



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

DECISION AND ORDER

EB-2024-0180

HYDRO ONE REMOTE COMMUNITIES INC.

Application for incremental funding for Shoulderblade Falls Hydel Station

BEFORE: Patrick Moran
Presiding Commissioner

Robert Dodds
Commissioner

Anthony Zlahtic
Commissioner

March 11, 2025



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1 OVERVIEW

On August 27, 2024, Hydro One Remote Communities Inc. (HORCI) applied for approval to:

- a) continue to operate the Shoulderblade Falls Hydel Station (Hydel Station), and
- b) record the 2024-2027 forecast amounts paid to Deer Lake for road maintenance and for the electricity generated by the Hydel Station, as well as the annual cost to operate and maintain the Hydel Station, in the existing Remote or Rural Rate Protection Variance Account (RRRPVA).

OEB staff filed a submission on December 6, 2024,¹ on all issues included on the approved Issues List.²

On December 19, 2024, HORCI filed its reply submission.

The OEB approves the continued operation of the Hydel Station by HORCI and the recording of the 2024-2027 forecast amounts paid by HORCI to Deer Lake for road maintenance and for the electricity generated by the Hydel Station, as well as the annual cost to operate and maintain the Hydel Station, in the RRRPVA.

As a result of this Decision and Order, it is estimated the annual impact to the RRRPVA will be an increase of \$343k (0.71%) and the estimated impact to the provincial Rural or Remote Rate Electricity Protection (RRRP) will be an increase of 0.18%.

¹ [OEB Staff Submission](#), December 6, 2024

² The Issues List approved in the [OEB's Decision on Issues List](#), November 4, 2024

2 BACKGROUND

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

The Hydel Station was constructed in the 1990s and was funded by Ontario Hydro, Deer Lake First Nation and Indigenous and Northern Affairs Canada as a demonstration of renewable technology in the north. The Hydel Station is a run of the river, 490kW hydro-electric station that operates year-round. Deer Lake First Nation and Ontario Hydro originally, and subsequently HORCI, had an agreement where HORCI would operate the Hydel Station and transfer ownership to Deer Lake First Nation at the end of the agreement.

During what HORCI refers to as the partnership period, Ontario Hydro, and subsequently HORCI, recovered its costs to operate and maintain the Hydel Station, and paid Deer Lake First Nation for electricity generated by the Hydel Station 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 First Nation for use of the Hydel Station and road maintenance. HORCI also purchased energy from the Hydel Station and applied it as an offset to fuel expense. These costs have historically been included in HORCI's approved rates.

When Deer Lake was connected to the Wataynikaneyap Power Limited Partnership (WPLP) transmission line on April 16, 2024, ownership and rights to the Hydel Station and a related distribution line were transferred from HORCI to Deer Lake First Nation. Payments from HORCI to Deer Lake First Nation ceased and are now excluded from HORCI's revenue requirement. HORCI advised in its 2023 Rebasing Application³ that it did not include capital or OM&A funding for the Hydel Station in its forecast revenue requirement as Deer Lake First Nation was not certain it would continue operating the Hydel Station after its connection to the WPLP transmission line.

³ EB-2022-0041

Deer Lake First Nation subsequently determined that it wanted to continue operating the Hydel Station to supply its community with clean electricity and critical back-up power and has continued to operate the Hydel Station as a non-registered generator. The energy from the Hydel Station 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 First Nation has no agreement for compensation for these services or for the ongoing maintenance and repair costs of the Hydel Station.

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

HORCI's rates are set under the RRRP Regulation, O. Reg 442/01. HORCI's customers pay rates that do not fully cover the cost of service, giving rise to a revenue shortfall that HORCI recovers under the RRRP regime.

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

Potential for Growth

Electricity 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, relying on the additional load capacity provided by the WPLP transmission connection, 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.

Customer Engagement

Deer Lake First Nation wrote the OEB in July of 2024, supporting the continued operation of the Hydel Station by HORCI. The letter emphasized the significance of the Hydel Station 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 First Nation, no letters of comment have been received on the application.

3 PROPOSED AGREEMENT

HORCI stated that it does not yet have a draft agreement with Deer Lake First Nation as the term and details are “dependent on the OEB’s decision in this Application”.

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 First Nation for the Hydel Station, taking into account the unique circumstances of the Hydel Station.

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 annual RRRP amount.

The pole line connecting the Hydel Station to the HORCI DGS in Deer Lake was also transferred to Deer Lake First Nation 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 First Nation. 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 Station.

Findings

The OEB accepts HORCI’s explanation for why other existing funding mechanisms – for example, contracting with the IESO as a renewable generator – are not suitable for the continuing operation of the Hydel Station. The OEB approves the continued operation of the Hydel Station by HORCI for the following reasons:

1. The Hydel Station 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 Station is an example of a successful collaboration of remote First Nations communities with external partners in the remote North.
3. The Hydel Station provides power to the HORCI DGS if there is a transmission outage, facilitating faster restoration of power to the community.
4. The community supports HORCI continuing to operate the Hydel Station.

5. the availability of the Hydel Station, if the HORCI DGS continues to be used for backup power, may enable HORCI to defer capital investments to increase the size of the DGS.
6. The Hydel Station has historically been managed by HORCI, and the community itself has not developed its own capacity to do maintenance, capital planning or water management planning for the station.
7. HORCI is best positioned to operate, maintain and repair the Hydel Station due to its remoteness and HORCI's history with the Hydel Station, and continued operations in Deer Lake as a distributor and provider of back-up energy.

The OEB finds the Hydel Station annual costs and the methodology to calculate amounts paid for electricity generated are appropriate.

The OEB further finds the amount paid for road maintenance is appropriate since the costs to operate the Hydel Station are expected to be higher than for embedded generators in more populous and central locations.

The OEB does not consider this arrangement to be a precedent or model for any other embedded generation due to the unique circumstances of this application. Traditional revenue and profit analysis do not apply to this situation for HORCI or Deer Lake First Nation.

The OEB emphasizes that although the payment arrangements proposed by HORCI are not typical, the OEB considers them consistent with the long-standing relationship that has been in place since the 1990s.

4 RURAL AND REMOTE RATE PROTECTION

HORCI requested to record the amounts paid to Deer Lake First Nation for road maintenance and for the electricity generated by the Hydel Station, as well as the annual costs to operate and maintain the Hydel Station, in the RRRPVA.

HORCI's revenue requirement is supplemented by the RRRPVA, if required, due to the unique nature of HORCI's regulatory, rate and financial structures. Costs related to the Hydel Station were previously part of HORCI's revenue requirement, and variances would therefore have contributed to the overall revenue variance addressed by the RRRPVA. The RRRPVA has been historically reviewed and disposed of in cost of service proceedings.

Findings

The OEB finds the request to record the forecast amounts HORCI will pay for the Hydel Station over the 2024 to 2027 period in the RRRPVA is appropriate.

As a condition of this approval, when HORCI applies to dispose of the RRRPVA, it shall provide an annual breakdown of all forecast and actual costs for the Hydel Station, the distribution line connecting the Hydel Station to the DGS and road maintenance, with explanations for variances.

5 EFFECTIVE DATE

HORCI has requested the funding be effective April 16, 2024, the date that the ownership of the Hydel Station was transferred to Deer Lake.

Findings

The OEB finds the effective date of April 16, 2024, is appropriate since the Hydel Station has continued to operate since that date, providing energy to the community.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Hydro One Remote Communities may continue to operate the Shoulderblade Falls Hydel Station.
2. Hydro One Remote Communities shall record amounts paid to Deer Lake First Nation for road maintenance and for the electricity generated by the Hydel Station, as well as the annual cost to operate and maintain the Hydel Station, in the Remote or Rural Rate Protection Variance Account.
3. Hydro One Remote Communities Inc. shall pay the OEB's costs incidental to this proceeding upon receipt of the Ontario Energy Board's invoice.

DATED at Toronto **March 11, 2025**

ONTARIO ENERGY BOARD

Nancy Marconi
Registrar