

Hydro One Networks Inc.

483 Bay Street
South Tower, 8th Floor
Toronto, ON, M5G 2P5
brian.gabel@HydroOne.com
www.HydroOne.com

Tel: (416) 345-5419
Fax: (416) 345-5870
Cell: (647) 294-0335



Brian Gabel

Vice-President and Chief Regulatory Officer
December 20, 2004

John Zych
Board Secretary
Ontario Energy Board
P. O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, Ontario M4P 1E4

Dear Mr. Zych: *90 20/12*

Re: RP-2004-0203/EB-2004-0450 - Hydro One Remote Communities' Conservation and Energy Efficiency Plan: Request for Interim Approval

Hydro One Remote Communities is an integrated generation and distribution company offering electrical services to isolated communities in northern Ontario. Most of its electricity is generated from diesel fuel. Hydro One Remote Communities is operated on a break-even basis and does not intend to seek OEB approval for a return on equity to fund demand management and conservation initiatives as set out in the Minister of Energy's letter of December 19, 2003.

The cost to serve the remote north is high. Energy efficiency and conservation have the potential to reduce long term operating costs. Accordingly, Remotes requested approval from the Minister to establish a deferral account to track conservation expenditures. The Minister authorized this application on July 7th, 2004. A copy of the Minister's letter is attached.

Remotes is seeking an interim approval of its Conservation and Energy Efficiency Plan. This is a one year program. We will address the balances accumulated in the deferred account and ongoing conservation initiatives in our next rate application.

If you have any questions, please call Carolyn Russell, our contact for this transaction, at (416) 345-5914.

Yours truly,

A handwritten signature in cursive script that reads "Brian Gabel".

Brian Gabel

cc. Mr. A. Fogwill, Applications Director, Market Operations

Introduction

Hydro One Remote Communities (“Remotes”) is an integrated generation and distribution company offering electrical services to 18 off-grid communities. Remotes is operated on a break-even basis and is not seeking a Rate of Return and will not be implementing a Market Based Rate of Return (“MBRR”).

The cost to serve the remote north is high. Energy efficiency and conservation have the potential to reduce long term operating costs. Accordingly, Remotes requested approval from the Minister to establish a deferral account to track conservation expenditures. The Minister authorized this application on July 7th, 2004. A copy of the Minister’s letter is attached.

Remotes is seeking an interim approval of its Conservation and Energy Efficiency Plan. The plan is for a one-year program. Remotes plans to address ongoing conservation initiatives, and the balances accumulated in the deferred account, in its next rate application.

About Hydro One Remote Communities

Service Territory

Hydro One Remote Communities (“Remotes”) is an integrated generation and distribution company offering electrical services to 18 isolated communities¹ in northern Ontario. A map of Remotes’ service territory is attached.

The size and isolation of Remotes' service territory means that the transportation of staff, fuel, and equipment is a key driver in Remotes' costs. Six communities are accessible by year round road. Twelve communities are accessible only by aircraft, winter road or, in the case of Fort Severn, barge as well. The use and viability of winter roads to reach these communities is a major cost variable within Remotes’ operations. If a winter road cannot be built, fuel prices, equipment costs and overall maintenance costs increase.

Generation

Due to the lack of grid connection, Remotes generates electricity to meet its obligations under Section 29 of the Electricity Act, 1998. Diesel generation is the prime source of electricity within the communities. Remotes also owns and operates two mini-hydro electric generating facilities and has four demonstration project windmills. The feasibility of using further renewable technologies is continually examined as new technologies evolve, but diesel is currently the most feasible technology.

¹ Remotes is licensed to serve 20 communities. The generating station in Armstrong also serves the Whitesands Reserve and the settlement of Collins through a single distribution system and generation station.

There are presently fifty-four diesel generators in service, ranging in size from 85kW to 1000kW. Most stations have three generators, sized to meet community load at different times of the day. Automated operation ensures that the generation units are run to maximize efficiency, by matching the generator size to the community load.

Depending on electrical demand, Remotes handles fourteen to seventeen million litres of fuel each year. On average, diesel fuel costs between 24-26 cents per kWh generated.

Customers and Current Rates

Remotes has approximately 3,430 customers, divided into two broad categories:

- Customers who receive Rural and Remote Rate Protection (“Retail” customers); and
- Customers occupying Government Premises defined as customers who receive direct or indirect funding from government (“Standard A” customers).

These two broad categories are set out in O. Reg. 442/02, the provincial regulation that establishes the rules for Rural and Remote Rate Protection (RRRP).

Most of Remotes’ customers (approximately 87%), including General Service and Residential, are in the Retail category and have rates subsidized by RRRP. These rates are set well below the per kWh cost of diesel fuel.

Standard A or government customers share part of the cost to subsidize Remote Retail Rates, by paying rates that are above cost. Rural and Remote Rate Protection monies account for over half of Remotes’ revenues. Revenues from government customers account for the majority of revenues derived from Remotes’ own customers.

Rates for these customers are shown in the chart below.

Hydro One Remote Communities Retail Rates			
Customer Class	Monthly Service Charge (\$)	Energy Charge (cents/kWh)	
R2 Year Round Residential	\$16.45		8.75
R4 Seasonal Residential	\$27.80		8.75
G1 Single Phase General Service	\$27.50	First 12,500	9.38
		Next 112,500	6.81
		All additional	4.31
G3 Single Phase General Service	\$35.00	First 12,500	9.38
		Next 112,500	6.81
		All additional	4.31
Street Lighting			8.60

Standard A Rates			
Road Rail Residential		First 250	50.96
		All additional	58.22
Air Access Residential		First 250	76.91
		All additional	84.18
Road Rail General Service			58.22
Air Access General Service			84.18

Conservation and Energy Efficiency Plan

Rationale and Intent

Remotes is operated on a break-even basis and does not intend to seek a return on equity. However, Remotes believes that energy efficiency and conservation programs have the potential to reduce short and long term operating costs, with accompanying environmental and social benefits.

The primary intent of Remotes' proposed DSM initiative is to cost-effectively develop and implement a range of residential, customer and supplier programs that will deliver energy reductions and reduce expenditures on diesel fuel.

Remotes is requesting approval to record up to \$300,000 in a deferral account in 2005 to spend on conservation activities. Since Remotes is not requesting a return on equity, the amount does not tie directly to the third tranche of MBRR. \$300,000 is approximately 2.3% of anticipated rate revenues in 2005, and is sufficient to fund community based pilot programs. The amount allows the development of pilot projects to test program effectiveness and community acceptance prior to a full implementation. Remotes notes that as further work is undertaken in program areas, the success of each pilot initiative will be assessed, and budget dollars may accordingly be shifted.

Remotes believes that investments in energy efficiency and conservation will reduce long term diesel fuel costs. Because of the unique funding arrangements in Remotes, conservation programs aimed at Retail customers would benefit all customers and should also reduce the long-term requirements for RRRP.

The plan involves the following components:

- 1) Consult First Nation Band Councils to ensure that activities are well understood and accepted within the community and to ensure that local and cultural sensitivities are respected;
- 2) Educate customers about conservation, keeping oral traditions in mind;
- 3) Work with First Nation Technical Service Units when projects within communities are being planned.
- 4) Develop community capacity and involvement by training local resources to deliver programs in selected communities;

- 5) Dovetail with other programs being developed by Indian and Northern Affairs Canada, and with those developed provincially or by Natural Resources Canada to overcome the higher costs associated with goods and transportation in the remote north; and
- 6) Examine and document the cost effectiveness of projects.

Specific energy efficiency target areas may include residential building design, insulation, conductive heating, lighting, water pipe and water heater insulation, and energy efficient appliances. Customer programs may involve education workshops, printed material, training of local representatives, and partnerships with First Nations and other agencies.

Planned Activities and Budget Estimates

Three program areas are proposed:

1) Residential Energy Conservation Pilot Program

This program will involve pilot projects in up to three communities to investigate energy efficiency measures such as conductive heating or lighting applications.

The pilot projects are designed to develop local energy efficiency experts within the community. It is anticipated that this program will involve hiring and training local resources to undertake energy efficiency activities. Activities supported through this initiative could include installing insulation on water pipes, insulating water heaters and lighting. Costs for transportation and project coordination are included in the budget estimate.

Program resources from Natural Resources Canada and Indian and Northern Affairs Canada will be accessed to supplement this program where available.

Budget: \$160,000

Target Users: Residential Retail Customers

Benefits: Residential Retail customers use about sixty percent of the generated kWh within Remotes' service territory. Since their rates are far less than the cost per kWh for diesel fuel, reduced energy use will result in lower diesel costs, and lower subsidy requirements. Increasing community awareness of energy efficiency, building local expertise and improving community participation in the program will help retain conservation benefits beyond the length of the pilot project.

Monitoring: Quarterly Reporting to Senior Management on the development of agreements for Pilot Communities and the number of Energy Efficiency measures implemented.

2) Customer Education Program

This program is designed to educate customers about conservation. The program would include: community workshops on conservation initiatives; translation of conservation information; and community consultations related to conservation. It could also include energy audits/evaluations for general service customers.

The Ontario Building Code does not apply on reserve. As a result, some buildings do not meet standards for energy efficiency required in other parts of the province. This program will also build cooperative relationships with First Nation Technical Services and Band Councils to include more energy efficient design and standards for new buildings and for building improvements/renovations.

The program will be coordinated with consumer education efforts developed by the province of Ontario, Natural Resources Canada and the Pathfinders Program sponsored by Indian and Northern Affairs Canada.

Budget: \$90,000

Target Users: All customers within Remote Communities

Benefits: Increased customer awareness of energy conservation and energy efficiency; increased broad knowledge and understanding of how to control energy usage; improved building design through improved communication and cooperation.

Monitoring: Quarterly Reporting to Senior Management on the number of workshops and Energy Efficiency mailings provided to customers.

3) Product Supplier Program

Transportation costs make goods far more expensive in Remote Communities than road connected communities. Additionally, many customers within Remotes' service territory are economically disadvantaged. This program would attempt to work with product suppliers, Northern Stores and Band Councils and with NRCan to make Energy Star Labeled and other energy efficient products available and to acquire/sponsor customer rebates.

Budget: \$50,000

Target Users: All customers within Remote Communities, with a focus on Retail

Benefits: Improve market penetration of energy efficient products and appliances.

Monitoring: Quarterly Reporting to Senior Management on the number of pilot initiatives implemented.

Minister of Energy

Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416 327 6715
Fax: 416 327 6754

Ministre de l'Énergie

Édifice Hearst, 4e étage
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416 327 6715
Télééc.: 416 327 6754



JUL - 7 2004

Mr. Myles D'Arcey
President and Chief Executive Officer
Hydro One Remote Communities Inc.
483 Bay Street, 10th Floor
Toronto, Ontario
M5G 2P5

Dear Mr. D'Arcey:

Thank you for your letter regarding plans by Hydro One Remote Communities Inc. (RemoteCo) to design and implement demand management and conservation programs within its service territory, and seeking my approval to apply to the Ontario Energy Board (OEB) for approval to establish a deferral account to track RemoteCo's expenditures on these programs.

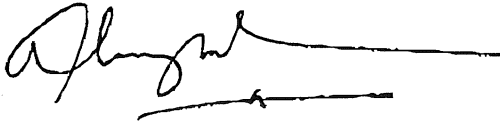
I note that, unlike other local distribution companies, RemoteCo operates on a break-even basis and will not be seeking OEB approval for a return on equity to fund demand management and conservation initiatives as set out in my letter of December 19, 2003, to all local distribution companies. I also note that, given the high cost of diesel fuel, energy efficiency and conservation programs have the potential to provide sufficient reductions in operating costs to offset the cost of these programs within RemoteCo's service territory.

Subject to the conditions set out in my December 19, 2003 letter, and modified as necessary to meet RemoteCo's unique circumstances and the special needs of RemoteCo's customers, and pursuant to section 79.6 of the *Ontario Energy Board Act, 1998*, I hereby authorize RemoteCo to proceed to the OEB with an application to establish a deferral account to track expenditures on conservation and demand management initiatives.

.../cont'd

I appreciate your interest in demand management and please accept my best wishes for the successful implementation of this program.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dwight Duncan', followed by a horizontal line extending to the right.

Dwight Duncan
Minister

c: Howard Wetston, Chair, Ontario Energy Board