

October 28, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0234 – Goldcorp Inc. – Payment of Construction Delay Costs

Goldcorp Inc. (“Goldcorp”) filed an application and evidence with the Ontario Energy Board (the “Board”) on July 4, 2014 requesting the Board to determine the appropriate Contribution in Aid of Construction (“CIAC”) for the natural gas pipeline that was the subject of Union Gas Limited’s (“Union”) Leave to Construct application in EB-2011-0040.

On September 15, 2014 the Board issued Procedural Order No. 1, which included the option for intervenors to file evidence. Enclosed is Union’s evidence.

If you have any questions or concerns on this matter, please contact me at (519) 436-5476.

Yours truly,

[Original signed by]

Chris Ripley
Manager, Regulatory Applications

c.c.: EB-2014-0234 Intervenors
Crawford Smith, Torys

1 **Introduction**

2 On July 4, 2014, Goldcorp Inc. (“Goldcorp”) filed an application and evidence with the Ontario
3 Energy Board (the “Board”) requesting the Board to determine the appropriate Contribution in
4 Aid of Construction (“CIAC”) for the natural gas pipeline that was the subject of Union Gas
5 Limited’s (“Union”) Leave to Construct application in EB-2011-0040.

6
7 On September 15, 2014 the Board issued Procedural Order No. 1, which included the option for
8 intervenors to file evidence. This is Union’s evidence.

9
10 The Board will determine the appropriate CIAC that Goldcorp should pay. In any event, Union
11 should be able to recover its costs. As described below, the actual costs used to determine the
12 CIAC were prudently incurred, and should be recovered by Union.

13
14 **Background**

15 In May 2010 Goldcorp contacted Union to discuss the potential of providing natural gas service
16 to its mines. Union was also contacted to provide natural gas distribution services to the
17 Municipality of Red Lake which includes the towns of Red Lake, Balmerton and Cochenour
18 (“the Municipality”). To serve Goldcorp and the Municipality, Union needed to construct
19 pipeline facilities from the Bruce Lake Mine site to the Municipality of Red Lake at an estimated
20 cost of \$26.9 million for Phase 1 of the project (per EB-2011-0040 Schedule 3 Page 1).

1 The forecast revenues were insufficient to cover the costs of the project, therefore Goldcorp and
2 the Municipality were required to pay a CIAC in order to ensure a Profitability Index (“PI”) of
3 1.0, consistent with the Board’s recommendations for economic feasibility in the EBO 188
4 Report. The CIAC, as identified in Union’s evidence, was \$25.6 million.

5
6 Union filed its Leave to Construct application (EB-2011-0040) in February 2011. As described
7 in the application, the construction of the facilities would be completed in two phases. Phase 1
8 was to construct a pipeline with sufficient capacity to serve Goldcorp and the Municipality.
9 Phase 2 provided service for the Municipality.

10
11 In March 2011, Goldcorp signed a Rate 20 distribution contract with Union, which identified
12 Goldcorp’s share of the CIAC as \$18.6 million and the Municipality’s share as \$7.0 million.
13 Section 11 of the contract also stipulated that “since the original CIAC was based on an
14 estimated cost of each section of the Expansion Facilities, unless otherwise determined by the
15 OEB, Union shall re-determine the CIAC”.

16
17 On April 1, 2011 the Board issued Procedural Order No. 1 providing for a written hearing.
18 Goldcorp and Board Staff were the only active participants in the written hearing.

19
20 As indicated in EB-2011-0040, Union intended to construct Phase 1 in the 2011 construction
21 season. Union expected a Board decision in May 2011 so that the 2011 construction timeline
22 could be achieved (see EB-2011-0040 Schedule 11 Page 1).

1
2 The written hearing closed on May 3, 2011 with the filing of Union's Reply Argument.

3
4 Prior to the issuance of a decision, a letter was sent to the Board on May 5, 2011 from the Grand
5 Council of Treaty 3 outlining its concerns with the application. On June 9, 2011 the Board
6 received a letter from the Lac Seul First Nation requesting intervenor status. On June 9, 2011 the
7 Board received a letter from the Wabauskang First Nation requesting intervenor status. These
8 interventions led to two additional procedural orders being issued by the Board and an oral
9 hearing that was convened on June 20, 2011. The Leave to Construct Decision order was issued
10 by the Board on July 25, 2011. In its Decision, the Board stated at page 31, "Undoubtedly this
11 [the delay] would lead to additional expense for Union and Goldcorp" (emphasis added).

12
13 **Construction Costs**

14 The delay of the Board's Decision from May to July put the Phase 1 season construction period
15 of one year at risk. Union considered three options:

- 16 1. Compress the project timeline and attempt to complete in 2011;
17 2. Begin the project upon receipt of the Leave to Construct authorization and complete the
18 project in 2012; or,
19 3. Stop work on the project and complete the majority of the work in 2012.

20

1 Union recommended option 2. Options 1 and 3 would require compressed construction
2 schedules that may not have been achievable, and may have been more expensive due to the
3 need for a larger construction crew.

4
5 These three options were communicated to Goldcorp by way of a telephone conversation during
6 the first week of July 2011 and then verbally at a meeting with Goldcorp in its Toronto office on
7 July 28, 2011. Goldcorp endorsed option 2: that work on the project begin immediately and be
8 completed in 2012. Goldcorp also indicated that it did not believe that Goldcorp should bear
9 any costs driven by the regulatory delay.

10
11 The actual cost was \$31.2 million as filed in Union's post construction report. The total variance
12 from the original cost estimate was \$4.3 million, of which \$3.3 million were delay costs.

13
14 As outlined in the post construction report, the delay costs were primarily related to direct
15 construction and labour costs. These costs included additional demobilization and
16 remobilization of construction crews, equipment standby charges, loss of productive time, and
17 increased inspection costs. These costs were prudently incurred by Union. If the costs had not
18 been incurred the project would not have been constructed.

19
20 Based on Section 11 of the Rate 20 distribution contract, Union recalculated the CIAC based on
21 the actual costs of the project. As per the contract, Union invoiced Goldcorp for the incremental
22 costs.