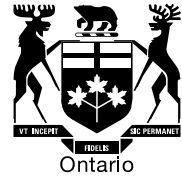


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**BY E-MAIL**

February 28, 2019

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4  
[BoardSec@oeb.ca](mailto:BoardSec@oeb.ca)

Dear Ms. Walli:

**Re: OEB Staff Supplemental Submission  
Hydro One Networks Inc.  
Côté Lake Mine Connection Project  
OEB File No. EB-2018-0257**

In accordance with Procedural Order No. 2, please find attached the OEB staff supplemental submission in the above proceeding. This document is being forwarded to the applicant and to all other registered parties to this proceeding.

Yours truly,

*Original signed by*

Ritchie Murray  
Project Advisor

Cc (by email): all other registered parties to this proceeding

## Introduction

On August 30, 2018, Hydro One Networks Inc. (HONI) applied to the Ontario Energy Board (OEB) under sections 92 and 97 of the *Ontario Energy Board Act, 1998* for an Order or Orders granting leave to upgrade T2R, a 118 kilometre (km) idle 115 kilovolt (kV) transmission line between Timmins TS and Shining Tree JCT, and associated station facilities (T2R project). The T2R project is required to supply IAMGOLD Corporation's (IAMGOLD) Côté Mine facility located approximately 20 km southwest of Gogama, Ontario.

Concurrent with the T2R project, HONI intends to refurbish T61S, a 115 kV transmission circuit that is at "end of life" and is located on the same towers as T2R (T61S project). The T61S project is not part of this application and does not require a section 92 Order. HONI explained that, "combining and coordinating the work for both lines simultaneously will produce operational and cost efficiencies by bundling the estimating, bulk procurement, design and construction activities of both projects. In addition to socio-economic benefits, this joint project planning approach will ultimately benefit Ontario ratepayers and the Customer by reducing the cost of the Project when compared to undertaking each project independently".<sup>1</sup> The cost of the T61S project is not part of the T2R project and will be recorded in the 'network pool' and recovered from all ratepayers. HONI estimated the efficiency savings associated with combining the T2R project and T61S project at approximately \$2.2 million.

In accordance with Procedural Order No. 1, which was issued on December 6, 2018, the interrogatory stage of the proceeding was completed on January 15, 2019 and the submission stage was completed on February 12, 2019.

In its submission, OEB staff noted that HONI did not provide separate cost estimates for the T2R project and T61S project; rather the estimated costs provided were for the combined T2R/T61S project. OEB staff submitted that HONI's application would have been more helpful had it reported separate cost estimates for the T2R project and T61S project.

HONI did not address OEB staff's concerns in its reply submission.

In its reply submission, HONI noted a customer driven delay of approximately 12 months in its project schedule. IAMGOLD had originally planned to begin construction of

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<sup>1</sup> Exhibit B, Tab 1, Schedule 1, p. 2

its new transmission line in the summer of 2019 in order to meet the Côté Mine's operational date of Q1 2021.

The OEB agreed with OEB staff's view that separate cost estimates for the T2R project and T61S project are important and required for determining the true cost estimate of the T2R project that is the subject of the current application. On February 14, 2019, the OEB issued Procedural Order No. 2, directing HONI to file with the OEB revised separate cost estimates for the T2R project only. HONI provided the requested information on February 21, 2019.

## Separate T2R project costs

In its application, HONI provided a budgetary estimate for the combined T2R/T61S project of \$71.8 million with an American Association of Cost Engineers (AACE) Class 4 (-30% / +50%) level of accuracy. HONI estimated the total value of the line assets at \$69.081 million and allocated the cost between the T2R and T61S lines at \$31.72 million and \$37.36 million respectively. The station work is estimated to cost \$2.7 million.

HONI performed a discounted cash flow (DCF) assessment and determined that IAMGOLD was required to make a capital contribution of \$27.7 million assuming the cost to complete the line work for the T2R project was \$31.72 million<sup>2</sup>. The balance of \$4.0 million would be recovered by HONI through the line connection revenues collected from IAMGOLD when the line is in service. HONI also estimated the capital cost of station work to be \$2.7 million, all of which would be recovered through network pool revenues collected from IAMGOLD when the line is in service (i.e., no capital contribution required). The amount allocated to the T61S line would be recovered from Ontario ratepayers through line connection revenues subsequent to being approved in a future rate application.

In response to Procedural Order No. 2, HONI provided a separate estimate for the T2R project of \$56.32 million with an AACE Class 5 (-50% / +100%) level of accuracy. Since IAMGOLD's capital contribution was based on the combined T2R/T61S cost estimate and not this separate cost estimate, there is no change to the proposed IAMGOLD capital contribution. HONI explained that separate cost information for the T2R project at an AACE Class 4 level of accuracy is not readily available and stated:

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<sup>2</sup> This is in addition to the capital costs IAMGOLD is paying for the part of the connection facilities that triggered a leave to construct on behalf of IAMGOLD and for which the OEB granted such leave to IAMGOLD in its EB-2018-0191 Decision and Order issued December 6, 2018.

To have prepared separate estimates for the three different scopes of work (Project 1 - T2R, Project 2 - T61S and Project 3 – Combined T2R/T61S) would not have demonstrated an efficient process and would not have been an optimal use of its resources and time. In order to produce an AACE Class 4 estimate for T2R, the AACE process requires scope isolation for only the T2R Project. After establishing project scope the appropriate estimating process can then begin. The relevant costs for the T2R only scope of work cannot be simply extracted from the AACE Class 4 estimate for the T2R/T61S bundled Project. Estimating three individual scopes of work, of which only one would have been executed on, would also have added materially unnecessary cost to the actual T2R/T61S combined project.<sup>3</sup>

OEB staff submits that caution must be used when comparing the separate estimate for the T2R project of \$56.32 million with an AACE Class 5 (-50% / +100%) level of accuracy to the combined T2R/T2S project cost of \$71.8 million with an AACE Class 4 (-30% / +50%) level of accuracy. The separate estimate for T2R appears to be a larger portion of the combined cost, potentially due to its different level of accuracy. For this reason, in OEB staff's view, the separate cost estimate is not helpful.

OEB staff notes that HONI assumed a total upfront capital expenditure of \$31.7 million in the DCF analysis used to calculate IAMGOLD's capital contribution of \$27.7 million.<sup>4</sup> It is not clear to OEB staff how HONI was able to determine the amount of IAMGOLD's capital contribution without first having an accurate (e.g., AACE Class 4) separate cost estimate for the T2R project that is solely attributable to IAMGOLD. Furthermore, it is not clear to OEB staff how HONI was able to determine the \$2.2 million in efficiency savings without first knowing the separate project costs.

OEB Staff is of the view that if in fact there are cost savings in the order of \$2.2 million by combining and coordinating the work of both projects simultaneously, then this is a positive proposal and OEB staff supports the approach. However, it is still unclear to OEB staff how HONI was able to determine the allocation and therefore the resulting savings, without having separate cost estimates for the T2R project and T61S project to begin with.

OEB staff notes that HONI's prefiled evidence includes a letter from IAMGOLD stating its "full support" for HONI's leave to construct application. Furthermore, HONI states that no separate AACE Class 4 estimate for the T2R project only was requested by

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<sup>3</sup> HONI response to Procedural Order No. 2, p. 2

<sup>4</sup> Exhibit B, Tab 9, Schedule 1, p. 6

IAMGOLD.<sup>5</sup> Therefore, it appears that the customer has no issue with the approach taken by HONI to determine its capital contribution. Despite the customer's acceptance of the cost estimate methodology, OEB staff asserts that separate project cost estimates would have been a more appropriate approach given that IAMGOLD is not the only party impacted by this project. While the amount that is allocated to the provincial network pool is not overly significant compared to the provincial network revenue requirement, it is not immaterial.

HONI asserts that the capital contribution is sufficient to hold its other customers unharmed. However, it is unclear to OEB staff how this could have been determined without first completing separate cost estimates for the T2R project and T61S project. Without separate cost estimates, OEB staff cannot definitively agree on whether or not IAMGOLD and/or HONI's other customers are unharmed.

OEB staff recognizes that HONI acted with the best interests of its customers in mind when it decided to combine the T2R and T61S projects in order to achieve cost savings. Furthermore, OEB staff believes that applicants should provide a holistic view of costs that are under their control such that the OEB can better assess the overall rate implications of a decision. For these reasons, OEB staff is of the view that HONI was correct to provide the combined costs of the T2R/T61S project in its application. Although OEB staff understands HONI's explanation for why it did not complete AACE class 4 estimates for both the T2R project and the T61S project, OEB staff still believes that separate cost estimates are important and that HONI's application would have been more helpful had it reported the independent cost estimates of the T2R project and T61S project in addition to their combined costs. OEB staff submits that for similar applications in the future, it would be helpful to the OEB for HONI to provide separate and combined cost information. Such an approach would improve regulatory efficiency and benefit HONI in terms of avoiding extended regulatory timelines.

It is also, in OEB staff's view, consistent with the intent of the OEB's filing requirements that require applicants to provide a cost/benefit analysis of the proposed project, including cost/benefit evidence of the various options that were considered by the applicant as alternatives to the proposed project<sup>6</sup>. In this case, it means that ideally, HONI should have quantified with supporting evidence, the benefits of conducting both projects simultaneously. HONI addressed this in its original application and in the interrogatory phase, but has not addressed the OEB staff concerns outlined in OEB staff's initial submission that were shared by the OEB in Procedural Order No 2.

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<sup>5</sup> HONI response to Procedural Order No. 2, p. 2

<sup>6</sup> Ontario Energy Board Filing Requirements For Electricity Transmission Applications, Chapter 4, Applications under Section 92 of the Ontario Energy Board Act (July 31, 2014), page 9

## Costs of comparable projects

In its application, HONI provided costs for three transmission line projects it said were comparable to the combined T2R/T61S project. In its submission, OEB staff said that, compared to the comparator projects, the T2R/T61S project costs appear reasonable.

In response to Procedural Order No. 2, HONI provided information on two transmission line projects for comparison with the separate T2R project. One of the comparator projects, D2L, was included in HONI's original application and the other, C25H, was not. A comparison of the total cost / circuit km for the separate T2R project and comparator projects is set out in Table 1. HONI stated that the C25H project and the T2R project are of comparable length and cost per km. HONI stated that the D2L project total cost / circuit km is higher due to its shorter length and that longer projects (in excess of 100 km) benefit from economies of scale.

**Table 1: Comparison of Total Cost per Circuit km\***

Project	\$/km (\$000)	\$ Delta (\$000)	% Delta
D2L – Martin River to Crystal Falls	\$557	\$91	20%
C25H – Chats Falls to Havalock	\$451	(\$15)	-3%
<i>Average Comparator Project</i>	<i>\$504</i>	<i>\$38</i>	<i>8%</i>
T2R – Timmons to Shiningtree	\$466	--	--

OEB staff would have preferred that HONI provide more than two comparable projects in its response to Procedural Order No. 2 and that it provide better explanations for project differences. OEB staff observes that both the D2L project and C25H project had noted environmental issues, which might have impacted project costs, where the T2R project is not expected to have any major environmental issues. In addition, OEB staff notes that the C25H project and the T2R project are also different in terms of voltage (C25H is 230 kV while T2R is 115 kV), and length (C25H is 55 km or 48% longer than T2R). For these reasons, it is unclear to OEB staff why the total cost / circuit km for T2R is more than that of C25H. However, OEB staff submits that, compared to the D2L project, the T2R project total cost / circuit km appears reasonable. OEB staff notes that the total cost / circuit km for the T2R project is less than the three comparator projects included in its application (which included D2L). OEB staff cannot comment on the reasonableness of the T2R project relative to the C25H project; HONI could explain in its reply submission why it thinks the two projects are comparable.

## Conclusion

As indicated in its previous submission, OEB staff submits that HONI has established that the T2R project is needed and will have no material impacts on the reliability and quality of service experienced by other electricity consumers. Despite its concerns about not having a separate and accurate cost estimate for the T2R project capital costs, OEB staff submits that the OEB should grant HONI leave to construct the T2R project. OEB staff notes that IAMGOLD has expressed no concerns with HONI's cost allocation or capital contribution calculations. OEB staff further notes that, in a separate proceeding, the OEB has granted approval to IAMGOLD for its associated leave to construct application<sup>7</sup>.

That said, OEB staff submits that as a condition of approval HONI should be required to provide an acceptable account of how the cost allocation, capital contribution and efficiency savings were determined at the time of its next transmission rate application where it will be seeking approval to include the T61S project cost into rate base. Given that its next transmission rate application is pending as of the writing of this submission and will cover the 2020 to 2022 period, HONI could be required to supplement that filing with the evidence on this 2020 project in a timely fashion. This will allow the OEB to determine whether the allocation of costs to rate payers, as opposed to those allocated to IAMGOLD, were appropriate. In the event the information provided in the rate application is not sufficient to support the costing information put forth by HONI in this current proceeding, OEB staff proposes that it may be open to parties to argue that the portion of the costs attributable to provincial ratepayers be disallowed for revenue requirement treatment. In this event, OEB staff is not recommending that the amount to be paid by IAMGOLD be exposed to uncertainty, either through the capital contribution or ongoing charges. The only component of the project that would be exposed to risk for non-recovery, would be the amounts that would be recoverable from provincial ratepayers. This is OEB staff's preferred approach because it does not delay the current proceeding any further.

Alternatively, the OEB could issue a procedural order requiring HONI to develop and file separate and combined cost estimates for the T2R, T61s and T2R/T61S projects and/or evidence to describe how HONI determined the cost allocation, capital contribution, and efficiency savings, prior to the OEB making a decision in this proceeding.

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<sup>7</sup> EB-2018-0191 Decision and Order issued December 6, 2018

OEB staff also submits that the OEB in its decision should advise HONI that this information will be required for any similar applications in the future, and that a failure to do so could result in regulatory delays.

All of which is respectfully submitted.