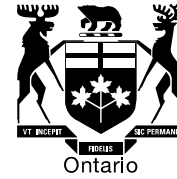


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BY E-MAIL ONLY

June 4, 2010

Kirsten Walli
Board Secretary
Ontario Energy Board
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2300 Yonge Street
Toronto, ON M4P 1E4

**Re: Northgate Mineral Corporation
Application for leave to construct Transmission Facilities
Application Board File Number EB-2010-0150**

Please find attached the Board staff's Submission with respect to the above proceeding.

Please send these Board Staff Submissions to all intervenors of record.

Yours truly,

Original signed by

Nabih Mikhail
Project Advisor
Electricity Facilities and Infrastructure

cc: Mr.Scott A. Stoll Counsel o Northgate Minerals Corporation
 Mr. Andrew Cormier Northgate Mineral Corporation
 All Intervenors of record

Attachments



BOARD STAFF SUBMISSION

NORTHGATE MINERALS CORPORATION ("Northgate")

APPLICATION FOR LEAVE TO CONSTRUCT 7 KILOMETRES OF

115 KV TRANSMISSION LINE - (EB-2010-0150)

1.0 Application and Background

Northgate filed its application with the Board on March 5, 2010 seeking an order of the Board granting leave to construct 7 kilometres of 115 kV electricity transmission line, and a substation at its Young-Davidson mine site, near the Town of Matachewan. Northgate has also applied for approval of a form of easement agreement.

It is important to note that the proposed 7 kilometres of transmission line would connect to an existing 47.5 kilometres of 115 kV transmission line owned by Hydro One Networks Inc. that has been refurbished to accommodate the 17 MW load requirement of the Young-Davidson mine.

Following issuance of the Notice of Application and Hearing on March 30, 2010, Northgate published and completed its service of the Notice on April 22, 2010.

Board approved intervenors for the proceeding are the Independent Electricity System Operator (IESO), and 3 landowners; Oleg Anisimov, Marina Anisimov, and Natalia Rezva. The Township of James filed a letter of support for the proposed transmission line with the Board on April 20, 2010, and the Board conferred observer status to the Township of James in order to allow it to directly receive any Board issued documents regarding this application.

A response to Board staff interrogatories was filed on May 31, 2010. Submissions by participants are due June 4, 2010, and reply by Northgate is due on June 11, 2010.

2.0 Major Issue – Lack of Evidence Regarding the Economic Evaluation for the two parts of the 115 kV transmission line consisting of:

- the 47.5 kilometre refurbishment of a decommissioned line; and
- the 7 kilometre new transmission line (subject of this proceeding)

Northgate's interrogatory responses, with support from Hydro One where required, were generally thorough and informative. An exception to this thorough approach in this application did occur in regard to the economic evaluation for the two parts of the transmission line. The two parts consist of 1) a 47.5 kilometre portion of 115 kV transmission line (not requiring leave to construct per Hydro One's response to interrogatory 3 – attached as Appendix "A" to this submission) where refurbishing is proposed and 2) a new proposed 7 kilometres of 115 kV transmission line (requiring leave to construct) to accommodate the 17 MW load requirement of the Young-Davidson mine which would be connected to the refurbished line.

Rationale for Not Disclosing Economic Evaluation of the Entire Transmission Line

In its response to Board staff interrogatory 3 Hydro One covered four key questions [see Appendix "A", questions (c) to (f) under Interrogatory 3 (i)] by indicating that:

- In reference to the refurbishment of the 47.5 kilometres, Hydro One indicated that in accordance with s. 92 (2) of the OEB Act, no leave to construct is required. Hydro One also indicated that the scope of the reconstruction work involved no new construction, expansion or reinforcement, and no acquisition of additional land or authority to use additional land was needed;
- In regard to the question about economic evaluation for the reconstruction of the 47.5 km section, Hydro One indicated that it did perform an economic evaluation, and since the line has been earmarked for removal from service, Hydro One considered that the applicable cost responsibility treatment in this case should be similar to that of a new connection.

Note: Hydro One did not file the Economic Evaluation spread sheet, and study results, perhaps because the Board staff question did not specifically request it;

- In regard to the economic evaluation for the 7 kilometre contestable line section, Hydro One indicated it did not perform an economic evaluation at this point, but intends to carry out that evaluation once it has the Customer's design detail of the contestable section in order to produce an accurate estimate suitable to satisfy subsection 6.6.2 (h) of the Transmission System Code ("TSC"). Hydro One claims that this is much more accurate and timely solution compared to producing a higher level estimate based on an unknown route early on in the project. On the proposed Transfer Date for the contestable asset, Hydro One proposes to complete a new economic evaluation to

accommodate the appropriate Transfer Price in the line connection cost pool. Hydro One further asserts that Capital contributions will be adjusted to accommodate the new economic evaluation.

Need for Economic Evaluation for the Entire Project

While Board staff agrees with Hydro One's rationale that the 47.5 kilometres of refurbishment of the existing but idled transmission line does not require leave of the Board to carry out the work, it submits that the economic evaluation, results and spread sheets, should be filed in this proceeding. Without such information, the Board Panel has an incomplete record to examine all cost responsibility aspects in the proceeding e.g., whether the refurbishment was conducted in accordance with the TSC to ensure fairness to both the new transmission customer and the transmission rate payers.

In regard to lack of disclosure of preliminary economic evaluation results for the 7 kilometres 115 kV transmission line, Board staff does not agree with Hydro One's view that there is no value in filing such preliminary results. Board staff submits that the Board needs such information as soon as possible to avoid delaying issuance of its decision and order. In other words, waiting for the more accurate economic evaluation is not an option since Hydro One indicated it would not take place for some time.

Short term solution

Board staff submits that the Applicant¹ requests that Hydro One should file as soon as possible but not later than June 11, 2010 (deadline for the Applicant's Reply Submission), the following for the two parts of this transmission line project:

- a spread sheet and the results of the economic evaluation for the reconstruction of the 47.5 kilometre line section. A summary of the results were presented recently in Hydro One's Application² for its transmission rates for the two years 2011-2012;
- a spread sheet and the results of the economic evaluation for the proposed 7 kilometres of new build assuming that Hydro One is constructing the project based on the preferred route³ (Option C) and cost estimates based on similar Hydro One projects for 115 kV transmission lines in similar terrains. It is noted that according to the TSC, section 6.6.2 (b), Hydro One is required to provide such an estimate.

Note: Board staff agrees that Hydro One needs to comply with section 6.6.2 (h) of the TSC. This requires that Hydro One utilizes the Customer's design detail of the contestable section to conduct a revised economic evaluation. This

¹ Applicant needs to make a request to Hydro One to respond to the two requests, and file the requested economic evaluations before the deadline of June 11, 2010.

² Hydro One Networks Inc. Application for Transmission Revenue Requirement and Customer Rates for 2011-2012, May 19, 2010 – Exhibit D1/Tab 3/Schedule 3/ Appendix A/Table 4, Item D17

³ Exh. A/Tab 2/Sch. 1/p.2/paragraph 6

revised economic evaluation will be completed to accommodate the appropriate “Transfer Price” in the line connection cost pool, and that Capital contributions will be adjusted accordingly.

Long term Solution

Board staff suggests that the Board Filing Requirements⁴ should be amended to cover leave to construct applications where a portion of the transmission line, as is the case with this project, does not require leave of the Board, but it is essential for the Board to have access to relevant project costing, economic evaluations, and cost responsibility as specified in the TSC.

3.0 Other Issues

Board staff is satisfied that the System Impact Assessment, completed by the IESO⁵, and the Customer Impact Assessment, completed by Hydro One⁶ indicate that the project will not have any negative system or customers impacts, subject to the conditions listed in each of the two respective reports.

Northgate stated⁷ that the Environmental Assessment process is complete, and that no requests were made to elevate the project to an individual environmental assessment. The only comments were received from the Ministry of Natural Resources and that all comments were addressed. There is no indication that Northgate received the final approval from the Ministry of Environment, which should be added as a Condition of Approval.

⁴ Board Filing Requirements for Transmission and Distribution Applications, November 14, 2006, proceeding [EB-2006-0170]

⁵ Exh. B/Tab 6/Sch. 2, September 30, 2009

⁶ Exh. I/Tab 1/Sch. 6/pp. 18-30, completed March 16, 2010 – Northgate Response to Board staff interrogatory 6, filed on May 31, 2010

⁷ Exh. I/Tab 1/Sch. 7/pp. 22-28, Northgate Response to Board staff interrogatory 7, filed on May 31, 2010

Appendix "A"
To
Board Staff Submission

Northgate Response to Board Staff Interrogatory 3

COST RESPONSIBILITY FOR THE PROPOSED TRANSMISSION LINES [ECONOMIC EVALUATION AND CONTESTABILITY PROTOCOL]

Interrogatory 3

Note: This interrogatory requires that the Applicant, in cases where it cannot answer because it does not have the data, to make a request to Hydro One to respond to all questions, clarifications and requests included below before the deadline.

Reference:

- 3.(1) Exh. A/Tab 3/Sch. 1/p. 1/lines 7-10
- 3.(2) Exh. B/Tab 2/Sch. 1/p. 1/lines 4-7
- 3.(3) Transmission System Code /section 6.5 - Economic Evaluation of New and Modified Connections & section 6.6 - Contestability

Preamble:

- (1) In Reference 3.(1) the Applicant stated that:

"In order for the project to be completed Hydro One Networks Inc. ("Hydro One") will be refurbishing 47.5km of 115kV transmission line from Macassa Shaft No. 3 to Matachewan Junction. Northgate has been informed by Hydro One that the upgrade does not require leave to construct."

- (2) In Reference 3.(2) the Applicant stated in part that:

"A decommissioned 47.5 km section of 115 kV circuit K4 will be upgraded from Macassa Shaft No.3 to Matachewan Junction, and another 7 km of new 115 kV line will be constructed to complete the electrical connection. The substation will supply power to the Young-Davidson gold mine."

It should be noted that Section 92 creates the obligation on any person to seek leave of the Board for transmission construction or reinforcement if it is above 50 kV and is 2 km or longer in length. The evidence indicated that the line was idle for 10 years and that there was an increase in Capacity. Various sections of the TSC deal with various conditions such as: (1) for modifications (see section 6.3.2 of the TSC); (2) for replacement upon retirement of a connection facility, no capital contribution is required, (see Section 6.7.2 of TSC).

Questions/Clarifications:

- (i) Provide information regarding the refurbishing project for the 47.5 km of line between from Macassa Shaft No. 3 to Matachewan indicating:
 - (a) Is the capacity of the line increased over and above the capacity of the decommissioned line? If so indicate the original capacity level and the upgraded capacity level in MW;
 - (b) Describe in detail the reinforcements undertaken in terms of system element replacements...etc;
 - (c) What section of the TSC and/or the Ontario Energy Board Act, 1998 did Hydro One rely on as justification for not requiring leave to construct?;
 - (d) Did Hydro One perform an economic evaluation in regard to the reinforcement of the 47.5 km section in order to establish the capital contribution that would be required at Reference 3.(3) and in particular per section 6.5 of the TSC? If not please explain the reasons for not performing such an economic evaluation;
 - (e) Did Hydro One perform an economic evaluation in regard to constructing the 7 km of new transmission line in order to establish the capital contribution that would be required at Reference 3.(3) and in particular per section 6.5 of the TSC? If yes please provide the information regarding the line cost and summary of the results of the economic evaluation indicating the key input parameters such as study horizon, the discount rate used in the capital contribution calculation, the estimated cost of the project...etc, as well as the printout of the economic evaluation study itself.
 - (f) If the response to question (e) above is negative, please explain how would Hydro One implement subsection 6.6.2 (h) of the TSC, where it is indicated that it is an "obligation on the transmitter to pay a transfer price that is the lower of the cost to the load customer (read Northgate Minerals Corporation) or the transmitter's reasonable cost to do the same work..."

RESPONSE

- (i) **Northgate did not have the information and received the following response from Hydro One on May 28, 2010:**
 - (a) The capacity of the line will not be increased over and above the capacity of the decommissioned line. The refurbishment will involve the replacement of any materials that are no longer manufactured with those that meet current standards.
 - (b) The scope of the work for the Northgate Connection includes:

1. (Line Connection Pooled) K4 refurbishing project includes rebuilding the 47 km line segment between Macassa Jct #3 and Matachewan Jct; by replacing all 450 wood structures in existing locations using existing span lengths , replacing the existing 133 Cu conductor (an obsolete size) by new 4/0 ACSR to facilitate the same tower spacing , and replacing the existing groundwire by new 7#10 AW and replacing the existing insulators and hardware;
 2. (Line Connection Pooled) Install a tapping structure at Matachewan Jct to facilitate connection of customer-built line tap;
 3. (Line Connection Pooled) Install line drops and connect customer-built line tap to the K4 circuit at Matachewan Jct;
 4. (Network Connection Pooled) Replace existing K4 line protections at Kirkland Lake TS due to setting inadequacy on existing protections.
- (c) Hydro One did not apply to the Board for leave to construct for the refurbishment of the existing K4 electricity transmission line, as the scope of the reconstruction work involved no new construction, expansion or reinforcement. Furthermore, no acquisition of additional land or authority to use additional land was needed. Therefore, in accordance with s. 92 (2) of the OEB Act, no leave to construct is required for this reconstruction work.
- (d) An economic evaluation was performed for the reconstruction of the 47.5 km section. This idled section was originally planned to be removed in 2008. However, in anticipation of the possibility of the new Northgate connection, the removal did not proceed as planned. Given these circumstances, it is Hydro One's view that the applicable cost responsibility treatment in this case should be similar to that of a new connection.
- (e) No an economic evaluation for the contestable section was not performed.
- (f) Hydro One will utilize the Customers design detail of the contestable section in order to produce an accurate estimate suitable to satisfy subsection 6.6.2 (h) of the TSC . This is a much more accurate and timely solution compared to producing a higher level estimate based on an unknown route early on in the project. On the proposed Transfer Date for the contestable asset, a new economic evaluation will be completed to accommodate the appropriate Transfer Price in the line connection cost pool . Capital contributions will be adjusted to accommodate the new economic evaluation.