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DATE:	November 20, 2017
MEMORANDUM TO:	Rosemarie Leclair and Mary Anne Aldred
FROM:	Theodore Antonopoulos
SUBJECT:	Information for Chiefs of Ontario Round Table Meeting

Introduction

This memo provides background information on five topics that may arise in discussion at the Chiefs of Ontario Round Table meeting to be held on Wednesday, November 22, 2017.

1. First Nations On-reserve Delivery Credit

The Fair Hydro Act, 2017 came into effect on July 1, 2017. The Act puts in place the framework for giving effect to the Fair Hydro Plan initiatives. One of the initiatives provides bill relief for residential customers in rural or remote areas of the province and for on-reserve First Nations residential customers. This initiative affects the part of their bills that covers the cost of delivering electricity to their homes.

In 2016, the OEB engaged with First Nations and the utilities that serve them and submitted a report to the Minister of Energy on options for electricity rate assistance for on-reserve First Nations customers. Based on information the OEB collected at the time, about 21,500 on-reserve residential customers were served by the following utilities: Algoma; Attawapiskat; Bluewater; Cat Lake; Cornwall; Fort Albany; Kashechewan; Hydro One; Hydro One Remote Communities; PUC (Sault Ste. Marie); and Thunder Bay Hydro.

Under the First Nations Delivery Credit program (FNDC), on-reserve First Nations customers receive a 100% credit to fully off-set the costs covered by the Delivery line on their bill which includes both the fixed monthly service charge and variable distribution charge. The credit applies to homes located on or within a reserve that are served by a licensed utility if the account holder for the home is a member of a band within the meaning of the federal Indian Act. The credit applies to electricity used on and after July 1, 2017.

2. Distribution Rate Protection[1]

Also under the Fair Hydro Act, there are eight distributors who serve rural and/or remote areas, whose residential customers have their monthly distribution charge capped under the Distribution Rate Protection program (DRP). Every year, the OEB sets the rates that all licensed and rate-regulated Ontario distributors charge their customers in order to fund the RRRP program. The base distribution charge is currently based on the 2017 approved monthly fixed charge, divided by the percentage of revenue for the class collected through the fixed monthly service charge in the most recent application filed by each of the subject utilities. The eight utilities are: Atikokan, Algoma, Chapleau, InnPower, Sioux Lookout, Hydro One (R1 and R2), Lakeland (Parry Sound) and Northern Ontario Wires.

The charge is capped based on parameters outlined in the DRP regulation. For July 1, 2017 the cap was based on the minimum fully fixed distribution charge for the named utilities that had approved 2017 rates. Currently, the OEB has capped the charge at $36.43 per month (the charge from Northern Ontario Wires). The OEB will review the cap annually.

3. Hydro One Remote Communities Inc.[2]

Hydro One Remote Communities Inc. (HORCI) is an integrated generation and distribution company offering electrical services to isolated communities in Northern Ontario. It serves 21 communities comprised mainly of First Nations and Métis people. Most of its electricity is generated by diesel fueled generators which are augmented by two run-of-the-river mini-hydro electric generating facilities and four windmills.

Customer rates are regulated by the Ontario Energy Board, but Provincial Regulation sets out rules for rate setting. Currently, Ontario electricity customers fund roughly 35% of the costs of supplying remote communities served by HORCI, through the Rural or Remote Electricity Rate Protection funding mechanism (RRRP). Other funding of the electricity systems in these communities is provided by the Government of Canada, through Aboriginal Affairs and Northern Development Canada (56%). Remote community customers fund the remainder of the costs for supplying their communities.

On August 28, 2017, HORCI filed an application seeking approval of the 2018 revenue requirement and customer rates for the distribution and generation of electricity, in the Hydro One Remote Communities service area, to be implemented on May 1, 2018. The OEB issued its Letter of Direction on November 11, 2017, along with notices translated

[1] EB-2017-0234, Decision on RRRP Charge and DRP for July 1, 2017
[2] EB-2017-0051, HORCI rate application

into French, Cree, Ojibway and Oji-Cree. The intervention period ends on December 4, 2017.

4. Five Nations Energy Inc.[3]

Five Nations Energy Inc. (Five Nations Energy) is one of five licensed electricity transmitters in Ontario. It is also the only First Nations owned electricity transmission company in Canada. Five Nations Energy is owned equally by Attawapiskat Power Corporation, Fort Albany Power Corporation, and Kashechewan Power Corporation.

One of Five Nations Energy's major accomplishments is the Omushkego Ishkotayo Project (Western James Bay Transmission Line Project) in 2001; a 270 km long transmission line that services the remote Communities of Attawapiskat, Fort Albany, and Kashechewan.

Five Nations Energy filed a cost of service application with the OEB on July 27, 2016 (completed November 25, 2016) seeking approval for changes to its transmission revenue requirement effective January 1, 2016. The application was filed late, the hearing was long, and the record is now closed. The Panel's decision is pending and among other matters, is expected to deal with the following key issues.

- The proposed effective date of January 1, 2016 given that the application was filed late.
- The recovery of the capital expenditures associated with the construction of a new head office in Timmins (completed in August 2013).
- The proposal to earn a return on equity in the same manner as a regulated for-profit utility.
- The proposal for a 5 year IRM plan (including proposed inflation, productivity, and stretch factors, Z-Factor claims and deferral account treatment).

There is no rate protection on transmission however, Five Nations Energy recovers its approved revenue requirement through Ontario's Uniform Transmission Rates which are in effect a socializing mechanism for transmission costs. This is the process by which all of Ontario's transmitters have their annual revenue requirement set by the OEB. The various revenue requirements are summed together, (along with the transmitters' load forecasts) in order to set a single set of uniform transmission rates that apply province-wide.

5. Wataynikaneyap Power LP

The Ontario Government selected Wataynikaneyap Power LP (W Power) to connect 16 remote First Nation communities to the electricity grid. These communities currently receive power sourced from diesel generation (Hydro One Remote Communities). The connection of remote First Nation communities was identified in the Ontario

[3] EB-2016-0231, Five Nations COS rate application

Government's 2013 Long-Term Energy Plan as a key step towards providing a reliable, clean and affordable energy future for everyone in the province.

The W Power project has two phases. The first phase is intended to enhance the existing transmission system by constructing a new transmission line from Dryden/Ignace to Pickle Lake and associated facilities. The second phase will connect the 16 remote First Nation communities to the grid through over 900 km of new transmission and distribution lines north of Pickle Lake, as well as nearly 600 km of new transmission and distribution lines north of Red Lake.

W Power will own and operate these transmission and distribution lines connecting the remote communities. Hydro One Remote communities will ultimately provide service in all 16 communities and will be the connected customer of the project. W Power intends to submit an application for Leave to Construct approval for both phases together in Q4 2017.

Related to the second phase of the project, on September 28, 2017 the OEB issued an electricity distribution licence to W Power in respect of a distribution system in northwestern Ontario between Red Lake and the Pikangikum First Nation Reserve that W Power is developing and intends to construct, own and operate.

The Ontario Government has identified both phase 1 and 2 of the project as a priority through an Order In Council issued on July 29, 2016. In addition, on July 1, 2016 the Ministry of Energy finalized amendments to Ontario Regulation 442/01 (Rural or Remote Electricity Rate Protection or RRRP) under the Ontario Energy Board Act, 1998. These changes expand on the permissible uses of funds collected for the RRRP and now enable partial funding of the connection of remote First Nation communities to the provincial transmission grid.

W Power intends to submit a Leave to Construct application in Q4 2017, which, among other things, will propose a unique mechanism for funding the remote community connection portion of the project. W Power is considering a unique proposal to trigger the RRRP funding while still allowing it to earn a rate of return on the assets. W Power intends to request approval of its proposed cost recovery framework so that it can form the basis of a future rate request. W Power's proposal is to calculate the revenue requirement impact for the rate base additions related to the remote community connection lines, and then charge this to HORCI as a direct expense through a rate rider to be included in HORCI's revenue requirement. Reflecting the project costs in HORCI's revenue requirement will then allow RRRP funding to be triggered.

The IESO's 2014 draft Remote Community Connection Plan identified that the connection of the communities studied would result in a savings of about $1 billion over 40 years relative to continuing to supply them with electricity using local diesel generation. This is a reduction of 30 to 40 percent over the planning period. In addition, the IESO noted that the $1 billion cost savings reflects only the avoidable cost of diesel fuel and system expansion. It does not reflect the additional economic, societal, developmental and environmental benefits that would also arise from transmission connection of remote communities.

Sagatay Transmission LP

Notwithstanding the work being conducted by W Power, in January 2016, Sagatay Transmission LP (Sagatay) filed an application with OEB for leave to construct a transmission line from Ignace to Pickle Lake and related transmission facilities.[4,5] In February 2016, the OEB advised Sagatay that its application was being held in abeyance pending the filing of certain reports. The OEB issued a further letter in November, 2016, indicating the intent to dismiss Sagatay's application and providing an opportunity for Sagatay to make written submissions regarding the dismissal, which the OEB received later in November, 2016.

In May, 2017, the OEB's Registrar dismissed Sagatay's leave to construct application. The Registrar concluded that the OEB was precluded from proceeding with the application because Sagatay's proposed line is "functionally equivalent" to the line that another licensee, W Power, is required to develop under the terms of its licence. In June, 2017, Sagatay filed a Notice of Appeal. OEB staff filed a submission regarding the appeal on November 1, 2017, supporting the Registrar's decision, to which Sagatay filed a reply argument on November 8, 2017 emphasizing its position that among other arguments, there is no formal functionally equivalent test that has been established by the OEB or by the government. The decision is pending. It is possible that this matter may end up in court.

[4] EB-2016-0017, OEB Letter of Response to Sagatay Transmission LP
[5] EB-2017-0258, Procedural Order 3