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BY EMAIL AND RESS

July 7, 2026

Mr. Ritchie Murray
Registrar
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Mr. Murray,

Re: EB-2026-0177 – Hydro One Remote Communities Inc.'s Request for Exemption from Sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the Distribution System Code

Please find an application from Hydro One Remote Communities Inc. requesting an exemption from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the Distribution System Code.

Please do not hesitate to contact myself or Yoon Kim (yoon.kim@hydroone.com) if you have any questions.

An electronic copy of this request for exemption has been filed submitted using the OEB's Regulatory Electronic Submission System.

Sincerely,

Jason Savulak

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 granting an exemption from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the Distribution System Code.

APPLICATION

1. Hydro One Remote Communities Inc. ("Remotes") is a subsidiary of Hydro One Inc. and is licensed by the Ontario Energy Board ("OEB" or "Board") as a distributor (ED-2003-0037) and generator (EG-2023-0227).

2. Remotes is a unique integrated utility that generates and distributes electricity across twelve isolated off-grid communities and sixteen grid-connected communities in Northern Ontario.

3. This application is being filed for the purpose of updating Schedule 3 of Remotes' Distribution Licence to correctly capture exemptions from the Distribution System Code (DSC) that have already been afforded to Remotes and incorporated into its service model. Certain provisions in the DSC, specifically the requirement for distributors to perform an economic evaluation ("the evaluation model") for system expansions, do not apply to Remotes given its unique operating model and rate funding framework, which is based on a break-even structure.

4. Remotes is requesting exemptions from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the DSC, which specify provisions in respect of basic connection cost recovery and the evaluation model, including the need for collecting expansion deposits and issuing rebates subject to that model.

5. Pending the Board's decision, Remotes requests interim exemptions from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the DSC.

6. Remotes requests that the Board conduct its review of this application without a hearing under section 21(4)(b) of the *Ontario Energy Board Act, 1998* ("*the OEB Act*"), since no person will be adversely affected in a material way by the outcome of this proceeding.

1. BACKGROUND

Remotes is a wholly owned subsidiary of Hydro One Inc. and a unique integrated electrical utility that provides generation and distribution services to remote and isolated communities in northern Ontario. Remotes operates as a 100% debt-financed, break-even entity, which receives no return on equity ("ROE") and uses a cost-recovery model designed to achieve an after-tax, break-even result. Compared to other local distribution companies (LDCs"), whose rates are determined based on a revenue requirement that considers the cost of capital, including an ROE, Remotes operates under a fundamentally different rate-setting and funding structure.

Due to these unique characteristics, Remotes is exempt from various provisions of the *Electricity Act, 1998,* the *OEB Act, 1998,* and certain regulations and Ministerial directives made under those statues. A summary of these exemptions is provided in Appendix A.

2. EXEMPTION REQUEST RATIONALE

Remotes charges customers the actual cost of connection to its distribution system and operates on a break-even, cost-recovery basis, consistent with the Board's Decision in RP-1998-0001. Its tiered rate structure is bundled, reflecting combined generation, distribution, and transmission costs, in contrast to the unbundled, market-based framework applicable to most Ontario LDCs.

Unlike most LDCs, Remotes operates based on a distinct funding framework comprised of three primary sources: the Rural or Remote Electricity Rate Protection ("RRRP") program under O. Reg. 442/01, significant capital funding from Indigenous Services Canada ("ISC"), and contributions from government-funded customers ("Standard A customers"). In accordance with this framework, Remotes is fully debt-financed to operate on a break-even basis, with any surplus or shortfall managed through the RRRP. As a result, most customers pay rates that are significantly below the actual cost of service.

Under longstanding Electrification Agreements ("the Agreements") with the federal government and in cooperation with local First Nation leadership, ISC (or a related government entity) funds the majority of new capital investments in First Nation communities, such as off-grid generation upgrades, system expansions, and customer connections. Remotes remains responsible for the operation, maintenance, and replacement of existing infrastructure. Assets fully funded at actual cost by the First Nation/Federal government are recorded at a net book value of zero and therefore excluded from Remotes' rate base.

Accordingly, the requirement in the DSC for LDCs to perform economic evaluations for system expansions does not apply to Remotes. The economic evaluation model is applicable and appropriate where an LDC makes system investments that will lead to increased rate revenues, which does not align with Remotes' funding and operational structure where subsidies required to maintain affordable rates for non-government customers ("Non-Standard A customers"). Application of the model would increase costs for Remotes' customers, as the cost of service significantly exceeds forecast revenues. At the same time, connection costs for Standard A customers would decrease, contrary to the longstanding funding arrangements.

In summary, the combination of subsidized rates and government-funded capital investments fundamentally distinguishes Remotes' cost structure and revenue recovery mechanisms from those of other LDCs. This framework has been in place since the former Ontario Hydro was responsible for providing electricity service to the communities now served by Remotes and continues to support the policy objective of maintaining affordable electricity in remote communities.

3. SPECIFIC EXEMPTIONS

For the reasons set out above, Remotes requests exemptions from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the DSC, which specify requirements related to basic connection cost recovery and use of the economic evaluation model, including the need to collect expansion deposits and issue rebates.

Section 3.1.4 requires a distributor to define and recover its basic connection cost through its revenue requirement. The need to implement these provisions would not apply to Remotes given that its rates are subsidized through third-party agreements for capital funding.

Sections 3.2.1 and 3.2.2 require distributors to apply the economic evaluation model. As described above, this model is incompatible with Remotes' funding and cost-recovery framework.

Sections 3.2.5 A and B address renewable energy expansion cost caps. These provisions also do not apply to Remotes, as new capital investments required to support renewable generation connections would also be funded by the federal government and subsidy programs, such as the RRRP.

Subsections 3.2.8 (c), (d) and (e) and section 3.2.9 set out requirements for information to be included in a distributor's initial offer to connect in relation to capital contributions, expansion deposits and connection charges. As Remotes charges actual connection costs and recovers costs through a different framework than other LDCs, these provisions are also not applicable.

Section 3.2.21 requires distributors to collect expansion deposits to address forecast and asset risks associated with system expansions. This requirement is not applicable to Remotes due its cost recovery approach based on actual costs and its distinct funding model.

Section 3.2.27 specifies provisions for providing customer rebates within the connection horizon in accordance with the economic evaluation model. Since the need to perform an economic evaluation does not apply to Remotes for the reasons set out above and capital costs for expansions are largely funded through federal agreements, the provisions in this section do not apply to Remotes.

Additionally, most communities served by Remotes are First Nation communities and each community or band is treated as a single customer who is responsible for their own reserve and respective service area, with no expectation of additional customers beyond the community itself. Therefore, a scenario would never arise where an unforecasted customer would be responsible for rebating another customer.

4. CONCLUSION

The exemptions formally sought by Remotes in this application are necessary to reflect Remotes' unique operational and financial structure and failing to do so would result in impractical and inequitable outcomes that are contrary and inconsistent with the longstanding framework under which Remotes operates. Furthermore, approval of the exemptions is required to maintain consistency with longstanding government-established funding arrangements and policy objectives, including the continued provision of affordable electricity service to remote communities.

For the reasons set out in this application, Remotes respectfully requests that the Board:

1. Grant an interim exemption from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the DSC, pending the Board's final decision on this application;

2. Grant exemptions from sections 3.1.4, 3.2.1, 3.2.2, 3.2.5 A and B, 3.2.8 (c), (d) and (e), 3.2.9, 3.2.21 and 3.2.27 of the DSC; and

3. Update Schedule 3 of Remotes' distribution licence to properly reflect these exemptions.

APPENDIX A

EXEMPTIONS FROM LEGAL REQUIREMENTS

Based on Remotes' unique circumstances, it is exempt from a number of legal and regulatory obligations imposed on most distributors:

Electricity Act, 1998

Remotes is exempt from the following sections of the *Electricity Act, 1998*:

- Subsection 26(1), non-discriminatory access;
- Subsection 26(3), to the extent that a contract entered into by Ontario Hydro contains liabilities, rights or obligations that have been transferred to Remotes; and
- Section 28, distributor's obligation to connect.

Ontario Energy Board Act, 1998

Remotes is exempt from the following sections of the *Ontario Energy Board Act, 1998*:

- Section 70(2)(e), specifying methods or techniques to be applied in determining the licensee's rates;
- Section 71, restriction on business activity;
- Section 80, prohibition, generation by transmitters or distributors; and
- Section 81, prohibition, transmission or distribution by generators.