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BY COURIER

December 21, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2017-0182 – NextBridge East-West Tie Line Leave to Construct – Hydro One Networks Inc. (Hydro One) Interrogatories

Pursuant to Procedural Order No. 1, please find enclosed Hydro One's interrogatories to NextBridge on the above application.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Requestor Name: Hydro One
To: Nextbridge Infrastructure
Case Number: EB-2017-0182
Application Name: New East-West Tie Line Project – Leave to Construct Application
Date: December 21, 2017

ENVIRONMENTAL APPROVALS & PROJECT SCHEDULE

INTERROGATORY # 1

References:

- (i) “As EA approval is not anticipated to be received prior to the Board making its determination on the Application, NextBridge requests that the Board grant leave to construct approval conditional on EA approval.” **Exhibit B, Tab 1, Schedule 1 - Page 3**
 - (ii) “NextBridge requests a decision on this Application in the first quarter of 2018 in order to meet the in-service date of December 2020.” **Exhibit B, Tab 1, Schedule 1 - Page 6**
 - (iii) “Project Schedule” **Exhibit B, Tab 1, Schedule 1 - Attachment 1**
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- a) Please provide an update on any environmental applications before the Ministry of Environment and Climate Change (“MOECC”) and an estimate of when NB anticipates that the MOECC will provide NB approval on those applications? (Reference i)
- b) Is the Environmental Assessment (“EA”) approval still anticipated by Q2 of 2018? (Reference iii)
- c) Should NB not receive leave to construct approval prior to the end of Q1 of 2018 and/or EA approval prior to the end of Q2 of 2018, please explain the relative impact on the in-service date of December 2020. (Reference ii)
- d) Please describe, in detail, the purpose, extent and impact of the EA Amendments filed with the MOECC on November 14, 2017, *“Notice of Intent to Amend the Environmental Assessment Report NextBridge Infrastructure - East-West Tie Transmission Project”*, provided as Attachment 1.
- e) Please provide the current expected schedule of completion, submission, review and approval for the EA amendment.
- f) If required, please provide a revised Project Schedule. Does NB anticipate that it will need to delay the start of construction to wait for EA Approvals?
- g) Have any of these amendments impacted the development costs as proposed in the application?

INTERROGATORY # 2**References:**

- (i) “Begin Stage 2 Archaeological Assessments Q2 2017” **Exhibit B, Tab 1, Schedule 1 - Attachment 1, Page 1**
 - (ii) “Construction Start Q4 2018” **Exhibit B, Tab 1, Schedule 1 - Attachment 1, Page 1**
 - (iii) “NextBridge will obtain all applicable regulatory approvals, licences, and permits as required prior to construction.” **Exhibit J, Tab 1, Schedule 1 - Page 1, Line 19**
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- a) Please provide an update on any Stage 2 Archaeological Assessments completed, on-going or planned. (Reference i)
- b) Please provide an update on any recommendations that came from the Stage 2 Archaeological Assessments. (Reference i)
- c) Please provide anticipated additional costs associated with any further Archaeological Assessments.
- d) Please provide an anticipated date for the completion of the studies and the proposed timelines for future planned Archaeological studies.
- e) Please explain how NB will meet the proposed Construction Start of Q4 2018 while still completing any Stage 2 Archaeological Assessments, fulfilling subsequent archaeological study recommendations and obtaining receipt of Clearance Letters from the Ministry of Tourism, Culture and Sport. (Reference ii & iii). Does NB anticipate that it will need to delay the start of construction due to these Stage 2 Archaeological Assessments?

INTERROGATORY # 3**References:**

- (i) “NextBridge reviewed the alternatives proposed by the concerned citizens, and after an extensive route evaluation, a revised version of one of the newly-proposed routes was selected to become part of the New EWT Line preferred route.” **Exhibit I, Tab 1, Schedule 1 - Page 4, Lines 1-3**
 - (ii) “As a result, a change in the preliminary preferred route was brought forward that addressed the concerns of the community.” **Exhibit B, Tab 1, Schedule 1 - Page 4, Lines 11-12**
 - (iii) “To accommodate the additional 50 km to bypass the Park, Loon Lake and Ouimet Canyon, there are corresponding increases in costs, including costs associated with an increase in number of transmission towers, amount of line required, land acquisition, stakeholder engagement, site remediation and environmental studies.” **Exhibit B, Tab 9, Schedule 1 - Page 8, Lines 1-4**
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- a) Please explain how the “extensive route evaluation” adequately considered the environment and socio-economic impacts and how that evaluation justifies the resultant cost increases. (Reference i & iii)
- b) Please explain how the “change in preliminary preferred route” adequately considered the environment and socio-economic impacts and how that evaluation justifies the resultant cost increases. (Reference ii & iii)

INTERROGATORY # 4**References:**

- (i) Regarding the clearing of the proposed 450km ROW line routing - **Exhibit B, Tab 9, Schedule 1 - Pages 7-8, New Scope Requirements**
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- a) Please confirm that all costs regarding the clearing, reforestation, storage and handling of timber materials etc, are included in the current construction cost estimates. If these costs are not included, please provide an estimate.

LAND RIGHTS**INTERROGATORY # 5****References:**

- (i) “NextBridge has secured Option Agreements with 73% of private landowners to date.” **Exhibit E, Tab 1, Schedule 1 - Page 3**
 - (ii) “Designation does not carry with it an exclusive right to build the line or an exclusive right to apply for leave to construct the line. A transmitter may apply for leave to construct the East-West Tie line, designated or not.” **EB-2011-0140 – Phase 2 Decision – Page 4**
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- a) Please confirm that NB has negotiated the required land rights as the designated transmitter chosen to complete the development component of the East West Tie line.
- b) If so, please confirm that these option agreements are transferrable and amendable by another transmitter in the event that another transmitter is selected to construct the line.
- c) Please confirm whether the land rights referred to in Reference (i) are included in NB’s development costs or construction costs. If these costs are not included, please provide an estimate.
- d) Please confirm if the land rights not obtained at the date of the submission of NB’s Leave to Construct Application are expected to increase NB’s development and/or construction costs, as filed in their Leave to Construct evidence. If so, please provide an updated cost estimate.
- e) Does NB have an estimated time as to when they will secure the remaining 27% of the option agreements? If not attained, could this impact the construction schedule or in-service date?

RISK**INTERROGATORY # 6****References:**

- (i) “Effective March 4, 2016, the Lieutenant Governor in Council made an order declaring that the construction of the New EWT Line is needed as a priority project”. **Exhibit B, Tab 7, Schedule 1 - Page 1**
 - (ii) “Table 3 – Potential Project Risks” **Exhibit B, Tab 9, Schedule 1 – Page 4**
 - (iii) “Table 2 – Construction Cost Estimates” **Exhibit B, Tab 9, Schedule 1 – Page 1**
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- a) NB does not thoroughly elaborate on the risks associated with their Leave to Construct Application in Reference (i). However, further information is provided in Reference (ii) and (iii). Please verify that the contingency identified in Reference (iii) will sufficiently address all potential project risks identified in Reference (ii), including both ‘systemic and unpredictable project risks’ (as mentioned in line 5 and 6 on page 11). If not, please provide an updated estimate on how costs can be expected to increase if any of the potential risks identified in Reference (ii) materialize.
- b) Please identify any other project risks that may impact the cost of the project that will ultimately be recovered from ratepayers?
- c) Please update Table 3 with any known changes to project risks (impact, mitigation, probability).

PROJECT COSTS AND SUBSEQUENT RATE IMPACTS

INTERROGATORY # 7

References:

- (i) **Exhibit B, Tab 9, Schedule 1**
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- a) Are the total project costs stated in Table 1, of \$777.2 M, stated in 2020 dollars?
- b) Page 2 of Reference (i) above, lines 7 and 8 indicate to “develop the total project cost estimate presented above, NB: a) compared the New EWT Line project against similar projects...” What are the similar projects that NB used?
- c) Page 2, lines 14 and 15, says the “cost estimate is based on a project definition equivalent to a Class 2 under the AACE International cost estimate classification system”. Please confirm that this could result in total construction costs rising to \$884 M (20% upper variance limit of a Class 2 estimate)?
- d) Are there any known potential increases to the project’s scope that would impact the project cost estimates as of this date? If so, please provide.

INTERROGATORY # 8

The following questions relate to the economic parameters included in the cost estimate.

References:**(i) Exhibit B, Tab 9, Schedule 1**

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- a) Page 3, lines 10 to 12 indicate that, “the construction and equipment procurement plans provided by the potential general contractors also include recognition of the risks associated with reasonable escalation rates over the life cycle of the new EWT Line Project”. What escalation rate is included in this estimate? What proportion of the total project cost of \$777.2M would be impacted by a rate escalation change? Please confirm that NB would seek recovery of any resultant increases from Ontario ratepayers.
- b) Page 7, line 4 to 6, indicates that estimated interest during construction of approximately \$31M is included in the cost estimate. Please clarify the interest rate used? Please confirm that NB would seek recovery of any resultant increases from Ontario ratepayers.
- c) On pages 9 and 10, the evidence says, “The cost of imported materials for components such as transmission conductor and steel towers have increased significantly since Designation, in part due to the decline in the Canadian dollar relative to other international currencies. Further changes in the exchange rate could impact the project cost, positively or negatively.” It also says that “approximately 90% or more of all material used for the construction of the New EWT Line is impacted by global commodity pricing for steel and aluminum.”
- a. What is the dollar value of project costs subject to foreign exchange adjustments? What is the foreign exchange rate included in the project estimate?
 - b. What is the dollar value of project costs subject to commodity price variations? What commodity prices are assumed in the NB project estimate?
 - c. Does NB have foreign exchange or commodity hedges in place to protect these costs?

INTERROGATORY # 9

The following questions relate to the OM&A costs included in NB's application.

References:

- (i) Exhibit B, Tab 9, Schedule 1**
- (ii) Exhibit B, Tab 12, Schedule 1**

Reference (ii) says "The operating and maintenance expenses are estimated at approximately 1% of the capital investment" which the DCF spreadsheet shows as approximately \$7.4M.

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- a) Please reconcile the cost of operations and maintenance ("O&M") provided by NB at designation bidding time with the O&M costs provided in this application and explain the differences between the cost estimates?
 - b) Given the movement in the capital project estimate, and the change in these O&M amounts, please comment on the certainty of these amounts and whether these costs are likely to increase? What are the major risk factors that could drive O&M cost increases?

INTERROGATORY # 10

The following questions relate to the rate impacts and DCF included in the application.

References:

(i) Exhibit B, Tab 9, Schedule 1

(ii) Exhibit B, Tab 12, Schedule 1

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- a) Reference (i), page 1 and Attachment 1 shows a maximum rate impact of 7.7% on the transmission pool in 2021. However, Table 1 of the same exhibit illustrates an impact of 6.42%.
- i. Please recalculate and provide Exhibit B, Tab 12, Schedule 1, “Table 1 - Impact on Typical Residential Customer”, with the maximum rate impact of 7.7%.
 - ii. Please explain the reasons why NB chose to calculate Table 1 of Exhibit B, Tab 12, Schedule 1 with an impact of 6.42% when the rate impact is expected to be 7.7%.
 - iii. Please explain why NB did not assume a half year rule for the first year of in-service?
- b) In Reference (i) NB lists ‘Project Costs Land Rights’ (acquisitions or options), including consultation and negotiation with landowners of approximately \$23.8M. However, Exhibit B, Tab 12, Schedule 1 has the entire project expenditures including development cost with a Capital Cost Allowance (“CCA”) of 8%. As per the Canadian Revenue Agency “Most land is not depreciable property.”¹
- i. Why did NB assume land acquisition to have a CCA of 8% for land instead of 0%?
 - ii. Are there other assets in NB’s application which have been assumed to have a CCA of 8% in the economic evaluation in Exhibit B, Tab 12, Schedule 1, which are subject to a different rate?
- c) Please provide an update to the maximum rate impacts (Exhibit B, Tab 12, Schedule 1) which illustrates taxes calculated with the appropriate CCA rate for land, if other CCA rates apply to other assets please update accordingly. Additionally, please provide an update to Table 1 of Exhibit B, Tab 12, Schedule 1 to reflect these changes.

¹ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/sole-proprietorships-partnerships/report-business-income-expenses/claiming-capital-cost-allowance/classes-depreciable-property.html>