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BY COURIER

March 7, 2019

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

Dear Ms. Walli:

EB-2018-0257 - Hydro One Networks Inc.'s Section 92 – Côté Lake Mine Connection Project – Reply Submission regarding Procedural Order No. 2

In accordance with Procedural Order No. 2, please find attached the Reply Submission to the OEB Staff's supplemental submission dated February 28, 2019 in support of the leave to construct sought by Hydro One to complete the Côté Lake Mine facility connection Project (The "Project") to supply mine facilities owned by IAMGOLD.

An electronic copy of this Reply Submission has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS). Hard copies will be couriered shortly.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Attach.

cc. IESO

HYDRO ONE NETWORKS INC.
CÔTÉ LAKE MINE CONNECTION PROJECT (EB-2018-0257)
SUBMISSION ON PROCEDURAL ORDER NO. 2
MARCH 7, 2019

In accordance with Procedural Order 2, dated February 14, 2019, Hydro One Networks Inc. (“Hydro One”) provides the following reply submission in response to the submissions provided by Ontario Energy Board Staff on February 28, 2019 (the “Board Staff PO 2 Submissions”) regarding the Hydro One Côté Lake Mine Connection Project (the “Project”).

Hydro One’s reply submission is organized as follows:

- Overview of Project and Hearing
- Procedural Comments
- Comments Addressing Board Staff PO2 Submissions
 - Separate T2R Project Costs
 - Determination of Efficiency Savings
 - Cost Allocation and Responsibility
 - Project Comparables
- Impacts of a Conditional Approval

Overview of Project and Hearing

The Project is required to facilitate a customer connection initiated by Iamgold Corporation (“Iamgold”, or the “Customer”)¹. Iamgold is requesting to connect to Hydro One’s currently idle 115kV T2R circuit². Hydro One does not currently need the T2R line in-service and is upgrading these facilities now only to facilitate the completion of the non-discretionary customer-driven Project. In concert with completing the Iamgold connection, Hydro One will be advancing the refurbishment of circuit T61S that was originally scheduled for 2024. Hydro One

¹ Exhibit B, Tab 1, Schedule 1, Page 2 – August 30, 2018

² Exhibit B, Tab 2, Schedule 1, Page 1 – August 30, 2018

is proposing to undertake this discretionary project at this time because T61S and T2R are on common towers³.

Hydro One's leave to construct application (the "Application") for the Project was filed with the Board on August 30, 2018. The Board informed Hydro One on September 28, 2018, that the preliminary review of the Application was completed and that the Board would now commence the processing of the Application ("the Preliminary Review Letter"). On November 12, 2018, the OEB issued the Notice of Application. No party applied to intervene, except for the Independent Electricity System Operator, which has posed no interrogatories nor provided any submissions, with the sole exception being evidentiary documentation supporting the Project⁴. OEB Staff posed interrogatories on December 18, 2018, to which Hydro One responses were provided on January 15, 2019. On January 30, 2019, OEB Staff filed their submissions (the "Board Staff PO 1 Submissions").

In that submission, Board Staff wrote:

"OEB staff submits that HONI's application would have been more helpful had it reported the independent cost estimates of the T2R and T61S projects in addition to their combined costs, given that HONI has positioned doing the work independently as an alternative."⁵

In Hydro One's reply submission filed February 12, Hydro One did not specifically address this comment. Hydro One interpreted the words "*would have been more helpful*" to suggest that in future applications Hydro One should consider Staff's comments and that the information provided on the record of the proceeding substantially addressed these concerns. On February 14, the Board issued Procedural Order 2, requesting that Hydro One file cost estimates for completing circuit T2R only. Hydro One provided the estimate on February 21, 2019.

Procedural Comments

Hydro One is concerned about the timing of the issues raised by Board Staff, in both the Board Staff PO 1 and PO 2 Submissions. Specifically, Hydro One's concerns are that the issues raised could have and should have been addressed during the evidentiary or discovery phase of this hearing, not in argument. Hydro One submits that Board Staff had at least two distinct opportunities to address any concerns regarding the evidence filed with the Application: the preliminary review letter and/or the evidentiary or discovery phase of the hearing.

³ Exhibit B, Tab 3, Schedule 1, Page 2 – August 30, 2018

⁴ Exhibit F, Tab 1, Schedule 1, Attachment 1 – August 30, 2018

⁵ OEB Staff Submissions, Page 5 – January 30, 2019

I. Preliminary Review Letter

Hydro One understands that the intent of the Preliminary Review Letter is to ensure that an applicant has complied with the OEB *Filing Requirements for Electricity Transmission Applications Chapter 4 Applications under Section 92 of the Ontario Energy Board Act* (“the OEB Filing Requirements”). Hydro One submits that an applicant is entitled to assume that if a filing requirement was not met, the OEB would not have commenced the processing of the Application. If Hydro One failed to provide the evidence required in the OEB Filing Requirements, which Hydro One submits is not the case, the Application should not have been accepted and Hydro One should have been asked to comply with the section(s) of the filing requirements that were deficient. Instead, as aforementioned, the Board accepted Hydro One’s Application and commenced the processing of the Application as documented in the Preliminary Review Letter.

II. Evidentiary and Discovery Phase

At page 4 of the Board Staff PO 2 Submission, Board Staff expresses the view that the intent of the OEB Filing Requirements is to 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 project⁶. Board Staff continue,

“...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 (emphasis added) but has not addressed the OEB staff concerns outlined in OEB staff’s initial submission...”⁷

Hydro One submits that these concerns should have been raised in the interrogatory phase of the proceeding, pursuant to Section 26 and 27 of the OEB’s Rules of Practice and Procedure⁸. Throughout the proceeding, no one, including Board Staff, expressed any concerns regarding the level of evidence provided to meet the OEB Filing Requirements. Board Staff did not pose any interrogatories during the discovery phase of the proceeding to request additional costing information to ascertain if there was, or could be, any inappropriate allocation of costs to ratepayers.

Addressing Submissions on PO2

⁶ OEB Staff Submissions, Page 4 – February 28, 2019

⁷ OEB Staff Submissions, Page 4 – February 28, 2019

⁸ OEB’s Rules of Practice and Procedure – October 28, 2016

1. Separate T2R Project Costs

Staff expressed concerns with the T2R project estimate of \$56.32 million being an Association for the Advancement of Cost Engineers (“AACE”) Class 5 (-50%/+100%) level of accuracy versus the combined T2R/T61S project cost of \$71.8 million being an AACE Class 4 (-30%/+50%) level of accuracy. OEB Staff outlined that they understand why Hydro One did not complete an AACE Class 4 estimate (“Class 4 Estimate”) for both the T2R Project and the T61S Project, but OEB Staff still believes that separate cost estimates are important and that it would have been more helpful had Hydro One reported the independent cost estimates for completing the projects separately, in addition to their combined costs.

Hydro One provided estimates for alternatives that met the criteria of connecting Iamgold. Hydro One did not provide a detailed itemized estimate for completing the T61S in isolation in the Application because completing this scope of work alone is not a viable alternative and does not enable the connection of Iamgold. It is important to clarify that the alternatives provided in the Application are alternatives for connecting the Customer. This is consistent with section 4.3.2.4 of the OEB Filing Requirements, the section that outlines that *the Applicants must present to the Board alternatives which meet the same objectives that the preferred option meets.*

In Hydro One’s February 21, 2019, submissions, Hydro One provided an estimate of \$53.6 million to complete the T2R project in isolation⁹, based on a Class 5 estimate. As outlined in Section 3 below, to determine the capital contribution required from the customer, a separate Class 4 estimate for T2R in isolation is not required.

2. Determination of Efficiency Savings

OEB Staff’s submission states that “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.”¹⁰

It is important to clarify that, due to the overlapping scopes of work between the T2R only project (\$56.3M) and the T61S only project (\$37.4M), the efficiency savings of completing both projects together versus completing them separately is not simply the sum of the costs of the two separate projects (i.e. \$56.3M + \$37.4M) less the cost of the combined project (\$71.8M). This is because the common portions of the work need only be performed once, regardless of which project is completed first.

⁹ Hydro One Submission PO 2, Page 2

¹⁰ OEB Staff Submissions, Page 4 – February 28, 2019

Hydro One determined the \$2.2 million efficiency savings by comparing Alternatives 1 and 2 provided in Exhibit B, Tab 5, Schedule 1. As documented in that exhibit, all project alternatives were limited by the need to upgrade circuit T2R. Alternative 1, Hydro One's Côté Lake Mine Connection Project, which includes refurbishing the adjacent T61S circuit (which shares common transmission structures with T2R), advances the in-service forecast for circuit T61S by three years to align the development and construction activities of both circuits. Alternative 2 would not advance the T61S circuit work. Under Alternative 2, the T61S refurbishment would be completed as originally planned, with an in-service date of December 2024. The cost difference, or savings, of doing these projects concurrently is approximately \$2.2 million¹¹.

The savings represent the site preparation and mobilization activities that are part of any project and would be avoided for one project if both are done simultaneously. These activities include, but are not limited to yard setup, rider poles for conductoring, equipment rental, vegetation clearing, snow removal, and mobilization and demobilization as documented at Exhibit B, Tab 6, Schedule 1.

3. Cost Allocation and Responsibility

It appears in the Board Staff PO 2 Submissions that Board Staff have concerns about the reasonableness of Hydro One's cost allocation between the Customer and the pool¹².

"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"

Hydro One submits that its cost allocation approach for the Project is consistent with the approach set out in section 6.7.2(b) of the Transmission System Code relating to customer-driven incremental costs relative to the cost of a like-for-like replacement facility. That section that reads as follows:

"Where a transmitter-owned connection facility has reached its end-of-life and is planned to be retired and replacement with a new connection facility is determined to be the optimal solution, the transmitter shall undertake an assessment, in consultation with any affected customers, to determine the appropriate capacity of the replacement connection facility. Where the asset is replaced, the transmitter shall either:

¹¹ Exhibit B, Tab 6, Schedule 1, Page 2 – August 30, 2018

¹² OEB Staff Submissions, Page 3 – February 28, 2019

...

(b) recover a capital contribution from a customer to replace the connection facility, where the customer requires additional capacity. The capital contribution shall be limited to the incremental cost relative to the cost of a like-for-like replacement facility”¹³

To assist the OEB with addressing Board Staff’s concerns, Hydro One provides the following details as to how the Hydro One Côté Lake Mine Connection Project cost attributed to the Customer was calculated. Consistent with the approach in section 6.7.2(b) of the TSC, Iamgold will pay a capital contribution based on a cost allocation amount equal to the incremental cost relative to the cost of refurbishing T61S only. That is, the Customer will be allocated a portion of the total project cost equivalent to \$34.4M utilizing the formula $I = T - A$; where

I = the Incremental Cost for T2R attributed to the customer (\$34.4M)

T = the Total Cost for the combined T2R/T61S project (\$71.8M)

A = the Avoided End-of-life Like-for-like Replacement Cost (\$37.4M)

The incremental cost for T2R attributed to the Customer is \$34.4M. This was determined by assessing the cost of a like-for-like replacement facility of T61S, which was estimated to be \$37.4M, computed based on a Class 4 Estimate. The total project cost of \$71.8M was also computed based on a Class 4 estimate. The cost attributed to the network pool will not change as a result of bundling this work with work on the T2R circuit; consequently, there is no harm to pool ratepayers as a result of bundling this work. Therefore, the incremental cost of the Project relative to the cost of a like-for-like replacement facility is \$34.4M (\$71.8M - \$37.4M).

OEB Staff imply that a Class 4 Estimate is required for the T2R project alone in order to ascertain the actual capital contribution of Iamgold¹⁴. Hydro One disagrees. A Class 4 Estimate for T2R on its own was not necessary to calculate the incremental cost that the Customer would be levied. As such, it was also not required for the capital contribution for which Iamgold will be responsible, in order to complete Hydro One’s Côté Lake Mine Connection Project. That calculation was described at Exhibit B, Tab 9, Schedule 1, Pages 1 and 2, including such information as risk classification of the connection, the load profile of the Customer and other items that are assessed in a discounted cash flow analysis as contemplated by the TSC. Again, as noted by OEB Staff in OEB Staff PO 1 Submissions, this analysis was completed by utilizing the Economic Evaluation Procedure in (Hydro One)’s OEB-approved Transmission Connection Procedures¹⁵.

¹³ Transmission System Code – Section 6.7.2 (b) – December 18, 2018

¹⁴ OEB Staff Submissions, Page 3 – February 28, 2019

¹⁵ OEB Staff Submission, Page 4 – January 31, 2019

4. Project Comparables

OEB staff document that they would have preferred that Hydro One provide more than two comparable projects in its response to Procedural Order No. 2 and that Hydro One provide better explanations for project differences¹⁶. As OEB Staff noted, in its Prefiled Evidence Hydro One did provide three comparable projects, comparing those projects with Côté Lake Mine Connection Project which Hydro One was seeking approval to construct. In the PO 2 additional evidence for the standalone T2R Project, two comparable projects were provided. Given that the Côté Lake Mine Connection Project consists of both T2R and T61S projects and the project costs will be incurred as a combined project, Hydro One believes that the comparator projects provided in the prefiled evidence are more indicative of this Project than those provided in the PO 2 evidence.

Specifically, OEB Staff observed that both D2L and C25H had noted environmental issues. Both projects did involve water crossings that, by their nature, required more work effort, materials and equipment when refurbishing transmission lines to maintain the integrity of these more sensitive areas. However, in terms of the material impact on total project costs resulting from the water crossings on those projects, it would not be a significant component that alone would drive the variance in the \$/km costs.

Additionally, OEB Staff also noted that the C25H project, provided in its submission to PO 2 as a comparator, and the T2R projects were different in terms of voltage (C25H is 230 kV while T2R is 115 kV) and length and questioned why the total cost/circuit km for T2R is more than that of C25H. As a result, OEB Staff questioned the reasonableness of the T2R project relative to the C25H project. Hydro One acknowledges the difference in the circuit's voltages; however, the price of the actual conductor (e.g. 115 kV vs. 230 kV) is a small part of the total project costs. In providing C25H as an appropriate comparative project, it is not the line voltages that drive comparability in this context. Rather the comparison is appropriate because these projects are similarly situated in rural setting, and both circuits consist of steel tower structures. Further, in terms of steel refurbishment of both projects i.e. replacement of steel towers arms and associated tower members the amount of effort required to replace the steel components as a result of the significant amount of steel refurbishment is comparable. In other words, the labour, equipment and resources required to replace the steel members make up a significant component of the tower refurbishment costs, and are comparable between the two projects.

In terms of the comparability of projects, Hydro One reiterates the project contemplated in this Application is one where the T2R and T61S circuits will both be refurbished at the same time, and in that context submits the projects provided in Exhibit B, Tab 7, Schedule 1, are the

¹⁶ OEB Staff Submissions, Page 5 – February 28, 2019

appropriate comparative projects for the Board to consider and demonstrate the reasonableness of the T2R/T61S cost estimate. Hydro One agrees with OEB Staff's submission *that, compared to the comparator projects, the T2R/T61S project cost appear reasonable*¹⁷.

Impacts of a Conditional Approval

OEB Staff submits that Hydro One 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 Hydro One leave to construct the T2R project¹⁸, Hydro One agrees. However, OEB Staff submits that as a condition of approval, Hydro One 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 in which it will be seeking approval to include the T61S project cost into rate base.

Hydro One submits that this requested information has been provided herewith and, if it had been requested during the discovery phase of this proceeding, the information would have been provided earlier, would have precluded any misunderstandings on the part of Board Staff, thereby improving regulatory efficiency and preventing any unnecessary regulatory approval delays. Hydro One has, with this submission in concert with the existing record of this proceeding, illustrated how the cost allocation, capital contribution and efficiency savings were determined for this Project, and why this Project is in the public interest.

Therefore, Hydro One submits that the condition proposed by Board Staff is not required and should not be imposed by the Board. As is typical with these capital investments, the project costs and capital contribution amounts are considered preliminary, as they are finalized only once the project is placed in-service subject to the terms of the Connection Cost Recovery Agreement ("CCRA"). The capital contributions are determined in accordance with Hydro One's OEB-approved Transmission Connection Procedures and the Transmission System Code. Furthermore, as OEB Staff has noted, Hydro One plans to file its 2020 to 2022 transmission rates application in the near future. As such, other than what is presented in this submission, Hydro One would not expect, in any event, to be able to provide the Board with any further information at that time.

¹⁷ OEB Staff Submissions, Page 5 – January 30, 2019

¹⁸ Staff Submissions, Page 6 – February 28, 2019

Conclusion

The record is clear that Hydro One has illustrated that this Project is in the public interest, and Hydro One has quantified, with full supporting evidence, the benefits of conducting work on both circuits simultaneously. This submission shows that Hydro One's Côté Lake Mine Connection Project is consistent with the objectives outlined in section 96 (2) of the *OEB Act, 1998* and should be approved as filed. Hydro One has also demonstrated the reasonableness of the pooled project costs and the savings to the Customer, given the information provided above, and Hydro One therefore submits that there is no rationale for these pool allocated costs not being allowable for recovery in Hydro One's next revenue requirement application. Hydro One will defend the recovery of these costs at a future rate application. The customer, Iamgold, supports the Application and requires the transmission facilities. Hydro One therefore requests, as does Board Staff, that the Project be approved with no further delay; and Hydro One further requests that the approval be granted without the condition recently requested by Board Staff.