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**BY EMAIL**

December 06, 2024

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4  
[Registrar@oeb.ca](mailto:Registrar@oeb.ca)

Dear Ms. Marconi:

**Re: Ontario Energy Board (OEB) Staff Submission  
Hydro One Remote Communities Inc.  
Shoulderblade Falls Hydel – Funding Application  
OEB File Number: EB-2024-0180**

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Please find attached OEB staff's submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

*Original Signed By*

Margaret DeFazio, P.Eng.  
Electricity Distribution

Encl.

cc: All parties in EB-2024-0180



# **ONTARIO ENERGY BOARD**

## **OEB Staff Submission**

**Hydro One Remote Communities Inc.**

**Shoulderblade Falls Hydel – Funding Application**

**EB-2024-0180**

**December 06, 2024**

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## Background

Shoulderblade Falls Hydel Station (Hydel) was constructed in the 1990s and was funded by Ontario Hydro, Deer Lake First Nation (Deer Lake) and Indigenous Northern Affairs Canada as a demonstration of renewable technology in the north. The Hydel is a run of the river, 490kW hydro-electric station that operates year-round. Deer Lake and Ontario Hydro (later Hydro One Remote Communities Inc., referred to here as HORCI) had an agreement where HORCI would operate the Hydel and transfer ownership to Deer Lake at the end of the agreement. During what HORCI refers to as the partnership period, Ontario Hydro (and then HORCI) recovered its costs to operate and maintain the Hydel, and paid Deer Lake for electricity generated by the Hydel based on the avoided cost of diesel fuel. The agreement was entered into in 1999 with a ten-year term. The term was extended to 2012, and further extended through 2022. “During this period, [HORCI] paid Deer Lake for use of the Hydel and road maintenance. [HORCI] also purchased energy from the Hydel and applied it as an offset to fuel expense. These costs have historically been approved in Remotes’ rate applications.”<sup>1</sup>

When Deer Lake was connected to the Wataynikaneyap Power Limited Partnership (WPLP) transmission line on April 16, 2024, ownership and rights to the Hydel and a related distribution line were transferred from HORCI to Deer Lake. Payments from HORCI to Deer Lake ceased and are excluded from HORCI’s revenue requirement.

Deer Lake has continued to operate the Hydel as a non-registered generator. The energy from the Hydel feeds into the HORCI Diesel Generation Station (DGS) in Deer Lake, which has been repurposed as back up supply in the event of an interruption of service from the WPLP transmission line. However, Deer Lake has no agreement for compensation for these services or for the ongoing maintenance and repair costs of the Hydel. HORCI advised that in its 2023 Rebasing Application (EB-2022-0041) filed on August 31, 2022, it did not include capital or OM&A funding for the Hydel in its forecast revenue requirement as Deer Lake was not certain it would continue operating the Hydel after its connection to the WPLP transmission line. Deer Lake subsequently determined that it wanted to continue operating the Hydel to supply its community with clean electricity and critical back-up power.<sup>2</sup>

In its application, HORCI stated that:

...prior to entering into an agreement with Deer Lake, Remotes is seeking OEB approval to record the 2024-2027 forecast amounts paid to Deer Lake for road maintenance and for the electricity generated by the Hydel, as well as the annual

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<sup>1</sup> EB-2024-0180, Hydro One Remote Communities Inc. – Shoulderblade Falls Hydel – Funding Application – Application and Evidence, p. 9

<sup>2</sup> EB-2024-0180, Hydro One Remote Communities Inc. – Shoulderblade Falls Hydel – Funding Application – Application and Evidence, p. 7

cost to operate and maintain the Hydel, in the Remote or Rural Rate Protection Variance Account (RRRPVA).

Upon approval of this Application by the OEB, Remotes and Deer Lake will execute an agreement to reflect the OEB's decision. The total incremental amount to be recorded in the RRRPVA is forecast to be approximately \$343K per year.

## Application Summary

As part of its application, HORCI requested:

- a) To record the Hydel's annual costs and the amounts paid to Deer Lake for road maintenance and for the electricity generated by the Hydel in the RRRPVA;
- b) Disposition of RRRPVA balance at Remotes' next rebasing application; and
- c) Other items and/or amounts that may be requested by Remotes in the course of this proceeding, and as may be granted by the OEB.

A Notice of Hearing was issued on September 20, 2024. The OEB did not receive any intervention requests.

OEB Staff filed written interrogatories on November 08, 2024, and HORCI responded with written responses on November 22, 2024.

## OEB Staff Submission

### The Application

#### The Situation

HORCI is a unique entity that serves isolated communities and remote grid-connected communities in Northern Ontario, where it is licensed to distribute and generate electricity. Given its unique role in serving non-grid connected communities, HORCI's distribution license provides exemptions from the Retail Settlement Code, Standard Supply Service Code and sections of the Distribution System Code<sup>3</sup>.

HORCI's rates are set under the Rural or Remote Rate Electricity Protection (RRRP) Regulation, O. Reg 442/01. HORCI's customers therefore pay rates below the cost of service and HORCI's revenue shortfall is recovered through RRRP.

HORCI operates a break-even company with no return on equity. Any excess or deficiency in RRRP revenues for HORCI to operate break-even is added to HORCI's RRRP Variance Account (RRRPVA).

Deer Lake is a remote community in north-western Ontario with an on-reserve population of approximately 1,100 people. Deer Lake is accessed only by air and a seasonal winter road. Deer Lake's remote location, limited access and small population impacts parts and supplies delivery timelines and human resources access, and increases costs for capital work and maintenance on the distribution system and generating facilities.

Prior to Deer Lake being connected to the WPLP transmission line on April 16, 2024, distribution and generation services were provided by HORCI. Electricity was generated locally through the DGS and the Hydrel. Since Deer Lake connected to the WPLP transmission line HORCI continues to provide distribution services and provides back-up power supply to Deer Lake through the repurposed DGS.

#### Potential for Growth

Electrical load growth is forecast in the next five years due to Deer Lake's connection to the WPLP transmission line. New housing construction and electrification of heating, due to the additional load capacity provided by the transmission connection compared to the DGS, are drivers for this load growth.

HORCI is committed to providing Deer Lake with back-up power until 2030, at which time the commitment will be re-evaluated.

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<sup>3</sup> Electricity Distribution License ED-2003-0037, Hydro One Remote Communities Inc.

### Customer Engagement

Deer Lake wrote the OEB supporting the continued operation of the Hydel in July of 2024<sup>4</sup>. The letter emphasized the significance of the Hydel to the community, the successful ongoing partnership with HORCI and the community's desire to continue harnessing green energy.

No parties applied for intervenor status on this application. Other than from Deer Lake, no letters of comment have been received on the application.

### Proposed Agreement

HORCI stated it does not yet have a draft agreement with Deer Lake as the term and details are “dependent on the OEB’s decision in this Application”<sup>5</sup>.

Because HORCI is exempt from the *Retail Settlement Code* and portions of the *Distribution System Code*, it is not required to follow the same payment schedule that other distributors do with embedded generation. HORCI has proposed a unique funding model for the yearly payments to Deer Lake for the Hydel which considers the unique circumstances of the Hydel.

The forecast impact of the funding model to HORCI’s yearly revenue requirement, and therefore the RRRP, is an additional \$343k, which represents an increase of 0.18% to the total RRRP amount.

The pole line connecting the Hydel to the DGS in Deer Lake was also transferred to Deer Lake on April 16, 2024. HORCI states that it “believes it is best positioned to perform the ongoing operation and maintenance of the line” and would offer to include it in the agreement with Deer Lake<sup>6</sup>. Although currently there does not appear to be a need for planned work on the line, its ongoing operation is critical to the operation of the Hydel.

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<sup>4</sup> EB-2024-0180, Hydro One Remote Communities Inc. – Shoulderblade Falls Hydel – Funding Application – Application and Evidence, Attachment A

<sup>5</sup> EB-2024-0180, Interrogatory Staff-01

<sup>6</sup> Ibid



## Staff Comments – the Hydel

OEB staff supports the continued operation of the Hydel for the following reasons:

1. The Hydel is an existing, non-emitting source of electricity, and decommissioning the station at this point would be premature.
2. The construction and ongoing operation of the Hydel is an example of a successful collaboration of remote First Nations communities with external partners in the remote North.
3. The Hydel provides power to the DGS in instance of a transmission outage, facilitating faster restoration of power to the community.
4. If the DGS continues to be used for backup power, the operation of the Hydel may defer capital investments to increase the size of the DGS.
5. The community of Deer Lake supports HORCI continuing to operate the Hydel.
6. While this application has been filed after the connection to the WPLP transmission line, OEB staff believes that had the continued operation of the Hydel after the Deer Lake connection to the WPLP transmission line been more certain at the time of HORCI's last cost of service application, the funding model would have been considered in that case.
7. OEB staff do not consider this arrangement to be a precedent or model for any other embedded generation due to the unique circumstances of this application.

OEB staff considers it important to emphasize that the payment arrangements proposed by HORCI are not typical, but they appear to OEB staff to be consistent with a long-standing relationship that has been in place since the 1990s. OEB staff may have a different view of the payment arrangements if they were proposed in relation to other embedded generation facilities.

The Hydel was managed by HORCI until April 16, 2024, and the community of Deer Lake therefore did not develop the internal expertise to do maintenance, capital planning or water management planning for the station. Due to its history with the Hydel, and continued operations in Deer Lake as a distributor and provider of back-up energy, OEB staff agrees that HORCI is best positioned to operate, maintain and repair the Hydel.

## Staff Comments – The Issues List

OEB staff make the following summary comments on the items contained in the Issues List.

Issue 1. Is the request to record amounts paid for Shoulderblade Falls Hydel through Rural and Remote Rate Protection (RRRP) funding appropriate?

Prior to Deer Lake connecting to the WPLP transmission line, the costs of operating the Hydel were included in HORCI's revenue requirement, which was supplemented by the RRRP. Due to the unique nature of HORCI's regulatory, rate and financial structures, the RRRP remains the most appropriate source of revenue for HORCI's additional costs.

Issue 2. Are the Shoulderblade Falls Hydel annual costs appropriate?

Issue 3. Is the methodology to calculate amounts paid for electricity generated appropriate?

Issue 4. Is the amount paid for road maintenance appropriate?

The proposed cost structure is one of many unique facets of this application and the underlying historical arrangement related to the Hydel. The costs to operate the Hydel are expected to be higher than embedded generators in more populous and central locations, for reasons previously discussed. Traditional revenue and profit analysis do not apply to this situation for HORCI or Deer Lake. As noted previously, OEB staff may have a different view of the payment arrangements if they were proposed in relation to other embedded generation facilities, but the long-standing arrangements related to the Hydel suggest to OEB staff that HORCI should be held whole for its work related to the Hydel, and that it is reasonable for Deer Lake to benefit from the Hydel's continued operation.

However, OEB staff invite HORCI to include, in its reply submission, explanations why other existing funding mechanisms, for example, contracting with the IESO as a renewable generator, are not suitable for continuing operation of the Hydel.

If this application is approved, OEB staff recommends that when HORCI applies to dispose of the RRRVA it be required to provide an annual breakdown of all forecast costs and actual costs for the Hydel and the distribution line connecting the Hydel to the DGS, with variance explanations.

Issue 5. Is the proposed effective date appropriate?

The Hydel has continued to operate since the proposed effective date of April 16, 2024, providing energy to the community. Accordingly, OEB staff submits that the proposed effective date is appropriate.

~All of which is respectfully submitted~