Hydro One Networks Inc.

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Frank D'Andrea Vice President Regulatory Affairs

BY COURIER

August 23, 2018

Ms. Kirsten Walli Board Secretary Ontario Energy Board Suite 2700, 2300 Yonge Street P.O. Box 2319 Toronto, ON, M4P 1E4

Dear Ms. Walli,

EB-2018-0227 – Hydro One Remote Communities Inc.'s Request for Exemption from sections 2.1.5, 2.1.14 (a), (b), (c), & 2.1.14.1 of the Electricity Reporting and Record Keeping Requirements Code and section 6.7.2 of the Distribution System Code

Please find attached an application by Hydro One Remote Communities Inc. for an exemption from the obligations in sections 2.1.5, 2.1.14 (a), (b), (c), & 2.1.14.1 of the Electricity Reporting and Record Keeping Requirements Code ("RRR") and section 6.7.2 of the Distribution System Code ("DSC").

Also, Remotes is requesting that the Board approve this exemption application without a hearing, pursuant to section 21(4)(b) of *the Ontario Energy Board Act, 1998*.

Should you have any questions on this, please contact Yoon Kim at (416) 345-5228 or via email at Yoon.Kim@HydroOne.com.

Sincerely,

ORIGINAL SIGNED BY JEFFREY SMITH ON BEHALF OF FRANK D'ANDREA

Frank D'Andrea

c: Sagar Kancharla, OEB

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998;

AND IN THE MATTER OF an Application by Hydro One Remote Communities Inc. for an Order or Orders including an exemption from sections 2.1.5, 2.1.14 (a), (b), (c), & 2.1.14.1 of the Electricity Reporting and Record Keeping Requirements Code and section 6.7.2 of the Distribution System Code

SUMMARY OF APPLICATION

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The Applicant is Hydro One Remote Communities Inc. ("Remotes"), a wholly-owned subsidiary of Hydro One Inc. Remotes is an Ontario corporation licensed (ED 2003-0037 and EG-2003-0138) to generate and distribute electricity within 21 communities in Northern Ontario. Remotes is 100% debt-financed and is operated to break even, with a net income of zero based on actual results. Due to the lack of grid connection, Remotes generates its own electricity to fulfill its obligations under section 29 of the *Electricity Act, 1998* ("*the Electricity Act*").

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In recent discussions between Remotes and Board Staff ("Staff"), Staff suggested that Remotes file an exemption application requesting that the Board amend Schedule 3 of Remotes' distribution licence ED-2003-0037 ("the licence")as it is not up to date and does not reflect some of statutory exemptions available to Remotes. These include exemptions from reporting requirements that relate to matters from which Remotes is exempt by legislation and where reporting this information is neither practical nor appropriate.

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Remotes is applying for an exemption from sections 2.1.5, 2.1.14 (a), (b), (c) and 2.1.14.1
of the Electricity Reporting and Record Keeping Requirements Code ("the RRR 2.1.5

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and 2.1.14 parts") as those sections of the RRR are neither practical nor applicable to
Remotes. Remotes believes it is also prudent to request an exemption from Section 6.7.2
of the Distribution System Code ("DSC 6.7.2"), as DSC 6.7.2 relates to RRR 2.1.14.1.

Remotes respectfully requests that the Board approve this exemption application without a hearing, pursuant to section 21(4)(b) of the *Ontario Energy Board Act, 1998* ("*the OEB Act*"), as it is purely an administrative amendment to Remotes' licence for the aforementioned exemption relief, and no person or entity will be adversely affected by this.

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HYDRO ONE REMOTE COMMUNITIES

Remotes serves small, isolated or discrete communities that are scattered over roughly half of Ontario's land mass. A list of the communities and a map of the service territory are located at Appendix B to this application. Fifteen communities are First Nation reserves, and the other six are provincial communities, located mainly along the CN Rail line. The smallest communities have fewer than 40 customers, the largest fewer than 550. In total, Remotes serves approximately 3,650 residential, small commercial, government and seasonal customers.

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Due to their isolation and the vast distances that separate them, the cost to serve these 21 communities is high. Thirteen communities are accessible only by air for most of the 22 year. As a result, transportation of fuel, equipment and staff are a key driver of Remotes' 23 costs. To manage the high cost of transportation, Remotes plans its work to take 24 advantage of winter roads to move equipment and fuel, coordinates its field operations to 25 reduce the number of flights required by staff, and bundles its work to reduce the 26 transportation costs. For example, minor generation maintenance such as a station or 27 system check is grouped together to create a week of work. Similarly, distribution 28 connections, layouts and collection activities are not generally performed as single items 29 of work, but are grouped together into a single trip. 30

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2	To keep rates for residential and commercial services comparable to rates paid in the rest
3	of the Province, rates for residential and commercial customers are subsidized in three
4	ways: i) through Rural or Remote Rate Protection (RRRP); ii) through a cross-subsidy
5	from Standard A or Government customer rates which are set above the average cost of
6	service; and iii) through capital funding from Indian and Northern Affairs Canada
7	("INAC"), which pays for the cost of new electrical infrastructure on remote First Nation
8	Reserves.
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10	For these unique characteristics, Remotes is exempted from various sections of the
11	Electricity Act and the OEB Act and from certain regulations and Ministerial Directives
12	made under those statues. A list of legislative exemptions is provided as Appendix A.
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14	SPECIFIC EXEMPTION REQUESTS
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16	<u>A. RRR 2.1.14 (a), (b), (c) & 2.1.14.1 Net Metering</u>
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18	On March 15, 2018, the Board amended section 2.1.14 of the Electricity Reporting and
19	Record Keeping requirements ("the RRR") and added section 2.1.14.1 to the RRR.
20	Section 2.1.14 of the RRR requires electricity distributors to provide information on net
21	metering and embedded generation. These changes were made as a result of recent
22	amendments O. Reg. 541/05 – Net Metering that:
23	• Removes the 500 kW limit on the output capacity of the equipment used to
24	generate electricity that the generator intends to return to the distributor; and
25	• Permits the use of a storage device in a net metering arrangement.
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27	As the Board wishes to track a distributor's annual maximum peak load which is used
28	to calculate the cumulative generation capacity from net metered generation as described
29	in DSC 6.7.2, RRR 2.1.14.1 was also added to the RRR to require distributors to file their
30	annual maximum peak load for their licensed service for the previous three years.

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Remotes requests an exemption from RRR 2.1.14 (a), (b), (c) & 2.1.14.1, all of which are
related to net-metered generation, since it is statutorily exempted from the O. Reg. 541/05
under *the OEB Act* (the Net Meter Regulation). Specifically, section 3.(1) of O. Reg.
541/05 defines an exception where a distributor distributes electricity solely in a
community listed in Ontario Regulation 199/02 (Hydro One Inc.) made under *the Electricity Act.* O. Reg. 199/02 defines prescribed communities that are served by
Remotes for the purpose of subsection 48.1 (1) of *the Electricity Act*.

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A-1. Calculation of Peak Load in Licensed Service Area (RRR 2.1.14.1)

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Customers in Remotes' service territory are not eligible for provincial Feed-In Tariff 12 ("FIT") programs as the Independent Electricity System Operator (IESO) acknowledges 13 that communities served by Remotes are not eligible for the FIT program (See Appendix 14 C – IESO Letter of Comment). Remotes has established the Renewable Energy 15 **IN**novation **DiE**sel Emission Reduction (REINDEER) program in response to customer 16 desires and broader public policy goals to increase renewable generation in the province. 17 The program allows a "stand-alone" generation project that is settled based on the 18 avoided cost of diesel fuel and also offers customers a net metering opportunity. The 19 program reduces greenhouse gases coming from the generation, and offers customers an 20 opportunity to benefit economically from renewable energy projects. 21

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Remotes follows the requirements for connection of renewable generation set out in the 23 Distribution System Code ("DSC"). However, a sizing of renewable generation 24 installations for an electrically-isolated community like Remotes is different from that for 25 an electrically-interconnected environment. To ensure that each community's electrical 26 system remains safe and reliable, Remotes undertakes an engineering review of the 27 impact of renewable energy in each separate community prior to establishing the 28 REINDEER program. The review considers requirements associated with the integration 29 and impacts of renewable energy on each of the existing generation stations in order to 30

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ensure that the generation system can continue to operate safely. Remotes limits the size
of any customer-owned installation based on that engineering review for each discrete
community.

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Regardless of the fact that each community of Remotes that is not inter-connected to the 5 others nor to the grid system, applying sizing of renewable installations based on the 6 annual maximum peak load for Remotes' licensed service area as described in the DSC 7 6.7.2 ("the peak load") for the purpose of connection of the project is impractical and 8 inappropriate for the aforementioned safety and reliability purposes. Each discrete 9 community of Remotes has its own load profile, generation system and environment 10 surrounding the community. For example, the winter peak loads in Remotes vary from 59 11 kW to 2,655 kW depending on communities Remotes serves, while individual summer 12 peaks are typically one-fifth of the peak load. In the smallest community of Remotes, 13 summer daytime loads of 8 kW are not unusual. Moreover, the communities with the 14 lower peaks are road-connected and could be more attractive to a proponent because the 15 construction costs are generally lower than in an air-access community where the access 16 is much more limited, but where the load is higher. 17

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Also, the 'aggregated' peak load calculation of Remotes' communities does not make operational sense. Specifically, when assessing or planning a capital project for generation, Remotes calculates the annual peak load for each community as stand-alone to ensure that the generation in the communities can safely and reliably handle the load in each of the communities. The individual peaks within each community do not occur at the same time. Remotes does not calculate a peak load across its system as it is of no value to Remotes' operations or to its customers.

Therefore, Remotes requests that the Board approve an exemption from RRR 2.1.14.1. Reporting of the aggregated peak load across Remotes' territory would only confuse a potential proponent, as it cannot be used to cite or approve the potential proponent's renewable energy project in Remotes' service area. Also, doing so is contrary to the Board's objective laid out in the Board's letter dated March 15, 2018 that the intent of the RRR 2.1.14.1 is to track a distributor's annual maximum peak load which is *used* to
 calculate the cumulative generation capacity from net metered generators (as described in
 the DSC 6.7.2).

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A-2. Section 6.7.2 of the Distribution System Code (DSC 6.7.2)

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In addition to the RRR 2.1.14 (a), (b), (c) and 2.1.14.1 exemption request, Remotes 7 requests that the Board approve an exemption from the DSC 6.7.2. The DSC 6.7.2 is not 8 applicable since Remotes is exempted from the Net Meter Regulation as stated 9 previously. Also, DSC 6.7.2 is tied to RRR 2.1.14.1, which is not applicable to Remotes 10 for the aforementioned reasons. Furthermore, requiring Remotes to report the RRR 11 2.1.14.1 calculation in accordance with the DSC 6.7.2 could confuse a project proponent 12 to believe that its renewable generation can proceed in Remotes' communities because 13 the RRR 2.1.14.1 and DSC 6.7.2 calculation shows that there is room for that potential 14 generation connection, while an engineering review based on Remotes' REINDEER 15 guideline may say otherwise for safety and reliability concerns. 16

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18 B. RRR 2.1.5 Performance Based Regulation (PBR)

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The information filed under section 2.1.5 of the RRR is generally used for the purpose of benchmarking process for Performance Based Regulation ("PBR"). However, due to Remotes' unique circumstances and operational/financial characteristics, it would be neither feasible nor reasonable to compare Remotes to other ordinary electric distribution companies in Ontario or local distribution companies ("LDCs"). Board Staff has traditionally acknowledged that fact and overridden the RRR 2.1.5 requirements for Remotes.

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In the Board's initial 2007 Benchmarking Report titled Benchmarking the Costs of Ontario Power Distributors, Pacific Economics Group ("PEG") noted that Remotes was excluded from this benchmarking process and further stated that Remotes and First Nation distributors were not included due to the corporate structure, remote location,
economic and other unique factors. The Board has also recognized that its benchmarking
and productivity methodology is not applicable to Remotes. Specifically, in the Board's
Decision in EB-2014-0313, the Board noted as follows:

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Hydro One Remotes is unique in terms of its operating characteristics and cost recovery due to the RRRP. The assignment of a higher stretch factor would not provide the intended incentive to the distributor or benefit to its customers.

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The information required under 2.1.5 is generally used to compare the costs of 9 distributors in order to benchmark cost performance and to establish rates based on their 10 performance. Specifically, section 4.3 of O. Reg. 161/99 exempts Remotes from section 11 70(2)(e) of the OEB Act. This section of the OEB Act allows the Board to specify 12 methods or techniques to be applied in determining the licensee's rates and forms the 13 basis of the Board's benchmarking and performance based regulation in setting rates for 14 distributors within the province. Remotes' rates are set under rules established under the 15 RRRP regulation, which requires a Cost of Service examination of costs and establishes a 16 paradigm for rate setting and cost allocation that is distinct and separate from the Board's 17 normal review processes. 18

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Remotes' business is not comparable to that of other distributors in Ontario, and it is not 20 appropriate to measure Remotes' costs against those of grid-connected distribution 21 companies whose major activity is distributing electricity. Remotes functions in a unique 22 environment due to an extremely low customer density, a harsher climate, logistical 23 challenges arising from transportation, and the absence of an integrated transmission 24 system. Also, complex funding arrangements with third parties set Remotes apart from 25 other LDCs in Ontario. The size and isolation of Remotes' service territory means that 26 the transportation and accommodation of staff, fuel and equipment are key drivers of its 27 costs. Furthermore, Remotes' reliance on winter roads for access to communities is a 28 major factor of work scheduling/rescheduling and completion activities. Projects are 29 often deferred because winter roads are not possible due to the extreme weather 30

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conditions, which then leads to project deferral and higher fuel and maintenance
 expenditures.

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CONCLUSION

For the foregoing reasons, Remotes respectfully requests that the Board approve an exemption from sections 2.1.14 (a), (b), (c), 2.1.14.1 and 2.1.5 of the RRR and section 6.7.2 of the DSC, and asks that these exemptions be reflected in Schedule 3 of Remotes' distribution licence.

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1 APPENDIX A LEGISLATIVE EXEMPTIONS

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Remotes is exempt from various sections of the Electricity Act and the OEB Act and from certain regulations and Ministerial Directives made under those statues.

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6 <u>Exemptions from the Electricity Act:</u>

Ontario Regulation 160/99 exempts Remotes from various Sections and subsections of
 the Electricity Act as follows:

- Section 2.0.1(7) of the Regulation exempts Remotes from subsection 26(1) of the Electricity Act, *Non-discriminatory access*Section 2.1(2) of the Regulation exempts Remotes from subsection 26(3) of the Electricity Act, *Contracts with Ontario Hydro, to the extent that a contract*
- entered into by Ontario Hydro contains liabilities, rights or obligations that have
 been transferred to Remotes
- Section 2.3 of the Regulation exempts Remotes from section 28, *Distributor's obligation to connect*.
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18 Exemptions from the OEB Act:

- Ontario Regulation 161/99 exempts Remotes from various Sections and Subsections of
 the OEB Act as follows:
- Section 4.3 of the Regulation exempts Remotes from section 70(2)(e) of the OEB
 Act, specifying methods or techniques to be applied in determining the licensee's
 rates (performance based regulation)
- Section 5.1 of the Regulation exempts Remotes from Section 71 of the OEB Act,
 Restriction on business activity, "if the only activity engaged in by the subsidiary, other than transmitting or distributing electricity, is generating or retailing electricity for use by consumers in one or more communities,

1	(a) that are prescribed for the purposes of subsection $48.1(1)$ of the Electricity
2	Act, 1998 by the regulations made under that Act; and
3	(b) in which the subsidiary distributes electricity.
4	• Section 6.0.1 of the Regulation exempts Remotes from section 80 of the OEB
5	Act, Prohibition, generation by transmitters or distributors
6	• Section 6.0.2 of the Regulation exempts Remotes from section 81 of the OEB
7	Act, Prohibition transmission or distribution by generators
8	None of Remotes' customers is prescribed under sections 79.16 of the OEB Act.
9	In Section 2.(1) of the Regulation, the Net Metering Regulation establishes a distributor's
10	obligation to connect net metered renewable generation as follows: at the request of an
11	eligible generator and in the circumstances and manner described in this Regulation, a
12	distributor,
13	(a) Shall allow the eligible generator to convey eligible electricity into the
14	distributor's distribution system for a credit; and
15	(b) Shall bill the eligible generator on a net metering basis.
16	Section 3(1) of the Regulation provides an exception to Remotes as follows:
17	Subsection 2(1) does not apply to the following types of distributors:
18	A distributor that distributes electricity solely in a community listed in Ontario
19	Regulation 199/02 (Hydro One Inc.) made under the Electricity Act, 1998.

1 APPENDIX B SERVICE TERRITORY AND MAP

2 ONTARIO REGULATION 199/02 of the Electricity Act

- 3 HYDRO ONE INC.
- 4 Prescribed communities
- 5 1. The following communities are prescribed for the purposes of subsection 48.1 (1) of
- 6 the Electricity Act:
- 7 1. Armstrong.
- 8 2. Revoked: O. Reg. 454/03, s. 1.
- 9 3. Bearskin Lake.
- 10 4. Big Trout Lake.
- 11 5. Biscotasing.
- 12 6. Collins.
- 13 7. Deer Lake.
- 14 8. Fort Severn.
- 15 9. Gull Bay.
- 16 10. Hillsport.
- 17 11. Kasabonika Lake.
- 18 12. Kingfisher Lake.
- 19 13. Landsdowne House.
- 20 13.1 Marten Falls.
- 21 14. Oba.
- 15. Sachigo Lake.
- 16. Sandy Lake.
- 24 17. Sultan.
- 18. Wapakeka.
- 19. Weagamow.
- 27 20. Webequie.
- 28 21. Whitesand.

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1 MAP OF REMOTES' SERVICE TERRITORY

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- 3 The map below is a representation of Remotes' service territory. It is not a substitute for
- 4 the written description in the licence.



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APPENDIX C IESO Letter of Comment

IESO Letter of Comment

Hydro One Remote Communities Inc.

Renewable Energy Generation Investments

April 4, 2017



Introduction

On March 28, 2013, the Ontario Energy Board ("the OEB" or "Board") issued its Filing Requirements for Electricity Transmission and Distribution Applications; Chapter 5 – Consolidated Distribution System Plan Filing Requirements (EB-2010-0377). Chapter 5 implements the Board's policy direction on 'an integrated approach to distribution network planning', outlined in the Board's October 18, 2012 Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance Based Approach.

As outlined in the Chapter 5 filing requirements, the Board expects that the Ontario Power Authority¹ ("OPA") comment letter will include:

- the applications it has received from renewable generators through the FIT program for connection in the distributor's service area;
- whether the distributor has consulted with the OPA, or participated in planning meetings with the OPA;
- the potential need for co-ordination with other distributors and/or transmitters or others on implementing elements of the Renewable Energy Generation ("REG") investments; and
- whether the REG investments proposed in the DS Plan are consistent with any Regional Infrastructure Plan.

Hydro One Remote Communities Inc. – Renewable Energy Generation Investments

On March 3, 2017, the IESO received a letter from Hydro One Remote Communities Inc. ("Remotes") in order to obtain a letter of comment from the IESO pertaining to Renewable Energy Generation Investments Information as part of its 5-year Distribution System Plan. The IESO has the following comments:

The letter contained no REG investments that required the IESO's comment. The IESO acknowledges that communities served by Remotes were/are not eligible for the FIT program, and therefore there is no need for REG Investments or co-ordination with other distributors and/or transmitters on this subject.

With respect to planning, the IESO confirms that Remotes is an active participant to the Remote Community Connection Plan for which the government issued an Order in Council on July 29, 2016, confirming the need for the project to connect 21 remote communities. Remote community connections are underway and supported by the government designating Wataynikaneyap Power as the transmitter for connecting 16 communities and the new line to Pickle Lake. Remotes is working closely with the IESO with respect to the ongoing work required to connect the remaining five remote communities.

The IESO looks forward to working further with Hydro One Remote Communities Inc. on planning for the connection of remote communities, and appreciates the opportunity to provide its letter of comment as required.

¹ On January 1, 2015, the Ontario Power Authority ("OPA") merged with the Independent Electricity System Operator ("IESO") to create a new organization that will combine the OPA and IESO mandates. The new organization is called the Independent Electricity System Operator.