tender where the value of the contract exceeds $25,000. This requirement would not apply where the need to have the work done is one of pressing emergency in which delay would be injurious to the public or in genuinely special circumstances where FNEI believes competitive tendering is not appropriate.

On the question of discretion to single-source, the Board finds that it would be inappropriate to allow FNEI, or any other utility, unconditional discretion. Despite the unique geographic circumstances faced by FNEI, competitive tendering should be the rule rather than the exception. Without the evidence provided through the competitive tender process, this Board is in the position of not having the best kind of evidence respecting the prudence of expenditures. There is also a risk that potential competitors to the single source supplier will be once and forever frozen out of access to this work, to their detriment, and the detriment of ratepayers.

In those circumstances, where FNEI specifically intends to award work without conducting a competitive tender process FNEI should document the specific instances where it believes that awarding the work through a competitive tender is not appropriate. Such documentation must include a description of the specific reasons

[13] See FNEI letter dated May 17, 2010 which refers to the transcript of EB-2005-0544, Enbridge Gas Distribution, p. 80-82, July 24, 2006.

relied upon for this deviation from Board direction. In these circumstances the Board would expect the work to be carried out at a price no greater than cost plus 5%.

Depreciation Expense

FNEI requested 2010 Depreciation and Amortization expense of $1,187,427, up approximately 53% from reported 2009 level of $775,600, and 84% from reported 2008 level of $645,200.[14] FNEI uses straight-line depreciation calculations based on the depreciable gross book value of each asset class. FNEI has applied the same depreciation rates historically, consistent with those applied by other Ontario utilities. One exception is for Account 1908, where FNEI uses 4.00% rather than the 2.00% rate used in the *Electricity Distribution Rate Handbook*. FNEI noted that, due to conditions and building methods in remote Northern Ontario communities the expected life of buildings is 25-years, rather than the more typical 50-year life. FNEI noted that concrete or brick structures are extremely rare in their communities.

The methodology used for calculating rate base is based on the average of the monthly closing balances. This differs from the typical method applied by other transmitters and distributors, who generally use the average of the opening and closing balances.

FNEI indicated that in the early years of FNEI's existence (from 2002 through 2004), the use of the average opening and closing balances substantially overestimated rate base.[15] This is due to both the change in the monthly fixed assets and also due to the timing of the addition and removal of assets from rate base in these early years. For instance, in 2009, use of the opening and closing balance methodology again overestimates rate base significantly since most of the capital expenditures placed into service were done so in the final month of that year. The differences in other years (2005-2008, 2010) are much smaller, reflecting the low level of capital expenditures and the timing of when the assets were put into service.

Board Findings

The Board accepts FNEI's argument that the conventional method for calculating depreciation expense produces an overestimation of rate base in its particular circumstances. The Board accepts FNEI's total Depreciation and Amortization expense

[14] The increase over the Board approved level in RP-2001-0036 of $1,100,600 is approximately 8%.
[15] Board staff interrogatory 12

of $1,187,427, subject to any minor adjustments consequential to other findings in this Decision. The Board notes that the method used by FNEI to calculate depreciation expense is similar to the approach used by natural gas distributors in Ontario to calculate the property, plant and equipment component of rate base.

Harmonized Sales Tax

The provincial sales tax ("PST") and goods and services tax ("GST") were harmonized effective July 1, 2010 into the Harmonized Sales Tax ("HST"). PST is typically included as an OM&A expense for transmission and distribution companies. When the GST and PST are harmonized, it is expected that corporations will realize a reduction in OM&A expenses and capital expenditures. FNEI will pay the HST on purchased goods and service but will claim an input tax credit for the PST portion.

Board staff submitted that the Board may wish to consider establishing a deferral account to track any savings in OM&A expenses and capital expenditures that might arise as a result of harmonizing the provincial sales tax and goods and services tax.

FNEI submitted that its OM&A expenses do not typically attract PST, and although PST is paid on capital expenditures, FNEI does not foresee significant capital expenditures in future years. While FNEI did not oppose the establishment of a deferral account for this purpose[16], *per se*, FNEI submitted that establishment of such an account may cause unnecessary administrative burden in light of what FNEI contends will be miniscule amounts that will be recorded in the account. If such an account were approved, FNEI suggested that it would work in a fashion similar to the Hydro One Networks Inc. "Tax Rate Changes Account".

Board Findings

The Board directs that, beginning July 1, 2010, FNEI shall record in a deferral account, the incremental input tax credit it receives on revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of FNEI's next rate application. While the actual amounts recorded in such an account may well be small as FNEI contends, there is insufficient evidence at this point to determine whether the

[16] Reply argument, para. 79. FNEI indicated that it had no issue with the establishment of such an account if the "administrative issue" associated with the account could be overcome.

administrative costs outweigh the benefits. As a result the Board finds that in order to ensure consistency across regulated utilities, a deferral account is appropriate.

The Board may issue more detailed accounting guidance in the future. In that event, FNEI should make the appropriate accounting entries, if and as applicable.

Cost of Capital

This section of the Decision addresses issues related to FNEI's proposal to transition to a 60/40 debt-to-equity split, cost of debt and return on equity. FNEI's proposed test year cost of capital is $1.8926 million – of this total, $0.762 million is related to the cost of debt and the remainder, $1.1303 million is related to FNEI's request for a return on equity of 9.85%.

Transition to deemed 60/40 capital structure

Beginning in 2008, the Board adopted a deemed capital structure of 60% debt (56% long-term debt and 4% short-term debt) and 40% equity, and provided for a transition to this structure of up to three years. Most electricity transmitters and distributers had transitioned to the 60/40 deemed capital structure by the beginning of 2010, but FNEI has not. In the *Cost of Capital Report of December 2009*, the Board indicated that for utilities still transitioning to the deemed capital structure, the matter would be dealt with in their respective cost of service applications. FNEI has applied for a 60/40 debt-to-equity split in 2010, without transition.

Board staff submitted that FNEI appears to be capable of making the transition directly to a 60/40 debt-to-equity split without undue hardship.

Board Findings

The Board accepts FNEI's proposal to move to a deemed 60/40 debt-to-equity split in 2010.

Cost of Debt

With respect to debt, FNEI has a Credit Agreement with Manulife and Pacific & Western Bank ("PWB") which provides FNEI with a term credit facility from Manulife and PWB of

up to $11 million (at 5.5%), and an operating facility from PWB of up to $500,000 (at prime plus 2.5%). FNEI also has a $500,000 operating line of credit with its bank, the Bank of Montreal ("BMO"). In addition, FNEI has an interest-free loan from the Northern Ontario Heritage Fund Corporation ("NOHFC") which dates back to the initial development stage of the FNEI project. The NOHFC loan is interest-free until October 2010, at which point FNEI has indicated that interest at 4% will begin to accrue.

Staff submitted that no compelling reason has been provided by FNEI why short-term unfunded debt should attract a rate higher than the Board's deemed rate of 2.07%, as arrived at using the methodology contained in the Board's *Cost of Capital Report of December 2009.* Staff submitted that the Board clearly contemplated that utilities should apply the deemed short term debt rate to short-term debt capitalization, whether funded or unfunded. Board staff submitted that FNEI's argument that it should receive treatment similar to natural gas distributors does not comply with the *Cost of Capital Report of December 2009*, and FNEI has not adequately supported its proposal for different treatment.

FNEI submitted that 4.75% is its actual short-term debt rate. However, FNEI indicated in reply that, at a minimum, the amount of short-term debt with the fixed 4.75% interest rate, i.e. the $500,000 BMO Operating Facility, should be included in costs. The remaining unfunded debt would be calculated at the deemed rate to ensure that FNEI is allowed to recover its actual costs. This approach would result in a weighted cost of short-term debt of 3.24%.[17]

In FNEI's view, it should be permitted to recover its actual costs.[18]

Board Findings

First, it is important to note that the Board's *Cost of Capital Report of December 2009*, does not really fit the circumstances of this Applicant in a number of aspects. As will be discussed more fully below, insofar as this company has no equity *per se* as a not for-profit corporation without share capital, the simple application of the Board's Report is problematic.

[17] This calculation was carried out by FNEI in response to Board Staff IR #60(b).
[18] Reply argument, para. 64.

The Board agrees with FNEI's position that it should be permitted to reflect the actual interest rate governing the BMO Operating Facility in its cost of short term debt. However, this treatment will not be afforded to any other portion of its short term debt, all of which should be deemed to be at a 2.07% rate, consistent with that arrived at using the consensus methodology reflected in the Board Report.

The Board cautions the Applicant that, in future, care should be taken when negotiating short-term debt-financing arrangements. Financings that are significantly out of line with prevailing market interest rates or the Board's deemed rates may not be viewed in a similar light in future applications. The Board also requires that FNEI provide better support for its proposed actual short-term debt rate in its next cost of service rebasing application. In the absence of sufficient and compelling evidence, this panel would recommend that, in future rate applications, the Board's applicable deemed rate be applied to all unsupported tranches of short-term debt financing.

Accordingly, FNEI's approved short-term debt rate shall be 4.75% for the $500,000 BMO Operating Facility, and 2.07% for the remainder of the short term debt component, resulting in a weighted cost of short-term debt of 3.24%, as calculated in response to Board staff interrogatory #60(b). This treatment results in a short term debt cost recoverable by the company of $1.875 million.

Return on Equity

In FNEI's last rate case the Board approved FNEI's request for a return on equity of 9.88%.

In that case, the Board dealt with the issue of a non-profit, non-share capital utility earning a return on equity and the appropriateness of FNEI earning an income in excess of expenditures. In approving FNEI's request, the Board referred to the Canada Revenue Agency ("CRA") position that a non-profit organization may earn income in excess of its expenditures under specific circumstances, without jeopardizing its non-profit status.[19] The Board used the existing return on equity amount of 9.88%, which it called "internally generated funds" to calculate the revenue sufficiency that it would allow FNEI to collect.

[19] Decision RP-2001-0036, paragraph 3.3.8

The Board noted that its approval of the internally generated funds, driven by a notional Rate of Return on Equity of 9.88% was intended to create reserves respecting unplanned future Capital requirements, unplanned future Operating requirements, and insurance. In this proceeding, FNEI is requesting a return on equity of 9.85%, which is derived from the Board's *Cost of Capital Report of December 2009* and has proposed a design for the Operating and Capital reserves.

In determining the appropriate "cost of capital" to be included in FNEI's revenue requirement, the Board must decide the following issues - Is FNEI's request for a return on equity appropriate, given that it is non-profit non-share capital utility? And, given that the return on equity is to be used to fund the reserves, the related issue is - Is the proposed design of the reserves appropriate?

Is FNEI's request for a return on equity appropriate, given that it is non-profit non-share capital utility?

FNEI is requesting Board approval for a return on equity of 9.85%. Now that the Insurance reserve is fully funded, FNEI proposes to use the excess revenue generated by this rate of return to build up the Operating and Capital reserves. Unlike the Insurance reserve, which is at a capped amount of $4,000,000, FNEI argued that the Operating and Capital reserves should not be capped and should not be subject to restrictive rules respecting withdrawals. FNEI argued that regardless of its non-profit, non-share capital structure, it can earn revenues in excess of costs, provided such excess revenues are not paid out as dividends, but rather are spent on activities that promote the social, economic and civic welfare and development of the Attawapiskat, Fort Albany and Kashechewan First Nations. FNEI stated it had received professional advice on this point and was not concerned about losing its non-profit status merely by continuing to earn revenues in excess of costs. In the submissions of Board staff and Energy Probe, FNEI's proposal is referred to as "the ROE approach".

Energy Probe submitted that the Board should deny FNEI's request. Energy Probe argued that if FNEI wants to earn a return on equity, in the same manner as other for-profit utilities, then it must reconsider its non-profit status and operate as a for-profit utility. Energy Probe argued that a request for a return on equity assumes investor equity and FNEI as a non-profit utility without share capital does not have investors and should therefore not earn a return on equity. Energy Probe also argued that for-profit utilities that earn a return on equity are subject to taxes or payments in lieu on their

earnings. FNEI does not pay taxes and therefore allowing it to earn a return on equity creates an inequity and is not appropriate.

Energy Probe proposed the Times Interest Earned Ratio ("TIER") mechanism to establish FNEI's revenue requirement. The TIER estimates the excess earnings that non-profit utilities in U.S. jurisdictions can earn. Energy Probe submitted that FNEI had not adequately explained why the TIER method is not appropriate and given FNEI's non-share capital structure, the TIER method is more appropriate.

In its Decision in RP-2001-0036 the Board directed FNEI to file a report that would discuss the design of the reserves as the basis for a transition to an alternate approach to using the ROE approach.[20] FNEI did not file such a report and proposed to continue with the ROE approach. Energy Probe and Board staff submitted that FNEI had not complied with the Board's directive in this regard.

Board staff argued that it is not appropriate for a non-profit, non-share capital utility to earn a return on equity. Board staff noted that the Board's approval for a rate of return in its previous rate case was to allow FNEI to build the reserves. Board staff also noted that FNEI had stated that it would be appropriate to move to the Reserve approach after gaining sufficient experience.[21] Board staff therefore proposed the Reserve approach. Under the Reserve approach, FNEI would not earn a return on equity. The annual revenue requirement would be the sum of all costs and the annual increment needed to fund reserves. The excess revenues to build up reserves are determined based on an assessment of operating and capital needs and supported by evidence.

Is the design of the Capital and Operating reserves appropriate?
With respect to the design of reserves, FNEI argued that unlike the Insurance reserve, the Operating and Capital reserves should not have a cap. A cap assumes that the reserves will have a set amount (i.e. upper limit) and that the funds in the reserve cannot be used for any other purposes other than those that the reserves are designed for. FNEI also proposed to link the Operating and Capital reserves – specifically proposing that current earnings in the first three quarters of any calendar year be appropriated to the Operating fund and at year-end, the funds transferred to the Capital reserve. FNEI also proposed to use the funds in the reserves for social, economic and civic welfare and development activities in the three First Nations communities.

[20] Oral Hearing Transcript, RP-2001-0036, paragraph 251 - 253
[21] Oral Hearing Transcript, Rp-2001-0036, paragraph 244

Board staff submitted that the reserves should have a cap and that it was not appropriate to use the funds in the reserves for any other purpose. Board staff also noted that FNEI had used the term “Operating reserve” and “Operating fund” interchangeably and that the Operating fund as designed is not a reserve. Board staff also noted that the proposal to link the Operating fund to the Capital reserve is not appropriate. In this regard, Energy Probe supported the submissions of Board staff.

Board Findings

The appropriateness of FNEI earning a return on equity was addressed by the Board in RP-2001-0036, FNEI’s previous rate case. In that case, the Board approved amounts in the revenue requirement that were in excess of costs. However the Board also found that it was not appropriate for a non-profit, non-share capital utility to earn a return on equity *per se*. The Board is not convinced it needs to vary its findings in RP-2001-0036 in this regard.

The Board notes that FNEI was directed to use the TIER mechanism in its next rate case and file a report on the design of reserves. The Board also stressed that the excess revenue provided for by the use of a rate of return was intended to fund reserves directly related to the sustainable operation of the utility, and for no other purpose. Further, owing to FNEI’s non-share capital structure, the Board stated it was “inappropriate to describe amounts included in revenue requirement that are in excess of costs as a return on equity” and directed that they be described as “Internally Generated Funds”.

The Board dealt with a similar issue in a subsequent rate application by Attawapiskat Power Corporation (“APC”) (EB-2005-0233). APC, a non-profit, non-share capital utility, sought Board approval to earn and retain revenues in excess of its expenditures in order to establish reserves. APC used the Board’s return on equity methodology (referred to as Internally Generated Funds) as a proxy to estimate the excess revenues needed to provide for reserves directly related to the reliable and sustainable operation of the utility. Owing to APC’s non-profit status, the Board noted that the cost of capital parameters relied on were really only appropriate for ‘for-profit’ utilities and are “not

directly applicable and are surrogates at best".[22] The Board stressed that once the reserves are fully funded, "the methodology must be reconsidered".[23]

In this proceeding, FNEI is proposing a return on equity of 9.85%, consistent with the Board's *Cost of Capital report of December 2009*. The excess amounts in revenue requirement are to build up the Operating and Capital reserves.[24]

The need for Operating and Capital reserves was established in FNEI's last rate case. The Board believes it is critical for FNEI to have sufficient Operating and Capital reserves. Only in this way can its ratepayers be reasonably satisfied that it will continue to be able supply electricity in a safe and reliable manner regardless of contingencies. The reserves, properly structured, prescribed and implemented are the only genuine security the ratepayers, and the ratepayers of its ratepayers, have that the supply of electricity will be reliably and safely delivered in their communities.

In this regard, the Board is very concerned that FNEI's current Operating fund and Capital reserve remain unfunded. In the Board's view, reserves provide a cushion against unplanned expenses and therefore FNEI must maintain sufficient operating and capital reserves.

Having determined that it is not appropriate for FNEI to earn a return on equity *per se*, but also that it is crucial that the reserves be appropriately funded the issue is – How should the amounts in revenue requirement in excess of costs be determined?

In FNEI's last rate case the Board directed FNEI to use the TIER mechanism and to file a report on the design of the reserves in its next rate case. Energy Probe argued that FNEI had not complied with the Board's directive and should use the TIER approach. Board staff proposed the Reserve approach. Board staff submitted that in the RP-2001-0036, FNEI's witness had indicated that it was appropriate to earn a return on equity on an interim basis, but as the company gained experience, it would move to the Reserve approach.[25]

[22] Decision and Oder, EB-2005-0233, p. 8
[23] *Ibid., p. 7*
[24] Pre-filed evidence, Ex 1/t1/S13/p.5
[25] Oral Hearing Transcript, RP-2001-0036, paragraph 243 to 246

In the Board's view, the appropriate methodology to manage excess revenues is the Reserve approach. The Board will therefore not require FNEI to follow the TIER approach at this time.

The TIER mechanism, similar to the return on equity mechanism, is formulaic. As such, there is no link between the TIER or the return on equity and the genuinely required level of the reserves, other than that the excess earnings are used to fund the reserves. Under the Reserve approach, the excess revenue needed to fund the reserves is determined based on a demonstrated need and the resultant rates therefore recover only the revenue needed to fund the reserves. In comparison, under a formulaic approach, the resultant rates may recover more or less revenue than is actually needed to fund the reserves and can lead to rates that are either higher or lower than they need to be. To prevent any over-collection, once the reserves are fully funded the rates are adjusted to eliminate any revenue sufficiency.

Further, the Board's Decision to adopt the TIER mechanism was made at a time when FNEI had little operational experience. Today, FNEI has over eight years of operational experience. This gives FNEI the necessary experience to manage the amounts in the reserves, according to the rules established by the Board for their use.

Under the Reserve approach, FNEI will not receive a return on equity *per se*. The amounts in the reserves shall be determined based on an assessment of operating and capital needs supported by evidence, similar to the approach approved by the Board in the APC case and as the Board had directed FNEI to provide in this case. The period over which the reserves are to be built up is also established. Therefore, the revenue requirement is the sum of all costs (such as OMA, Depreciation, Interest Expense etc.) and the annual increment needed to fund the reserves. Once the reserves are fully funded, the excess revenue ceases, until such time as the company brings a new application for rates.

Design of the Reserves

The Board accepts the design of the Insurance reserve as it is currently configured. This reserve has effectively been mandated by the financial institution providing some funding to the utility, and is serving its purpose effectively. However, the Board does not accept FNEI's proposal with respect to the design of the so-called "Operating fund" and the Capital reserve.

FNEI proposed to link the Operating fund and Capital reserves and argued that the reserves should not have any upper limits or caps. The Board disagrees with FNEI's proposal. Under the Reserve approach, the amounts directed to the respective reserves are to be determined based on an assessment of operating and capital needs, supported by evidence. This is no different from the approach used to establish the Insurance reserve. The Board notes that currently the Insurance reserve has a cap of $4 million and which is based on an assessment of exposure to loss due to weather and other incidents. Similarly, in the APC case, the amount set for the Operating reserve is the sum of: (a) the three months with the highest cost of power and transmission costs; and (b) three months of average OM&A costs. The three month period was chosen to address the historical cash flow problems associated with the largest customers of APC. In APC, as in this case, under the Reserve approach the rates are to be reset once the reserves are fully funded. For that to take place, the reserves must have a cap.

The Board does not approve FNEI's proposal to link the "Operating fund" and Capital reserve. Appropriating funds from the "Operating fund" to the Capital reserve will make it impossible to build up the "Operating fund" to its upper limit. The Board also finds that the "Operating fund" as designed and proposed by FNEI is not a reserve in form or function. In order for a Reserve to operate as a Reserve it must be subject to specific, prescriptive rules governing withdrawals from the Reserve.

It is important to address at this point FNEI's proposal to use the Reserves or "excess earning" to support the social, economic and civic welfare and development activities in the three First Nations communities. The Board rejects this proposal. The Board stresses that amounts included in revenue requirement in excess of costs are for building reserves necessary to ensure the sustainable operation of the utility in its role as a transmitter of electricity pursuant to its license and for no other purpose. The Company is specifically prohibited from using any funds to support the social, economic, and civic welfare and development activities in the First Nations communities. As laudable as these activities may be, they are not the responsibility of the utility as a licensed electricity transmitter and the ratepayers of the utility should not be funding them. There are certain Board-approved charitable programs and the utility should inquire as to how they may be accommodated by the utility going forward.

The Board approves the recovery of revenue in excess of costs amounting to 9.50%, instead of the requested 9.85%, to be included in revenue requirement. This amount is

to be used to fund the Operating and Capital Reserves, respectively. FNEI will refer to these amounts as Internally Generated Funds.

The Operating Reserve shall be funded until it reaches its cap which is established at an amount equal to the sum of the highest six months Operating, Maintenance, and Administration expenses experienced by the utility over the last two years of operation.

The Capital Reserve shall be funded until it reaches $275,000, which has been derived from the Company's projected capital spending requirement for the test year.

The operation of the Reserves shall be subject to the rules appearing in Appendix "A" to this Decision, and any deviation there from shall be strictly on consent of the Board, acquired in advance.

Once the Reserves have been fully funded according to this Decision, the Company shall make application for revised rates, but under no circumstances shall the Company collect any funds in excess of revenue requirement once the Reserves are fully funded.

The Board directs FNEI to file a reserves policy within three months of the date of this Decision including the calculations, underlying policies, and methodologies for building up the Operating and Capital Reserves. The policy shall include the following information:

1. Identification and definitions for the types of operating and capital reserves.
2. The purpose, goals, and intended use of the capital and operating reserves.
3. Target amounts for the reserves and methodology used to derive the target amounts.
4. The mechanism and the process to use, build, and maintain reserves.
5. The responsibilities of FNEI's Board of Directors and management with regards to the reserve funds.
6. The authorization and approval process for access and use of reserves.
7. Investment objectives and policies.
8. Requirements for reporting and monitoring.

Regulatory Audit shall review and monitor FNEI's operation and funding mechanism of the Reserves. Regulatory Audit shall advise the Board when transactions and matters related to the Reserves do not comply within the intent of this Decision and regulatory practice in general.

Charge Determinant Forecast

FNEI's test year charge determinant forecast for the three pools is: 148.12 MW for Network, 169.98 MW for Line Connection and 62.899 MW for Transformation Connection.[26]

The charge determinant forecast for the three asset pools was determined by averaging the load for the last three years (2007-2009) in each pool. Board staff argued that the 3-year average method ignores the underlying trend in the data, and can result in forecasts that vary significantly from actual experience. Board staff proposed a forecast based on the linear trend method. The forecast based on the trend method is higher that the test year forecast. Energy Probe supported the submissions of Board staff.

FNEI submitted that it took no issue with submissions of Board Staff and Energy Probe as to the most appropriate method for estimating FNEI's 2010 charge determinant forecast.

Board Findings

The Board notes that the proposed 2010 charge determinant forecast for the three pools is significantly lower than actual 2009 load. FNEI is forecasting a 20% decline in the Network and Line Connection pools and a 7% decline in the Transformation Connection pool. In the Board's view, these are significant year over year declines that have not been adequately explained or supported.

The Board is not convinced that the 3-year average method is an appropriate method to forecast charge determinants. As demonstrated in the ex-post analysis presented in Board staff interrogatory no. 23(a) the 3-year average method tends to produce forecasts that are consistently low and which result in large forecast errors (i.e. difference between actual and forecast). The forecast errors ranged from 44% to 64% for the Network and Line Connection pools respectively and 11% to 15% for the Transformation Connection pool.

In comparison, ex-post forecasts prepared using a linear trend method produced forecasts that were higher and resulted in lower forecast errors.

[26] Ex 8/T1/S1. The as-filed Transformation Connection estimate was corrected in Board staff interrogatory no. 21(a), Footnote 1.

In the Board's view, the linear trend method appears to be a superior method in this instance. While both the 3-year average method and the linear trend method are quite simplistic, the ex-post analysis suggests that the linear trend method produces forecasts that are more accurate. The linear trend method also uses the entire historical load data rather than relying only on 3-years of data. In Board staff interrogatory no. 22(c) FNEI prepared a test year charge determinant forecast based on the linear trend method. The Board directs FNEI to use this forecast for the test year. Therefore, the forecast for the three pools in the test year shall be: 187.12 MW for the Network pool, 213.46 MW for Line Connection pool and 76.19 MW for Transformation Connection pool.

Implementation

The Board ordered FNEI's current rates interim as of March 1, 2010. The Board finds that an effective date for FNEI's 2010 rates shall be March 1, 2010. The Board addresses the preferred approach to implement the new rates below.

The Board sees benefit to minimizing the number of changes to UTRs where it is appropriate to do so. The Board directs FNEI to establish a deferral account (account 1574, Deferred Rate Impact Amounts Account) to capture any lost revenue with respect to the increase to its revenue requirement from the effective date (March 1, 2010) until such time as the new UTR rates are implemented in Hydro One's 2011 transmission rates proceeding (EB-2010-0002), which is currently before the Board. The Board notes that, in this manner, changes to existing UTRs established in EB-2008-0272 can be avoided at this time. The Board approved a similar approach in the Great Lakes Power Transmission proceeding (EB-2009-0408). A process to set new UTRs will accompany Hydro One's 2011 transmission rates application and will provide opportunity to more appropriately align and reflect FNEI's 2010 Board approved transmission revenue requirement and charge determinants.

The Board directs FNEI to file an implementation proposal that provides a month by month methodology of adjustment to the revenue requirement commencing from March 1, 2010 being the effective date of the approved 2010 revenue requirement until the implementation of the new UTRs i.e., the date when FNEI's approved 2010 revenue requirements implemented through changes to UTRs (this date will be determined by the Board).

THE BOARD ORDERS THAT:

1. FNEI shall file its implementation proposal with the Board and all intervenors within 14 calendar days from the date of this Decision.
2. Intervenors and Board staff shall have 7 calendar days to respond to FNEI's implementation proposal.
3. FNEI should respond as soon as possible to any comments by intervenors, but not later than 5 calendar days after the deadline for comments from intervenors.
4. Energy Probe shall submit its cost claims within 33 calendar days from the date of this Decision. The cost claim must be filed with the Board and one copy is to be served on FNEI. The cost claims must conform to the Board's *Practice Direction on Cost Awards*.
5. FNEI should review the cost claims. Any objections must be filed with the Board and one copy must be served on Energy Probe, within 40 calendar days from the date of this Decision.
6. Energy Probe shall file with the Board and forward to FNEI any responses to any objections for cost claims within 47 days of the date of this Decision.
7. FNEI shall pay the Board's costs upon receipt of the Board's invoice.

DATED at Toronto on November 1, 2010

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

APPENDIX "A"

TO

DECISION AND ORDER

ACCOUNTING FOR THE RESERVES

FIVE NATIONS ENERGY INC.

BOARD FILE NO. EB-2009-0387

DATE: NOVEMBER 1, 2010

Accounting for the Reserves

The Board directs FNEI to create three appropriations to retained earnings called "Earnings Retained for Operating Reserve", "Earnings Retained for Capital Reserve", and "Earnings Retained for General Reserve". These reserves shall be recorded in account 3047, Appropriations of Retained Earnings – Current Period, of the USoA in the three separate sub-accounts in accordance with the requirements below.

1. At the end of each year before the net income or loss is closed to retained earnings, the amount of "net income" that first arises shall be appropriated to the Retained Earnings for Operating Reserve and to Retained Earnings for Capital Reserve.
2. Excess amounts of "net income" over and above the amounts approved by the Board should be closed to the Retained Earnings for General Reserve.
3. In the case that a loss arises in a year, the loss would draw down the retained earnings sub-accounts in the reverse priority to how they are built up, i.e., general first, capital second, and operating last.
4. Once the limits for both Operating and Capital reserves are reached, the excess revenues shall no longer be required and will cease by way of an application for new rates. FNEI is expected to promptly file such an application and may include revisions to its reserves, if applicable.
5. FNEI should report to the Board the balances of the account 3047, Appropriations of Retained Earnings – Current Period, and its sub-accounts on a quarterly and annual basis.
6. The Board's Regulatory Audit group should monitor activities of account 3047 and its subaccounts to ensure FNEI is building the required reserves and report to the Board, if required.

TAB 4

1-Staff-11
Ref: Exhibit 1 / Tab 5 / Schedule 18 / OEB Directive #2
EB-2009-0387 / Decision and Order / pp. 14-15

Preamble:

Five Nations Energy stated that it tracked the incremental tax credit for a period of six months and determined the applicable amount to be approximately $5,000 during this period. Therefore, Five Nations Energy did not establish a deferral account on the basis that such an amount was well short of Five Nations Energy's materiality threshold.

The OEB's EB-2009-0387 decision stated "the Board directs that, beginning July 1, 2010, FNEI shall record in a deferral account, the incremental input tax credit it receives on revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of FNEI's next rate application. While the actual amounts recorded in such an account may well be small as FNEI contends, there is insufficient evidence at this point to determine whether the administrative costs outweigh the benefits. As a result the Board finds that in order to ensure consistency across regulated utilities, a deferral account is appropriate."

Question(s):

a) **Please explain why Five Nations Energy did not establish a deferral account for tracking incremental tax input credits as the OEB was already aware, in making its decision, that it was possible that the amounts recorded in the deferral account could prove to be minimal.**

b) **Please provide an estimate of the total incremental input tax credit that would be recorded in the account as of December 31, 2016 if the account had been established. Please provide 50% of the amount that would be recorded in the account as of December 31, 2016 if the account had been established.**

Response:

(a) FNEI operates a transmission line and three transformer stations that are for the benefit of three First Nation communities known as reserves. FNEI's ownership structure flows directly through to the First Nations of Attawapiskat, Kashechewan, and Fort Albany. As such, an argument was made that FNEI functions as a "band empowered entity" and goods and services

are being delivered to a reserve for use and consumption on a reserve. Up until the implementation of the HST in Ontario, FNEI paid little to no PST taking advantage of this exemption where possible. Certain items such as commercial air travel, phone bills, hotel charges, etc. were subject to PST and FNEI included the PST added to those costs as part of its cost-of-service. In the previous rate application process evidence was filed indicating that the amount of PST not being paid was $5,001.74 over the six month period July 1st to December 31, 2010. Subsequent to this and going forward, FNEI standardized its purchasing policy to fall in line with the requirements of an HST Registrant under the Retail Sales Tax act and informed its suppliers to add HST to goods and services procured by FNEI. FNEI no longer sought any exemptions as a 'Band Empowered Entity." As an HST registrant, FNEI is required to collect and pay HST on its commercial transactions that are subject to the HST. In order to establish a deferral account and accurately track the incremental tax credit FNEI would have to, for each and every financial transaction determine: a) Was this good or service subject to PST previously, b) If so, did FNEI claim the band empowered exemption for this good or service previously. If the answer to question a) was yes and if the answer to question b) was no, then a calculation would need to be made to determine what the PST portion of the HST for this specific transaction would be. This analysis would have to be made for each and every transaction and for each transaction that would have an incremental tax credit a separate bookkeeping entry would have to be processed increasing the administrative burden exponentially.

(b) Estimate of Total Incremental Tax Credit July 1, 2010 to December 31, 2016:

Period	Estimated Incremental Tax Credit Amount	50%
July 1 to December 31, 2010:	$ 5,001.74	$ 5,001.74
2011:	$ 11,915.80	$ 5,957.90
2012:	$ 11,998.61	$ 5,999.30
2013:	$ 15,321.08	$ 7,660.54
2014:	$ 14,990.03	$ 7,495.02
2015:	$ 11,773.77	$ 5,886.89
2016:	$ 15,093.38	$ 7,546.69

TAB 5

1-Staff-12

Ref: Exhibit 1 / Tab 5 / Schedule 18 / OEB Directive #2
Exhibit 1 / Tab 3 / Schedule 1
EB-2009-0387 / Decision and Order / pp. 17-24

Preamble:

The OEB's EB-2009-0387 Decision and Order stated that it "remains very concerned that FNEI's current Operating fund and Capital reserve remain unfunded. In the Board's view, reserves provide a cushion against unplanned expenses and therefore FNEI must maintain sufficient operating and capital reserves."

In its decision, the OEB further directed that the Insurance Reserve was appropriate as configured but made specific findings related to the Operating Reserve and the Capital Reserve.

The OEB approved the recovery of revenue in excess of costs amounting to 9.5% to be used to fund Operating and Capital reserves (and directed Five Nations Energy to refer to these amounts as Internally Generated Funds).

The OEB established caps for both the Operating Reserve and the Capital Reserve. The Operating Reserve was capped at an amount equal to the sum of the highest six months of OM&A expenses incurred by the utility over the previous two years of operation. The Capital Reserve was capped at $275,000.

The OEB directed Five Nations Energy to file a reserves policy within three months of the date of the decision. The OEB also set out a number of accounting rules regarding the operation of the Operating and Capital reserves in Appendix A to the EB-2009-0387 Decision and Order. The OEB stated that any deviation from those rules would be strictly on consent of the OEB and acquired in advance.

The OEB also ordered that once both reserves were fully funded, Five Nations Energy would file an application for revised rates and stated that "under no circumstances shall the Company collect any funds in excess of revenue requirement once the Reserves are fully funded."

Five Nations Energy stated that it prepared and filed with OEB staff a draft reserves policy on August 8, 2011. Five Nations Energy stated that it subsequently (in 2012) met with senior OEB personnel to discuss the implications of the OEB's directive on Five Nations Energy's ability to operate.

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

Question(s):

a) **Please advise whether the Operating and Capital Reserves were established by Five Nations Energy in accordance with the OEB's EB-2009-0387 Decision and Order. As part of this response, please discuss whether the requirements set out in Appendix A of the EB-2009-0387 Decision and Order were met. If not, please provide an explanation.**

b) **Please file the "draft reserves policy" that Five Nations Energy filed with OEB staff on August 8, 2011.**

c) **Please summarize any guidance provided by OEB staff on the "draft reserves policy."**

d) **Please advise whether the "draft reserves policy" was filed on the record of any proceeding. If not, please explain why Five Nations Energy never filed the policy on the record of an OEB proceeding.**

e) **Please provide Five Nations Energy's actual annual profit (or revenues in excess of costs) for each year of the 2010-2016 period. Please also provide the actual annual profits (or revenues in excess of costs) in terms of an ROE (%).**

f) **Please advise whether Five Nations Energy earned in excess of the 9.5% ROE (or revenue in excess of costs) that was approved by the OEB in any year(s) during the 2010-2016 period.**

g) **Please provide the length of time (years / months) it took (or would have taken) to fully fund the Operating and Capital reserves based on actual revenues in excess of**

costs and using the caps established by the OEB in its EB-2009-0387 Decision and Order.

h) Please provide the length of time (years / months) it would have taken to fully fund the Operating and Capital reserves based on the OEB's approved revenues in excess of costs (deemed) and using the caps established by the OEB in its EB-2009-0387 Decision and Order.

i) Please advise whether Five Nations Energy earned revenues in excess of costs in years after which the Operating and Capital reserves were (or would have been) fully funded. If so, please provide the revenues in excess of costs earned during the 2010-2016 period incremental to the amount required to fully fund the Operating and Capital reserves.

j) Please advise whether Five Nations Energy sought approval to adjust its revenue requirement at any time between the EB-2009-0387 Decision and Order and its current filing (EB-2016-0231).

k) Please provide the amount of cash that Five Nations Energy had in its accounts (excluding the Insurance Reserve) at the end of each year during the 2010-2016 period. Please discuss whether Five Nations Energy maintained sufficient cash in its accounts (excluding the Insurance Reserve) to fully fund the Operating and Capital reserves at all times during the 2010-2016 period (if they were not already fully funded). Please also provide the amount of cash that Five Nations Energy currently holds in its accounts (excluding the Insurance Reserve).

l) Please provide a detailed explanation of how revenues in excess of costs that Five Nations Energy earned during the 2010-2016 period were accounted for and used if they were not directed towards the funding of the Operating and Capital reserves.

Response:

(a) Yes. The Operating and Capital Reserves were established in accordance with the EB-2009-0387 Decision and Order. Please refer to Note 3(e) in FNEI's financial statements (part of the evidentiary record in this proceeding).

While the required reserves have been set up, no appropriations have been made to those reserves. In the OEB Decision and Order for EB-2009-0387 dated November 1, 2010, at the bottom of page 23 and continuing on to the third paragraph of page 24, it states:

> *The Board approves the recovery of revenue in excess of costs amounting to 9.50%, instead of the requested 9.85%, to be included in revenue requirement. This amount is to be used to fund the Operating and Capital Reserves, respectively. FNEI will refer to these amounts as Internally Generated Funds. The Operating Reserve shall be funded until it reaches its cap which is established at an amount equal to the sum of the highest six months Operating, Maintenance, and Administration expenses experienced by the utility over the last two years of operation. The Capital Reserve shall be funded until it reaches $275,000, which has been derived from the Company's projected capital spending requirement for the test year.*
> *The operation of the Reserves shall be subject to the rules appearing in Appendix "A" to this Decision, and any deviation there from shall be strictly on consent of the Board, acquired in advance.*

The wording here speaks to FNEI being allowed to earn enough revenue to set aside cash in two specific reserve 'funds' similar to FNEI's fully funded 'insurance reserve'. The wording in Appendix A of the Decision, however, states:

> *1. At the end of each year before the net income or loss is closed to retained earnings, the amount of "net income" that first arises shall be appropriated to the Retained Earnings for Operating Reserve and to Retained Earnings for Capital Reserve. . . .*
> *4. Once the limits for both Operating and Capital reserves are reached, the excess revenues shall no longer be required and will cease by way of an application for new rates. FNEI is expected to promptly file such an application and may include revisions to its reserves, if applicable.*

The direction that appears to be given in the wording above is that FNEI is to take its net income and transfer first to the Retained Earnings for Operating Reserve and then to Retained Earnings for Capital Reserve. This conflicts with the wording in the text of the Decision that stipulates that a fund (i.e., a bank account/cash) needs to be setup and funded. Net income does not equate to cash available to be set aside. The availability of cash is dependent on many factors, the net income of an entity for a specific period being only one factor. Further along in the body of the decision referenced above the amount for the capital reserve fund was set at $275,000 and subsequent to this order the amount for the operating reserve fund was set at $1, 750,000. FNEI

sought direction from Board staff who indicated that he would like to review the draft reserves policy prior to FNEI formally filing the policy with the Board and then enacting the policy. A copy of the policy is included in answer (b) below.

(b) The draft FNEI Reserves Policy sent to Board Staff is set out in full, below:

FIVE NATIONS ENERGY INC. ("FNEI")

RESERVES POLICY

Pursuant to the decision of the Board in EB-2009-0387 (FNEI 2010 Transmission Rates), the Board directed FNEI to file a reserves policy in accordance with the specifications set out in the Board decision.

Establishment and Maintenance of Reserve Funds

FNEI will establish and maintain three reserve funds, as follows:

- Insurance Reserve Fund
- Operating Reserve Fund
- Capital Reserve Fund

Insurance Reserve Fund

Purpose: The Insurance Reserve Fund will be used as a form of self-insurance coverage on FNEI's transmission line poles and wires.[1] FNEI would utilize funds from this Insurance Reserve Fund to cover costs associated with events that would typically be covered by insurance (see below).

Insurance Reserve Cap: $4 million. This amount is what FNEI's senior lenders have stipulated as a covenant in its current Credit Agreement.

Status: As at June 30, 2011, the Insurance Reserve Fund was fully funded.

Funding Priority: First. In the event that money from this fund is drawn down, the funding of other Reserve Funds by FNEI shall cease until such time as the Insurance Reserve Fund is replenished.

[1] FNEI has purchased insurance for its transformer stations.

Withdrawal Authorization Process: No withdrawal may be made from the Insurance Reserve Fund until three conditions are satisfied: (a) FNEI's transmission line/pole assets have suffered an event of significant damage requiring repair that would normally trigger an insurance claim; (b) FNEI's Board of Directors has passed a resolution to request FNEI's senior lenders to permit a withdrawal of funds from the Insurance Reserve Fund; and (c) the withdrawal has been approved by FNEI's senior lenders.

Investment Policy: Due to the need for amounts in this Reserve Fund to be liquid (i.e., available immediately), FNEI will hold the entire amount of this Reserve Fund in an interest bearing bank account with no restrictions on withdrawals.

Reporting Obligations: The balance held in the Insurance Reserve Fund (as well as any withdrawals or replenishments) shall be reported on FNEI's quarterly financial statements.

Operating Reserve Fund

Purpose: The Operating Reserve Fund will be used to fund operations, maintenance and administration ("OM&A") expenditures. This fund may be the most "fluid" of the three reserve funds for the following reason. While rates will generate cash for FNEI on a relatively steady basis, FNEI's OM&A expenditures are often quite "lumpy" (more than other utilities) because of the climatic and geographic environment in which FNEI operates. The James Bay lowlands area is almost completely inundated during the spring, summer and fall months. As a result, most of the major maintenance activities on the transmission line can only be done during the winter months. This has resulted in the annual maintenance budget for the transmission line being expended in two or three months. This impacts the cash flows and can result in cash shortages during this time. Consequently, withdrawals from this Operating Reserve Fund can occur in one of two circumstances: (a) in order to overcome the disconnect between OM&A expenditures and FNEI's cash flows; and (b) in the event of a significant unplanned OM&A expense.

Operating Reserve Cap: $1,750,000. This methodology for establishing this cap was established by the Board in the FNEI 2010 Transmission Rates decision. It is based on the total of the highest six months OM&A costs in the preceding two years. The $1,750,000 figure was calculated using the period September 1, 2008 to September 30, 2010. This amount will be adjusted annually by FNEI, at the time of the finalization of the annual audited financial statements.

Status: As at June 30, 2011, there are no amounts in the Operating Reserve Fund.

Funding Priority: Second. Contributions to the Operating Reserve Fund are only made if the Insurance Reserve Fund is fully funded. The Operating Reserve Fund will be funded before the Capital Reserve Fund.

Withdrawal Authorization Process: No withdrawal may be made from the Operating Reserve Fund unless FNEI's general bank account is forecasted to fall below $500,000 between monthly IESO payments.

Investment Policy: Amounts in the Operating Reserve Fund will be invested in some combination of an interest bearing bank account or short term GIC or money market funds with a minimum investment period of 90 days, as management and the Finance Committee of the Board of Directors deems advisable from time to time.

Reporting Obligations: The balance held in the Operating Reserve Fund (as well as any withdrawals or replenishments) shall be reported on FNEI's quarterly financial statements.

Capital Reserve Fund

Purpose: The Capital Reserve Fund will be used to fund capital expenditures that are part of FNEI's capital plan (i.e., as assets depreciate) as well as unplanned capital expenditures that are not covered by insurance.

Capital Reserve Cap: $275,000. This amount was established by the Board in the FNEI 2010 Transmission Rates decision. FNEI will monitor this amount on an ongoing basis, in conjunction with its five-year capital plan to ensure that sufficient funds are available to make necessary capital additions, repairs or modifications. There are three options for dealing with the Capital Reserve Cap going forward: (a) leave the cap at $275,000, monitor its sufficiency, and make an application to the Board to increase the cap where FNEI believes that a greater amount should be accumulated; or (b) establish the cap at 40% (the Board-deemed equity slice) of FNEI's five year rolling planned capital budget (currently $2,095,000 for the years 2011 to 2015; 40% of which is $838,000). An order of the Board would be required to change the $275,000 cap.

Status: As at June 30, 2011, there are no amounts in the Capital Reserve Fund.

Funding Priority: Last. Contributions to the Capital Reserve Fund are only made if the Insurance Reserve Fund and Operating Reserve Fund are fully funded.

Withdrawal Authorization Process: No withdrawal may be made from the Capital Reserve Fund until the following two conditions are met: (a) FNEI's general bank account is forecasted to fall below $500,000 between monthly IESO payments; and (b)

FNEI requires funds to make unanticipated capital expenditures (i.e., expenditures not within FNEI's capital plan and not meant to be funded from the Insurance Reserve Fund).

Investment Policy: Amounts in the Capital Reserve Fund (or at least a portion of them) should not have to be as liquid as amounts in the Insurance Reserve Fund. Consequently, amounts can be invested in some combination of an interest bearing bank account or short term GIC or money market funds with a minimum investment period of 90 days, as management and the Finance Committee of the Board of Directors deems advisable from time to time.

Reporting Obligations: The balance held in the Capital Reserve Fund (as well as any withdrawals or replenishments) shall be reported on FNEI's quarterly financial statements.

Contributions to Reserve Funds

At each Board of Directors meeting where quarterly financial statements are being approved, FNEI will review and determine contribution amounts to be made to the above-noted reserve funds, taking into account: (a) ensuring FNEI retains sufficient cash-on-hand in its general bank account (currently considered to be $500,000) to carry on day-to-day business; and (b) the provisions of this Reserves Policy (noted above).

The reporting of contributions to and withdrawals from the reserve funds will be disclosed as a separate schedule in FNEI's quarterly reviewed financial statements. Since net income does not represent cash (see statement of cash flows which reconciles net income to cash) and since the reserves must be funded in separate bank account there will be a delay between the earning of the net income and funding the reserves. Amounts which have been earned but have not and/or cannot be deposited to the reserve bank account will be reported in the general fund which effectively reports unappropriated retained earnings.

Once the three Reserve Funds noted above are fully funded, FNEI will promptly file a transmission rate application with the Ontario Energy Board.

(c) FNEI raised concerns with the reserves policy aspect of the Board's decision with Board staff. The difficulty in setting aside net income as cash was noted. The staff member indicated that once a draft policy was created by FNEI to forward this draft policy to the OEB for review and comment prior to formally filing the policy. FNEI drafted a reserve policy, had it approved by its board of directors, and forwarded a copy to OEB staff. Confirmation of his receipt of the policy was received but no comments or feedback were ever received by FNEI.

(d) No. FNEI never filed the 'draft reserves policy' on the record in any proceeding. FNEI was following the advice of OEB staff and was waiting on staff feedback.

(e) FNEI's actual annual net income for 2010 to 2016 and actual ROE are set out below:

($)	2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited
NET INCOME	1,695,700	1,710,267	2,007,809	2,014,691	1,669,483	974,649	247,260
UTILITY EQUITY, beginning of year	18,239,634	19,935,334	21,645,601	25,653,410	25,668,101	27,337,584	28,312,233
UTILITY EQUITY, end of year	19,935,334	21,645,601	23,653,410	25,668,101	27,337,584	28,312,233	28,559,493
Return on Equity	9.30%	8.58%	9.28%	8.52%	6.50%	3.57%	0.87%

(f) No. FNEI at no point earned in excess of 9.5% ROE in any of the years 2010-2016.

(g) If the instructions in Appendix A of the Board Decision (EB-2009-0387) were possible to follow, then based on a net income of $1,695,700 in 2010 and $1,710,267 in 2011, both the operating reserve and the capital reserve would have been fully funded by the end of the second quarter of 2011. As noted above the instructions in Appendix A assume that there is cash equal to net income available to be set aside in a separate reserve fund(s).

(h) With the same caveat to the response in (g) above, it would have taken FNEI just under two years (22.3 months at $90,831/mth) to fully fund the Operating and Capital Reserves.

(i) Again, assuming that net income equals cash available for funding reserves, the following table demonstrates the cumulative revenues in excess of costs for the period 2010 to 2016 (based on best numbers for calendar year 2016):

Five Nations Energy Inc.			
Revenues in Excess of Costs			
2010 to 2016			
Year	Net Income	Appropriations	Cumulative Balance
2010	1,695,700		1,695,700
2011	1,710,267	(2,025,000)	1,380,967
2012	2,007,809		3,388,776
2013	2,014,691		5,403,467
2014	1,669,483		7,072,950
2015	974,649		8,047,599
2016	247,260		**8,294,859**
	10,319,859	(2,025,000)	

(j) Five Nations Energy Inc. did not seek to have its revenue requirement adjusted between the EB-2009-0387 Decision and Order and this current filing.

(k) Below is the table outlining the cash that Five Nations Energy had in its accounts excluding the Insurance Reserve as at December 31st for each of the years 2010-2016:

Five Nations Energy Inc.				
Cash Balances at year end				
2010 to 2016				
Year	**Operating Account**	**GIC Investment**	**Restricted Deposits**	**Total**
2010	373,924			373,924
2011	2,031,308			2,031,308
2012	1,431,549		1,250,000	2,681,549
2013	2,606,912		1,250,000	3,856,912
2014	3,783,308		1,250,000	5,033,308
2015	1,907,086	750,000	500,000	3,157,086
2016	922,335	750,000	500,000	2,172,335
Cash Balance as at March 16th:				
	Operating Account	**GIC Investment**	**Restricted Deposits**	**Total**
	463,241	750,000	500,000	1,713,241

During this time period, by the end of 2011, FNEI maintained sufficient cash on hand to fully fund both the Operating and Capital Reserves.

(l) As noted in the response (a) above, FNEI (reference to financial statements) uses fund accounting procedures. At the end of the fiscal period, Net Income is appropriated in the equity section to Capital Asset Additions, Amortization, and repayment of Long Term Debt. These appropriations are equal to the actual amounts of these three items for that fiscal period. The following table summarizes the information contained in the Annual Audited Financial Statements for 2010 to 2016, Notes To Financial Statements, entitled Utility Equity, and shows how Net Income was accounted for in each of these fiscal periods:

Year	Income
2010	1,695,700
2011	1,710,267
2012	2,007,809
2013	2,014,691
2014	1,669,483
2015	974,649
2016	247,260
Total	10,319,859

Uses	
Change in cash	2,279,912
Change in non-cash working capital	704,157
Change in restricted deposits	500,000
Net investment in property, plant and equipment (see below)	6,835,790
Total	10,319,859

	Opening	Property, Plant and Equipment Additions		Property, Plant and Equipment Amortization		Net Debt Repayment (Proceeds)	Closing
2010	14,732,737	261,233	-	1,186,503		347,757	14,155,224
2011	14,155,224	539,613	-	1,207,495		1,184,916	14,672,258
2012	14,672,258	1,439,492	-	1,217,605		1,238,860	16,133,005
2013	16,133,005	3,541,665	-	1,050,303	-	1,388,598	17,235,769
2014	17,235,769	979,485	-	1,192,526		1,595,982	18,618,710
2015	18,618,710	6,712,069	-	1,262,954	-	4,125,357	19,942,468
2016	19,942,468	2,383,745	-	1,473,350		715,664	21,568,527
Total		15,857,302	-	8,590,736	-	430,776	6,835,790

TAB 6

1-Staff-7
Ref: Exhibit 1 / Tab 3 / Schedule 2

Question(s):

a) Please update the pro-forma financial statement for 2016 based on the best available information.

b) Please advise when Five Nations Energy's audited financial statements for 2016 will be available. If available, please file the 2016 audited financial statements.

Response:

(a) Please see attached.

(b) It is anticipated that audited financial statements will be available in early May. Please see response to 7.0-Energy Probe-12(g) and attached draft 2016 financial statements.

Five Nations Energy Inc.
2016 Proforma Financial Statements

2016 BALANCE SHEET

1000 Current Assets	
Cash	1,672,335
Restricted Cash (Includes Insurance Reserve)	4,500,000
1005 Cash (Total)	6,172,335
1100 Customer Accounts Receivable	1,211,733
1102 Accounts Receivable - Services	25,256
1104 A/R-Recoverable Work	546,110
1110 Other Accounts Receivable	444
1130 Accum Prov. Uncollectible Acco	
1180 Prepayments	38,922
Total Current Assets	**7,994,801**

1600 Electric Plant in Service	
1708 Station Buildings & Fixtures	4,431,397
1715 Station Equipment	32,412,622
1725 Poles and Fixtures	50,928,530
1730 Overhead Conductors and Device	20,441,101
1905 Land-Office Building	250,644
1908 Buildings and Fixtures	5,110,958
1915 Office Furniture and Equipment	63,667
1920 Computer Equipment - Hardware	103,026
1925 Computer Software	9,978
1930 Transportation Equipment	665,346
1940 Tools, Shop and Garage Equipme	490,503
1950 Power Operated Equipment	551,803
1995 Contributions&Grants-Credit	(66,798,592)
Total Electric Plant in Service	**48,660,983**

2105 Accumulated Amortization	
2105 Total Accumulated Amortization	(12,572,078)
Total Amortization	**(12,572,078)**

TOTAL ASSETS	**44,083,706**

2200 Current Liabilities	
2205 Accounts Payable	857,776
2220 Miscellaneous Current and Accr	146,057
2260 Current Portion-Long Term Debt	772,411
2290 Commodity Taxes	-

Five Nations Energy Inc.
2016 Proforma Financial Statements

Total Current Liabilities	**1,776,244**

2500 Long Term Debt	
2520 Other Long Term Debt	13,747,969
Total Long Term Debt	**13,747,969**

TOTAL LIABILITY	**15,524,213**

3000 Utility Equity	
Equity in Capital Fund	19,942,466
Equity in Capital Reserve	
Equity in Insurance Reserve Fund	4,000,000
3040 Appropriated Retained Earnings	23,942,466
3045 Unappropriated Retained Earnings	4,369,766
3046 Balance Transferred from Income-Unappropriated	247,261
Total Equity	**28,559,493**

TOTAL EQUITY	**28,559,493**

TOTAL LIABILITIES AND EQUITY	44,083,706

BALANCE SHEET TOTAL	**(0)**

2016 INCOME STATEMENT

Revenue	
4105 Transmission Charges Revenue	6,263,342
4235 Miscellaneous Service Revenues	90,829
4355 Gain/(Loss) on Disposal of Utility Assets	(1,075)
4405 Interest & Dividend Income	56,304
Total Revenue	**6,409,400**

Expenses

4800 TransmissionExpenses-Operation	
4810 Load Dispatching	349,660
4815 Station Buildings&FixturesExpe	55,082
4820 TransformerStnEquip.OperLabour	396,741
4850 Rents	117,775
Total Transmission Operation Expense	**919,258**

4900 Transmission Expenses-Maintenance	

Five Nations Energy Inc.
2016 Proforma Financial Statements

4916 Maintenance-Transformer Station Equipment	293,780
4930 Maintenance of Towers, Poles and Structures	597,378
Total Transmission Maintenance Expense	**891,157**

5600 Administrative&General Expense	
5410 Community Relations - Sundry	60,198
5415 Energy Conservation	68,910
5420 Community Safety Program	-
5605 Executive Salaries and Expense	439,806
5610 Management Salaries & Expenses	355,484
5615 General AdminiSalaries&Expense	123,810
5620 Office Supplies and Expenses	26,322
5630 Outside Services Employed	125,241
5635 Property Insurance	263,037
5640 Injuries and Damages	161,895
5655 Regulatory Expenses	385,365
5665 Miscellaneous General Expenses	3,132
5675 Maintenance of General Plant	92,211
Total Administrative&General Expenses	**2,105,411**

5700 Amortization Expense	
5705 Amort.Exp.-Property, Plant&Equipment	1,473,350
Total Amortization Expense	**1,473,350**

6000 Interest Expense	
6005 Interest on Long Term Debt	762,397
6035 Other Interest Expense	10,565
Total Interest Expense	**772,962**

Total Expenditures	**6,162,139**

Net income	**247,261**

TAB 7

2-Staff-17

Ref: Exhibit 2 / Tab 2 / Schedule 1 / pp. 13- 20 (Proposed Major Capital Projects)
Exhibit 2 / Tab 2 / Schedule 1 / Appendix I

Preamble:

Five Nations Energy provided a list of three major capital projects that it proposes to complete in the test year and forecast period (2016-2020). The total cost of the proposed major capital projects is $5.36 million. None of the listed major capital projects are expected to conclude later than 2017.

Five Nations Energy proposed 2016 capital expenditures of $2.12 million.

Question(s):

a) For each of the proposed major capital projects, please provide a breakdown of spending by year.

b) For the proposed major capital projects that are already under construction, please provide the amount spent to date and the amount remaining to be spent.

c) For 2016, please provide all of the projects (listed individually) that comprise the $2.12 million of proposed capital spending (Exhibit 2 / Tab 2 / Schedule 1 / Appendix I). Please update the 2016 capital spending amount if the actual spending was different than what is proposed in the application.

d) Please discuss any capital projects that Five Nations Energy is planning to undertake during the 2017-2021 period. If there are projects over that period, please provide detailed information for each project. If there are no forecast projects, please provide rationale. Please also provide a detailed capital budget for 2017 (similar to what is requested in part (c) above).

e) Currently, when Five Nations Energy performs maintenance work on a transformer station does it result in an outage (Exhibit 2 / Tab 2 / Schedule 1 / p. 13)?

f) Are there switches capable of opening under load at Five Nations Energy's stations that could be used to isolate equipment? If so, could the switches be used as an alternative to installing breakers?

g) Please provide a single-line diagram of each of the three stations both before and after the proposed bus isolation project (Exhibit 2 / Tab 2 / Schedule 1 / p. 13).

h) Please discuss the health and safety requirements that are being met through the Transformer Station Stone Replacement project (Exhibit 2 / Tab 2 / Schedule 1 / p. 15).

i) **Please advise whether Five Nations Energy would be willing, for its next rebasing application, to complete a review of North American transmitters to determine whether there are any transmission utilities that could form part of a peer group for the purposes of developing a cost benchmarking study (or utility cost comparison) (Exhibit 2 / Tab 2 / Schedule 1 / p. 18 Updated).**

Response:

(a) and (b)

Project	2014	2015	2016	Total to Date	Forecast
Bus Isolation	$343,878	$1,016,864	$1,614,203	$2,974,945	$1,000,000
Tx Stn Stone Replacement	$227,220	$135,543	$45,696	$408,459	$150,000
Back-up Gens at Fibre Shelters	NIL	$113,068	$145,470	$258,538	NIL

(c) Please see attached.

(d) Please see table attached. In terms of planned or potential capital projects after 2017, there are several projects currently being considered including: (a) a battery replacement project in each control room at each of FNEI's three stations; (b) twinning the line from Kashechewan to Attawapiskat; (c) replacement of brush clearing equipment; and (d) replacement of aging equipment for the fibre optic system. As FNEI's system begins to age, FNEI anticipates that its capital expenditures will be less predictable than it has been in the earlier years of FNEI's operations. With respect to item (b) above, this would be a significant capital expenditure (roughly estimated at $35 million), for which FNEI would need to start to set aside funds.

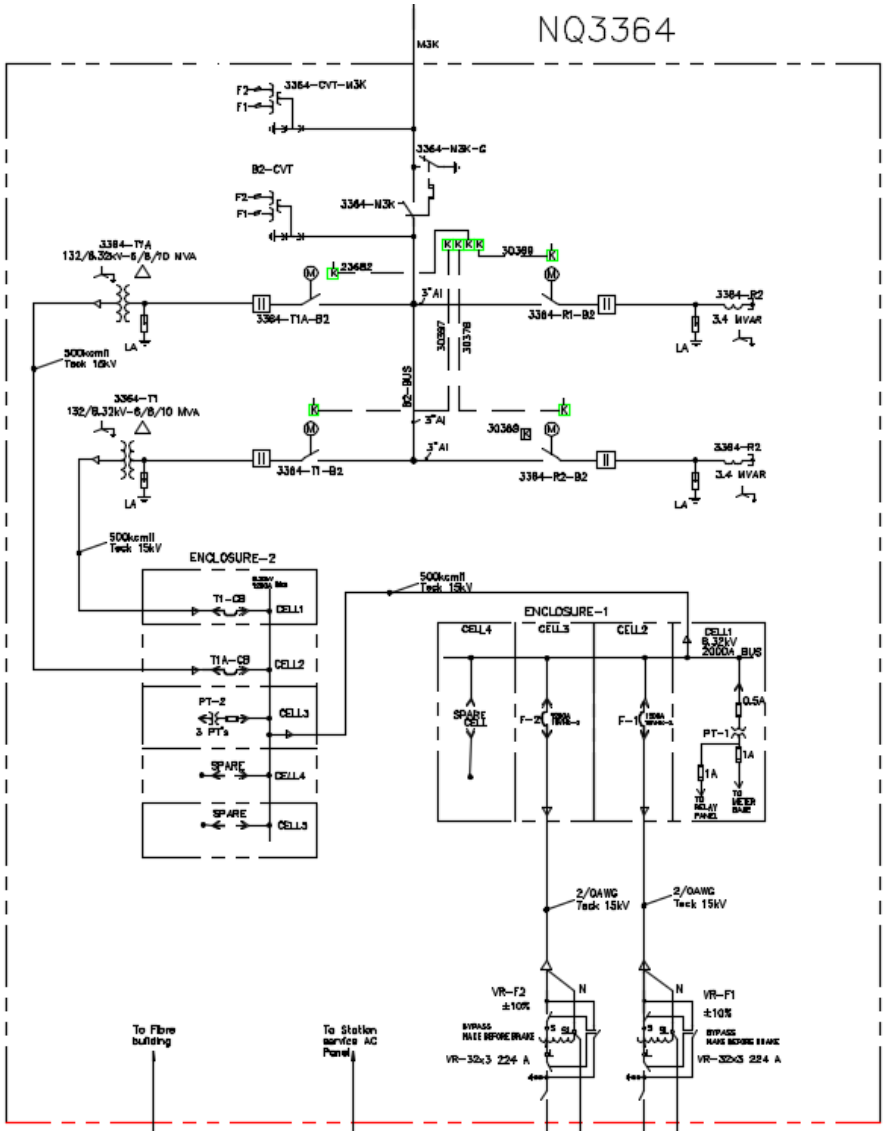
(e) Yes. Certain testing and maintenance activities are performed with less frequency than FNEI would prefer, because such activities would require significant outages in the communities. Upon completion of the Bus Isolation Project, certain maintenance activities will still require

outages, but the frequency and duration of such outages will be greatly reduced and in-line with FNEI's CDPPS.

(f) Load break switches and breakers have separate and unique functions, and are not interchangeable. Prior to the completion of the Bus Isolation Project there was only one bus, or pathway as it were, for electricity to go through the station. All equipment was connected to this one pathway. It was not physically possible to disconnect equipment from this one pathway to allow maintenance work to be done without shutting down the entire pathway of electricity through the station. With the completion of the Bus Isolation Project, a separate parallel pathway for electricity has been created allowing individual pieces of equipment to be disconnected and isolated while still allowing the electricity to flow through the station. The purpose of the Bus Isolation Project is to provide an alternative path of electricity through the station.

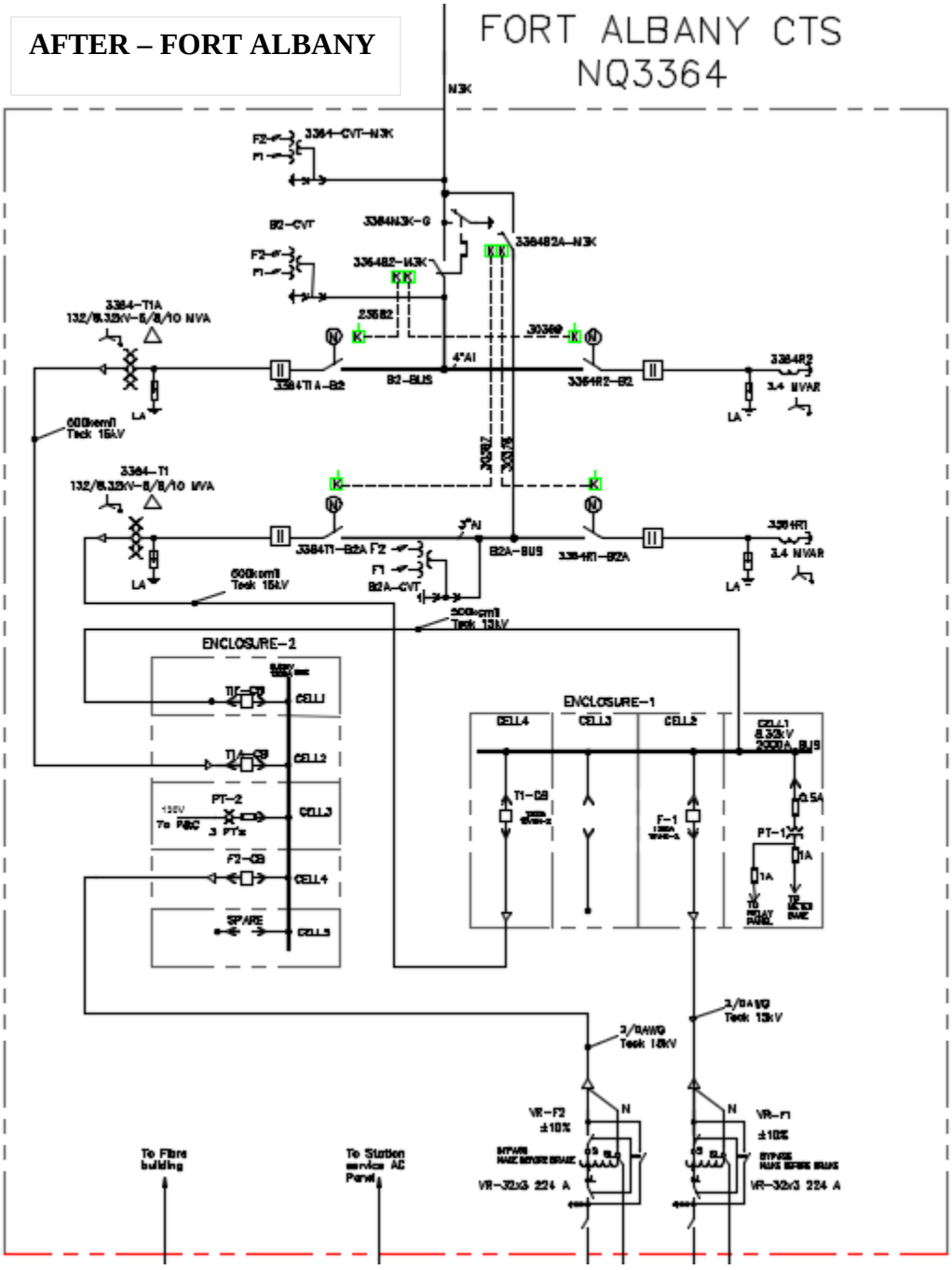
(g) Below are the single-line diagrams for the Kashechewan and Fort Albany stations (both before and after the proposed bus isolation project). Work on Attawapiskat is not complete yet.

BEFORE – FORT ALBANY


NQ3364
M3K
3364-CVT-M3K
3364-M3K-C
B2-CVT
3364-M3K
3364-T1A
3364-T1A-B2
3364-R1-B2
3364-R2
3.4 MVAR
LA
500kcmil Tock 15kV
B2-BUS
3364-T1
3364-T1-B2
3364-R2-B2
ENCLOSURE-2
T1-CB
T1A-CB
PT-2
3 PT's
SPARE
CELL1
CELL2
CELL3
CELL4
CELL5
ENCLOSURE-1
SPARE CELL
PT-1
0.5A
1A
2/0AWG Tock 15kV
VR-F2
VR-F1
±10%
VR-32x3 224 A
To Fibre building
To Station service AC Panel

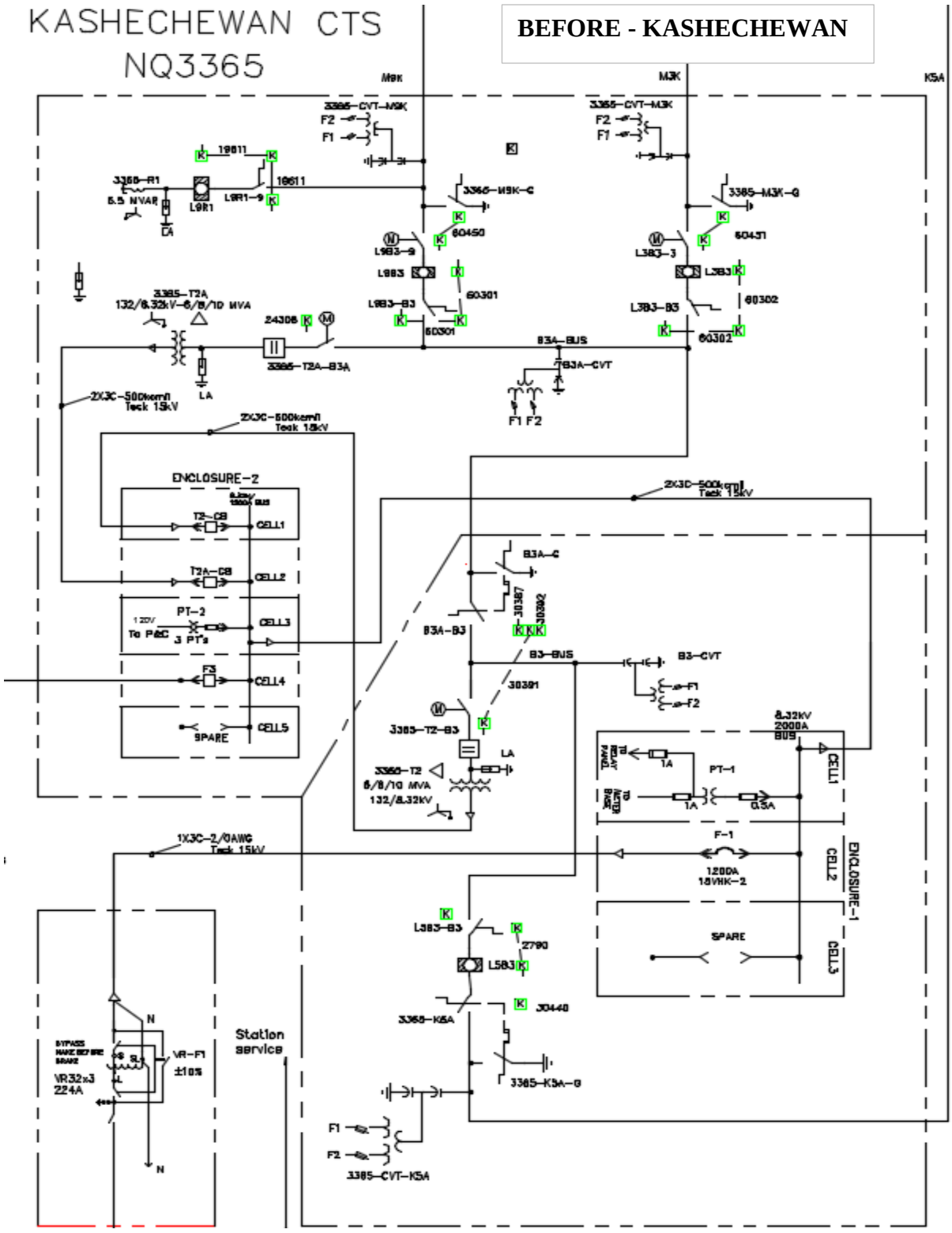
1

AFTER – FORT ALBANY

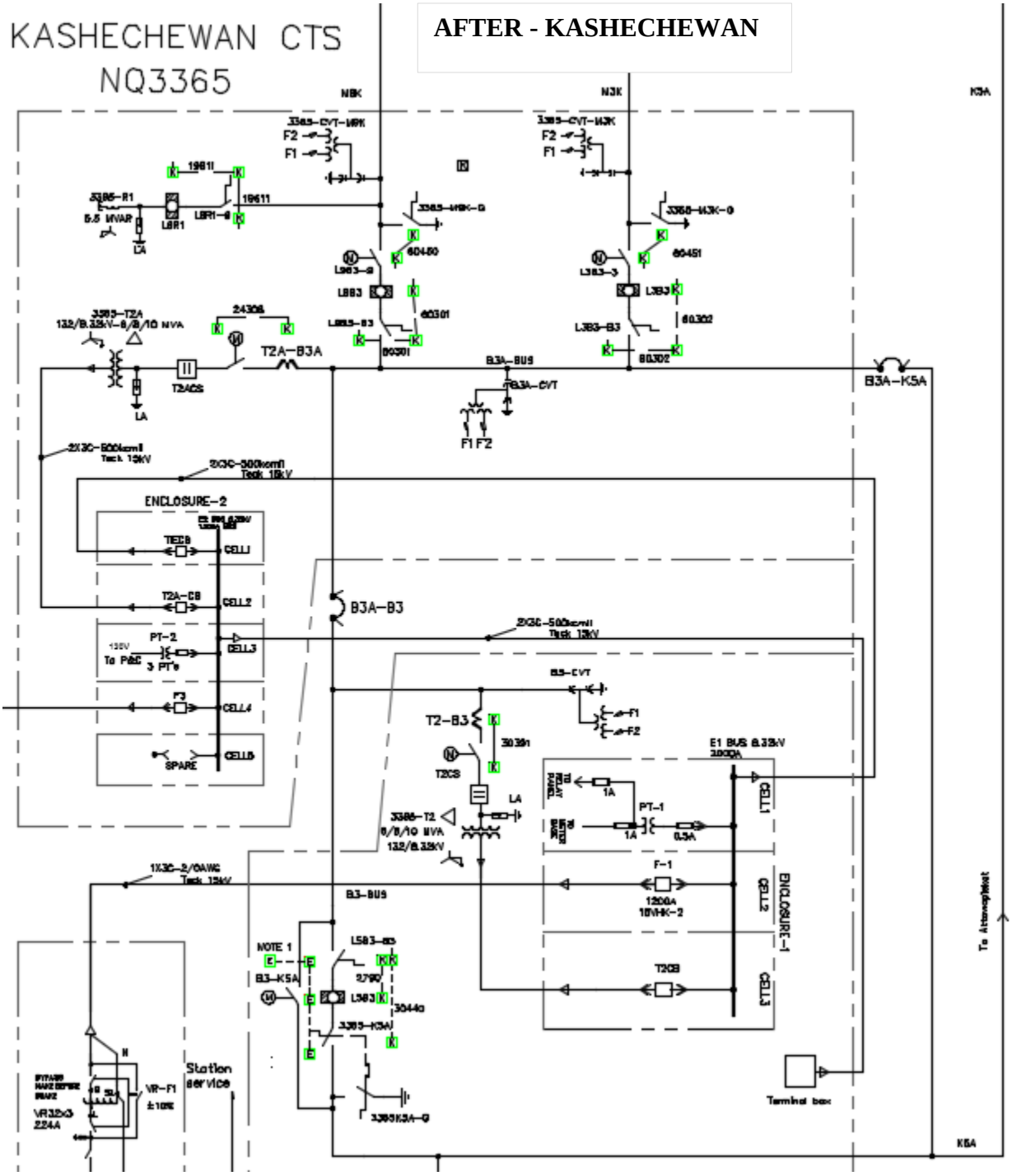


1

BEFORE - KASHECHEWAN



1



(h) To maintain the original project step and touch voltages, clean gravel is required within the station yards (i.e., free from dust and fill between the stone). The stone must also meet certain insulation and thickness requirements. Asphalt is not available in the communities (location, remoteness), and the stations are generally exposed to the elements (allowing for dust and mud to

transfer to the yards, as is typical. Over time, the yard stone degraded and contaminated, which triggered health and safety concerns (dust in between the yard stone is a conductor of electricity). FNEI washed the existing stone and added additional new stone, with testing of the stone carried out at the Kinetrics lab.

(i) It is not a question of willingness. In terms of physical asset considerations, FNEI does not believe a comparable transmitter exists. There may be similar sized transmitters in North America, but FNEI is not aware of any with FNEI's ownership structure (aboriginal, non-profit), customer make-up (three small, fly-in only First Nation communities and one large diamond mine), geography (swampy muskeg), harsh climate, and the inability to access its transmission line via land outside of a handful of weeks each year (in the coldest part of a harsh winter).

ATTACHMENT 17(c)

Five Nations Energy Inc.

Annual Capital Expenditure Budget

Capital Projects	*2016 Budget*	2016 Actual
Bus Isolation Project ($4.5MM)	1,500,000	1,614,202.97
Brushing equipment for the pole line (Two Units)	180,000	180,371.11
Station Fence extension, storage	120,000	180,739.47
Stone replacement substation sites (1 sub./ year)	100,000	45,696.42
Fibre Shelters Backup Generators	50,000	145,469.55
Spare MV Regulators (1 set per year/3 yr plan)	35,000	
Tools etc. - Testing Equipment(Doppler, Relay, etc.)	30,000	10,344.79
Two new pickup trucks (replacement)	30,000	2,938.60
Oil Preservation System	25,000	37,323.42
Albany Garage (FAPC Yard)		3,738.69
Battery replacement		83,609
New Office Building		13,358.05
PLCC spare module		13,656
Station Emergency Communications upgrades		12,342.17
Subtotal Capital Projects Budget:	**2,070,000**	**2,343,790.24**
Misc Capital Budget Items Total Not to Exceed $50,000		
Station Equipment	10,000	3,853.85
Poles and Fixtures	10,000	1,996.70
Overhead Conductors and Devices	10,000	735.47
Office Furniture and Equipment		1,706.41
Computer Equipment-Hardware	15,000	8,849.98
Tools, Shop and Garage Equipment	5,000	
Subtotal Misc. Capital Budget:	**50,000**	**17,142.41**
Total Annual Capital Budget:	**2,120,000**	**2,360,932.65**

ATTACHMENT 17(d)

Five Nations Energy Inc.

Annual Capital Expenditure Budget

Capital Projects	***2017 Budget***
Bus Isolation Project ($4.5MM)	1,000,000
Accomodations in Kashechewan	250,000
Station Fence extension, storage	150,000
Attawapiskat Feeder 4	150,000
Two new pickup trucks (replacement)	50,000
M9K spare structure	50,000
PLCC spare module	50,000
Tools etc. - Testing Equipment(Doppler, Relay, etc.)	25,000
Server replacement FA-1 Kash-2 Atta - 2	15,000
Oil Preservation System	10,000
Subtotal Capital Projects Budget:	**1,750,000**
Misc Capital Budget Items Total Not to Exceed $50,000	
Station Equipment	10,000
Poles and Fixtures	10,000
Overhead Conductors and Devices	10,000
Office Furniture and Equipment	3,000
Computer Equipment-Hardware	10,000
Tools, Shop and Garage Equipment	2,000
Subtotal Misc. Capital Budget:	**45,000**
Total Annual Capital Budget:	**1,795,000**

TAB 8

e) if different from that described above, the method and criteria used to prioritise REG investments in accordance with the planned development of the system, including the impact if any of the distributor's plans to connect distributor-owned renewable generation project(s).

5.4.3 System capability assessment for renewable energy generation

This section provides information on the capability of a distributor's distribution system to accommodate REG, including a summary of the distributor's load and renewable energy generation connection forecast by feeder/substation (where applicable); and information identifying specific network locations where constraints are expected to emerge due to forecast changes in load and/or connected renewable generation capacity.

In relation to renewable or other distributed energy generation connections, the information that must be considered by a distributor and documented in an application (where applicable) includes:

a) applications from renewable generators over 10kW for connection in the distributor's service area;

b) the number and the capacity (in MW) of renewable generation connections anticipated over the forecast period based on existing connection applications, information available from the OPA and any other information the distributor has about the potential for renewable generation in its service area (where a distributor has a large service area, or two or more non-contiguous regions included in its service area, a regional breakdown should be provided);

c) the capacity (MW) of the distributor's distribution system to connect renewable energy generation located within the distributor's service area;

d) constraints related to the connection of renewable generation, either within the distributor's system or upstream system (host distributor and/or transmitter); and

e) constraints for an embedded distributor that may result from the connections.

5.4.4 Capital expenditure summary

The purpose of the information filed under this section is to provide the Board and stakeholders with a 'snapshot' of a distributor's capital expenditures over a 10 year period, including five historical years and five forecast years. Note that where a distributor's internal investment planning framework does not align with the investment categories defined here, best efforts are expected to 'map' investments to these categories.

Despite the 'multi-purpose' character of a project or activity, for 'summary' purposes the entire costs of individual projects or activities are to be allocated to one of the four

investment categories on the basis of the primary (i.e. initial or 'trigger') driver of the investment. Note, however, that for material projects, a distributor must estimate and allocate costs to the relevant investment categories when providing information to justify the investment, as this assists in understanding the relationship between the costs and benefits attributable to each driver underlying the investment. In any event, the categorization of an individual project or activity for the purposes of these filing requirements should not in any way affect the proper apportionment of project costs as per the DSC.

Table 2 illustrates how information filed under this section includes a distributor's actual and forecast (i.e. proposed) capital expenditures over the historical and forecast periods. System operations and maintenance (O&M) costs are also shown to reflect the potential impact, if any, of capital expenditures on routine system O&M. Note that 'Plan' expenditures over the historical period refer to a distributor's previous plan for capital expenditures *after* adjustments (if any) occasioned by the Board's decision on the relevant prior application.

Brief explanatory notes should be provided to explain the factor(s) and/or circumstances underlying marked changes in the share of total investment represented by a given investment category over the forecast period relative to 'actual' spending over the historical period. For example, a large expenditure over a relatively short period for a 'one-off' project (e.g. a distribution station) can cause a temporary 'step change' in category C spending compared to the trend in actual expenditures over the historical period.

While year over year 'Plan vs. Actual' variances for individual investment categories are expected, explanatory notes should be provided where

- for any given year "Total" 'Plan' vs. 'Actual' variances over the historical period are markedly positive or negative; or
- a trend for variances in a given investment category is markedly positive or negative over the historical period.

TAB 9

ATTACHMENT 18(e)

FIVE NATIONS ENERGY INC.

Numerical Summary of Rate Base
($000's)

	Board Approved EB-2009-0387	2010	2011	2012	2013	2014	2015	2016
Property, Plant & Equipment								
Asset Values at Cost	33,226.0	33,123.7	33,450.1	34,253.3	35,767.0	39,164.5	41,634.1	47,619.9
Accumulated Depreciation	5,045.8	5,038.5	6,211.0	7,402.9	8,265.7	9,306.6	10,537.0	11,887.8
Net Book Value	28,180.2	28,085.2	27,239.1	26,850.4	27,501.2	29,858.0	31,097.0	35,732.1
Allowance for Working Capital								
Working Cash Allowance	503.2	462.3	484.4	456.9	495.0	513.9	561.2	135.5
Total Working Capital	503.2	462.3	484.4	456.9	495.0	513.9	561.2	135.5
Utility Rate Base	28,683.5	28,547.5	27,723.5	27,307.3	27,996.2	30,371.9	31,658.2	35,867.6

	Variance 2010 vs. B.A.	Variance 2011 vs. 2010	Variance 2012 vs. 2011	Variance 2013 vs. 2012	Variance 2014 vs. 2013	Variance 2015 vs. 2014	Variance 2016 vs. 2015
Property, Plant & Equipment							
Asset Values at Cost	(102.3)	326.4	803.2	1,513.7	3,397.6	2,469.5	5,985.9
Accumulated Depreciation	(7.3)	1,172.4	1,191.9	862.9	1,040.9	1,230.4	1,350.8
Net Book Value	(95.0)	(846.1)	(388.7)	650.8	2,356.7	1,239.1	4,635.1
Allowance for Working Capital							
Working Cash Allowance	(41.0)	22.1	(27.5)	38.1	18.9	47.3	(425.7)
Total Working Capital	(41.0)	22.1	(27.5)	38.1	18.9	47.3	(425.7)
Utility Rate Base	(136.0)	(824.0)	(416.2)	688.9	2,375.6	1,286.4	4,209.4

TAB 10

2-Staff-16

Ref: Exhibit 2 / Tab 2 / Schedule 1 / pp. 1- 12 (Historic Major Capital Projects)

Question(s):

a) Please provide the sale price to Hydro One of the 80 km of transmission line sold in 2000 (Exhibit 2 / Tab 2 / Schedule 1 / p. 1). Please advise whether the sale was made at net book value.

b) Please provide the total depreciation on the 80 km transmission line sold to Hydro One from the sale date to the repurchase date (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).

c) Please advise whether Five Nations Energy will use the same depreciation rate for this asset as Hydro One used during the period that Hydro One owned the line (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).

d) Five Nations Energy stated that "the purchase has always been a priority for FNEI, subject to the availability of capital to complete the transaction" (Exhibit 2 / Tab 2 / Schedule 1 / p. 1). Please explain how the purchase was financed.

e) Please advise whether the Timmins Head Office is a combined administrative / operations / storage facility (Exhibit 2 / Tab 2 / Schedule 1 / p. 3). If not, please advise as to the functions that it serves.

f) Please provide the total space (Sq. Ft) of the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

g) Please provide the total land (acres) purchased for the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

h) Please provide the amount of inside square footage at the Timmins Head Office that is used for:

i. administrative functions;
ii. operational functions;
iii. storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

i) Please provide the amount of outside square footage at the Timmins Head Office that is available for storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

j) Please advise whether Five Nation's Energy's previous leased location was a combined administrative / operations / storage facility (Exhibit 2 / Tab 2 / Schedule 1 / p. 3). If not, please advise as to the functions that it served.

k) Please provide the total space (Sq. Ft) of Five Nation's Energy's previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

l) Please provide the total land (acres) of Five Nation's Energy's previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

m) Please provide the amount of inside square footage at the Five Nation's Energy's previous leased location that was used for:

- **i. administrative functions;**
- **ii. operational functions;**
- **iii. storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).**

n) Please provide the amount of outside square footage at Five Nation's Energy's previous leased location that was available for storage (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

o) Please provide the total amount of: (i) space for administrative functions; (ii) space for operational functions; and (iii) space for storage (inside and outside storage separately) that Five Nations Energy actually requires. Please provide evidence supporting the space requirements. As part of this answer, please also provide the overall utilization of the Timmins Head Office (separated by function – administrative, operational and storage) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

p) Please provide a detailed breakdown of the costs for the Timmins Head Office (land, construction, etc.) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

q) Please explain how the purchase of the Timmins Head Office was financed (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

r) Please provide Five Nations Energy's total number of FTEs and the total number of FTEs that work at the Timmins Head Office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

s) Please show the total cost of the Timmins Head Office on a $/FTE basis and a $/Sq. Ft. basis (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

t) Please provide Five Nations Energy's total number of FTEs and the total number of FTEs that worked at the previous leased location (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

u) Please provide the annual cost of Five Nation's Energy's previous leased location (including any maintenance costs) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

v) Please provide the amount included in the general plant maintenance category ($80,000 for 2016) (Exhibit 6 / Tab 2 / pp. 2 and 7) that is for maintenance of the Timmins Head Office.

w) Please provide the annual cost of the Timmins Head Office (on a revenue requirement basis including the associated maintenance expenses) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

x) Please provide a detailed list of all of the alternatives considered when deciding to move the locations of Five Nations Energy's head office. The list should include a detailed description of the alternative and rationale for not selecting the alternative (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

y) Please provide the documentation provided by and / or provided to the Five Nations Energy's Board of Directors associated with the decision to move locations of the head office (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

z) Provide any cost-benefit analysis comparing the Timmins Head Office to other alternatives (including staying at the previous leased location) (Exhibit 2 / Tab 2 / Schedule 1 / p. 3).

aa) Five Nations Energy stated that "FNEI has self-completed the brushing work in this manner during the last four winters and expects to undertake a portion of brush clearing every winter on a go-forward basis." Please provide a % breakdown of the

brush clearing work that will be completed by Five Nations Energy and third-parties on a go-forward basis (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).

bb) Please advise whether the proposed annual OM&A costs associated with the brush clearing activities is $450,000. Please provide the OM&A costs separately by work that will be completed by Five Nations Energy and by third-parties (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).

cc) Five Nations Energy stated that it "compared the relative benefits of (i) subcontracting out all brushing work, (ii) completing brushing work with FNEI staff and rented equipment, and (iii) completing brushing work with FNEI staff and FNEI owned equipment." Please provide the cost-benefit analysis associated with each of the scenarios listed above (Exhibit 2 / Tab 2 / Schedule 1 / p. 5).

dd) Please provide a breakdown of the total cost of the Fort Albany Garage (land, construction, etc.) (Exhibit 2 / Tab 2 / Schedule 1 / p. 7).

ee) Please provide a detailed list of the alternatives that were considered when making the decision to construct the Fort Albany Garage. The list should include a detailed description of the alternative and rationale for not selecting the alternative (Exhibit 2 / Tab 2 / Schedule 1 / p. 7).

ff) Please discuss whether, when determining the appropriate sizing of the storage facilities that were being constructed at the Timmins Head Office, Five Nations Energy considered that in the future it may require storage space in locations other than Timmins for reliability reasons (Exhibit 2 / Tab 2 / Schedule 1 / pp. 3 & 7).

gg) What capital contribution, if any, was made by the respective LDCs for the station work associated with the Attawapiskat Third Feeder and Kashechewan Second Feeder projects? (Exhibit 2 / Tab 2/ Schedule 1 / p. 8 and 12)

hh) Please discuss the reasons that the noted ABB protective relays had internal failures (Exhibit 2 / Tab 2 / Schedule 1 / p. 10).

ii) Please provide the age of the ABB protective relays that required replacement and how many years away they were from their expected end of useful life (Exhibit 2 / Tab 2 / Schedule 1 / p. 10.).

jj) Please provide a breakdown of the cost of emergency communication equipment by community (Exhibit 2 / Tab 2 / Schedule 1 / p. 11).

kk) Please advise whether there have been any communication blackouts experienced since the installation of the emergency communications systems (Exhibit 2 / Tab 2 / Schedule 1 / p. 11).

Response:

(a) The sale price to Hydro One of the 80 km of transmission line plus the Moosonee tapping station in 2000 was $11,000,000. The sale was made at net book value.

(b) The total depreciation (transmission line) was $3,764,833.25.

(c) As noted in section 3.2 of the MAAD application (EB-2015-0127) seeking approval for the sale of the 80 km of transmission line, the line was depreciated in accordance with HONI's standard depreciation rates (although the 80 km was not in HONI's, or any other transmitter's, rate base). FNEI uses OEB-approved depreciation rates for transmission line assets.

(d) FNEI amended and restated its existing Credit Agreement (2006) with Manulife.

(e) Yes. FNEI's Timmins Head Office is a combined administrative, operations and storage facility.

(f) The total space is 7500 square feet for the Timmins Head Office.

(g) Five acres of land was purchased for the Timmins Head Office.

(h) The amount of inside square footage at the Timmins Head Office that is used for:

- administrative functions = 2370 square feet
- operational functions = 3230 square feet
- storage = 1900 square feet

(i) The amount of outside square footage at the Timmins Head Office that is currently available for storage is 3000 square feet (gravelled section).

(j) FNEI's previous leased location was a combined administrative / operations / storage facility.

(k) The total space at FNEI's previous leased location was 800 square feet.

(l) FNEI leased office space in a multi-tenant building. There was no outside storage space other than three parking spots.

(m) The amount of inside square footage at FNEI's previous leased location that was used for:

- administrative functions = 330 square feet
- operational functions = 390 square feet
- storage = 80 square feet

(n) There was no outside storage space at FNEI's previous leased location.

(o) The new office size was determined based on FNEI's required administrative, operation and storage needs. The space is already fully utilized. The building was designed to allow for future expansion if required. See FNEI's response to (h) above. Part of the planning for the new Head Office was driven by FNEI coming to understand its staffing needs (as outside services were moved in-house) and having a facility that accommodated the needs of its administrative and operational staff.

(p) The detailed breakdown of costs are as follows:

Land	$250,644
Engineering & Project Management	$520,233
Construction	$4,085,378
TOTAL	**$4,856,255**

(q) The Timmins Head Office was financed through a combination of self-financing and a mortgage (Bank of Montreal).

(r) Until the beginning of January 2017, FNEI had ten FTE all working out of the Timmins Head Office. There are currently nine FTEs, with plans to re-fill the tenth position soon. FNEI may add an eleventh employee in 2017.

(s) The cost of the Timmins Head Office on a per FTE basis is $485,626. The cost of the Timmins Head Office on a per square foot basis (inside) is $647.50.

(t) The number of FTEs that worked at the previous location varied from two to five over the occupancy period.

(u) For the last full year that FNEI occupied the previous location (2012), FNEI's costs were $40,920 (rent), $8,301 (maintenance) and $776 (amortization of leasehold improvements).

(v) All of the $80,000 is for maintenance of the Timmins Head Office.

(w) The annual cost of the Timmins Head Office (on a revenue requirement basis (including the associated maintenance expenses) is approximately $500,523, broken down as follows:

OM&A:	$80,000
Interest on mortgage:	$70,570
amortization:	$171,437
rate base:	$178,516
Total:	**$500,523**

(x) Timmins is a city of only 45,000 residents, and has a very limited supply of existing facilities that would have been able to meet FNEI's requirements (i.e., high security, operations including a repair and test shop, and sufficient storage room). This was FNEI's conclusion after monitoring the rental and purchase markets for existing facilities in Timmins for a period of at least two years. Over this entire time period, there was only one potential option that was considered potentially suitable; however, the facility was simply an insulated shell of a warehouse (without offices, etc.), with no land base for future expansion. FNEI's management was considering putting an offer on the facility but before a Board meeting could be convened to discuss the property, it was purchased. Based on this two year search, it became very clear that a new build was FNEI's only real option. After purchasing the current site of FNEI's Head Office, the existing building was designed based on then-current and anticipated facility needs. At the time, an engineer provided an "opinion of probable cost" indicating an estimated cost of $2.4 million to construct. When FNEI went to tender, bids were received in the range of $3.4 to $5.5 million, largely due to an increase in construction demand related to a spike in gold mining activity in the region. FNEI selected the lowest cost bidder.

(y) and (z) It had been obvious to FNEI's Board of Directors that staying in the 800 square foot multi-occupant building was not an option. The process of considering and discussing options for a new head office was ongoing both formally and informally among FNEI officers, staff, external advisors and Board of Directors for years. There was no formal cost-benefit analysis done or placed before the Board. Staying in the former rental space was not an option.

(aa) FNEI thinks OEB Staff may have misunderstood the excerpted phrase in this information request. FNEI does 100% of the brush clearing on the 275 km FNEI transmission line route, and will continue to do so. The phrase "a portion of brush clearing every winter" does not refer to a plan to outsource a portion of the work, but rather refers to carrying out brush clearing on a portion (i.e., percentage) of the 275 km long route each year.

(bb) The figure of $450,000 is confirmed, all of which will be done by FNEI (see response to (a) above).

(cc) The cost-benefit analysis associated with purchasing the brushing equipment and having FNEI staff do the work was straightforward. The cost advantages associated with purchasing the equipment and using local staff are a direct result of the location of FNEI's assets (remote).

Unlike other parts of the province, subcontracting the James Bay region can only be done on a time and materials basis. There are no local or regional crews that can be mobilized to do this work. The logistical issues associated with subcontracting add significantly to costs. FNEI estimated that renting the brushing equipment for four months (including delivery of the equipment to the region) costs the same as purchasing the equipment (which should last four seasons). In the "best case" rental scenario, FNEI would rent machines for two months every season. The "purchase" option saves approximately $260,000 per season, and significantly more (up to $500,000) if the winter road season is shorter than normal. Using local distribution company staff such as qualified linemen to operate the brushing machines (and hand brush around the poles) can save approximately $135,000 in accommodation (since local crews live at home). As evidence of these cost savings, FNEI notes that it spent about 25% less per km on brushing when compared to Hydro One's costs of brushing M3K in 2013.

(dd) The breakdown of the total cost of the Fort Albany Garage is as follows:

Materials	$32,413.74
Freight, Travel & Accommodation	$24,424.83
Labour & Equipment	$57,375.88
TOTAL	**$114,214.45**

(ee) The alternatives considered were as follows:

- Maintain the emergency and operations vehicle outside, which is problematic due to harsh weather conditions and vandalism. For example, vehicles had in the past had their fuel tank drilled from below to extract fuel, fuel hose cut, and windows smashed.
- Rent similar space. Fort Albany is a very small community, and a search for similar rental space had no success.
- Rent vehicles for each occasion. The difficulty with this approach is that there are no car rental establishments in Fort Albany, and there is no road connection to Fort Albany, so no guarantee that a vehicle could be found if needed in an emergency situation.

(ff) FNEI has operated the system since 2001. Of course, FNEI understands its equipment storage needs. The Timmins Head Office storage space houses equipment that is high-value or temperature sensitive, and should be stored in a higher security, heated facility. These items are transported (when required) along with an FNEI technical crew via air charter to the communities. Other equipment is more appropriately and cost-effectively transported via road to

Cochrane, train to Moosonee, and then either barge or winter road to the coastal communities. This equipment is then normally stored at the communities at either FNEI or LDC facilities.

(gg) None. Each LDC was responsible for distribution system related work up to the station fence.

(hh) and (ii) The normal life span of digital relays is 12 years, although a typical warranty (including that of ABB) is a five year initial warranty (with a five year purchased extension). It is recommended that relays be replaced after 12 years of service. Some relays which were originally commissioned in 2001 and 2002 started to have intermittent communication problems. Based on this, FNEI anticipates all old relays over three years.

(jj) Please see below:

Attawapiskat	**Kashechewan**	**Fort Albany**
$36,576.45	$36,576.45	$36,576.45

(kk) There have been none.

TAB 11

6.3 COST RESPONSIBILITY FOR NEW AND MODIFIED CONNECTIONS

6.3.1 Where a load customer elects to be served by transmitter-owned connection facilities, a transmitter shall require a capital contribution from the load customer to cover the cost of a connection facility required to meet the load customer's needs. A capital contribution may only be required to the extent that the cost of the connection facility is not recoverable in connection rate revenues. To that end, the transmitter shall include in the economic evaluation the relevant annual connection rate revenues over the applicable economic evaluation period that are derived from that part of the customer's new load that exceeds the total normal supply capacity of any connection facility already serving the customer and that will be served by the new connection facility. The transmitter shall calculate any capital contribution to be made by the load customer using the economic evaluation methodology set out in section 6.5.

6.3.2 Where a transmitter has to modify a transmitter-owned connection facility to meet a load customer's needs, the transmitter shall require the load customer to make a capital contribution to cover the cost of the modification. A capital contribution may only be required to the extent that the cost of the modification to the connection facility is not recoverable in connection rate revenues. To that end, the transmitter shall include in the economic evaluation the relevant annual connection rate revenues over the applicable economic evaluation period that are derived from that part of the customer's new load that exceeds the total normal supply capacity of any connection facility already serving the customer and that will be served by the modified connection facility. The transmitter shall calculate any capital contribution to be made by the load customer using the economic evaluation methodology set out in section 6.5.

TAB 12

Exhibit 6 – Operating Costs

6-Staff-24

Ref: Exhibit 6 / Tab 1 / Schedule 1
Exhibit 2 / Tab 2 / Schedule 1

Question(s):

a) Please explain why Five Nations Energy used "All-Items CPI" for its calculation of the impact of inflation on OM&A expenses over the March 2010 – January 2016 period (Exhibit 6 / Tab 1 / Schedule 1 / p. 4). Please provide supporting rationale.

b) Five Nations Energy stated that "from a systems perspective, it was viewed as inefficient to have both Five Nations Energy and Hydro One maintaining 80 km of parallel facilities" (Exhibit 2 / Tab 2 / Schedule 1 / p. 1).

i. Please explain the maintenance arrangement that was in place during the time that Hydro One owned the 80 km transmission line (e.g. did Hydro One handle the maintenance or was that maintenance work done by Five Nations Energy) (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).

ii. If Hydro One maintained the line, please provide the annual maintenance costs incurred by Hydro One (as referenced at Exhibit 6 / Tab 1 / Schedule 1 / p. 4, this information was provided to Five Nations Energy by Hydro One).

iii. Please provide the annual maintenance expense that Five Nations Energy included in its revenue requirement related to the maintenance and operation of the 80km of line acquired from Hydro One (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).

iv. Please provide an estimate of the annual cost savings expected to arise from Five Nations Energy maintaining the line as it is parallel to its existing infrastructure (Exhibit 6 / Tab 1 / Schedule 1 / p. 4).

c) Five Nations Energy listed the following initiatives aimed (in part) at improving efficiencies: moving external services in-house, coordinating activities and goods/services with distributors in the region, and regular budget reviews. For each category of efficiency improvements, please provide specific examples and estimated cost savings.

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.

TAB 13

2.0 Capital Projects for Five Future Years

The capital projects currently in progress or proposed by FNEI for the next five years are listed below in the order of estimated capital expenditure, from greatest to least.

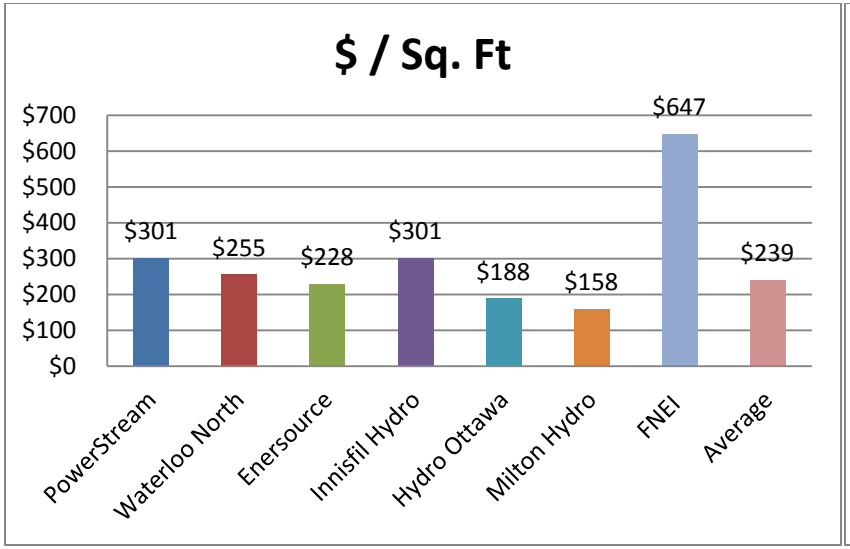
Project Name:	**Bus Isolation**
Start Date:	January 2014
In-Service Date:	September 2016 (Fort Albany and Kashechewan) September 2017 (Attawapiskat)
Capital Expenditure:	$4,500,000
Project Description:	FNEI is currently in the process of upgrading each transformer station by splitting the bus system on both the high and medium voltage sides of the transformers and installing additional disconnects.
Alternatives:	The only alternative would be to not proceed with the project. Not proceeding would have a negative impact on reliability, which is addressed in the next subsection.
Priority and Risk of Not Proceeding:	The project is a high priority for FNEI because it will allow a transformer station to remain in operation while maintenance work is performed on a particular piece of equipment, thereby permitting the transformer station to provide the community with electricity without interruption. If this project is not completed then maintenance work on almost every piece of equipment would require the complete shutdown of the transformer station, which would result in the loss of service to the entire community served by the transformer station, as well as, in the case of Kashechewan, the loss of service to Attawapiskat and the DeBeers Victor Mine. The potential for routine maintenance operations to result in the loss of electrical service represents a significant reliability risk and would prevent FNEI from meeting its reliability standards. This project will eliminate this reliability risk.

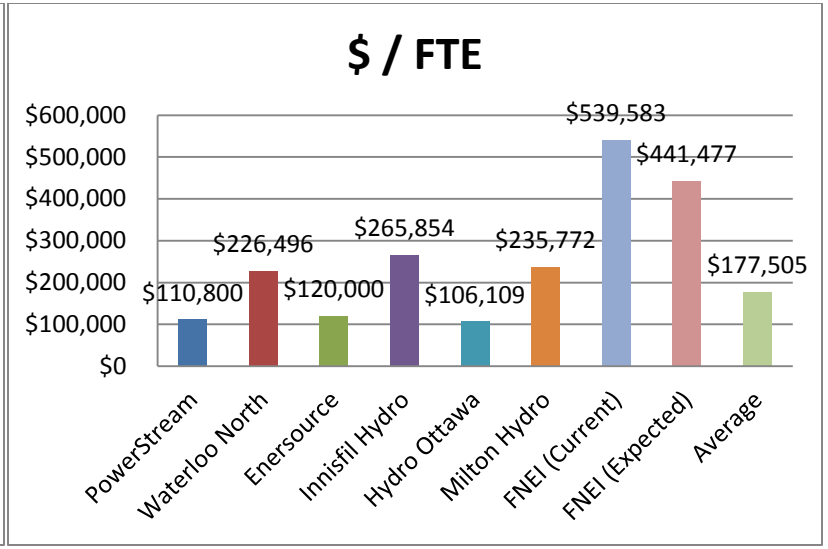
TAB 14

Project Name:	**Timmins Head Office**
Start Date:	December 2011
In-Service Date:	August 2013
Capital Expenditure:	$4,856,255
Project Description:	FNEI constructed a new head office in Timmins, with the work substantially completed in 2013. The new building accommodates all of FNEI management and operational staff, while providing for the receipt, storage, maintenance, and testing of equipment.
Alternatives:	FNEI did not have the option of remaining in its previous leased location due to the inability of that location to accommodate FNEI's growing operations. The only viable options were to identify and lease an alternative facility or to self-construct a new building. The decision to construct was based on the lack of availability of leased spaces that could accommodate FNEI's operations.
Priority and Risk of Not Proceeding:	The establishment of a new facility capable of accommodating the FNEI team and its operations was a top priority for FNEI. It would not have been possible for FNEI to continue its operations in its previous facility without significantly impairing its operations.

FNEI Timmins head office (external view and workshop)

TAB 15





	PowerStream	Waterloo North	Enersource	Innisfil Hydro	Hydro Ottawa	Milton Hydro	FNEI	FNEI
	EB-2008-0244	EB-2010-0144	EB-2012-0033	EB-2014-0086	EB-2015-0004	EB-2015-0089	EB-2016-0231	EB-2016-0231
Function	Admin	Admin / Ops	Admin	Admin/Ops	Admin / Ops	Admin / Ops	Admin / Ops	Admin / Ops
In-Service Date	2008	2011	2012	2014	2016	2015	2013	2013
Total Cost	$27.7 M	$26.5 M	$18.0 M	$10.9 M	$66.0 M	$14.5 M	$4.9 M	$4.9 M
Total Square Feet	92,000	104,000	79,000	36,172	351,000	91,828	7,500	7,500
FTEs	250	117	150	40	622	62	9 (Current)	11 (Expected)
$ / Sq. Ft	$301	$255	$228	$301	$188	$158	$647	$647
$ / FTE	$110,800	$226,496	$120,000	$265,854	$106,109	$235,772	$539,583	$441,477

TAB 16

APPENDIX I

HONI PROPOSED SCORECARD (EB-2016-0160)

Proposed Transmission Regulatory Scorecard - Hydro One Networks Inc.

				Historical Years				
Performance Outcomes	**Performance Categories**	**Measures**	**2011**	**2012**	**2013**	**2014**	**2015**	**Trend**
Customer Focus **Services are provided in a manner that responds to identified customer preferences.**	**Service Quality**	Satisfaction with Outage Planning Procedures (% Satisfied)	Note 1	78	Note 1	86	92	▲
		Customer Delivery Point (DP) Performance Standard Outliers as % of Total DPs	13.8	10.8	12.8	11.8	Note 2	▲
	Customer Satisfaction	Overall Customer Satisfaction in Corporate Survey (% Satisfied)	85	76	81	77	85	-
Operational Effectiveness **Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.**	**Safety**	Recordable Incident Rate (# of recordable injuries/illnesses per 200,000 hours worked)	3.7	2.3	2.5	1.8	1.7	▲
	System Reliability	T-SAIFI-S (Ave. # Sustained Interruptions per Delivery Point)	0.60	0.61	0.57	0.60	0.59	-
		T-SAIFI-M (Ave. # Momentary Interruptions per Delivery Point)	0.60	0.65	0.69	0.48	0.50	▲
		T-SAIDI (Ave. Minutes of Interruptions per Delivery Point)	127.9	71.5	66.0	36.6	44.3	▲
		System Unavailability (%)	0.50	0.48	0.37	0.48	0.66	▼
		Unsupplied Energy (minutes)	21.6	14.0	20.9	12.2	11.8	▲
	Asset Management	In-Service Capital Additions (% of OEB approved plan)	95	75	90	106	85	▲
		CapEx as % of Budget	78	81	73	90	106	▲
	Cost Control	Total OM&A and Capital per Gross Fixed Asset Value (%)	9.8	8.6	7.6	8.4	9.0	▲
		Sustainment Capital per Gross Fixed Asset Value (%)	2.6	2.8	3.3	4.2	4.6	Note 3
		OM&A per Gross Fixed Asset Value (%)	3.4	3.0	2.7	2.7	2.9	▲
Public Policy Responsiveness **Transmitters deliver on obligations mandated by government.** **(e.g. in legislation and in regulatory requirements imposed further to Ministerial directives to the Board)**	**Connection of Renewable Generation**	% on time completion of renewables connection impact assessments	100	100	100	100	100	-
	Market Regulatory Compliance	NERC/NPCC Reliability Standards Compliance						
		- Number of High Impact Violations (Note 4)	N/A	N/A	N/A	20	2	
		- Number of Medium/Low Impact Violations (Note 4)	N/A	N/A	N/A	5	10	
	Regional Infrastructure	Regional Infrastructure Planning progress - % Deliverables met	N/A	N/A	N/A	100	100	
Financial Performance **Financial viability is maintained; and savings from operational effectiveness are sustainable.**	**Financial Ratios**	Liquidity: Current Ratio (Current Assets/Current Liabilities)	0.24	0.29	0.80	0.69	0.13	
		Leverage: Total Debt (includes short-term & long-term debt) to Equity Ratio	1.27	1.22	1.10	1.16	1.39	
		Profitability: Regulatory Return on Equity — Deemed (included in rates) (%)	9.66	9.42	8.93	9.36	9.30	
		Profitability: Regulatory Return on Equity — Achieved (%)	10.95	12.41	13.22	13.12	10.93	

Note 1: Customer Satisfaction survey not done in 2011 and 2013.

Note 2: Results will be available in July 2016.

Note 3: In 2014 strategic decision made to increase sustainment capital.

Note 4: Results from 2011 to 2013 are excluded due to a lack of consistant data compared to 2014 and 2015.

Legend:
▲ up
▼ down
- flat

TAB 17

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 costumer 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	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	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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TAB 18

Exhibit 5 – Operating Revenue

5-Staff-23
Ref: Exhibit 5 / Tab 1 / Schedule 3 Updated

Question(s):

a) Please provide further details as to why Five Nations Energy believes that using a historical average of the peak load data for the 2013-2015 period is more appropriate than using the linear trend method as ordered by the OEB in the EB-2009-0387 proceeding.

b) Please advise which of the two illustrative charge determinant estimates, based on the linear trend methodology (using two different underlying data sets), Five Nations Energy believes is more appropriate. Please explain why.

Response:

(a) It is important to remember that FNEI has only four customers, one of which (DeBeers' Victor Mine) is significantly larger than the other three. This has two implications when it comes to forecasting load in the short-term: first, it is not onerous to have fairly detailed discussions with all of FNEI's customers about their anticipated electrical needs in the short-term; and second, FNEI's load forecast is largely a question of what will happen at the Victor Mine site. The data reflects this – the Victor Mine became operational in mid-2008, and ramped up to full production over the next few years. In the past three years, DeBeers' load has flattened (as expected) and is expected to continue to remain flat or start to slowly decline.

FNEI's view is that a linear trend model is probably more appropriate for transmitters with a large number of diverse customers.

(b) See answer to (a) above. As between Forecast 1 and Forecast 2, FNEI believes Forecast 2 is more appropriate, based on information from its customers.

TAB 19

6-Staff-25

Ref: Exhibit 6 / Tab 2 / Schedule 1

Question(s):

a) If available, please provide a version of Table 6-2-1-A that reflects actual 2016 OM&A spending by category (Exhibit 6 / Tab 2 / Schedule 1 / p. 1).

b) Please provide a description for each category of OM&A expenses (e.g. Load Dispatching, Outside Services Employed, etc.). Please also include a detailed breakdown of the 2016 costs that are included in each category of OM&A expenses (Exhibit 6 / Tab 2 / Schedule 1 / p. 1).

c) Please file both the previous version and the current version of the Operating Services Agreement with Hydro One (Exhibit 6 / Tab 2 / Schedule 1 / p. 3).

d) Please provide a breakdown of the $91,000 of proposed incremental load dispatching expenses for 2016 (relative to 2015) between: (i) the addition of services associated with the extra 80 km to the operating agreement; and (ii) Hydro One moving to a new cost model (Exhibit 6 / Tab 2 / Schedule 1 / p. 3).

e) Please provide a table that highlights the increases in Account 4820 over the 2011-2016 period and the related reductions in Account 4815 and 4916 (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).

f) Please provide further rationale supporting Five Nations Energy's decision to hire additional technical staff (as opposed to relying on external service providers). Please specifically discuss whether there were, or are expected to be, any cost savings achieved due to this decision (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).

g) Please discuss on an itemized basis the proposed $340,000 of Transformer Station Equipment Labour incremental costs (88% increase between 2015 and 2016) (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 4).

h) Five Nations Energy states that its "existing operational employees have had an increase tied to CPI over the past few years. In order to retain operational staff, FNEI is proposing a one-time increase of 10% to FNEI's operational staff in 2016" (Exhibit 6 / Tab 2 / Schedule 1 / p. 4).

i. **Please discuss whether this 10% pay increase was already applied to employees in 2016 (or if Five Nations Energy is awaiting OEB approval of this proposal).**

ii. **Please provide detailed evidence and rationale supporting a 10% pay increase for operational staff in 2016.**

iii. **Please explain why the previously applied pay increase based on inflation is not still appropriate for 2016.**

iv. **Please advise whether Five Nations Energy is aware of any other utilities in Ontario providing a 10% pay increase in 2016 for operational staff.**

v. **Please provide the number of FTEs that this proposed pay increase would be applicable to.**

vi. **Please provide the total cost for 2016 of the proposed 10% pay increase. Please provide this amount as a percentage of the total compensation expense increase requested for 2016 (compared to 2015).**

vii. **Please provide the total cost for 2016 of a salary increase in accordance with the inflationary increases provided by Five Nations Energy during the historic period.**

i) Five Nations Energy cites "emergency station maintenance" as the cause for the $97,000 (42%) increase in Maintenance – Transformer Station Equipment expenses between 2015 and 2016. Is Five Nations Energy expecting to perform significant emergency maintenance during the forecast period (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 4-5)?

j) Please provide a breakdown of the Maintenance – Poles, Towers and Fixtures expenses, on actual basis, as between the Right-of-Way (ROW) clearance program and the other programs included in this category of expenses for each year 2010-2016. Please also provide an estimated breakdown of expenses in this category for the forecast period (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 5).

k) Please provide the total 5-year cost of the ROW clearance program (2016-2020). Please provide the proposed 2016 expense associated with the ROW clearance program (Exhibit 6 / Tab 2 / Schedule 1 / p. 5). Please confirm that the 2016 amount associated with the ROW clearance program reflects one-fifth of the total cost of that program over the 2016-2020 period (in accordance with Five Nations Energy's statement to that effect at Exhibit 6 / Tab 2 / Schedule 5).

l) Five Nations Energy stated that the energy conservation expenses (Account 5415) are outside of Five Nations Energy's cost structure as the costs were exactly offset by revenues received from the OPA / IESO. Therefore, the conservation expenses do not impact Five Nations Energy's revenue requirement (Exhibit 6 / Tab 2 / Schedule 1 / pp. 5-6).

i. Please explain why there is $30,000 included for energy conservation expenses in 2016 (Exhibit 6 / Tab 2 / Schedule 1 / pp. 2 and 5-6). Please explain the 2016 conservation expenses in the context of Five Nations Energy's statement that the funding arrangement with the OPA / IESO for conservation initiatives was discontinued as of January 1, 2016 (Exhibit 5 / Tab 1 / Schedule 1 / p. 2).

ii. Please confirm that, if the OEB approves $30,000 in energy conservation expenses in 2016, that Five Nations Energy expects to continue incurring that expense during the forecast period.

iii. Please advise whether Five Nations Energy has included $30,000 in offsetting revenues derived from the funding arrangement with the IESO / OPA for each year during the 2016-2020 period. If not, please explain how the energy conservation costs do not form part of Five Nations Energy's cost structure and why it is appropriate for the OEB to approve these energy conservation expenses.

m) Please provide a table that shows a breakdown of the total increase in salaries and related expenses between 2010 and 2016 and the decrease in outside services costs. If there is a net increase in labour costs (between the increase in employee salaries and the decrease in outside employee costs), please explain what benefit ratepayers are receiving due to Five Nations Energy's decision to bring additional staffing in-house (Exhibit 6 / Tab 2 / Schedule 1 / pp. 6-7).

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

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

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.

- *General Administrative Salaries and Expenses* (Account 5615): This Account includes the salary and benefits of FNEI's non-management staff, including minor disbursements.

- *Office Supplies and Expenses* (Account 5620): This Account records any costs incurred for general office supplies, banking costs (e.g., service fees), and any postage or courier charges.

- *Outside Services Employed* (Account 5630): This Account records costs associated with payroll services, auditor fees, and external consultants. This Account also includes related travel costs.

- *Property Insurance* (Account 5635): This Account includes the costs of maintaining FNEI's boiler and machinery insurance, office and contents insurance and vehicular insurance. All of this is currently placed with Chubb Insurance, through the use of an insurance broker (KRG Insurance Group).

- *Injuries and Damages* (Account 5640): This Account records the costs of maintaining general liability insurance for FNEI, as well as director and officer liability insurance coverage.

- *Regulatory Expenses* (Account 5655): This Account includes regulatory consultant costs, various OEB-related costs, and legal costs.

- *Miscellaneous General Expenses* (Account 5665): This Account includes amounts relating to the costs to hold an annual networking best practices meeting with the LDC managers and other regional corporations that provide services to FNEI's customer communities.

- *Maintenance of General Plant* (Account 5675): This Account records maintenance and janitorial services at FNEI's Head Office in Timmins.

Here are the detailed breakdown of the 2016 costs included in each category:

Five Nations Energy Inc.

Detailed breakdown of Categories in Exhibit 6 /Tab 2 / Schedule 1 / p. 1.	2016 OM&A
4800 TransmissionExpenses-Operation	
5038 Telecommunications Operations	52,000
5039 Station Telecommunic-Attawapiskat	15,000
5040 Station Telecommunic-Kashechewan	15,000
5041 Station Telecommunic-Fort Albany	15,000
5043 Hydro One Operating Contract	300,000
4810 Load Dispatching	**397,000**
5050 Electricity Costs-Attawapiskat Sub	6,500
5051 Electricity Costs-Att Fibre Shelter	1,800
5052 Electricity Costs-Kashechewan Sub	16,500
5053 Electricity Costs-Kash Fibre Shelter	2,800
5054 Electricity Costs-Fort Albany Sub	9,500
5055 Electricity Costs-Albany Fibre Shelter	1,800
5056 Other Station Costs-Attawapiskat	5,000
5058 Other Station Costs-Kashechewan	5,000
5060 Other Station Costs-Fort Albany	5,000
5061 Moosonee Fibre Shelter Operations	6,000
4815 Station Buildings&FixturesExpe	**59,900**
5070 Substation Weekly Checks	30,000
5068 Operational Staff Wages (6)	531,719
5069 Operational Staff Overtime (30%)	159,516
5070 Operational Staff Benefits (15%)	103,685
5071 Operation Staff Capitalized Wages	(150,000)
5078 Operations Technician Supplies/Disb.	15,000
5079 Maintenance Staff Training Costs	35,000
4820 TransformerStnEquip.OperLabour	**724,920**
5082 Albany 67 Sec 28 (2) annual fee-FA	28,000
5083 Albany 67 Sec 28 (2) annual fee-Kash	28,000
5085 MNR Annual Land use permit fee	30,000
4850 Rents	86,000
Total Transmission Operation Expense	**1,267,820**
4900 Transmission Expenses-Maintenance	
5102 Meter Service Provider Costs	29,680
5112 Kashechewan Standby Generator Costs	30,000
5114 Attawapiskat Standby Generator Costs	30,000
5116 Unplanned Station Maintenance	45,000
5123 Station Pickup Truck/LDC Pickup O&M	6,000
5124 Planned Maint-Attawapiskat Substation	50,000
5126 Planned Maint-Kashechewan Substation	70,000
5128 Planned Maint-Albany Substation	40,000
5129 Station Communication Assets Maintena	25,000
4916 Maintenance-Transformer Station Equipment	**325,680**
5131 Unplanned Line Maintenance	45,000
5135 Fibre Line Planned Maintenance	50,000
5137 Planned Maint Transmission Line	200,000

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Five Nations Energy Inc. Detailed breakdown of Categories in Exhibit 6 /Tab 2 / Schedule 1 / p. 1.	2016 OM&A
5140 ROW Maintenance	250,000
5139 On Call Service Contract-ABB	-
4930 Maintenance of Towers, Poles and Structures	**545,000**
Total Transmission Maintenance Expense	**870,680**
5400 Community Relations	
5245 Translator Salary Costs	9,000
5255 Newsletter Printing Costs	10,000
5262 Promotional items	15,000
5410 Community Relations - Sundry	**34,000**
5278 Energy Conservation-Attawapiskat	10,000
5279 Energy Conservation-Kashechewan	10,000
5280 Energy Conservation-Fort Albany	10,000
5415 Energy Conservation	**30,000**
5285 5420 Community Safety Program	9,000
Total Community Relations	**73,000**
5600 Administrative&General Expense	
5605 Executive Salaries and Expense	**604,250**
5610 Management Salaries & Expenses	**318,693**
5615 General AdminiSalaries&Expense	**115,741**
5445 General Office Supplies	19,500
5450 Bank Charges	2,300
5455 Postage and Courier Charges	3,000
5620 Office Supplies and Expenses	**24,800**
5475 Mushkegowuk Council Administration	24,000
5478 Auditing Fees	40,000
5485 Consulting Services	105,000
5505 Consulting Travel	40,000
5630 Outside Services Employed	**209,000**
5528 Property/Vehicle/Tenant Insurance	252,000
5635 Property Insurance	**252,000**
5540 Umbrella Liability Insurance	166,000
5640 Injuries and Damages	**166,000**
5560 Aiken & Associates	4,000
5565 Legal Fees	300,000
5570 Other Regulatory Related Costs	20,000
5655 Regulatory Expenses	**324,000**
5589 Best Practices Meeting Costs	**30,000**
5665 Miscellaneous General Expenses	**30,000**
5610 5670 Rent	
5614 Office-Property Taxes	40,000
5615 Office Building Maintenance	15,000
5616 Office Building Utilities	25,000
5675 Maintenance of General Plant	**80,000**
Total Administrative&General Expenses	**2,197,483**

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3 (c) Please see attached.

(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,

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

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.

2013 to 2016: Focus was on right of way brushing program. The additional work in 2013 consisted of replacing a pole due to a lightning strike and other miscellaneous maintenance work. The additional work in 2014 consisted of the regular helicopter patrol and some miscellaneous maintenance work. The additional work in 2015 included repairs to several ice protection berm walls that had been damaged by fire. The replacement was of a different design that eliminated the risk to damage by fire. There was also some other miscellaneous line maintenance work that took place. The additional work in 2016 included the regular helicopter patrol, as well as activities on the fibre line including guy wire re-tensioning, minor anchor replacement, etc.

(k) FNEI is forecasting the 2016-2020 ROW brushing program to cost $2,250,000 ($450,000 per year for five years). The actual 2016 expenditures associated with the ROW brushing program were $559, 853. As noted in the evidence, FNEI is proposing a total expenditure of $545,000 in Account 4930. This is broken down between ROW brushing activities at $450,000 and other maintenance activities at $95,000 per year. As such the actual expenditures for 2016 are slightly more than $1/5^{th}$ of the 5 year forecasted cost for this program.

(l) i. The $30,000 projected for 2016 and following are based on $10,000 per community (Attawapiskat, Kashechewan, Fort Albany) for energy conservation related expenditures and activities. FNEI used to allocate roughly that amount to each community in historic years for conservation related matters (prior to the IESO taking on a major role in conservation). Currently, FNEI uses this account (5415 Energy Conservation) 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 in 2014. The original workplan called for this project to be completed in July 2016, but it is ongoing. The project administrators were also forecasting expenditures greater than the amount of the funding available from ACEP, mostly due to the remote location of the communities and the transportation costs incurred in completing the activities under this program. FNEI understood the limitations of the ACEP program with respect to its ability to adequately fund activities in remote communities, and anticipated having to cover some of the excess costs (as of the end of 2016 the total cost of this program is $207,457 with funding received totalling $182,200 resulting in an overall shortfall of $25,256). Subsequent to this application, FNEI received an extension for this program from the IESO and set this amount ($25,256) up as a receivable from the IESO as at December 31, 2016.

(l) ii. FNEI expects to incur $30,000 in energy conservation related expenditures per year on a go forward basis.

(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:

[FILED IN CONFIDENCE]

(p) The breakdown of an average board meeting using 2013 figures is as follows:

Honoraria	$16,344
Travel	$15,993
Disbursements	$2,663
	$35,000

FNEI does make use of conference calls for special Board meetings, but tries to conduct quarterly Board meetings face-to-face. There is little chance for informal contact between Board members (or between Board members and FNEI management) due to the remote nature of the communities that FNEI serves. FNEI feels that quarterly face to face meetings are required to allow directors the opportunity to meaningfully interact with each other and with FNEI management.

(q) Please refer to attached pdf entitled: "FNEI Suncorp Valuators - Insurance Appraisal Final Report31December2012.pdf"

TAB 20

2010-2016 – OM&A Expenses

(000's)	2010 OEB Approved	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2016 Proposed
Operations	$ 615.20	$ 545.60	$ 690.20	$ 676.70	$ 852.30	$ 825.70	$ 919.30	$ 1,267.80
Maintenance	$ 450.00	$ 546.60	$ 433.30	$ 750.30	$ 747.40	$ 798.80	$ 891.20	$ 870.70
Administration	$ 2,289.80	$ 2,137.60	$ 1,922.30	$ 1,872.90	$ 1,826.30	$ 2,116.90	$ 2,105.40	$ 2,197.50
Total OM&A	**$ 3,355.00**	**$ 3,229.80**	**$ 3,045.80**	**$ 3,299.90**	**$ 3,426.00**	**$ 3,741.40**	**$ 3,915.90**	**$ 4,336.00**

(000's)	Variance Actual 2016 to 2010 Approved	Variance %	Variance Proposed 2016 to 2010 Approved	Variance %	Variance Actual 2016 to Proposed 2016	Variance %
Operations	$ 304.10	49%	$ 652.60	106%	$ 348.50	38%
Maintenance	$ 441.20	98%	$ 420.70	93%	-$ 20.50	-2%
Administration	-$ 184.40	-8%	-$ 92.30	-4%	$ 92.10	4%
Total OM&A	**$ 560.90**	**17%**	**$ 981.00**	**29%**	**$ 420.10**	**11%**

TAB 21

6-Staff-26

Ref: Exhibit 6 / Tab 2 / Schedule 2

a) Please advise whether the Board of Director costs are included in Table 6-2-2-A (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

b) If available, please update Table 6-2-2-A to reflect actual salary and benefits costs incurred in 2016 (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

c) Please provide a table that reconciles where the salary and benefit amounts in Table 6-2-2-A (Executive / Management and Non-Management) are captured in Table 6-2-1-B (cost categories and amounts) (Exhibit 6 / Tab 2 / Schedule 2 / p. 1 and Exhibit 6 / Tab 2 / Schedule 1 / p. 2).

d) Five Nations Energy stated that it plans to hire two apprentices and one substation electrician in 2016 (Exhibit 6 / Tab 2 / Schedule 2 / pp. 1-2).

i. Please advise whether these positions were filled in 2016. If not, please explain.

ii. Please explain why the total number of FTEs only increased by 2 between 2015 and 2016. Are some of the planned new hires part-time?

e) Please provide the job title and a summary of responsibilities for each of Five Nations Energy's employees (and indicate whether the job is part-time or full-time – including the FTE amount associated with the position). Please also indicate whether the position is considered Executive / Management or Non-Management (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

f) Please discuss the proposed salary increases reflected in Table 6-2-2-A. Specifically, please provide the proposed salary increases that Five Nations Energy intends to provide to each category of employee (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

g) Please provide a breakdown showing the amount of the increase in salary and benefit costs (between 2015 and 2016) that is caused by hiring additional employees and by pay increases ($ amount and %). Please provide the breakdown for each line in Table 6-2-2-A (Exhibit 6 / Tab 2 / Schedule 2 / p. 1).

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

already had two apprentices. FNEI currently has three executive/management employees and six non-management employees for a total of nine FTE.

(e) FNEI currently has nine FTEs (all full-time), as described below.

Chief Executive Officer FTE-1 Executive/Management
Summary of Position: (excerpt from Job Description)
The CEO will also be responsible for the establishment and achievement of current and long-term objectives of the FNEI organization including developing and implementing the strategic goals and objectives of the organization. Working closely with the Chair, the CEO will enable the Board to fulfill its governance function, to give direction and leadership toward the achievement of the organization's philosophy, mission, strategy, and its annual goals and objectives. The CEO will oversee the company operations to ensure internal efficiencies, outstanding quality of service to FNEI's customers, and cost-effective management of resources.

Administrative Assistant FTE-1 Non-Management
Summary of Position: (excerpt from Job Description)
The Administrative Assistant position is an integral part of the Five Nations Energy Inc. (FNEI), to provide overall executive/administrative support to the Chief Executive Officer, Board of Directors, Finance and Administration, and Maintenance and Operations department.

Secretary/Receptionist FTE-1: Non-Management
Summary of Position: (excerpt from Job Description)
The Secretary/Receptionist position will be an integral part of the Five Nations Energy Inc. (FNEI), to provide overall reception and office support.

Finance Controller FTE-1: Executive/Management
Summary of Position: (excerpt from Job Description)
Reporting to and providing resource to the CEO, the FC will set FNEI's financial policy and direction while also being an active participant in, and driver of, the organization's overall strategy within the parameters set by the Ontario Energy Board ("OEB") and FNEI's Board of Directors. The FC will lead all financial administration, business planning, and budgeting activities. As a member of the senior leadership team, the FC will work closely with the finance and human resource committee of the board of directors.

Operations Manager: FTE-1: Executive/Management
Summary of Position: (excerpt from Job Description)
The Operations Manager will be responsible for the safe and reliable operations and maintenance of the high voltage FNEI transmission lines, communications facilities and stations owned by FNEI. The Operations Manager will also perform field work as well as

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%**

TAB 22

(000's) Except FTEs	2011	2012	2013	2014	2015	2016 (A)	2016 (P)
Number of FTEs							
Executive & Management	2	2	2	2	3	3	3
Non-Management	4	5	5	6	6	6	8
Total	**6**	**7**	**7**	**8**	**9**	**9**	**11**
Total Compensation							
Executive & Management	$ 278.10	$ 309.20	$ 291.90	$ 311.20	$ 480.70	$ 467.10	$ 460.40
Non-Management	$ 218.50	$ 307.40	$ 345.80	$ 471.00	$ 448.30	$ 440.30	$ 580.60
Total	**$ 496.60**	**$ 616.60**	**$ 637.70**	**$ 782.20**	**$ 929.00**	**$ 907.40**	**$ 1,041.00**

(000's) Except FTEs	2016 (A) vs. 2015	% Variance	2016 (P) vs. 2015	% Variance	2016 (P) vs. 2011	% Variance
Number of FTEs						
Executive & Management	0	0	0	0%	1	50%
Non-Management	0	0	2	33%	4	100%
Total	**0**	**0**	**2**	**22%**	**5**	**83%**
Total Compensation						
Executive & Management	-$ 13.60	-3%	-$ 20.30	-4%	$ 182.30	66%
Non-Management	-$ 8.00	-2%	$ 132.30	30%	$ 362.10	166%
Total	**-$ 21.60**	**-2%**	**$ 112.00**	**12%**	**$ 544.40**	**110%**

TAB 23

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

TAB 24

6-Staff-29
Ref: Exhibit 6 / Tab 2 / Schedule 6

Preamble:

Five Nations Energy stated that it is forecasting regulatory costs in 2016 of $324,000. This amount was calculated by taking the actual average regulatory costs during the previous four years (actual 2012 through 2015 - $274,000), and adding $50,000 to that amount (which reflects one-fifth of the forecast cost of the rebasing proceeding).

Five Nations Energy noted that actual regulatory spending in 2011 and 2012 were unusually high. Therefore, Five Nations Energy determined that including only 2012 costs in the average (used to develop the 2016 forecast) was more appropriate.

Question(s):

a) Please provide a detailed breakdown of the regulatory costs incurred in each year during the 2011-2015 period (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

b) If available, please provide a detailed breakdown of actual 2016 regulatory spending (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

c) Please explain why Five Nations Energy's regulatory expenses in 2011 and 2012 were unusually high ($340,800 – 2011 and $352,400 – 2012) (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

d) Please explain why the regulatory costs for 2012 (which Five Nations Energy stated were unusually high) have been included in the average used to develop the 2016 forecast (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

e) Please provide the average annual regulatory costs incurred over the 2013-2015 period (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

f) Please explain why the average annual regulatory costs incurred during the 2013-2015 period would not be more reflective of the expected regulatory costs (excluding the rebasing proceeding costs) for 2016 (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).

g) **Please provide a detailed breakdown (legal, consultant, intervenor, etc.) of the $250,000 in regulatory costs associated with the rebasing proceeding (Exhibit 6 / Tab 2 / Schedule 6 / p. 1).**

Response:

(a) and (b) Please refer to the table below:

	2011	2012	2013	2014	2015	2016
Rates Consultant	3,860	3,597	0	0	0	2,145
Legal Fees	318,928	327,321	229,464	237,322	220,895	369,646
OEB Fees and Charges	18,037	21,449	17,346	18,012	19,702	13,574
Total:	**340,824**	**352,368**	**246,810**	**255,334**	**240,597**	**385,365**

(c) The analysis of the 2011 and 2012 regulatory costs is detailed in the table below:

Regulatory Cost Analysis 2011 & 2012 ($)				
Year	2009 Rate Application Filing Costs	2009 Rate Application Implementation Costs	General Regulatory and Other Support	OEB Fees & Charges
2011	**157,394**	**56,321**	**109,072**	**18,037**
2012	**157,132**	**0**	**173,787**	**21,449**

FNEI asked for and received permission to allocate the costs for the EB-2009-0387 over the three years subsequent to the rate order being issued. FNEI also incurred some expenditures in implementing the rate order.

(d), (e) and (f) The average over the three years 2013 to 2015 is $247,580. Adding $50,000 to that gives a total of $297,580 a difference of $26,420 when compared to the $324,000 that FNEI included in the 2016 forecast for regulatory costs.

(g) The estimated $250,000 in regulatory costs is broken down as follows:

2016 Breakdown of Estimate ($)	
Rates Consultant	2,145
Working Capital Study	30,000
FNEI Auditor	4,751
Legal Fees	213,104
Total:	**250,000**

TAB 25

6-Staff-30

Ref: Exhibit 6 / Tab 3 / Schedule 1 Updated
Exhibit 6 / Tab 3 / Schedule 2
Exhibit 6 / Tab 3 / Schedule 3
Exhibit 3 / Tab 1 / Schedules 4-9
Exhibit 2 / Tab 1 / Schedules 2 / Appendix III
Exhibit 3 / Tab 2 / Schedule 2 / p. 4

Question(s):

a) OEB staff understands that the revised useful lives at Exhibit 2 / Tab 1 / Schedule 2 / Appendix III are in accordance with Five Nations Energy's Capitalization Policy and the Kinectrics Study commissioned by the OEB. Please explain why the revised useful lives are not used for calculating the depreciation expense at Exhibit 6 / Tab 3 / Schedule 3. Please recalculate the depreciation expense, and provide an update to Exhibit 6 / Tab 3 / Schedule 3, for 2016 using the revised useful lives set out in Exhibit 2 / Tab 1 / Schedule 2 / Appendix III.

b) Please update Five Nations Energy's revenue requirement using the depreciation expense calculated based on the revised useful lives in part (a) above.

c) If available, please provide the actual 2016 depreciation expense (Exhibit 6 / Tab 3 / Schedules 2-3).

d) Five Nations Energy stated that "in instances where availability is not dependent on project completion, expenditures are accumulated in an assets under construction account until such time as they are available for use." Please advise whether this statement is accurate (Exhibit 6 / Tab 3 / Schedule 1 Updated / p. 1).

e) Please provide a table that sets out the depreciation rates proposed by Five Nations Energy for each asset class (Exhibit 6 / Tab 3 / Schedule 1 Updated / p. 1). Please also provide the depreciation rates that were approved by the OEB in Five Nations Energy's most recent rebasing proceeding (EB-2009-0387).

f) Please provide rationale supporting the depreciation rates used for: Office Furniture and Equipment, and Tools, Shop and Garage Equipment (Exhibit 6 / Tab 3 / Schedule 3).

g) Please confirm that for 2011-2013, the information included in the Detailed Depreciation and Amortization tables set out at Exhibit 6 / Tab 3 / Schedule 3 show the following:

i. Opening Assets at Cost reflects the previous year December asset values at cost (e.g. 2011 opening assets at cost reflects December 2010 asset values at cost) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6. Please advise whether these amounts reflect gross PP&E.

ii. Opening Accumulated Depreciation reflects the previous year December accumulated depreciation (e.g. 2011 opening accumulated depreciation reflects December 2010 accumulated depreciation) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.

iii. Opening Net Book Value reflects the previous year December net book value (e.g. 2011 opening net book value reflects December 2010 net book value) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.

iv. The Adjusted Cost Base equals Opening Assets at Cost + Additions – Disposals.

v. The Closing Accumulated Depreciation reflects the current year December accumulated depreciation (e.g. 2011 closing accumulated depreciation reflects December 2011 accumulated depreciation) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.

vi. The Closing Net Book Value reflects the current year December net book value (e.g. 2011 closing net book value reflects December 2011 net book value) as found in the rate base schedules at Exhibit 3 / Tab 1 / Schedules 4-6.

h) For 2014-2016, the amounts included in the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3) do not match the rate base schedules in the same manner as they did for the 2011-2013 period (Exhibit 3 / Tab 1 / Schedules 7-9). For example, the 2015 Opening Net Book Value is $29,642,600 in the Detailed Depreciation and Amortization Table (Exhibit 6 / Tab 3 / Schedule 3 / p. 8) and the December 2014 Net Book Value is $29,729,400 (Exhibit 3 / Tab 1 / Schedule 7). Please explain and reconcile these differences.

i) Please explain what is included in Additions and Disposals columns in the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3).

j) Please explain how the depreciation expense is calculated each year. Please provide the formula used by Five Nations Energy for the calculation of the annual depreciation expense. Please provide rationale supporting the depreciation expense calculation methodology. Please explain why the depreciation expense does not equal the Average Cost Base * Depreciation Rate (Exhibit 6 / Tab 3 / Schedule 3).

k) Please explain how fully depreciated assets are accounted for by Five Nations Energy when calculating the depreciation expense (Exhibit 6 / Tab 3 / Schedule 3).

l) Please add a column to all of the Detailed Depreciation and Amortization Tables, which sets out the fully depreciated amount associated with each asset class and shows how the fully depreciated amounts are accounted for in the depreciation expense calculation (Exhibit 6 / Tab 3 / Schedule 3).

m) Five Nations Energy used a PP&E account (#1995) for capital contributions. According to APH article 430, capital contributions are treated as deferred revenue (and recorded in APH Account 2440) to be included as an offset to rate base and amortized to income over the life of the facilities to which they relate. Please advise whether Five Nations Energy reviewed APH Articles 430 and 510 and has accounted for contributions in aid of construction in accordance with the APH for regulatory purposes? If not, please provide adjusted schedules to ensure that all IFRS related transitional items have been filed in accordance with the APH.

n) There is no depreciation rate applied to the Building & Fixtures, and Power Operated Equipment asset classes in the Detailed Depreciation and Amortization tables. However, there is a depreciation expense (Exhibit 6 / Tab 3 / Schedule 3).

a. Please explain the depreciation expense incurred associated with Buildings & Fixtures, and Power Operated Equipment for each year 2013-2016.

b. Please provide the depreciation rates used to calculate the depreciation expense for the above noted asset classes.

c. Please advise whether Five Nations Energy is seeking approval of the depreciation rates applied to these asset classes and provide rationale supporting the depreciation rates.

d. In regard to the depreciation expense for the Buildings and Fixtures asset class, please explain why the expense was $690,000 in 2013 and fell to $130,000 for the 2014-2016 period.

o) Please explain what is included in the accumulated depreciation adjustments column. For each accumulated depreciation adjustment made, please describe the adjustment and provide rationale supporting the adjustment (Exhibit 6 / Tab 3 / Schedule 3).

p) In the 2014 Detailed Depreciation and Amortization table, the Average Cost Base seems to reflect the 2014 accumulated depreciation (based on the average of monthly closing balances). Please advise whether this is an error. If so, please update the table to reflect the correct information (Exhibit 6 / Tab 3 / Schedule 3 / p. 7).

q) For 2010-2011, Five Nations Energy used depreciation rates of 20% for computer hardware and 50% for computer software. Beginning in 2012, the depreciation rate for both computer hardware and computer software was set at 20%. Please explain this change (Exhibit 6 / Tab 3 / Schedule 3) and discuss whether the depreciation rates used are in accordance with the OEB's findings in EB-2009-0387.

r) Please file live Excel spreadsheets for the Detailed Depreciation and Amortization tables (Exhibit 6 / Tab 3 / Schedule 3) and the rate base schedules (Exhibit 3 / Tab 1 / Schedules 2-9).

Response:

(a) FNEI has used the revised useful lives in calculating the depreciation expense at Exhibit 6/Tab 3/Schedule 3. You will notice that each asset account has a depreciation rate column. Prior to the asset componentization exercise these schedules were a simple calculation using the depreciation rate for that asset account (as all assets recorded in that asset account were depreciated at the same rate). Since the IFRS asset componentization exercise an asset account can have numerous components depreciated at different rates. FNEI has always maintained detailed asset amortization worksheets and since the componentization exercise these worksheets

calculated the amortization expense per individual depreciation rate. Exhibit 6/Tab 3/Schedule 3, Pages 1 through 9 use the actual depreciation expense total per asset account for the specific year shown along with any depreciation adjustments. The Depreciation Rate column in Exhibit 6/Tab 3/Schedule 3 is not used to calculate the depreciation expense.

(b) See response to (a) above. No adjustment is required.

(c) Please see attached. The tables show the 2016 Detailed Depreciation and Amortization Schedule as well as the Numerical Summary of Depreciation and Amortization updated with 2016 actuals.

(d) This is a typo. The correct statement should read: "*in instances where availability* ***is*** *dependent on project completion.…"* The intent is not to begin amortization until an asset is available for use.

(e) Please see table below for current amortization periods:

Class Code	Asset Class	Cost Accounts	Useful life
1708	Buildings & Fixtures	1708	20-40 years
1715	Station Equipment	1715	10-50 years
1725	Poles & Fixtures	1725	15-40 years
1730	Overhead Conductors & Devices	1730	25-60 years
1905	Land	1855	Infinite
1908	Buildings & Fixtures	1856/1860/1861/1862/1863	20-40 years
1915	Office Furniture & Equipment	1869	4-10 years
1920	Computer Hardware	1872	3-4 years
1925	Computer Software	1875	4 years
1930	Transportation Equipment	1878	5-7 years
1940	Tools, Shop & Garage Equipment	1884/1887	5-10 years
1995-1708	CIA - Buildings & Fixtures	1910	20-40 years
1995-1715	CIA - Station Equipment	1911	10-50 years
1995-1725	CIA - Poles & Fixtures	1912	40 years
1995-1730	CIA - Overhead Conductors & Devices	1913	50-60 years

For historic depreciation rates, please see attachment – excerpts from materials in EB-2009-0387.

(f) The rationale for the depreciation rate of 20% for both: Office Furniture and Equipment, and Tools, Shop and Equipment was discussed in FNEI's last rate case (EB-2009-0387), excerpts of which are provided as an attachment to the information request above (30(e)). This same depreciation rate was used by the outside consultant in the asset componentization exercise that

FNEI undertook in 2012. The useful life of the assets contained in these two accounts were not changed.

(g) i. This is to confirm that for 2011 to 2013 the Detailed Depreciation and Amortization Tables set out in Exhibit 6 / Tab 3 / Schedule 3 reflect the previous year December asset values at cost. Exhibit 6 / Tab 3 / Schedule 3 is the continuity schedule showing the actual asset costs, additions, adjustments etc. and actual depreciation and depreciation adjustments etc. however the rate base schedules found at Exhibit 3 / Tab 1 / Schedules 4 to 6 are based on the average monthly balances of gross PP & E.

(g) ii. See response to (g) i. above, likewise with depreciation.

(g) iii. See response to (g) i. above. The asset values at cost in the numerical summary of rate base represents the average monthly balances. The monthly balances that are averaged for the year are, however, based on the ending balance of the previous period plus any additions less any disposals.

(g) iv. Confirmed.

(g) v. Confirmed.

(g) vi. Confirmed.

(h) There was a slight formula error in Exhibit 6/Tab 3/Schedule 3, page 7 (Detailed Depreciation & Amortization Schedule for 2014). This error carried forward and caused the discrepancy in the 2015 and 2016 schedules as well. Attached are the corrected schedules (Exhibit 6/Tab 3/Schedule 3, pages 7-9).

(i) Exhibit 6/Tab 3/ Schedule 3 is the continuity schedule that ties in the capital assets additions and disposals together with the amortization related to these capital assets on an account-by-account basis. The additions column shows the capital additions for the year for that particular account, and the disposals column show the capital asset disposals for the year for that particular account. For example, in the schedule for 2015, the acquisition of the 80 km line shows up in the additions column for asset account 1725 and 1730.

(j) FNEI completed the asset componentization exercise in 2012 as part of the OEB's directive for utilities to switch to IFRS. As part of this exercise each asset class or account was broken down into its various components that may or may not have the same useful life. Because of

this, a simplistic Average Cost Base multiplied by the Depreciation Rate calculation does not equal the actual depreciation expense. FNEI chose to leave that column (Depreciation Rate) in Exhibit 6/Tab 3/Schedule 3 more for descriptive or illustrative purposes as to the rate generally applied to that asset account rather than for actual depreciation expense calculation purposes. FNEI calculates depreciation expense based on the useful life of each component of assets recorded in a specific asset account as required by IFRS.

(k) Fully depreciated assets do not enter into the calculation of depreciation expense for that period.

(l) FNEI does not maintain a separate list of fully depreciated assets. The regular calculation to determine depreciation takes into consideration only assets that are not already fully depreciated. To continue to calculate depreciation on an asset already fully depreciated would result in a negative net book value.

(m) FNEI's accounting treatment of capital contributions resulted in the same net income effect as the illustrative example in APH 430.

(n) a. As noted in the response to question (j) above the actual depreciation expense is not calculated on this schedule. FNEI uses two accounts with the description "Buildings & Fixtures"(Account 1708 Buildings & Fixtures and account 1908 Buildings & Fixtures). FNEI began using Account 1708 as a result of the IFRS asset componentization exercise where the buildings and fixtures components of station assets originally recorded in Account 1715 were now transferred to Account 1708. The assets contained in this account have a life expectancy of 40 years (2.5%) due to their size, type of construction and materials, and location. Account 1908 Buildings and Fixtures contains buildings and fixtures not part of the station such as garages, office building, etc. This Account 1908 does have a rate of 4% shown on the schedules. As part of the asset componentization exercise assets in this account are depreciated based on the expected useful life of the various components that make up the asset, anywhere from 20 years to 40 years.

Account 1950 - Power Operated Equipment is where FNEI recorded the purchase of the ROW brushing equipment in 2013. FNEI is using a rate of 10% (an expected lifespan of 10 years), which is reasonable given the harsh terrain and expected use of this equipment. The consultant performing the asset componentization confirmed that this was an appropriate useful life for this type of asset and its intended use.

(n) b. The depreciation rates for assets contained in account 1908 Buildings and Fixtures range from 2.5% to 5% depending on the estimated useful life of the specific component of the assets contained in this account.

The depreciation rate for the asset contained in Account 1950 – Power Operated Equipment is 10% at this time. Should FNEI acquire assets that are recorded in that account with a different expected lifetime then those newly acquired assets will be depreciated at that rate. This is the premise behind IFRS componentization, specific components of an asset are depreciated as per their specific life expectancy.

(n) c. It is FNEI's understanding that the depreciation rates FNEI is using have either already been approved in a previous proceeding or fall in line with depreciation rates that the OEB has already generally adopted as part of the Kinectrics Asset Depreciation Study.

(n) d. The continuity table shows a depreciation expense of $690,000 for asset Account 1708 Buildings & Fixtures for 2013. For 2014 and following the depreciation expense shown for this account is $130,000 per year. As noted in the responses above, FNEI began using Account 1708 after the asset componentization exercise was completed. The amounts in this account were transferred from Account 1715 Station Equipment. The depreciation to date associated with these assets was also transferred from the accumulated depreciation account related to Account 1715. The $690,000 represents the total of the accumulated depreciation for the assets now contained in account 1708. Previously this would have been contained in the cumulative depreciation account for Account 1715.

(o) This column represents the accumulated depreciation of assets disposed of during the period.

(p) There was an error in the 2014 Detailed Depreciation and Amortization table and the wrong value was linked to that column. The corrected schedule is attached.

(q) FNEI did not use the depreciation rates for 2010-11 (for computer hardware/software) that Board Staff sets out in the question. FNEI used the Board-approved depreciation rates from EB-2009-0387 (not those listed in the Depreciation Rates column, as discussed above). In 2012, FNEI determined that useful life for computer hardware exceeded two years, and adopted the depreciation in the Electricity Distribution Rate Handbook.

(r) The live Excel spreadsheets are not owned by FNEI.

ATTACHMENT 30(c)

FIVE NATIONS ENERGY INC.

Detailed Depreciation & Amortization - 2016-Test Year-(Actuals-Un-Audited)
($000's)

Fixed Assets	Opening Assets At Cost	Opening Accumulated Depreciation	Opening Net Book Value	Additions	Disposals	Adjusted Cost Base	Average Cost Base	Depreciation Rate	Depreciation Expense	Accumulated Depreciation Adjustments	Closing Accumulated Depreciation	Closing Net Book Value
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	4,431.4	950.6	3,480.8	0.0	0.0	4,431.4	4,431.4	0.00%	130.2	0.0	1,080.8	3,350.6
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1715 - Station Equipment	30,311.5	7,013.9	23,297.6	2,101.1	0.0	32,412.6	31,518.1	2.50%	943.3	0.0	7,957.2	24,455.4
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	50,926.5	16,137.9	34,788.6	2.0	0.0	50,928.5	50,928.4	4.00%	1,283.8	0.0	17,421.7	33,506.8
1730 - Overhead Conductors & Devices	20,440.3	5,627.2	14,813.1	0.7	0.0	20,441.1	20,441.0	4.00%	378.3	0.0	6,005.5	14,435.6
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1905 - Land	250.6	0.0	250.6	0.0	0.0	250.6	250.6	0.00%	0.0	0.0	0.0	250.6
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	5,093.9	533.8	4,560.1	17.1	0.0	5,111.0	5,098.3	4.00%	187.9	0.0	721.7	4,389.3
1910 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.00%	0.0	0.0	0.0	0.0
1915 - Office Furniture & Equipment	61.9	49.1	12.8	1.7	0.0	63.6	62.1	20.00%	2.3	0.0	51.4	12.2
1920 - Computer Equipment - Hardware	94.2	71.9	22.3	8.8	0.0	103.0	100.5	20.00%	13.9	0.0	85.8	17.2
1925 - Computer Software	10.0	9.0	1.0	0.0	0.0	10.0	10.0	20.00%	0.7	0.0	9.7	0.3
1930 - Transportation Equipment	659.6	346.1	313.6	5.7	0.0	665.3	664.6	20.00%	70.4	0.0	416.4	248.9
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	476.7	376.0	100.7	13.4	0.0	490.0	486.5	20.00%	50.9	0.0	426.9	63.2
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	311.8	76.8	235.0	240.0	0.0	551.8	399.5	0.00%	38.9	0.0	115.7	436.1
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(66,768.6)	(19,984.0)	(46,784.6)	(30.0)	0.0	(66,798.6)	(66,771.1)	0.00%	(1,650.0)	0.0	(21,634.0)	(45,164.6)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electric	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
Total	46,299.9	11,208.2	35,091.7	2,360.5	0.0	48,660.4	47,619.9		1,450.5	0.0	12,658.7	36,001.7

FIVE NATIONS ENERGY INC.

Numerical Summary of Depreciation and Amortization
($000's)

Asset Class	Board Approved EB-2009-0387	2010	2011	2012	2013	2014	2015	2016
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	0.0	0.0	0.0	0.0	690.2	130.2	130.2	130.2
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1715 - Station Equipment	338.2	582.6	810.2	815.0	253.3	832.4	883.5	943.3
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	455.5	1,266.4	1,887.3	1,887.3	1,190.2	1,190.3	1,190.6	1,283.8
1730 - Overhead Conductors & Devices	288.9	557.8	765.9	765.6	357.1	355.7	356.8	378.3
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1905 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	15.1	14.6	15.4	14.6	64.8	184.9	185.8	187.9
1910 - Leasehold Improvements	1.1	1.5	1.4	0.8	0.3	0.0	0.0	0.0
1915 - Office Furniture & Equipment	4.6	4.7	2.9	1.5	0.7	1.9	2.4	2.3
1920 - Computer Equipment - Hardware	11.5	16.2	15.0	14.1	14.1	17.7	13.0	13.9
1925 - Computer Software	1.3	1.7	2.1	1.7	1.7	1.9	0.7	0.7
1930 - Transportation Equipment	48.9	48.8	47.0	48.2	9.2	43.9	64.2	70.4
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	22.3	22.8	44.4	52.9	85.2	54.3	56.7	50.9
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	0.0	0.0	0.0	0.0	27.5	23.2	26.1	38.9
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	0.0	(1,330.5)	(2,384.0)	(2,384.0)	(1,644.0)	(1,644.0)	(1,647.0)	(1,650.0)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electric	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Depreciation & Amortization	1,187.4	1,186.5	1,207.5	1,217.6	1,050.3	1,192.5	1,263.0	1,450.5

FIVE NATIONS ENERGY INC.

Numerical Summary of Depreciation and Amortization
($000's)

Asset Class	Variance 2010 vs. B.A.	Variance 2011 vs. 2010	Variance 2012 vs. 2011	Variance 2013 vs. 2012	Variance 2014 vs. 2013	Variance 2015 vs. 2014	Variance 2016 vs. 2015
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	0.0	0.0	0.0	690.2	(560.0)	(0.0)	0.0
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1715 - Station Equipment	244.4	227.6	4.8	(561.6)	579.1	51.0	59.8
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	810.9	620.9	(0.0)	(697.1)	0.1	0.3	93.1
1730 - Overhead Conductors & Devices	268.9	208.1	(0.3)	(408.5)	(1.3)	1.1	21.5
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1905 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	(0.5)	0.8	(0.8)	50.2	120.1	0.9	2.0
1910 - Leasehold Improvements	0.4	(0.1)	(0.6)	(0.4)	(0.3)	0.0	0.0
1915 - Office Furniture & Equipment	0.1	(1.8)	(1.4)	(0.8)	1.2	0.4	(0.0)
1920 - Computer Equipment - Hardware	4.7	(1.2)	(0.9)	0.0	3.6	(4.7)	0.9
1925 - Computer Software	0.4	0.4	(0.4)	0.0	0.2	(1.3)	(0.0)
1930 - Transportation Equipment	(0.1)	(1.9)	1.3	(39.1)	34.7	20.3	6.1
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	0.5	21.6	8.6	32.3	(30.9)	2.4	(5.8)
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	0.0	0.0	0.0	27.5	(4.3)	2.9	12.9
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1970 - Load Maagement Controls - Customer Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(1,330.5)	(1,053.5)	0.0	740.0	(0.0)	(3.0)	(3.0)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electric	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Depreciation & Amortization	(0.9)	21.0	10.1	(167.3)	142.2	70.4	187.6

ATTACHMENT 30(e)

DEPRECIATION AND AMORTIZATION

FNEI uses straight-line depreciation calculations based on the depreciable gross book value of each asset class. The rates utilized by FNEI are as follows:

USofA	Description	Depreciation Rate
1715	Station Equipment	2.50%
1725	Poles and Fixtures	4.00%
1730	Overhead Conductors & Devices	4.00%
1908	Buildings and Fixtures	4.00%
1910	Leasehold Improvements	50.00%
1915	Office Furniture & Equipment	20.00%
1920	Computer Equipment Hardware	50.00%
1925	Computer Software	20.00%
1930	Transportation Equipment	20.00%
1940	Tools, Shop and Garage Equipment	20.00%

The *Electricity Distribution Rate Handbook* ("EDHR") does not provide a depreciation rate for asset in Account 1925 (Computer Software). FNEI uses a 5-year amortization period (20.00% depreciation rate), which FNEI understands to be the norm being applied by other Ontario utilities.

FNEI does not use the EDHR's depreciation rates for three of the asset classes noted above, as follows:

USofA	Description	Depreciation Rate (FNEI)	Depreciation Rate (EDR)
1908	Buildings and Fixtures	4.00%	2.00%
1915	Office Furniture & Equipment	20.00%	10.00%
1940	Tools, Shop and Garage Equipment	20.00%	10.00%

With respect to asset values recorded in Account 1915 (Office Furniture & Equipment) and Account 1940 (Tools, Shop and Garage Equipment), FNEI and its accounting firm have always utilized these same depreciation rates. These rates were those used in FNEI's original rate application (RP-2001-0036). The value of FNEI's assets recorded in Account 1915 and 1940 are not material ($48,500 and $83,200, respectively, in the 2010 test year). Going forward, FNEI does not have any preference for continuing to use FNEI's historic depreciation rates for these asset classes or changing to the depreciation rates in the EDRH.

For asset values recorded in Account 1908 (Building and Fixtures), FNEI again has always used the 4.00% depreciation rate. FNEI believes that this is a more appropriate amortization period than the 2.00% depreciation rate used in the EDRH, because most buildings and fixtures recorded by FNEI in this Account would be expected to have a 25-year life rather than a 50-year life. The landscape, climate and high cost of construction means that concrete or brick structures are extremely rare.

Please refer to Exhibit 4, Tab 3, Schedule 2 and Exhibit 4, Tab 3, Schedule 3 for the numerical depreciation schedules.

relied upon for this deviation from Board direction. In these circumstances the Board would expect the work to be carried out at a price no greater than cost plus 5%.

Depreciation Expense

FNEI requested 2010 Depreciation and Amortization expense of $1,187,427, up approximately 53% from reported 2009 level of $775,600, and 84% from reported 2008 level of $645,200.[14] FNEI uses straight-line depreciation calculations based on the depreciable gross book value of each asset class. FNEI has applied the same depreciation rates historically, consistent with those applied by other Ontario utilities. One exception is for Account 1908, where FNEI uses 4.00% rather than the 2.00% rate used in the *Electricity Distribution Rate Handbook*. FNEI noted that, due to conditions and building methods in remote Northern Ontario communities the expected life of buildings is 25-years, rather than the more typical 50-year life. FNEI noted that concrete or brick structures are extremely rare in their communities.

The methodology used for calculating rate base is based on the average of the monthly closing balances. This differs from the typical method applied by other transmitters and distributors, who generally use the average of the opening and closing balances.

FNEI indicated that in the early years of FNEI's existence (from 2002 through 2004), the use of the average opening and closing balances substantially overestimated rate base.[15] This is due to both the change in the monthly fixed assets and also due to the timing of the addition and removal of assets from rate base in these early years. For instance, in 2009, use of the opening and closing balance methodology again overestimates rate base significantly since most of the capital expenditures placed into service were done so in the final month of that year. The differences in other years (2005-2008, 2010) are much smaller, reflecting the low level of capital expenditures and the timing of when the assets were put into service.

Board Findings

The Board accepts FNEI's argument that the conventional method for calculating depreciation expense produces an overestimation of rate base in its particular circumstances. The Board accepts FNEI's total Depreciation and Amortization expense

[14] The increase over the Board approved level in RP-2001-0036 of $1,100,600 is approximately 8%.
[15] Board staff interrogatory 12

of $1,187,427, subject to any minor adjustments consequential to other findings in this Decision. The Board notes that the method used by FNEI to calculate depreciation expense is similar to the approach used by natural gas distributors in Ontario to calculate the property, plant and equipment component of rate base.

Harmonized Sales Tax

The provincial sales tax ("PST") and goods and services tax ("GST") were harmonized effective July 1, 2010 into the Harmonized Sales Tax ("HST"). PST is typically included as an OM&A expense for transmission and distribution companies. When the GST and PST are harmonized, it is expected that corporations will realize a reduction in OM&A expenses and capital expenditures. FNEI will pay the HST on purchased goods and service but will claim an input tax credit for the PST portion.

Board staff submitted that the Board may wish to consider establishing a deferral account to track any savings in OM&A expenses and capital expenditures that might arise as a result of harmonizing the provincial sales tax and goods and services tax.

FNEI submitted that its OM&A expenses do not typically attract PST, and although PST is paid on capital expenditures, FNEI does not foresee significant capital expenditures in future years. While FNEI did not oppose the establishment of a deferral account for this purpose[16], *per se*, FNEI submitted that establishment of such an account may cause unnecessary administrative burden in light of what FNEI contends will be miniscule amounts that will be recorded in the account. If such an account were approved, FNEI suggested that it would work in a fashion similar to the Hydro One Networks Inc. "Tax Rate Changes Account".

Board Findings

The Board directs that, beginning July 1, 2010, FNEI shall record in a deferral account, the incremental input tax credit it receives on revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of FNEI's next rate application. While the actual amounts recorded in such an account may well be small as FNEI contends, there is insufficient evidence at this point to determine whether the

[16] Reply argument, para. 79. FNEI indicated that it had no issue with the establishment of such an account if the "administrative issue" associated with the account could be overcome.

ATTACHMENT 30(h)

FIVE NATIONS ENERGY INC.

Detailed Depreciation & Amortization - 2014
($000's)

Fixed Assets	Opening Assets At Cost	Opening Accumulated Depreciation	Opening Net Book Value	Additions	Disposals	Adjusted Cost Base	Average Cost Base	Depreciation Rate	Depreciation Expense	Accumulated Depreciation Adjustments	Closing Accumulated Depreciation	Closing Net Book Value
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	4,431.4	690.2	3,741.2	0.0	0.0	4,431.4	760.7	0.00%	130.2	0.0	820.4	3,611.0
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1715 - Station Equipment	28,265.1	5,298.0	22,967.2	806.8	0.0	29,071.9	5,744.9	2.50%	832.4	0.0	6,130.4	22,941.5
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	47,190.0	13,756.9	33,433.1	0.0	0.0	47,190.0	14,401.6	4.00%	1,190.3	0.0	14,947.3	32,242.8
1730 - Overhead Conductors & Devices	19,165.5	4,927.3	14,238.2	0.0	12.7	19,152.8	5,120.0	4.00%	355.7	1.3	5,283.1	13,869.8
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1905 - Land	250.6	0.0	250.6	0.0	0.0	250.6	0.0	0.00%	0.0	0.0	0.0	250.6
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	4,982.0	163.1	4,818.9	20.4	0.0	5,002.4	263.1	4.00%	184.9	0.0	348.0	4,654.4
1910 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.00%	0.0	0.0	0.0	0.0
1915 - Office Furniture & Equipment	49.2	44.8	4.4	12.7	0.0	61.9	45.7	20.00%	1.9	0.0	46.7	15.2
1920 - Computer Equipment - Hardware	59.9	41.1	18.8	30.8	0.0	90.8	50.3	20.00%	17.7	0.0	58.9	31.9
1925 - Computer Software	10.0	6.4	3.5	0.0	0.0	10.0	7.5	20.00%	1.9	0.0	8.4	1.6
1930 - Transportation Equipment	305.5	188.2	117.2	89.5	**49.7**	345.3	161.7	20.00%	43.9	49.7	182.5	162.8
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	401.1	265.0	136.1	61.9	0.0	463.0	294.4	20.00%	54.3	0.0	319.3	143.7
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	256.3	27.5	228.8	0.0	0.0	256.3	40.0	0.00%	23.2	0.0	50.7	205.6
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(66,708.6)	(16,692.9)	(50,015.7)	(30.0)	0.0	(66,738.6)	(17,583.4)	0.00%	(1,644.0)	0.0	(18,336.9)	(48,401.7)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
Total	38,658.0	8,715.8	29,942.3	992.2	62.4	39,587.9	9,306.6		1,192.5	51.0	9,858.6	29,729.4

FIVE NATIONS ENERGY INC.

Detailed Depreciation & Amortization - 2015
($000's)

Fixed Assets	Opening Assets At Cost	Opening Accumulated Depreciation	Opening Net Book Value	Additions	Disposals	Adjusted Cost Base	Average Cost Base	Depreciation Rate	Depreciation Expense	Accumulated Depreciation Adjustments	Closing Accumulated Depreciation	Closing Net Book Value
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	4,431.4	820.4	3,611.0	0.0	0.0	4,431.4	4,431.4	0.00%	130.2	0.0	950.6	3,480.8
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1715 - Station Equipment	29,071.9	6,130.4	22,941.5	1,239.6	0.0	30,311.5	29,680.1	2.50%	883.5	0.0	7,013.9	23,297.6
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	47,190.0	14,947.3	**32,242.8**	3,736.5	0.0	50,926.5	48,144.7	4.00%	1,190.6	0.0	16,137.9	34,788.6
1730 - Overhead Conductors & Devices	19,152.8	5,283.1	13,869.8	1,287.5	0.0	20,440.3	19,478.2	4.00%	356.8	0.0	5,639.9	14,800.4
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1905 - Land	250.6	0.0	250.6	0.0	0.0	250.6	250.6	0.00%	0.0	0.0	0.0	250.6
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	5,002.4	348.0	4,654.4	91.5	0.0	5,093.9	5,034.7	4.00%	185.8	0.0	533.8	4,560.1
1910 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.00%	0.0	0.0	0.0	0.0
1915 - Office Furniture & Equipment	61.9	46.7	15.2	0.0	0.0	61.9	62.0	20.00%	2.4	0.0	49.1	12.8
1920 - Computer Equipment - Hardware	90.8	58.9	31.9	3.4	0.0	94.2	93.2	20.00%	13.0	0.0	71.9	22.3
1925 - Computer Software	10.0	8.4	1.6	0.0	0.0	10.0	10.0	20.00%	0.7	0.0	9.0	1.0
1930 - Transportation Equipment	345.3	182.5	162.8	314.3	0.0	659.6	457.1	20.00%	64.2	0.0	246.7	412.9
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	463.0	319.3	143.7	13.7	0.0	476.7	472.3	20.00%	56.7	0.0	376.0	100.7
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	256.3	50.7	205.6	55.5	0.0	311.8	261.0	0.00%	26.1	0.0	76.8	235.0
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(66,738.6)	(18,336.9)	(48,401.7)	(30.0)	0.0	(66,768.6)	(66,741.1)	0.00%	(1,647.0)	0.0	(19,984.0)	(46,784.6)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
Total	39,587.9	9,858.6	29,729.4	6,712.1	0.0	46,299.9	41,634.1		1,263.0	0.0	11,121.6	35,178.3

FIVE NATIONS ENERGY INC.

Detailed Depreciation & Amortization - 2016-Test Year
($000's)

Fixed Assets	Opening Assets At Cost	Opening Accumulated Depreciation	Opening Net Book Value	Additions	Disposals	Adjusted Cost Base	Average Cost Base	Depreciation Rate	Depreciation Expense	Accumulated Depreciation Adjustments	Closing Accumulated Depreciation	Closing Net Book Value
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	4,431.4	950.6	3,480.8	0.0	0.0	4,431.4	4,431.4	0.00%	130.2	0.0	1,080.8	3,350.6
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1715 - Station Equipment	30,311.5	7,013.9	23,297.6	1,840.0	0.0	32,151.5	31,308.2	2.50%	898.3	0.0	7,912.2	24,239.3
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	50,926.5	16,137.9	34,788.6	10.0	0.0	50,936.5	50,931.9	4.00%	1,191.0	0.0	17,328.9	33,607.6
1730 - Overhead Conductors & Devices	20,440.3	5,639.9	14,800.4	10.0	0.0	20,450.3	20,445.8	4.00%	356.8	0.0	5,996.7	14,453.6
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1905 - Land	250.6	0.0	250.6	0.0	0.0	250.6	250.6	0.00%	0.0	0.0	0.0	250.6
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	5,093.9	533.8	4,560.1	0.0	0.0	5,093.9	5,093.9	4.00%	187.1	0.0	720.9	4,373.0
1910 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.00%	0.0	0.0	0.0	0.0
1915 - Office Furniture & Equipment	61.9	49.1	12.8	0.0	0.0	61.9	62.0	20.00%	2.4	0.0	51.4	10.5
1920 - Computer Equipment - Hardware	94.2	71.9	22.3	15.0	0.0	109.2	102.3	20.00%	12.5	0.0	84.4	24.8
1925 - Computer Software	10.0	9.0	1.0	0.0	0.0	10.0	10.0	20.00%	0.7	0.0	9.7	0.3
1930 - Transportation Equipment	659.6	246.7	412.9	30.0	0.0	689.6	675.9	20.00%	75.8	0.0	322.5	367.1
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	476.7	376.0	100.7	35.0	0.0	511.7	495.7	20.00%	58.4	0.0	434.3	77.3
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	311.8	76.8	235.0	180.0	0.0	491.8	409.3	0.00%	27.4	0.0	104.2	387.6
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(66,768.6)	(19,984.0)	(46,784.6)	0.0	0.0	(66,768.6)	(66,768.6)	0.00%	(1,647.0)	0.0	(21,631.0)	(45,137.6)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
Total	46,299.9	11,121.6	35,178.3	2,120.0	0.0	48,419.9	47,448.4		1,293.3	0.0	12,414.9	36,005.0

ATTACHMENT 30(p)

FIVE NATIONS ENERGY INC.

Detailed Depreciation & Amortization - 2014
($000's)

Fixed Assets	Opening Assets At Cost	Opening Accumulated Depreciation	Opening Net Book Value	Additions	Disposals	Adjusted Cost Base	Average Cost Base	Depreciation Rate	Depreciation Expense	Accumulated Depreciation Adjustments	Closing Accumulated Depreciation	Closing Net Book Value
1608 - Franchises & Consents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1705 - Land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1706 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1708 - Buildings and Fixtures	4,431.4	690.2	3,741.2	0.0	0.0	4,431.4	4,431.4	0.00%	130.2	0.0	820.4	3,611.0
1710 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1715 - Station Equipment	28,265.1	5,298.0	22,967.2	806.8	0.0	29,071.9	28,671.2	2.50%	832.4	0.0	6,130.4	22,941.5
1720 - Towers and Fixtures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1725 - Poles and Fixtures	47,190.0	13,756.9	33,433.1	0.0	0.0	47,190.0	47,190.0	4.00%	1,190.3	0.0	14,947.3	32,242.8
1730 - Overhead Conductors & Devices	19,165.5	4,927.3	14,238.2	0.0	12.7	19,152.8	19,158.1	4.00%	355.7	1.3	5,283.1	13,869.8
1735 - Underground Conduit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1740 - Underground Conductors & Devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1745 - Road and Trails	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1905 - Land	250.6	0.0	250.6	0.0	0.0	250.6	250.6	0.00%	0.0	0.0	0.0	250.6
1906 - Land Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1908 - Buildings and Fixtures	4,982.0	163.1	4,818.9	20.4	0.0	5,002.4	4,992.3	4.00%	184.9	0.0	348.0	4,654.4
1910 - Leasehold Improvements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.00%	0.0	0.0	0.0	0.0
1915 - Office Furniture & Equipment	49.2	44.8	4.4	12.7	0.0	61.9	59.0	20.00%	1.9	0.0	46.7	15.2
1920 - Computer Equipment - Hardware	59.9	41.1	18.8	30.8	0.0	90.8	88.0	20.00%	17.7	0.0	58.9	31.9
1925 - Computer Software	10.0	6.4	3.5	0.0	0.0	10.0	10.0	20.00%	1.9	0.0	8.4	1.6
1930 - Transportation Equipment	305.5	188.2	117.2	89.5	**49.7**	345.3	338.4	20.00%	43.9	49.7	182.5	162.8
1935 - Stores Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1940 - Tools, Shop and Garage Equipment	401.1	265.0	136.1	61.9	0.0	463.0	430.3	20.00%	54.3	0.0	319.3	143.7
1945 - Measurement and Testing Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1950 - Power Operated Equipment	256.3	27.5	228.8	0.0	0.0	256.3	256.3	0.00%	23.2	0.0	50.7	205.6
1955 - Communication Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1960 - Miscellaneous Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1970 - Load Management Controls - Customer Premi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1975 - Load Management Controls - Utility Premises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1980 - System Supervisory Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1990 - Other Tangible Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
1995 - Contributions and Grants - Credit	(66,708.6)	(16,692.9)	(50,015.7)	(30.0)	0.0	(66,738.6)	(66,711.1)	0.00%	(1,644.0)	0.0	(18,336.9)	(48,401.7)
2005 - Property Under Capital Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2010 - Electric Plant Purchased or Sold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
2050 - Completed Construction Not Classified - Electr	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00%	0.0	0.0	0.0	0.0
Total	38,658.0	8,715.8	29,942.3	992.2	62.4	39,587.9	39,164.5		1,192.5	51.0	9,858.6	29,729.4

TAB 26

COST OF CAPITAL

1.0 Adoption of Board Guidelines

FNEI has adopted the cost of capital guidelines as set out in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009 (the "Cost of Capital Report").

2.0 Capital Structure

FNEI's deemed capital structure for rate-making purposes is 60% debt and 40% common equity. This capital structure is the same as was proposed and approved in FNEI's last rate case (EB-2009-0387). The 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt.

3.0 Cost of Equity

At FNEI's last rates proceeding, there was a lengthy discussion of whether FNEI (as a non-profit entity) should be permitted to earn a return on equity ("ROE"). Ultimately, the Board determined that FNEI should be permitted to recover "Internally Generated Funds" (i.e., revenue in excess of its costs) at a rate of 9.5% of 40% of FNEI's rate base. This issue is fully discussed in Exhibit 7, Tab 2, Schedule 1. In this application, and for the reasons set out in Exhibit 7, Tab 2, Schedule 1, FNEI is requesting it be allowed to include a return on equity of 9.19% in its 2016 test year revenue requirement. The 9.19% is the Board-approved ROE established by the Board in its *Cost of Capital Parameter Updates for 2016 Applications* (released on October 15, 2015).

4.0 Cost of Short-Term Debt

The Board has determined that the deemed amount of short-term debt to be incorporated into a transmitter's revenue requirement should be fixed at 4% of rate base. FNEI is proposing a short-term debt rate of 1.65%, consistent with the current *Cost of Capital Parameter Updates for 2016 Applications* (released on October 15, 2015).

5.0 Cost of Long-Term Debt

The Board has determined that the deemed amount of long-term debt to be incorporated into a transmitter's revenue requirement should be fixed at 56% of rate base. In the Cost of Capital Report, the Board determined that the cost of long-term debt be set using the weighted cost of actual debt.

The long-term debt held by FNEI, as at December 31, 2015, is set out in Table 7-1-1-A below.

Table 7-1-1-A FNEI Long-Term Debt Summary

(000's)	Institution	Loan Limit	Rate	Avg Principal Outstanding 2016	Maturity Date	Interest-Only Payments	Type
Term Loan #1	Manulife; Pacific & Western	$11,000.0	5.49%	$7,748.5	2/29/2028	$423.0	Non-revolving; monthly principal and interest payments
Acquisition Loan	Manulife	$5,800.0	4.71%	$5,681.5	10/15/2035	$268.9	Non-revolving; monthly principal and interest payments
Term Loan #2	BMO	$1,675.0	4.61%	$1,528.4	11/30/2020	$70.6	Non-revolving; monthly principal and interest payments (amortized over 20 years, initial seven year term)
			5.11%	**$14,958.3**		**$762.4**	

FNEI is forecasting no new debt for 2016.

6.0 Cost of Capital Summary

FNEI's 2016 proposed cost of capital is summarized in Table 7-1-1-B below.

Table 7-1-1-B FNEI Proposed Cost of Capital for 2016

	Capital Component ($000s)	Capital Component (%)	Interest Rate (%)	Return Component (%)	Cost of Capital ($000s)
Debt		60.0%	-	-	-
Long-Term	20,053.4	56.0%	5.11%	2.884%	1,024.7
Short-Term	1,432.4	4.0%	1.65%	0.066%	23.6
Deemed Equity	14,323.9	40.0%	9.19%	3.676%	1,316.4
Rate Base	35,809.7	100%	-	6.626%	2,364.7

TAB 27

NON-PROFIT CORPORATIONS

1.0 Overview

FNEI was incorporated as a not-for-profit corporation without share capital under the *Canada Corporations Act*. It has recently been continued under the *Canada Not-for-Profit Corporations Act* ("CNFPCA").

FNEI was formed to develop and operate a "greenfield" transmission line to connect Kashechewan, Fort Albany and Attawapiskat to the provincial electricity transmission grid. Its members (akin to shareholders in a share capital corporation) are the Attawapiskat Power Corporation, the Fort Albany Power Corporation and the Kashechewan Power Corporation, each of which is owned by its respective First Nation.

Consistent with its status as a not-for-profit corporation, FNEI is required to apply its revenues to its corporate purposes, and cannot distribute any "profits" to members. FNEI's objects under its initial Letters Patent were:

> to promote the social, economic and civic welfare and development of Attawapiskat, Fort Albany and the Kashechewan First Nations by:
>
> 1. promoting, acquiring, developing and establishing works and facilities of any manner or nature for the provision, acquisition, transmission, distribution and supply of electricity and other utilities to the communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere;
>
> 2. constructing, operating, maintaining and managing such works and facilities for the general benefit and for the purpose of providing electrical power and other utilities to the communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere; and

> 3. through the accomplishment of the objects described in paragraphs 1 and 2, encouraging and promoting self-sufficiency, skills training, employment and economic development opportunities, community cooperation, measures to improve the protection of the natural environment and such other measures socially beneficial for the community as may accrue from the Corporation's objects and undertakings, in the communities of the Attawapiskat, Fort Albany and Kashechewan First Nations and elsewhere.

These initial corporate objects now comprise FNEI's corporate purposes under its Articles of Continuance under the CNFPCA.

FNEI has operated for over a decade as a not-for-profit corporation on a tax-exempt basis, without any challenge by the Canada Revenue Agency ("CRA").

The development of the transmission line by FNEI was part of a broader vision for electricity supply in the western James Bay region, which included the local First Nation communities taking ownership and operational responsibility for their distribution systems (completed), and exploring renewable power generation opportunities in the region as well as other energy-related initiatives (e.g., conservation) (see FNEI's first corporate object above).

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

However, the OEB's last rates decision indicated that FNEI should be prohibited from using any excess revenue remaining after satisfying its costs of operations in order to pursue its other

legitimate corporate objects, on the grounds that FNEI is a not-for-profit corporation, and therefore unable to earn any revenues in excess of its costs. This is wrong at law.

This error has since been replicated in the Board's January 2014 *Filing Requirements*:

> In prior decisions, the Board has determined that applicants which are not-for-profit corporations may apply using the Board's deemed capital structure and cost of capital to the extent that the excess revenue is to be used for the purpose of meeting the applicant's need to build up or accumulate appropriate operating and capital reserves. The Board has further stated that, once the appropriate limits for these reserves have been achieved, it would expect such applicants to submit an application seeking a rate adjustment. (section 2.7.3)

2.0 Cost of Capital Treatment in FNEI's Previous Rate Cases

FNEI has had two previous rate applications determined by the Board – referred to herein as the "First Decision" (EB-2001-0368) and "Second Decision" (EB-2009-0387). All paragraph and page references below are to the applicable decision.

First Decision

In FNEI's first rate case, the OEB noted that neither the OEB Rate Handbook nor the Filing Guideline addressed the rate-setting principles that would apply to a regulated entity that is a not-for-profit, non-share capital corporation. However, the OEB approved FNEI's revenue requirement, on a deemed capital structure of 50 percent debt and 50 percent equity, and accepted that FNEI's revenue requirement should include an amount in excess of its projected expenditures (para. 3.1.5 and 3.3.8). The OEB accepted the use of the OEB's approved cost of capital parameters, including the OEB-approved "return on equity" ("ROE") for the limited purpose of the First Decision, based on the fact that the ROE amount fell within a range of ratios

(see discussion of TIER below) that had been accepted for not-for-profit utilities in the United States (para. 3.3.16).

The OEB's decision was subject to several conditions. The OEB stated that FNEI should use the "times interest earned ratio" ("TIER") method to calculate the amount in excess of its costs to be included in its revenue requirement in future rate hearings (para. 3.3.15). In addition, the OEB noted FNEI's need to be careful to maintain its not-for-profit status, directed FNEI to design a reserve fund for its excess revenues, and ordered FNEI to file a report addressing the measures to be taken to maintain its not-for-profit status. In addition, the OEB indicated that FNEI should not refer to the excess revenues as "return on equity", but instead, as "Internally Generated Funds" until the OEB could consider and approve FNEI's proposal for one or more reserve funds (paras. 3.3.9 to 3.3.13).

Second Decision

In FNEI's second rate application, FNEI sought approval of a revenue requirement that included a component entitled "Internally Generated Funds (ROE)", calculated at the then OEB-approved ROE of 9.85 percent. FNEI also proposed a design for its operating and capital reserves to be established from its "Internally Generated Funds". The OEB questioned whether the request for a ROE was appropriate, given that FNEI is a not-for-profit, non-share capital utility. FNEI argued that it is entitled to earn revenues in excess of costs as long as those revenues are applied to its objects. FNEI also argued that its reserve funds should be not capped or subject to restrictive rules regarding withdrawal because that created unnecessary and unwarranted cash flow and operational difficulties.

In rendering the Second Decision, the OEB accepted that FNEI needs to build up operating and capital reserves in order to support the ability of FNEI to supply electricity in a safe and reliable manner regardless of contingencies. The OEB expressed concern that these reserves were currently unfunded. However, the OEB found that it was inappropriate for FNEI to earn a ROE *per se*. The OEB also concluded that the TIER approach was not warranted because it, like the ROE mechanism, is formulaic. In the OEB's view, both the ROE approach and the TIER approach are not connected to the genuine needs of the operating and capital reserves. The OEB therefore permitted FNEI to earn revenues in excess of costs only to the extent necessary to fund the operating and capital reserves for use as a "cushion" in operating FNEI's transmission system. The OEB stated that: (a) the amount of the reserves should be based on an assessment of operating and capital needs, supported by evidence; and (b) once the reserves are fully funded, FNEI's revenue requirement would be adjusted downwards (pp. 21 to 22).

The OEB did not accept FNEI's design of the operating and capital reserves. In particular, the OEB held that the reserves are required to have a cap. Moreover, the OEB rejected FNEI's proposal to use its excess revenues to further its civic and social objects. The OEB stated that the revenues in excess of costs were to be used only to ensure the sustainable operation of the utility in its role as a transmitter of electricity, and for no other purpose. The objects of FNEI of supporting the social, economic and civic welfare and development activities of the First Nations communities were stated to be "laudable", but not the responsibility of the utility and not funded by ratepayers (p. 23). The OEB therefore approved the recovery of revenue in excess of costs, but only for the purpose of funding the operating and capital reserves up to the approved cap

amount (p. 24). After the reserves are funded, no further ROE (or equivalent) would be permitted.

3.0 General Principles Governing Rate-Setting by the OEB

FNEI is of the view that there was no basis in law for the OEB to arrive at its conclusions in the Second Decision related to the ability of FNEI to earn a ROE.

Purposes of the Rate-Setting Function

The OEB's power to approve rates as "just and reasonable" is broad (*Toronto Hydro-Electric System Ltd. v. Ontario (Energy Board)*, 2010 ONCA 284 at para. 25 [*Toronto Hydro-Electric*]). The OEB Act states that the OEB shall be "guided" by a list of objectives in carrying out its responsibilities, including: (a) the protection of the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; and (b) the promotion of economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and the facilitation of the maintenance of a financially viable electricity industry (s.1(1), OEB Act).

In addition, the OEB exercises its rate-setting jurisdiction against the backdrop of a significant body of law in both Canada and the United States ("US"). The requirement to establish "just and reasonable" rates has been applied for many years and in many contexts as the basis upon which public utility boards and commissions approve or fix public utility rates in both Canada and the US (*Union Gas v. Ontario* (1983), 1 D.L.R. (4th) 698 (Ont. Div. Ct.) at para. 30 [*Union Gas*]). Utility rate-setting represents the direct intervention of government, through an administrative

agency, in setting prices for specific commodities and services (G. Zacher & P. Duffy, *Energy Regulation in Ontario* (Toronto: Canada Law Book, 2012) at p. 2-25 [Zacher & Duffy]). The rate-setting function is a corollary of the statutory monopoly granted to utilities (*Toronto Hydro-Electric*, para. 48). Rate-setting therefore acts as a surrogate for prices that would otherwise be set by a competitive market (Zacher & Duffy, pp. 2-25). The OEB's mandate through economic regulation is primarily directed at avoiding excessive prices that could be charged by a monopoly provider of an essential service (*Advocacy Centre for Tenants-Ontario v. Ontario (Energy Board)* (2008), 293 D.L.R. (4th) 684 (Ont. Div. Ct.) at para. 39 [*Advocacy Centre*]).

Right to a Fair Return

The authorities universally agree that rate-setting involves a balancing exercise and that the concept of "just and reasonable" rates must take into account both a fair price to the consumer and a reasonable return for the utility (Zacher & Duffy, pp. 2-25; *Northwestern Utilities Ltd. v. Edmonton (City), Board of Public Utility Commissioners of Alberta*, [1929] S.C.R. 186 at p. 192). The OEB's function is to balance the interest of the utility in earning the highest possible return on the operation of its enterprise (a monopoly) with the conflicting interest of its customers to be served as cheaply as possible (*Union Gas*, para. 41). The obligation to approve rates that produce a fair return to the utility has been stated to be "absolute" (*British Columbia Electric Railway v. British Columbia (Public Utilities Commission)*, [1960] S.C.R. 837 at p. 848 [*BC Railway*]).

In the context of a utility that is a private, profit-making enterprise, the purpose of ensuring a fair return assures the financial viability of the enterprise, which benefits both the utility and the

ratepayers (*Union Gas*, p. 711). This "fair return" allows an investor-owned utility to fulfil its objects, including the objective of generating value for shareholders, because this is the basis on which the investor-owned utility is structured. In this way, the utility can attract and sustain investors in the utility, thus ensuring the utility's financial viability. As noted above, this principle of viability of the electricity industry is embodied in and consistent with the stated objectives in the OEB Act.

Approach to Rate-Setting for Not-for-Profit Utility

Aside from FNEI (and it's distributor members), the OEB does not have experience in setting rates for utilities that are operated on a not-for-profit basis, nor is there any guidance provided in the OEB Act to assist with this exercise. In particular, the principles that should determine whether a not-for-profit utility is entitled to rates that reflect a fair return in addition to the costs required to operate the utility, and if so, how such return should be calculated, are unresolved. From a first principles perspective, the OEB's approach to rate-setting in the not-for-profit context must therefore be developed with the following factors in mind, each of which is elaborated further below:

- The right of a utility to a "fair return" as part of its rates has been stated to be "absolute". This principle is not, on its face, limited to for-profit utilities.

- A not-for-profit corporation is entitled as a matter of corporate and tax law to earn revenues in excess of costs, as long as those revenues are applied to its corporate objects and are not distributed as "profits" to its members.

- Public utilities commissions in the US, where there is more extensive experience with rate-setting for not-for-profit utilities, have consistently allowed not-for-profit utilities to recover a margin in excess of projected costs in order to ensure their continued financial integrity and to permit these utilities to accomplish their corporate objects.

- The OEB's determination of what is "just and reasonable" in the context of a not-for-profit utility must be consistent with the purposes set out in the OEB Act and in the rate-setting case law generally. The OEB cannot base its decisions on inconsistent purposes or extraneous considerations.

- In the interests of administrative consistency, the OEB should seek to treat a not-for-profit utility in a manner as closely analogous as possible to a for-profit or investor-owned utility.

All of the above principles support the conclusion that the OEB has the power to and should approve rates as "just and reasonable" for a not-for-profit utility that include a reasonable return for the utility. As such, the Second Decision, by denying such a return to FNEI, is unreasonable.

4.0 Application of the Proposed Approach to Rate-Setting for Not-for-Profit Utility

Not-for-Profit Corporation Can Earn Revenues in Excess of Costs

Under its incorporating statute, a federally incorporated not-for-profit corporation such as FNEI was required to have objects of a "national, patriotic, religious, philanthropic, charitable, scientific, artistic, social, professional or sporting character" or similar. In addition, the

corporation must carry on these objects "without pecuniary gain to its members" (*Canada Corporations Act*, R.S.C. 1970, c. C-32, as amended, s. 154(1)). In order to obtain its Letters Patent, FNEI had to satisfy these requirements, and demonstrate that its objects are consistent with accepted objects for a federally-incorporated not-for-profit corporation. Under the CNFPCA, FNEI's purposes are consistent with its former objects.

Not-for-profit corporations must carry on their activities in furtherance of their purposes and in a manner that is consistent with those purposes. If the not-for-profit corporation operates any business activity, that activity must further the purposes of the organization, as set out in its incorporating documents, and the income and revenues from the activity must be used to further those purposes (Donald J. Bourgeois, *The Law of Charitable and Not-for-Profit Organizations*, 3rd Ed. (Toronto: Butterworths, 2002)) at p. 8.

For-profit corporations have as their purpose the maximizing of profits for shareholders. It is hoped (though not required under corporate law) that the profits will be distributed as dividends to shareholders or, at least that the profitability of the utility will support its share price, encouraging ongoing investment. By contrast, not-for-profit corporations are prohibited from distributing revenues to their shareholders/members. This element is fundamental to maintaining the tax-exempt status of the corporation.

However, although a not-for-profit organization generally cannot earn profit <u>for distribution</u> to its members, not-for-profit organizations are permitted to earn an excess of income over expenditures without breaching corporate or tax law principles or losing their tax-exempt status. In fact, not-for-profit corporations frequently earn revenues from their activities that exceed the

amounts required for their ongoing operating or capital expenses. In FNEI's case, like in the case of any other distributor of electricity, this happens for the basic reason that it is not possible to estimate exactly what revenues will be earned in a given period (e.g., variance in customer usage, weather, etc.), what expenditures will be incurred or how much additional revenue is necessary to establish a cushion for unforeseen expenditures and to address ordinary risks associated with operating a transmission business.

FNEI only earns revenues from its operation of the transmission system but has corporate purposes that extend beyond the operation of the transmission system. Whether excess revenues are applied to these purposes once the costs to operate the transmission system have been addressed is a matter of indifference to the ratepayer and by extension, is not relevant to determining whether the rates are "just and reasonable".

If a for-profit transmitter earns excess revenues from its rates because, among other things, its revenue requirement included an ROE component, the for-profit transmitter can distribute these profits to its shareholder(s), and the shareholders can then use such funds for whatever they wish, including for purposes that are entirely unrelated to the transmission business. In establishing the utility's revenue requirement, there is no inquiry into whether a for-profit utility will in fact distribute its excess revenues to shareholders or reinvest them in its business. This is a matter of corporate law and corporate governance that is not relevant to the rate-setting process.[1] Nor is there any inquiry into whether the use by the shareholders of the distributed profits is appropriate

[1] In *Toronto Hydro Electric, supra*, the OEB was entitled to inquire into a dramatic increase in dividend payments by a for-profit utility. However, this inquiry was justified as in accordance with OEB's rate-setting function only because of the concern that the dividend payments were affecting the utility's financial stability, would lead to a requirement for increased borrowing and would therefore affect rate-payers.

or whether ratepayers would agree or disagree with these uses. The primary consideration from a rate-setting perspective is the requirement for the rate paid by end users to be "just and reasonable", together with the "absolute" right of the utility to a "fair return."

Not-for-profit transmitters like FNEI are in the exact same business as for-profit transmitters and are subject to the exact same risks and contingencies. The only difference is that, unlike a for-profit transmitter, FNEI cannot distribute profits to its members. Instead, FNEI is required to use any excess revenues in accordance with its corporate purposes. Otherwise, FNEI has equivalent needs for a "fair return" from its rates to the needs of a for-profit utility. FNEI's not-for-profit status is not jeopardized simply by earning revenues in excess of its expenses. Ratepayers are indifferent, provided that the formula for calculating the "return" is the same regardless of whether the transmitter is for profit or non-for profit and the end result is a rate that is "just and reasonable".[2]

The Second Decision, by invoking FNEI's not-for-profit status as the basis for disallowing FNEI's ability to earn revenues in excess of the costs that are strictly necessary to operate the transmission system, is unreasonable. The Second Decision is based on considerations regarding FNEI's not-for-profit and tax exempt status that are incorrect as a matter of corporate and tax law. Moreover, it is discriminatory in that it applies standards to not-for-profit utilities and subjects them to a degree of scrutiny regarding their corporate governance and tax planning that is not similarly applied to a for-profit utility.

[2] In fact, because non-profits are tax exempt, no income tax expense is included in a non-profit transmitter's revenue requirement.

Rates for Not-for-Profit Utilities in the US Include "Margin" in Excess of Costs

Given that rate-setting principles are similar in Canada and in the US, the authorities in the US regarding not-for-profit utilities are instructive in determining the proper approach under Canadian law (*Union Gas,* above, at p. 710). In the US, a number of utility commissions have accepted the principle that a non-profit cooperative utility is entitled to earn a reasonable return, in addition to covering the costs to deliver the services. A number of these cases apply the TIER method of calculating return on the basis that this formula establishes a margin of recovery in excess of costs that reflects the risks to which the utility is exposed, its objects and its economic structure (e.g., *Re Inter County Rural Electric Cooperative Corporation* (Kentucky Public Service Commission, Case No. 8958, August 1, 1984); *Re Southern Maryland Electric Cooperative Inc.* (Maryland Public Service Commission, Case No. 7953, Order No. 67488, October 3, 1986)).

The TIER method essentially provides a surrogate rate of return that is used as an analogy to a "return on equity" and that assists in comparing the revenue requirement of an investor-owned utility with its not-for-profit counterpart (*Re Hoosier Energy Rural Electric Cooperative Inc.*, (Indian Public Service Commission, Case No. 372944, August 27, 1985)). In the cases involving not-for-profit utilities in the US, the overriding principle involves establishing a fair return for the utility that reflects its particular structure, risks and needs related to maintaining financial integrity and pursuing its objects (see *Petition of Village of Hardwick Electric Department,* 143 Vt. 437 (S.C. Vt., 1983) at p. 443; *The Sekan Electric Cooperative Association Inc. v. State Corporation Commission of the State of Kansas,* 4 Kan. App. 2d 477 (Kan. C.A., 1980)).

The need to maintain the utility's financial integrity is also a linchpin of the general principle under Canadian and US law that the right to a reasonable rate of return is "absolute" (*BC Railway,* at p. 848). The above US authorities therefore support FNEI's position that the OEB must, in setting rates for a non-profit utility, grant a fair return to the utility on a basis that is consistent with the principles applied to an investor-owned utility and, in particular, that is sufficient to ensure its financial viability in the context of its corporate structure and its purposes.

Apart from its impact on FNEI's general ability to fulfill its corporate purposes, by refusing to grant an equivalent to the ROE approved for for-profit utilities, the Second Decision would cause FNEI to suffer financial hardship (e.g., putting FNEI off-side its debt coverage ratios). This is discussed in the last section of this Schedule.

The OEB's Determination of "Just and Reasonable" is Limited by Statutory Purposes

As a matter of administrative law, an administrative decision-maker like the OEB must exercise its powers in accordance with the purpose(s) for which they are granted. The decision-maker is not entitled to use a statutory power granted to that decision-maker for a purpose that is not authorized by its statute. Similarly, an administrative decision-maker is not entitled to use a power granted for one purpose to accomplish another purpose, or to base a decision on irrelevant or extraneous considerations.[3]

[3] See, for example, *Roncarelli v. Duplessis*, [1959] S.C.R. 121 at para. 90; *Shell Canada Products Ltd. v. Vancouver (City)*, [1994] 1 S.C.R. 231, citing *Gershman v. Manitoba (Vegetable Producers' Marketing Board)*, [1976] 4 W.W.R. 406 (Man. C.A.); *Sandringham Place Inc. v. Ontario (Human Rights Commission)* (2001), 202 D.L.R. (4th) 301 (Ont. Div. Ct.) at para. 14; *Advocacy Centre, supra* at para. 58. Thus, for example, the Ontario Divisional Court has held that Cabinet could not justify a decision to close a hospital for budgetary reasons under legislation allowing Cabinet to issue and cancel hospital permits (*Re Doctors Hospital and Minister of Health* (1976), 12 O.R. (2d) 164 (Div. Ct.)). Although the statutory language conferred broad discretion to issue and cancel hospital permits and did not state that Cabinet could only exercise this power

In imposing conditions on utilities that limit their ability to earn revenues, or that impose other conditions on the manner in which they operate as corporations, the OEB must be able to support those conditions by reference to the statutory purposes that explicitly and implicitly govern the OEB's rate-setting function (*Toronto Hydro-Electric*). In approving rates as "just and reasonable," the OEB may have jurisdiction to engage or impact principles of corporate law on the basis that the entities regulated by the OEB are incorporated. However, the jurisdiction of the OEB must be viewed in light of the regulatory scheme, and the rate-setting function in particular (*Toronto Hydro-Electric*, para. 28, citing *Toronto Hydro-Electric System Ltd. v. Ontario Energy Board* (2009), 252 O.A.C. 188 (Div. Ct.), leave to appeal to Ont. C.A. refused, at para. 17). Even though the OEB has the express power to impose conditions that it considers proper (OEB Act, s. 23(1); s. 78(6)(c)) this power is not "vague, elastic and open-ended". It must be guided by the legislative objectives. These objectives require the OEB to protect the interests of both the customer and the utility (*Toronto Hydro-Electric*, para. 33).

These principles clearly apply to the task of determining whether a not-for-profit utility is entitled to charge rates that accord it a "fair return". In both the First and the Second Decisions, the OEB has strayed from these core principles and embarked on a determination, as a matter of corporate or tax law, that FNEI is not able to earn revenues in excess of its costs because it is structured as a not-for-profit corporation. This is not the OEB's function in setting rates. The purposes underlying the OEB's rate-setting function dictate that the OEB must ensure that the rates are "just and reasonable" in the sense that they: (a) do not result in excessive prices to

for particular reasons, the purpose of the statute was directed towards hospital accreditation, staffing and operations, and not closure of hospital for budgetary reasons.

consumers; and (b) ensure a "fair" return for the utility. This is done in the context of ensuring efficient and economic electricity transmission in the province.

In particular, to the extent that the OEB's decision to limit the ability of FNEI to earn revenues in excess of its costs is motivated by a desire to ensure that FNEI preserves its tax exempt status as a not-for-profit corporation, this consideration is extraneous to the purposes of the OEB Act and of the rate-setting function. This concern does not relate to the need to assure provincial transmission customers that they are obtaining a price for electricity transmission that is "just and reasonable" – i.e. not too high despite FNEI's regulated monopoly in providing the service. Nor does this concern relate to the objective of promoting effectiveness and efficiency in the transmission of electricity.

As demonstrated above, it is clear as a matter of corporate and tax law that a not-for-profit corporation can earn revenues in excess of its costs. It is not within the jurisdiction of the OEB to determine that the level of revenues that FNEI proposes to earn will jeopardize its tax-exempt status. In this regard, it is unreasonable, and beyond the scope of the OEB's powers in light of the statutory purposes underlying the rate-setting function, for the OEB to impose the condition that FNEI can no longer earn excess revenues after establishing reasonable reserves, simply because FNEI is a not-for-profit corporation. The OEB's reasons for imposing the requirement for FNEI to create the reserves, and then to cap those reserves and limit the uses to which FNEI can put those reserve funds, are clearly motivated by the OEB's desire to protect FNEI's not-for-profit status. This is outside the OEB's jurisdiction.

FNEI accepts that the OEB has jurisdiction to require FNEI to establish its revenue requirement on a basis that allows it a sufficient cushion to address unforeseen contingencies, such as an unexpected dip in energy consumption or unforeseen and unusual expenditures. The Board does this via permitting transmitters to earn an ROE, as well as by allowing for Z-factor claims, among other measures. There is no basis for requiring the establishment of specific reserve funds and precluding FNEI from earning excess revenues over and above what is ostensibly required to fund those reserves. Still less is there a basis for imposing limitations on the manner in which those reserves can be expended if, as a result of circumstances in a particular year, FNEI earns higher revenues than are necessary to cover costs in a particular year. None of these requirements arise out of the OEB's rate-setting jurisdiction, and in particular, out of the mandate to ensure that the rates charged to users are "just and reasonable".

In a for-profit utility, the ROE provides a cushion against unforeseen expenditures that may or may not be experienced and is a proxy for the level of return that the for-profit utility should ideally earn in order to attract investment. However, it is not based on any calculation of the amount that will ultimately be paid as dividends to shareholders by the utility. Instead, it acts to support the financial integrity of the utility. If the for-profit utility encounters unusual expenditures in a given year, it might apply a greater portion of its revenues to its costs and less revenue to distributions to investors. In a year in which revenues are unexpectedly high due to increased energy usage (for example), shareholders may see distributions of higher than average profits. What is important from a rate-setting perspective is that the for-profit utility has

sufficient funds to ensure its financial viability and that the rates charged to customers are "just and reasonable", with a "fair return" to the utility.

Under the OEB's approach in the Second Decision, FNEI is not only hindered from applying excess revenues to its general social and civic purposes, its financial integrity is potentially undermined in a more basic sense. The practical effects of the Second Decision demonstrate the unreasonableness of the OEB's approach. Once the operating and capital reserves have been established in accordance with the principles set out in the Second Decision, FNEI will no longer be entitled to earn revenue in excess of its costs to operate the transmission system. At this point, FNEI will immediately be off-side on its debt coverage ratios in its Credit Agreement and will immediately be subject to repayment obligations that are greater than its interest costs. This result demonstrates that denying FNEI the right to earn revenues in excess of its costs because of its not-for-profit status does not result in "just and reasonable" rates, together with a "fair return" for FNEI, in a manner that balances the obligations of the OEB to protect the interests of both the consumer and the utility. This is elaborated upon in the last section of this Schedule.

Administrative Consistency between For-Profit and Not-for-Profit Utilities

The OEB's approach to rate-setting for a not-for-profit utility should respect, as much as possible, principles of administrative consistency. Although an administrative agency like the OEB must exercise its statutory powers and discretion on a case-by-case basis, consistency in administrative decision-making is important. Consistency enables regulated parties to plan their affairs in an atmosphere of stability and predictability. It impresses upon officials the importance of objectivity and acts to prevent arbitrary or irrational decisions. It fosters public confidence in

the integrity of the regulatory process (*Domtar Inc. v. Québec (Commission d'appel en matière de lésions professionnelles)*, [1993] 2 S.C.R. 756 at pp. 784-785, citing H. Wade MacLauchlan, "Some Problems with Judicial Review of Administrative Inconsistency" (1984) 8 Dalhousie L.J. 435 at p. 446). Inconsistent action creates insecurity and lack of confidence in agency decision-making. If agency members regularly adopt different approaches in similar situations it calls into question the validity of earlier decision-making and shakes the confidence of the public in the agency (Robert W. Macaulay and James L.H. Sprague, *Practice and Procedure before Administrative Tribunals* (Toronto: Carswell, 1988+) (looseleaf) at pp. 6-18.1).

The OEB, and other rate-setting decision-makers in Canada and the US, have consistently permitted investor-owned and government-owned utilities to earn a fair return and to incorporate such return into "just and reasonable" rates. This approach is premised on permitting the investor-owned utility to pursue its objects and maintain its financial integrity. These considerations are directed towards generating value for the utility's shareholders, because that is how the utility is structured to operate.

The financial integrity of a "not-for-profit" utility is as important as the financial integrity of an investor-owned or government-owned utility. Both utilities are in the same business, and are subject to the same contingencies and risks. Administrative consistency dictates, therefore, that the OEB, in determining whether to grant a "fair return" to a not-for-profit utility, should take into account similar considerations and develop an approach that is as analogous as possible to the approach taken to investor-owned utilities. In this regard, a not-for-profit utility should not be

subject to radically different or more onerous conditions than an investor-owned utility simply because it operates in a not-for-profit environment.

It logically follows that it was unreasonable for the OEB to state in its Second Decision that the purposes of FNEI of supporting the social, economic and civic welfare and development activities of the First Nations communities are not the responsibility of the utility and the ratepayers should not be funding them (Second Decision, p. 23). The OEB does not engage in a similar inquiry when determining the manner in which the excess revenues of a for-profit utility will be applied, even though shareholders of the utility who receive profits as dividends may apply those distributions to any use they desire.

The ratepayers of for-profit utilities pay rates that include a "fair return" for the utility. This return is calculated on a basis that, ideally, will allow the corporation to meet its corporate objects of earning profits for its shareholder(s). That is the corporate basis upon which a for-profit utility is organized. However, the "return" primarily acts as a cushion that supports the financial integrity of the for-profit utility.

By the same token, the customers of a not-for-profit utility should pay reasonable rates that will allow the not-for-profit utility a similar cushion to operate effectively and to secure its financial integrity against unforeseen increases in expenditures or decreases in revenues. If this return, in a given year, generates excess revenues beyond what is necessary to address those contingencies, there is nothing unreasonable about allowing FNEI to apply those revenues to accomplish the very corporate purposes of operating the transmission line for the benefit of the community (which is accomplished by funding community projects) that allow FNEI to operate on a tax-free

basis. In fact, ratepayers are better off with a non-profit utility, since the revenue requirement does not include a component for tax costs, and no income tax expense is embedded in the rates. There is no basis for the OEB to refuse to recognize this aspect of the not-for-profit structure in approving rates as just and reasonable. To the contrary, principles of administrative consistency dictate that the for-profit and not-for-profit utility must be treated similarly because the differences between them are not material from the perspective of rate-setting and, in particular, from the perspective of ensuring that rate-payers pay rates that are "just and reasonable".

5.0 Harm to FNEI

As noted above, if FNEI were no longer entitled to earn revenue in excess of its costs to operate the transmission system, FNEI would immediately be off-side on its debt coverage ratios in its Credit Agreement and subject to repayment obligations that are greater than its interest costs. This is not something that is unique to FNEI and its lending arrangements – FNEI's financing is fairly conventional.

FNEI's main credit facility is a Credit Agreement with Manulife and Pacific and Western Bank of Canada, which was entered into in 2006 and will expire at the end of 2027. It contains typical financial covenants that the borrower (i.e., FNEI) must adhere to, including the requirement that FNEI maintain the following ratios:

- the ratio of debt to capitalization shall not be greater than 60% at the end of any fiscal quarter; and,

- the ratio of EBITDA to debt service, determined as at the end of each fiscal quarter in respect of each immediately preceding four fiscal quarter period, shall not be less than 1.2 to 1.0.

The Second Decision set FNEI's current revenue requirement at $6.237 million -- $1.039 million of which was attributable to ROE (or Internally Generated Funds). If the ROE were eliminated from FNEI's revenue requirement (upon fully funding the three reserve accounts), FNEI's debt coverage ratio would drop to approximately 0.81 to 1.0 (from approximately 1.31 to 1.0) – putting FNEI off-side of its financing covenants and prone to having its loan called. The practical implications of the Second Decision finding on the non-profit issue puts FNEI in an unsustainable position.

TAB 28

3 Context, Background and the Role of the Board

In competitive markets, the outputs of the goods and services of the economy and the prices for these outputs are determined in the market place, in accordance with consumers' preferences and incomes, as well as producers' minimization of cost for a given output. In such a market, the outcome is the efficient allocation of resources, including capital, and social welfare is maximized.

However, in some situations, markets fail to achieve such efficient outcomes. Market failure refers to situations in which the conditions required to achieve the market-efficient outcome are not present. Common examples of market failure are the existence of significant externalities, the exercise of market power by a small number of producers or buyers, natural monopolies, and information asymmetry between producers and their customers.

Electric transmission and distribution companies and natural gas distribution utilities are natural monopolies and are subject to rate regulation in Ontario by the Ontario Energy Board. In this context, the purpose of rate regulation, among other things, is to create or emulate an efficient market solution that cannot otherwise be achieved due to the presence of one or more market failures. As it relates to a rate regulated entity's cost of capital, the role of the regulator is to determine, as accurately as possible, the opportunity cost of capital to ensure that an efficient amount of investment occurs in the public interest for the purpose of setting utility rates.

3.1 Fair Return Standard

On July 30, 2009 the Board issued a letter and its Issues List for the then planned stakeholder consultation. In that letter, the Board communicated its view that the FRS constitutes the over-arching principle for setting the cost of capital, which is one input into the setting of rates. There are a number of key messages in this statement.

First, as set out by the Federal Court of Appeal, the cost of capital to a utility "is equivalent to the aggregate return on investment investors require in order to keep their capital invested in the utility and to invest new capital in the utility."[6]

Second, the Federal Court of Appeal also stated:

> … even though cost of capital may be more difficult to estimate than some other costs, it is a real cost that the utility must be able to recover through its revenues. If the… [Board] does not permit the utility to recover its cost of capital, the utility will be unable to raise new capital or engage in refinancing as it will be unable to offer investors the same rate of return as other investments of similar risk. As well, existing shareholders will insist that retained earnings not be reinvested in the utility.[7]

Thirdly, the Board is of the view that the process to determine the cost of capital aligns the private interest of the utility and its shareholders with the public interest, and notes that the Federal Court of Appeal said:

> … in the long run, unless a regulated enterprise is allowed to earn its cost of capital, both debt and equity, it will be unable to expand its operations or even maintain its existing ones…This will harm not only its shareholders, but also the customers it will no longer be able to service. The impact on customers and ultimately consumers will be even more significant where there is insufficient competition in the market to provide adequate alternative service.[8]

The determination of a utility's cost of capital must meet the FRS. The FRS is a legal concept, and has been articulated in three seminal court determinations as set out below:

1. In *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia* et. al. 262 U.S. 679 (1923), the FRS is expressed to include concepts of comparability, financial soundness and adequacy:

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[6] TransCanada PipeLines Limited v. National Energy Board et al. [2004] F.C.A 149. Para. 6.
[7] Ibid. Para. 12.
[8] Ibid. Para. 13.

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

2. In *Northwestern Utilities Limited v. City of Edmonton*, [1929] S.C.R. 186, the FRS concept was described as follows:

> By a fair return is meant that the company will be allowed as large a return on the capital invested in its enterprise, which will be net to the company, as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise.

3. In *Federal Power Commission v. Hope Natural Gas* 320 U.S. 591 (1944), the Court expresses that "balance" is achieved in the ratemaking process, and outlines three elements of a fair return:

> The rate-making process under the act, i.e., the fixing of "just and reasonable" rates, involves a balancing of the investor and the consumer interests…the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock…By that standard, the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

The FRS was further articulated by the National Energy Board in its RH-2-2004 Phase II Decision as:

> A fair or reasonable return on capital should:
>
> - be comparable to the return available from the application of invested capital to other enterprises of like risk (the comparable investment standard);
> - enable the financial integrity of the regulated enterprise to be maintained (the financial integrity standard); and
> - permit incremental capital to be attracted to the enterprise on reasonable terms and conditions (the capital attraction standard).[9]

In its letter of July 30, 2009, the Board noted that the National Energy Board's articulation of the FRS is consistent with the principled approach described on page 2 of the Compendium to the Board's March 1997 *Draft Guidelines on a Formula-Based Return on Common Equity for Regulated Utilities* (the "1997 Draft Guidelines") and the policies set out in the Board's December 20, 2006 Report.

The Board is of the view that the FRS frames the discretion of a regulator, by setting out three requirements that must be satisfied by the cost of capital determinations of the tribunal. Meeting the standard is not optional; it is a legal requirement. As set out by Enbridge in their final comments, the Supreme Court of Canada has "described this requirement that approved rates must produce a fair return as an 'absolute' obligation."[10] Notwithstanding this mandatory obligation, the Board notes that the FRS is sufficiently broad that the regulator that applies it must still use informed judgment and apply its discretion in the determination of a rate regulated entity's cost of capital.

Informed by the comments made by stakeholders in the context of this consultation and the relevant jurisprudence, the Board offers the following observations about the application of the FRS.

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[9] National Energy Board. RH-2-2004, Phase II Reasons for Decision, TransCanada PipeLines Limited Cost of Capital. April 2005. p. 17

[10] *British Columbia Electric Railway Co. Ltd. v. Public Utilities Commission of British Columbia et al [1960] S.C.R. 837*, at p. 848.

First, the Board notes that the FRS expressly refers to an opportunity cost of capital concept, one that is prospective rather than retrospective.

Second, the Board agrees with the National Energy Board which stated that "[i]t does not mean that in determining the cost of capital that investor and consumer interests are balanced."[11] Further, the Board notes that the Federal Court of Appeal was clear that the overall ROE must be determined solely on the basis of a company's cost of equity capital and that "the impact of any resulting toll increase is an irrelevant consideration in that determination. This does not mean however, that any resulting increase in tolls cannot be considered by a tribunal in determining the way in which a utility should recover its costs."[12] The Federal Court of Appeal also stated that:

> It may be that an increase is so significant that it would lead to "rate shock" if implemented all at once and therefore should be phased in over time. It is quite proper for the Board to take such considerations into account, provided that there is, over a reasonable period of time, no economic loss to the utility in the process. In other words, the phased in tolls would have to compensate the utility for deterring the recovery of its cost of capital.[13]

Third, all three standards or requirements (comparable investment, financial integrity and capital attraction) must be met and none ranks in priority to the others. The Board agrees with the comments made to the effect that the cost of capital must satisfy all three requirements which can be measured through specific tests and that focusing on meeting the financial integrity and capital attraction tests without giving adequate consideration to comparability test is not sufficient to meet the FRS.

Fourth, a cost of capital determination made by a regulator that meets the FRS does not result in economic rent being earned by a utility; that is, it does not represent a reward or payment in excess of the opportunity cost required to attract capital for the purpose of

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[11] National Energy Board. Reasons for Decision. Trans Quebec & Maritimes Pipelines Inc. RH-1-2008. March 19, 2009. p. 6.
[12] *TransCanada PipeLines Ltd. v. National Energy Board, 2004 FCA 149*, para. 35-36.
[13] *TransCanada PipeLines Ltd. v. National Energy Board, 2004 FCA 149*, para. 43.

investing in utility works for the public interest. Further, the Board reiterates that an allowed ROE is a cost and is not the same concept as a profit, which is an accounting term for what is left from earnings after all expenses have been provided for. The Board notes that while cost of capital and profit are often used interchangeably from a managerial or operational perspective, the concepts are not interchangeable from a regulatory perspective.

Fifth, there was considerable discussion in the consultation about utility bond ratings. The ability of a utility to issue debt capital and maintain a credit rating were generally put forth by stakeholders in the consultation as a sufficient basis upon which to demonstrate that a particular equity cost of capital and deemed utility capital structure meet the capital attraction and financial integrity requirements of the FRS. The Board is of the view that utility bond metrics do not speak to the issue of whether a ROE determination meets the requirements of the FRS. The Board acknowledges that equity investors have, as the residual, net claimants of an enterprise, different requirements, and that bond ratings and bond credit metrics serve the explicit needs of bond investors and not necessarily those of equity investors.

Finally, the Board questions whether the FRS has been met, and in particular, the capital attraction standard, by the mere fact that a utility invests sufficient capital to meet service quality and reliability obligations. Rather, the Board is of the view that the capital attraction standard, indeed the FRS in totality, will be met if the cost of capital determined by the Board is sufficient to attract capital on a long-term sustainable basis given the opportunity costs of capital. As the Coalition of Large Distributors commented:

> [t]he fact that a utility continues to meet its regulatory obligations and is not driven to bankruptcy is not evidence that the capital attraction standard has been met. To the contrary, maintaining rates at a level that continues operation but is inadequate to attract new capital investment can be considered confiscatory. The capital attraction standard is universally held to be higher than a rate that is merely non-confiscatory. As the United States Supreme Court put it, 'The mere fact that a rate is non-confiscatory does not indicate that it must be deemed just and reasonable'.[14]

[14] Final Comments of the Coalition of Large Distributors. October 26, 2009. pp. 5-6.

TAB 29

7-Staff-33

Ref: Exhibit 7 / Tab 2 / Schedule 1
EB-2009-0387 / Decision and Order
EB-2009-0387 / Exhibit 1 / Tab 1 / Schedule 13 / pp. 10-12

Preamble:

In Exhibit 7 / Tab 2 / Schedule 1, Five Nations Energy set out its legal and practical arguments as to why it should be allowed to earn a ROE in the same manner as a for-profit utility and use its revenues in excess of costs to complete its corporate objectives. Five Nations Energy argued that some of its corporate objectives are not solely related to the development and operation of a transmission system.

Question(s):

a) **Please provide the types of investments Five Nations Energy is considering making as part of achieving its corporate objectives that extend beyond the development and operation of a transmission system and provide examples. Please explain how these investments directly link to Five Nations Energy's corporate objects (Exhibit 7 / Tab 2 / Schedule 1 / pp. 2 and 11).**

b) **Five Nations Energy noted that in the US, a number of utility commissions have accepted the principle that a not-for-profit cooperative utility is entitled to earn a reasonable return. In a number of these cases, the commission applies the TIER method (Times Interest Earned Ratio) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).**

i. **Please provide any examples of decisions by utility commissions in the US or Canada that have approved the payment of returns for not-for-profit corporations in the same manner as Five Nations Energy has requested as part of its current application (i.e. a true ROE) as opposed to evaluating returns using the TIER method (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).**

ii. **Please provide Five Nations Energy's understanding of how the TIER method could be applied to Five Nations Energy in calculating the appropriate level of return (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).**

iii. **Please provide Five Nations Energy's position on using the TIER method for determining an appropriate level of return. Does Five Nations Energy**

continue to be of the view that the TIER methodology is not appropriate? Please provide your response in the context of the evidence filed by Five Nations Energy in EB-2009-0387 at Exhibit 1 / Tab 1 / Schedule 13 / pp. 10-12.

iv. Please advise whether there is a TIER range that is generally used in the US to determine the appropriateness of a not-for-profit corporations level of return (and provide evidence supporting the range) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).

v. Please provide the TIER calculation using both generally accepted methodologies: (a) net income plus interest on debt divided by interest on debt; and (b) net income divided by interest on debt for each year 2010-2016 (for 2016 show both before and after the applied for changes in the application are implemented) (Exhibit 7 / Tab 2 / Schedule 1 / pp. 13-14).

c) **Please further discuss why Five Nations Energy believes that the OEB should not be concerned with the potential loss of the non-profit status. Does Five Nations Energy agree that the loss of the non-profit status would result in an increase in costs recoverable from ratepayers (Exhibit 7 / Tab 2 / Schedule 1 / pp. 15-16)?**

d) **Five Nations Energy states that it accepts that the OEB has jurisdiction to require it to establish its revenue requirement on a basis that allows it a sufficient cushion to address unforeseen contingencies. However, it believes that there is no basis for requiring the establishment of specific reserve funds and precluding Five Nations Energy from earnings revenues in excess of the amount required to fund those reserves (Exhibit 7 / Tab 2 / Schedule 1 / p. 17).**

i. Please discuss the differences between not-for-profit and for-profit regulated utilities.

ii. Please discuss whether Five Nations Energy believes that a for-profit utility is in a better position than a not-for profit utility to invest capital back into the utility. Please provide rationale for the response.

iii. In the absence of reserve funds and approval from the OEB to allocate revenues in excess of profits towards non-utility activities, please discuss how

the OEB can be confident that there will be "sufficient cushion" to manage unexpected utility costs that may arise?

iv. Please advise whether Five Nations Energy intends to maintain its existing Insurance Reserve Fund under its proposal. If yes, please explain the response in the context of Five Nations Energy's argument that the ROE and the availability of a Z-factor allow for a utility to maintain sufficient funds in order to address unforeseen circumstances.

e) **Five Nations Energy stated that if it were not allowed to earn revenue in excess of its costs to operate the transmission system, it would be off-side of its debt coverage ratios and subject to repayment obligations that are greater than its interest costs (Exhibit 7 / Tab 2 / Schedule 1 / p. 22).**

i. Please provide Five Nations Energy's: (a) current actual debt to capitalization ratio; and (b) 2010 actual debt to capitalization ratio (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-22).

ii. Please provide Five Nations Energy's: (a) current ratio of EBITDA to debt service; (b) ratio of EBITDA to debt service if Five Nation's Energy's application is approved as filed; and (c) ratio of EBITDA to debt service if no ROE is approved as part of the current application. Please show all of the calculations (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-22).

iii. Please provide the minimum amount of total annual revenue (with the return component shown separately and also shown as an ROE %) that would be required to stay on-side of Five Nations Energy's financing requirements (Exhibit 7 / Tab 2 / Schedule 1 / pp. 21-21).

iv. Please provide Five Nations Energy's position on the establishment of a reserve fund that would hold sufficient funds to make loan repayments for two-years (and would be strictly used to make loan payments in circumstances where Five Nations Energy does not have sufficient funds to make those payments in the normal course). Please advise whether a reserve fund designed in this manner may be sufficient to satisfy Five Nations Energy's lenders (even in the absence of meeting the EBITDA to debt service requirement).

f) **Please provide the following information related to potential reserve funds that could be made applicable to Five Nations Energy:**

i. **Any additional reserve funds that Five Nations Energy may want the OEB to consider beyond what was approved in the EB-2009-0387 proceeding.**

ii. **A definition for each reserve fund that was previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve fund that Five Nations Energy may want the OEB to consider.**

iii. **The purpose, goals and intended use of each reserve fund that was previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve fund that Five Nations Energy may want the OEB to consider.**

iv. **Updated cap amounts for the reserve funds calculated based on the methodologies set out in the OEB's Decision and Order in EB-2009-0387; and updated cap amounts calculated based on alternative methodologies that Five Nations Energy believe are appropriate. Please provide the calculations and describe the methodologies used.**

v. **The mechanism and the process to build (a timeframe for funding the reserves should be provided if the reserve funds are not already fully funded), use and maintain the reserve funds that were previously approved by the OEB in the EB-2009-0387 proceeding and any new reserve funds that Five Nations Energy may want the OEB to consider.**

vi. **The roles and responsibilities of Five Nations Energy's Board of Directors and management with regard to establishing and preserving the amounts for each type of reserve fund.**

vii. **The authorization and approval process for access and use of each reserve fund.**

viii. **Investment objectives and policies for the reserve funds.**

ix. **Reporting requirements related to the reserve funds.**

x. An updated "draft reserves policy" in a similar format to what was filed with OEB staff in response to the OEB's Decision and Order in the EB-2009-0387 proceeding. The updated "draft reserves policy" should reflect any changes that would be applicable for the test year.

g) **Please file a detailed calculation of an alternative test year revenue requirement, which is calculated based on a sum of all proposed test year costs plus the annual amount required to build up the reserve funds (if they are not already fully funded). The annual amount required to build up the reserve funds should be based on a proposal from Five Nations Energy as to a reasonable amount of time over which the reserves should be funded.**

Response:

(a) FNEI has not considered what types of investments it would make – pending the outcome of this proceeding. For FNEI, there are two possible outcomes:

- *The Board modifies its last decision and allows FNEI (as it exists today) to earn an ROE.* In that case, FNEI will likely (gradually) consider whether any there are any funds that could be available for use to meet its other corporate objectives (i.e., monies that are not needed for the ownership and operation of the transmission system). Any such proposal would go before the FNEI Board of Directors for their approval. However, any use of such funds by FNEI must adhere to the corporate purposes in its Letters Patent (i.e., to promote the social, economic and civic welfare and development of Attawapiskat, Fort Albany and Kashechewan) as specifically set out in Exhibit 7/Tab 2/Schedule 1, page 1 commencing at line 14.

- *The Board does not modify its last decision.* In that case, there is no need for an FNEI to contemplate the question about what investments to make. FNEI would become a for-profit entity, and it would pay dividends to its shareholders.

(b) Beyond the few examples of US decisions filed in FNEI's initial rate case, FNEI has done no further research on the TIER method. FNEI operates in the same market, subject to the same regulatory requirements, and on the same commercial basis as any other transmitter in the province. This is different than the private, non-profit cooperatives in the Unites States – of which there are several hundred in the United States.

(c) The obligation on FNEI to maintain its non-profit status is not an obligation that originates from the OEB. If FNEI operates outside its Letters Patent in a manner that caused it to lose its

non-profit status, the impact of that would be that FNEI would have to pay taxes. The irony of this question is that if the Board's last decision is not modified, FNEI believes it will have to become a for-profit corporation – which of course will have to pay taxes. All other transmitters in Ontario are for-profit entities that pay taxes, and have those costs recovered in their respective revenue requirements. FNEI wants very much to continue as a non-profit corporation, but cannot operate as a non-profit corporation if the OEB removes FNEI's ability to earn an ROE. There is today nothing to prevent FNEI from becoming a for-profit corporation at any time.

(d) i. and ii. FNEI has spent the first 15+ years of its existence re-investing any excess funds into its system. This build-out was needed, given that the initial system was in some ways a bare-bones system. Perhaps in these early years, a for-profit would have been just as diligent in re-investing back into its system. However, as noted in the answer to (d) iii. below, FNEI has been able to operate in a non-profit environment where there has been no pressure or expectation of having to return any dividend to a shareholder.

iii. FNEI does not understand why the Board would be concerned about this for FNEI, but not for the other for-profit utilities it regulates. Any utility, whether for-profit or non-profit, is licensed by the OEB and an IESO market participant, and is bound to the same regulatory regime (OEB Act, Electricity Act, OEB Codes, IESO Market Rules, etc.). Transmitters (for-profit or non-profit) comply with this regulatory regime because they are in the business of electricity transmission. For-profit utilities are motivated to return dividends to their shareholders – so this question could be asked of for-profit utilities (i.e., what would prevent a for-profit utility from paying such large dividends pay such large dividends to its shareholder that they become highly leveraged, or fail to adequately maintain its transmission system). FNEI, as a non-profit entity, is free of any pressure to pay dividends to shareholders.

iv. FNEI will maintain its Insurance Reserve regardless of whether it is a non-profit or for-profit entity. An interrogatory from Energy Probe (10.0-Energy Probe-14) caused FNEI to more fully discuss the Z-factor component of its plan, and as noted in the response to that interrogatory, FNEI thinks there is merit to the suggestion that a higher threshold is warranted (i.e., $400,000). If a Z-factor event occurred (based on FNEI's criteria) and the event were funded out of the Insurance Reserve, that Reserve would need to be replenished, and the Z-factor application would be the basis for this.

(e) i. (a) 25.65% (b) 26.84%

(e) ii. (a) 1.68 (b) 2.42 (c) 1.54

(e) iii. and iv. As noted above in (a) and (c), FNEI is not interested in operating under the capital and operating reserve fund requirements outlined in EB-2009-0387. FNEI wants to continue to be a non-profit utility (and ultimately provincial transmission ratepayers are better off since

FNEI has no interest expense incorporated into its revenue requirement), but not if restrictions are placed on FNEI that make it difficult to do so. FNEI's evidence was meant to make clear that there is no legal basis for imposing such restrictions on FNEI, merely due to its non-profit status.

(f) and (g) See response to question (a), (c) and (e) iii. and iv. above.

TAB 30

Before The

Public Service Commission of Maryland

Case No. _____

Prepared Direct Testimony

Of

William J. Stow

On Behalf of

Southern Maryland Electric Cooperative, Inc.

June 17, 2010

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William J. Stow. My business address is AECOM, 5575 DTC Parkway, Suite 200, Greenwood Village, Colorado 80111.

Q. WHAT IS YOUR POSITION WITH EARTH TECH?

A. I am a Senior Associate, specializing in financial and economic matters.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND TRAINING.

A. I graduated from the University of New Mexico with a Bachelor of Science degree in Economics and a Masters of Science in Nuclear Engineering. In addition, I hold a Masters of Business Administration from the University of New Mexico's Anderson School of Business.

Q. PLEASE SUMMARIZE YOUR CAREER.

A. I have more than 30 years of professional experience in business and risk analysis, financial research, strategic alternative analysis and structures, credit quality, analysis of accounting rules, depreciation, utility regulation, rates and affiliate interest matters, as well as evaluation of policy issues. My resume is provided as SMECO Exh. ____ (WJS-1), Attachment 1.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE REGULATORY BODIES?

A. Yes. Previously, I have appeared before this Commission on behalf of SMECO. In addition, I have appeared as an expert witness before the Federal Energy Regulatory Commission ("FERC") and state regulatory commissions on matters related to capital structure, credit quality, accounting rule changes, cost of capital,

as well as the business management and regulatory aspects of competitive non-utility businesses within a regulated utility environment. I have prepared or assisted in the preparation of testimony and regulatory studies before the Federal Energy Regulatory Commission, the United States Virgin Islands, and in the states of Alaska, California, Connecticut, Idaho, Louisiana, Massachusetts, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming as well as the City of New Orleans.

Q. DID YOU SERVE AS AN EXPERT WITNESS IN ANY OF THESE PROCEEDINGS?

A. Yes. I was an expert witness in proceedings before FERC, the Alaska Public Utility Commission, the Idaho Public Utilities Commission, the Public Utility Commission of Texas, the United States Virgin Islands, and the City of New Orleans.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of Southern Maryland Electric Cooperative, Inc. ("SMECO").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to recommend and support the proposal that SMECO be authorized by the Maryland Public Service Commission ("MPSC") to set Member prices for electric service at such a level as to produce a Times Interest Earned Ratio ("TIER") of 2.0 times ("x"), with a target capital

structure of 33.0 percent Patronage Capital ("Equity %"), and a Debt Service Coverage ("DSC") of 2.0x.

Q. PLEASE DEFINE "TIER", EQUITY %, AND DSC.

A. The United States Department of Agriculture Rural Utilities Service, (RUS), in the Code of Federal Regulations (CFR) *Part 1710 – General and Pre-loan Policies and Procedures Common to Electric Loans and Guarantees* provides definitions and guidelines for TIER and associated ratios for electric utilities applying for loans. Specifically these include:

1 - Times Interest Earned Ratio (TIER) =

$$\text{TIER} = \frac{\text{the sum of: (Members Equity) plus (Long Term Debt Interest)}}{\text{divided by: (Long Term Debt Interest)}}$$

2 - Equity % = (Member Margins) divided by (Total Assets)

3 - Debt Service Coverage (DSC) ratio =

$$\text{DSC} = \frac{\text{the sum of: (Net Margins) plus (Depreciation \& Amortization) plus (Long Term Debt Interest)}}{\text{divided by: The sum of: (Long Term Debt Interest) plus (Principal Payments)}}$$

Q. HAVE MINIMUM LEVELS OF TIER, EQUITY %, AND DSC BEEN PROMULGATED BY THE FEDERAL GOVERNMENT?

A. Yes. CFR Part 1710 includes minimum TIER, Equity %, and DSC ratios for cooperative utilities seeking financing supported by the Federal government. Minimum levels of these financial metrics are summarized in Table 1.

Table 1: RUS Standard Mortgage Minimum Financial Metrics

Line Number	Description	Minimum Financial Metrics
	(A)	(B)
1	TIER	1.25x
2	Equity%	27.0%
3	DSC	1.25x

It is important to consider that the TIER and DSC ratios are the minimum levels allowed after any proposed financing. In addition, RUS regulations specify that these ratios must be maintained in a minimum of two (2) out of the last three (3) years to avoid being in technical default. That is, while timely payments of principal and interest are being made, SMECO nonetheless could be in default on its debt if the covenants of the bond indenture are not being adhered to. In a "worst case" scenario, this could lead to a situation where new financing would not be available and a requirement that all existing debt would need to be repaid immediately.

Q. HAS THE RUS ADJUSTED THE MINIMUM FINANCIAL METRICS THAT IT REQUIRES SMECO TO MAINTAIN?

A. Yes. Pursuant to 7 CFR 1710.114, the RUS Administrator may establish blended levels for TIER and DSC based upon the total utility plant represented by generation and transmission plant shown on RUS Form 7. Under this authority, the RUS Administrator has amended SMECO's loan agreement to reflect Blended Financial Ratios ("BFR") that currently require the minimum financial metrics shown on Table 2 because SMECO has over 15% (but not greater than 35%) of

its utility plant classified as Transmission plant. Importantly, should the portion of utility plant classified as generation and transmission plant decline below 15% of total utility plant the financial metrics shown on Table 1 would be required in order to avoid default under the loan agreement.

Table 2: RUS SMECO Blended Minimum Financial Metrics

Line Number	Description	Minimum Financial Metrics
	(A)	(B)
1	TIER	1.20x
2	Equity%	27.0%
3	DSC	1.20x

In setting these slightly lower minimum TIER and DSC ratios, the RUS Administrator specified the requirement that:

> *"The Borrower (ed., SMECO) shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and*

outages due to weather and the related costs." (*RUS BLENDED FINANCIAL COVERAGE RATIOS LOAN CONTRACT AMENDMENT*, dated June 1, 2009)

As is the case with the Standard Financial Metrics the RUS requirement is that the BFRs be maintained based on the two best years out of the three most recent calendar years.

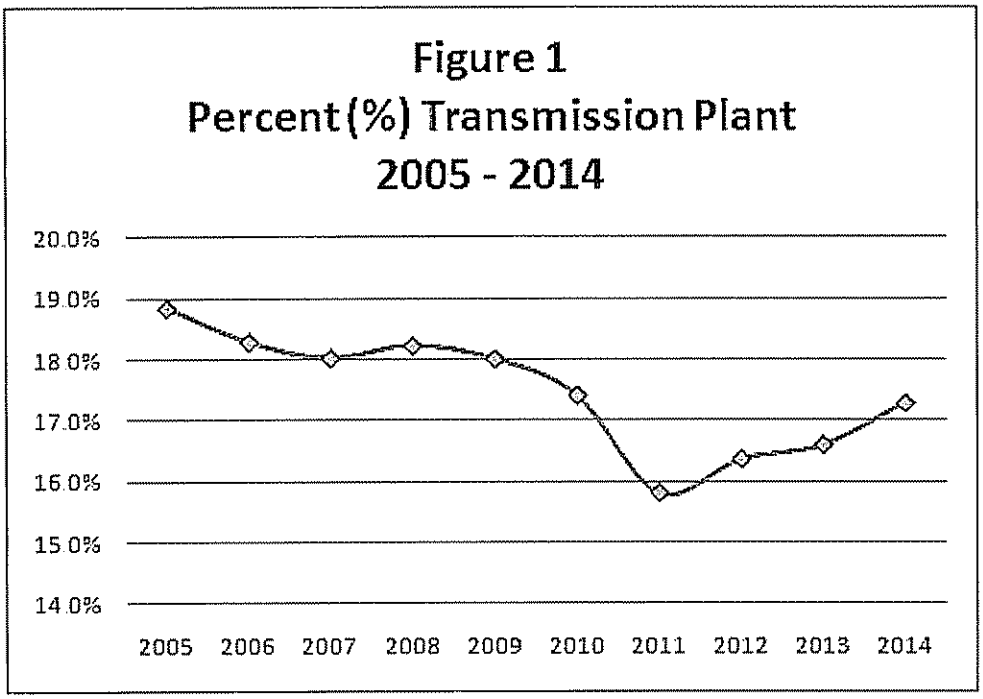
Also, it is important to stress that the slightly lower BFR requirements established by the RUS Administrator are the minimum requirements to avoid default under the RUS loan agreement, they are not a reasonable target for a cooperative seeking to provide responsive and reliable electric service to its Members.

A complete copy of the "RUS BLENDED FINANCIAL COVERAGE RATIOS LOAN CONTRACT AMENDMENT", dated June 1, 2009 is provided as SMECO Exh. ____ (WJS-1), Attachment 2.

Q. IS IT YOUR EXPECTATION THAT SMECO WILL BE SUBJECT TO THE BLENDED FINANCIAL RATIO REQUIREMENTS DURING THE PERIOD OF TIME THAT RATES DETERMINED IN THIS PROCEEDING ARE BEING PAID BY ITS MEMBERS?

A. Yes. Examining SMECO's projected Capital Investments in Transmission Plant and Capital Investments in Other Utility Plant results in the conclusion that SMECO will be subject to the BFR requirements throughout the time period that rates determined in this proceeding are being paid by SMECO Members. As shown on Figure 1: Percent (%) Transmission Plant, 2005-2014, (years 2005-2009, actual; years 2010-2014 pro forma unofficial estimate), the percent of transmission plant relative to Total Utility Plant has been declining in recent

years but the planned investments in transmission plant and Total Utility Plant are expected to increase the Percent Transmission metric during the pro forma period.



Because of these results, it is anticipated that the Blended Financial Ratios, shown on Table 2, will be used by the RUS Administrator to determine compliance with loan covenant requirements over the foreseeable future.

Q. IS THERE ANY DIFFERENCE BETWEEN THE PATRONAGE CAPITAL OF A COOPERATIVE ELECTRIC UTILITY AND THE EQUITY OF AN INVESTOR OWNED ELECTRIC UTILITY?

A. Yes.

In the case of an Investor Owned Utility the equity portion of the capital structure represents the investors' ownership of the electric utility. The portion of the total equity that an investor owns is the portion of the utility that a specific investor owns. The reason that an investor will use their cash to purchase investor owned utility equity, (e.g., common stock), is to either receive profit on their investment

or to gain control of the utility, (or both). If an investor also receives electric service from a company in which the investor has an equity interest, such electric service is a separate transaction not directly related to the investment activity.

A cooperative utility is structured in a fundamentally different manner. In a cooperative utility, each Member belongs to the cooperative for the primary purpose of receiving electric service. Each Member contributes to the capital structure through retained Patronage Capital. In a cooperative utility, each Member has an equal interest in the cooperative. Also, in the event that revenues received for service to Members is above the cost of providing service this revenue is returned to the Members as Capital Credits. There are no non-Member "investors" seeking profit or control. In fact, there is no "profit" as is the case with Investor Owned Utilities.

Q. ARE THERE ANY GENERAL PRINCIPLES THAT ARE FUNDAMENTAL TO YOUR ANALYSIS?

A. Yes. Although, relative to Member Patronage Capital, a cooperative electric utility generally is not bound by the constraints, laws, or judicial rulings as would be applicable to equity and equity returns for an investor-owned utility, the expectations of Members of a cooperative can reasonably be expected to be similar because members of a cooperative, directly or indirectly, also may be investors and may own common equity in companies that are bound by the constraints, laws, or judicial rulings as would be applicable to equity and equity returns for an investor-owned utility. Thus, the expectations of cooperative Members can be considered to be the same as the expectations of investors in the

TAB 31

expenditure budget, assumptions and similar matters, prior to each fiscal year end of the Borrower; and

(d) such additional information and documents as the Lenders may reasonably require from time to time.

ARTICLE VII- SECURITY

7.01 Security to be Provided by the Borrower

The Borrower agrees to provide, or cause to be provided, in favour of the Lenders the security listed below in form and substance satisfactory to the Lenders (collectively, the "**Security**") as continuing security for the payment and performance of all obligations of the Borrower to Lenders:

(a) a general security agreement;

(b) a hypothecation of the Borrower's insurance reserve fund;

(c) an assignment of all right, title and interest of the Borrower in each Material Agreement and all benefits thereunder pursuant to an assignment agreement containing terms and conditions satisfactory to the Lenders together with an acknowledgment from each third party to such Material Agreement in form and substance satisfactory to the Lenders; and

(d) such other security as may be reasonably required by the Lenders from time to time.

7.02 Registration of Security

The Security shall be registered where necessary or desirable in the opinion of the Lenders to record and perfect the charges contained therein.

7.03 Additional Secured Funds

The Borrower has deposited Cdn $500,000.00 (the "**Additional Funds**") with Bank of Montreal for the benefit of the Lenders and to be released by the Lenders on the earlier of:

(a) December 31, 2015;

(b) such time as the Borrower reports a ratio of EBITDA to Debt Service of equal to or greater than 1.9 to 1.0 for three (3) consecutive fiscal quarters (in each case subject to no Event of Default having then occurred which is continuing); and

TAB 32

legal fees, consultant fees, costs awards, etc. The applicant must provide information supporting the level of the costs associated with the preparation and review of the current application.

2.8.9 Charitable and Political Donations

The applicant must file the amounts paid in charitable donations (per year) from the last OEB-approved rebasing application up to and including the test year(s). The recovery of charitable donations will generally not be allowed for the purpose of setting revenue requirement. If the applicant wishes to recover such contributions, it must provide detailed information for such claims.

The applicant must review the amounts filed to ensure that all other non-recoverable contributions are identified, disclosed and removed from the revenue requirement calculation. The applicant must also confirm that no political contributions have been included for recovery.

2.8.10 Depreciation, Amortization and Depletion

The applicant must provide details for depreciation, amortization and depletion by asset group for the historical, bridge and test years, including asset amount and rate of depreciation or amortization. This must tie back to the accumulated depreciation balances in the continuity schedule under rate base.

The applicant must identify any asset retirement obligations (AROs) and any associated depreciation or accretion expenses in relation to the AROs, including the basis and calculation of how these amounts were derived.

The OEB's general policy for rate setting is that capital additions would normally attract six months of depreciation expense when they enter service in the test year. This is commonly referred to as the "half-year" rule. The applicant must identify its historical practice and its proposal for the test year. Variances from this "half-year" rule, such as calculating depreciation based on the month that an asset enters service, must be documented with explanation.

The applicant must provide a copy of its depreciation/amortization policy, if available. If not, the applicant must provide a written description of the depreciation practices followed and used in preparing the application. Regardless of the accounting standard used in the application, the applicant must provide a summary of changes to its depreciation/amortization policy made since the applicant's last cost of service filing.

The applicant must ensure that the significant parts or components of each item of Property, Plant and Equipment are being depreciated separately. The applicant must

TAB 33

Exhibit 8 – Deferral and Variance Accounts

8-Staff-34
Ref: Exhibit 8 / Tab 1 / Schedule 1

Question(s):

a) Five Nations Energy requested a new deferral account to record revenue requirement deficiencies incurred from January 1, 2016 (the date when rates were declared interim) to when the final approved rates are implemented. Please provide a Draft Accounting Order with sample entries that would be posted to this account.

Response:

(a) FNEI will file this at a later date.

TAB 34

PROPOSED INCENTIVE RATE-SETTING PLAN

1.0 Overview

This is only FNEI's third transmission rate application. FNEI's first application was filed prior to the FNEI line coming into service (RP-2001-0036). FNEI's revenue requirement at that proceeding was $5.178 million, based on a single forward test year. That revenue requirement remained in place until FNEI's second application (EB-2009-0387). That second application was also based on a single forward test year, and the Board established FNEI's transmission revenue requirement at $6.327 million.

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

2.0 Revenue Cap IR Plan

FNEI is proposing an IR Plan that adjusts the base year 2016 transmission revenue requirement each calendar year for the period from January 1, 2017 through December 31, 2020 according to the following formula:

$$RRA = I - X + S$$

Where:

RRA	Revenue Requirement Adjustment
I	Inflation Factor (actual year-over-year change in the annualized average of four quarters of Statistics Canada's Gross Domestic Product Implicit Price Index for Final Domestic Demand ("GDP-IPI"), as calculated by the Board and in effect at the time the RRA is made)
X	Productivity Factor (same as that utilized by Board for electricity distributor rate adjustments)
S	Stretch Factor of 0.3% (mid-range for electricity distributors)

FNEI proposed IR Plan would permit FNEI to bring forward, for Board approval, costs for unforeseen events outside of FNEI's management control (i.e., Z-factor claims), provided that such claims meet the following three criteria:

Criteria	**Description**
Causation	Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
Materiality	The amounts must exceed $100,000 (on an individual event basis) and have a significant influence on the operation of FNEI; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
Prudence	The amount must have been prudently incurred. This means that FNEI's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

The process for bringing forward Z-factor claims under the IR Plan would be as follows:

- FNEI would record amounts sought to be claimed as a Z-factor in a separate Z-factor deferral account. Monthly carrying charges would also be recorded (calculated using

simple interest applied to the monthly opening balances in the account and recorded in a separate sub-account of this account). The rate of interest is the Board-prescribed rates for deferral and variance accounts for the respective quarterly period published on the Board's website.

- FNEI would notify the Board and interveners in this current rate proceeding of all Z-factor events within six months of the Z-factor event.

FNEI would apply to the Board for recovery of amounts recorded in the Z-factor deferral account, and such application shall include evidence from FNEI demonstrating that the costs incurred meet the three eligibility criteria outlined above.

FNEI's proposed IR Plan also includes a trigger mechanism for a regulatory review if FNEI's earnings fall outside an annual ROE deadband of ± 300 basis points, based on FNEI's annual audited financial statements (filed with the Board within 60 days of FNEI's receipt of such statements). In the event that FNEI's financial statements show FNEI's earnings falling short of or exceeding FNEI's Board-approved ROE by 300 basis points, a review will be carried out by the Board to determine if further action by the Board is warranted. The review would be prospective in nature and could result in modifications to FNEI's IR Plan (including its termination or continuation).

TAB 35

5.0-Energy Probe-9

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

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

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

Response:

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

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

TAB 36

10. Incentive Rate Setting Plan

10.0-Energy Probe-14

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

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

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

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

Response:

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