Ontario Energy Board | Commission de l'énergie de l'Ontario

Ontario

DECISION AND ORDER

EB-2018-0257

HYDRO ONE NETWORKS INC.

Côté Lake Mine Connection Project

BEFORE: **Emad Elsayed**
Presiding Member

March 21, 2019

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1 INTRODUCTION

Hydro One Networks Inc. (HONI) applied to the Ontario Energy Board (OEB) under sections 92 and 97 of the *Ontario Energy Board Act, 1998* (OEB Act) for approvals that would allow HONI to upgrade T2R, an idle 115 kV electricity transmission circuit that runs for 115 km between the City of Timmins and Shining Tree Junction in the District of Sudbury, and associated facilities (Project).

Specifically, HONI is seeking the following orders:

a) Under section 92 of the OEB Act, leave to construct the Project

b) Under section 97 of the OEB Act, approval of the proposed forms of easement agreement it has or will offer to affected landowners

The Project is necessary to supply IAMGOLD Corporation's (IAMGOLD) Côté Lake gold mine facility (Mine) located approximately 200 km northwest of Sudbury. The Mine will require approximately 72 MW of power, and there are no electricity transmission or distribution facilities near the Mine with sufficient capacity to meet its requirements.

In a separate proceeding, the OEB granted IAMGOLD leave to construct approximately 44 km of 115 kV line and associated facilities needed to connect the Mine at Shiningtree JCT to the HONI transmission circuit (T2R) that is to be upgraded.[1] IAMGOLD will own and operate this new 44 km line, and will finance 100% of its construction, operation and decommissioning costs. Construction of this line is scheduled for the summer of 2019.

At the same time that the Project is being constructed, HONI intends to refurbish the adjacent transmission circuit, T61S, which has reached end-of-life. Circuit T61S provides supply to local HONI distribution customers as well as several other mines and industrial customers in the area. Circuits T2R and T61S are situated on the same tower structures for the entire 115 km distance. HONI is not seeking leave of the OEB to refurbish T61S. OEB staff agreed that leave of the OEB is not required for the refurbishment of T61S as it is a like-for-like refurbishment that does not require additional land acquisition or use beyond what is required for the T2R upgrade.[2]

[1] EB-2018-0191 Decision and Order issued December 6, 2018
[2] *Ontario Energy Board Act, 1998*, subsection 92 (2) states that subsection 92 (1) "does not apply to the relocation or reconstruction of an existing electricity transmission line or electricity distribution line or interconnection where no expansion or reinforcement is involved unless the acquisition of additional land or authority to use additional land is necessary."

Construction of the Project is scheduled for September 2019 with the planned in-service dates of August 2020 for the T2R circuit and associated facilities, in order to meet the mine's operational date of Q1 2021, and June 2021 for the T61S circuit.

A map showing the location of the Project is attached as Schedule A to this Decision and Order.

The OEB is satisfied that the Project is in the public interest. Leave to Construct the Project is granted subject to the Conditions of Approval attached as Schedule B to this Decision and Order (Conditions of Approval). The OEB also approves the proposed form of easement agreement.

2 PROCESS

HONI filed its application on August 30, 2018. A Notice of Hearing was issued on November 12, 2018. The Independent Electricity System Operator (IESO) applied for intervenor status and was approved by the OEB.

The OEB proceeded by way of a written hearing. In accordance with Procedural Order No. 1, issued on December 6, 2018, HONI responded to interrogatories from OEB staff on January 15, 2019. OEB staff filed a written submission on January 31, 2019 and HONI filed its reply submission on February 12, 2019.

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

The OEB issued Procedural Order No. 2 (P.O. 2) on February 14, 2019, which required HONI to provide additional cost information for the T2R and T61S projects and allowed for an additional round of written submissions on the additional cost information.

HONI filed the additional cost information on February 21, 2019. OEB staff filed a supplemental written submission on February 28, 2019. HONI filed its supplemental reply submission on March 7, 2019.

3 OEB'S JURISDICTION

Section 92 of the OEB Act requires leave of the OEB for the construction, expansion or reinforcement of electricity transmission lines. In considering whether to grant leave, the OEB is restricted to the criteria set out in section 96(2) of the OEB Act:

> In an application under section 92, the Board shall only consider the following when, under subsection (1), it considers whether the construction, expansion or reinforcement of the electricity transmission line or electricity distribution line, or the making of the interconnection, is in the public interest:
>
> 1. The interests of consumers with respect to prices and the reliability and quality of electricity service.
> 2. Where applicable and in a manner consistent with the policies of the Government of Ontario, the promotion of the use of renewable energy sources.

In addition, section 97 of the OEB Act states that leave to construct shall not be granted until the applicant satisfies the OEB that it has offered or will offer to each owner of land affected by the approved route or location an agreement in a form approved by the OEB.

This Decision and Order (Decision) considers price, reliability, quality of electricity service, and land matters. The promotion of renewable energy sources in a manner consistent with the policies of the Government of Ontario has not been raised as an issue or benefit of this application.

4 PRICES

In determining whether the Project is in the public interest in terms of the interests of consumers with respect to prices, the OEB has examined the need for the Project, the alternatives, and the economics of the Project.

4.1 PROJECT NEED AND ALTERNATIVES

In its application, HONI stated that the Project is a non-discretionary development project driven by a customer-initiated load connection. The Mine will require approximately 72 MW of power. In its current state, the existing T2R circuit does not have sufficient capacity to supply the IAMGOLD transmission line and meet the Mine's requirements.

HONI considered building a new 115 kV transmission line adjacent to the existing T2R and T61S circuit, but this alternative was rejected as it would require greenfield construction.

HONI considered two options with respect to upgrading circuit T2R – one in which the T61S refurbishment was completed concurrently, and the other in which it was not. Prior to receiving IAMGOLD's request for service, HONI had planned to complete the refurbishment of T61S in 2024. By completing the refurbishment concurrently, HONI estimates the total cost of both projects to be approximately $2.2 million less than they would be if done separately. Doing the work concurrently also reduces customer interruptions that would otherwise occur.

HONI's pre-filed evidence includes a letter from IAMGOLD indicating its "full support" for HONI's leave to construct application.

In its submission, OEB staff agreed that the Project is needed. OEB staff had no issue with how the preferred option was selected from among the alternatives.

Findings

The OEB finds that the Project is needed as it has been shown to be a non-discretionary development project driven by a customer-initiated load connection requirement. The OEB also finds that HONI selected an approach (combined T2R/T61S projects) which would provide execution efficiency and overall cost savings compared to executing the proposed Project by itself.

4.2 PROJECT ECONOMICS

In accordance with the OEB's filing guidelines[3], HONI classified the T2R component of the Project as non-discretionary, as it is required to connect the customer, IAMGOLD, and the T61S component of the Project as discretionary. Although not seeking leave to construct the T61S work, for completeness, HONI included the costs of both the Project and T61S refurbishment in its financial assessment.

In its application, HONI provided a budgetary estimate for the combined T2R/T61S projects of $71.8 million with an American Association of Cost Engineers (AACE) Class 4 (-30% / +50%) level of accuracy. This cost consists of lines work and station work. HONI estimated the total value of the lines work at approximately $69.1 million and allocated the cost between the T2R and T61S lines at $31.7 million and $37.4 million, respectively. The station work, which is part of the proposed Project, is estimated to cost $2.7 million.

In accordance with the Economic Evaluation Procedure in HONI's OEB-approved Transmission Connection Procedures,[4] 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 $31.7 million[5]. 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 $2.7 million capital cost of the station work 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 ($37.4 million) may be recovered from Ontario ratepayers through line connection revenues subsequent to it being reviewed and approved in a future rate application.

The combined T2R/T61S projects consist of both line and network assets. The line assets, which are the currently idle 115kV T2R circuit that will be reconductored and energized, as well as the existing conductor on the 115 kV circuit T61S that will be replaced to address end of-life sustainment needs, will be included in the Line Connection Pool for future rate-making purposes. The Network assets, which include a new station termination to connect the T2R circuit to the 115kV yard at Timmins TS, a

[3] OEB's Filing Requirements for Electricity Transmission Applications, Chapter 4 Applications under Section 92 of the Ontario Energy Board Act, July 31, 2014
[4] EB-2006-0189
[5] 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.

motorized disconnect switch at Shiningtree JCT, as well as protection and control related investments at Porcupine TS, will be included in the Network Connection Pool for future rate making purposes. HONI estimates the impact on the Network Connection Pool of the combined T2R/T61S projects to be approximately a reduction of $0.01/kW/month and approximately an increase of $0.01/kW/month on the Line Connection Pool such that the net result is approximately neutral.[6]

OEB staff submitted that HONI's financial assessment was conducted appropriately and that HONI had demonstrated that the Project will have no material impacts on the prices it charges electricity consumers. OEB staff supported HONI's approach to combining and coordinating the work of both the Project and T61S work simultaneously. However, OEB staff noted that HONI did not provide separate cost estimates for the Project and T61S work; rather, the estimated costs provided were for the combined T2R/T61S projects. OEB staff submitted that the true cost of the Project, which alone is the subject of this proceeding, cannot be determined without separate cost estimates. OEB staff submitted that HONI's application would have been more helpful had it reported the separate cost estimates of the T2R and T61S projects in addition to their combined costs.

In response to P.O. 2, HONI provided a separate estimate for the T2R project of approximately $56.3 million with an AACE Class 5 (-50% / +100%) level of accuracy. HONI explained that it had not prepared an AACE Class 4 estimate due to the time constraints for responding to P.O.2. As the construction project scope was to complete both the T61S and T2R work together, HONI stated that 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 HONI's resources and time. HONI further explained that 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 also provided information on two other transmission line projects (D2L and C25H) for comparison with the separate T2R project.

In its supplemental submission, OEB staff suggested that caution must be used when comparing the separate estimate for the T2R project of $56.3 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. OEB staff stated that it was not clear how HONI was able to determine the allocation of costs, and

[6] Exhibit B, Tab 1, Schedule 1, page 4

therefore the resulting efficiency savings, without first having separate cost estimates for the T2R project and T61S project. However, OEB staff stated that to the extent there are cost savings by combining and coordinating the work of both projects simultaneously, this is a positive proposal and OEB staff supports the approach. OEB staff also said it would have preferred that HONI provide more than two comparable projects and provide better comparison explanations in its response to P.O. 2, but noted that the total cost / circuit kilometres of the Project appeared reasonable compared to other similar projects.

Given its ongoing concerns about HONI's cost estimates and the possibility of an effect on cost allocation, OEB staff submitted 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 its rate base to be recovered from ratepayers. This would allow the OEB to determine whether the allocation of costs to ratepayers, as opposed to those allocated to IAMGOLD, are appropriate.

In its supplemental reply submission, HONI expressed concern about the timing of the cost estimate issues raised by OEB staff in that the issues raised could have been addressed during the evidentiary or discovery phase of this proceeding and not in argument. In HONI's view, if the information had been requested during the discovery phase it would have improved regulatory efficiency and prevented unnecessary regulatory approval delays.

HONI submitted that the information it provided in response to P.O. 2, in combination with its pre-filed evidence and the information provided during the discovery phase of this proceeding, has demonstrated how the cost allocation, capital contribution and efficiency savings were determined for the Project. HONI noted that the Project costs and capital contribution amounts are considered preliminary and are finalized only when the Project is placed in-service, subject to the terms of the Connection Cost Recovery Agreement. HONI plans to file its 2020 to 2022 transmission rates application in the near future. As such, HONI would not expect to be able to provide the OEB with any further information at this time.

Findings

The OEB finds that HONI's financial assessment was conducted appropriately and that it has demonstrated that the Project will have no material impacts on the prices it charges electricity customers.

The OEB finds that the OEB's and OEB staff's concern about HONI not separating the cost of the T2R transmission circuit upgrade, which is the subject of this proceeding, and the cost of the T61S transmission circuit refurbishment work, which is not part of the Project, was partially addressed by HONI in its response to P.O. 2. OEB staff had a remaining concern about the discrepancy between the accuracy of the cost estimate of the T2R/T61S combined cost and that of the T2R separate cost. The OEB agrees that it would have been more helpful if the two estimates were developed with the same level of accuracy. However, the OEB finds that the cost information provided by HONI in response to P.O. 2 is sufficient for the purpose of this proceeding and that additional effort to develop a more accurate cost estimate for T2R at this stage of the proceeding is not warranted. The OEB also finds that the T2R cost estimate ($466k per circuit km) is comparable to the one similar project (C25H, at $451k per circuit km) that HONI provided.

The OEB agrees with OEB staff that, in future similar applications, HONI should provide cost estimates for proposed projects which are accurate enough to enable the OEB to better assess the project economics in accordance with section 92 of the OEB Act. The OEB also expects that, in future applications, HONI will provide more comparable projects to demonstrate the reasonableness of its cost estimates for a particular project.

In its reply argument, HONI questioned the need for a separate cost estimate for T2R. It should be clarified that the "Project" that HONI is seeking OEB's approval for in this proceeding is the T2R upgrade, not the combined T2R/T61S projects. Therefore, it is important that HONI provide separate cost information related to the Project as per the OEB's Filing Requirements[7]. It would be unusual for the OEB to approve a project for which no cost information is provided. In this case, HONI identified an approach where the refurbishment of circuit T61S is advanced and executed concurrently with T2R as T2R and T61S are on common towers. HONI, for good reasons, presented this approach (combined T2R/T61S projects) as the preferred approach. This does not negate the need for cost information, including benchmarking with other similar projects, for the proposed Project.

The OEB agrees that the information provided by HONI in its reply argument regarding cost allocation, capital contribution and efficiency savings adequately responds to OEB staff's request in its final submission and, therefore, the OEB does not see a need to impose an additional condition of approval in this proceeding to seek this information in a future rate application to approve recovery of the costs of the T61S work.

[7] Filing Requirements For Electricity Transmission Applications, Chapter 4, Applications under Section 92 of the Ontario Energy Board Act, July 31, 2014, section 4.3.2.9

5 RELIABILITY AND QUALITY OF SERVICE

In determining whether a project is in the interests of consumers with respect to reliability and quality of service, the OEB examines the purpose of the project, the potential impact on the integrated power system as described in the System Impact Assessment (SIA), and the potential impact on the HONI system and customers as described in the Customer Impact Assessment (CIA).

For this Project, the IESO concluded in its Final SIA that, "the proposed connection of the project is expected to have no material adverse impact on the reliability of the integrated power system, provided that all requirements in this report are implemented."[8] OEB staff submitted that the requirements are not unusual, and include the installation of switches and other equipment, and the development of a Load Shedding Scheme.

HONI concluded in its Final CIA that the "Hydro One system and customers will not be adversely impacted by the connection of the Cote Lake Mine."[9]

Findings

The OEB finds that HONI has demonstrated that the Project will have no adverse impacts on the reliability and quality of service experienced by electricity consumers. This was the conclusion reached as a result of the Final SIA and the Final CIA. HONI has committed to meeting the requirements of the Final SIA and the Final CIA. Meeting these requirements is part of the OEB's Conditions of Approval in this proceeding.

[8] Exhibit F, Tab 1, Schedule 1, page 1
[9] Exhibit G, Tab 1, Schedule 1, page 5

6 LAND

The Project is to be constructed almost exclusively in an existing HONI right-of-way. The connection tap for the transmission line being constructed by IAMGOLD is located on Crown land for which HONI will be applying for an addition to its Ministry of Natural Resources and Forestry master Land Use Permit in Q1 2019.

HONI confirmed in an interrogatory that the T61S refurbishment work does not require any rights that are not a necessity of the T2R upgrade.[10]

Temporary construction rights for staging areas may be required. HONI filed into evidence the forms of land use agreements it has or will offer to affected landowners. These forms of agreement have been approved by the OEB for use in previous HONI proceedings.[11] OEB staff confirmed the forms of agreement conform to the OEB's Filing Requirements.[12]

Findings

OEB's leave to construct is subject to the necessary easements and land use permits being acquired by HONI. The OEB approves the form of land use agreement proposed by HONI as it is consistent with the OEB's previously approved forms.

[10] OEB Staff Interrogatory # 10
[11] Exhibit B, Tab 1, Schedule 1, page 4
[12] Filing Requirements for Electricity Transmission Applications, Chapter 4 Applications under Section 92 of the Ontario Energy Board Act, July 31, 2014

7 CONDITIONS OF APPROVAL

In its submission, HONI commented on OEB staff's proposed Condition of Approval 2, which would require that, "Unless otherwise ordered by the OEB, authorization for leave to construct shall terminate 12 months from the date of the Decision and Order, unless construction has commenced prior to that date." HONI noted that IAMGOLD announced a six-month delay to the commencement of construction of the Cote Lake Mine facility. HONI recognized that this unforeseen customer- determined delay may impact the start of construction for the Project and the ultimate in-service date. HONI therefore requested that the OEB provide an 18-month period from the date of the Decision and Order. HONI did not comment on any other condition of approval.

Findings

Given the 6-months delay in the start of construction of IAMGOLD's Cote Lake mine facility, the OEB grants HONI's request to revise condition 2 of the OEB staff's proposed Conditions of Approval to allow for 18 months instead of 12 months.

The OEB is adding two items to the draft conditions of approval – those items are set out in Conditions 5 and 6.

- The new Condition 5 requires HONI to designate one of its employees as project manager who will be responsible for the fulfillment of the Conditions of Approval, and includes requirements related to the provision of that employee's name and contact information to the OEB and landowners and to the posting of that information on the construction site.
- The new Condition 6 identifies the OEB's designated representative for the purposes of the Conditions of Approval.

The OEB is adding the word "cost" to condition 3.

The OEB's Conditions of Approval are attached as Schedule B to this Decision and Order. The OEB finds that HONI's compliance with the Conditions of Approval will ensure that the requirements of other approvals, permits, licences and certificates are fully addressed.

8 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. HONI is granted leave, pursuant to subsection 92 of the OEB Act, to construct the Project as described in its application.
2. The OEB approves the proposed form of easement agreement that HONI has offered or will offer to each owner of land affected by the Project.
3. Leave to construct is subject to HONI complying with the Conditions of Approval set forth in Schedule B.
4. HONI shall pay the OEB's costs incidental to this proceeding upon receipt of the OEB's invoice.

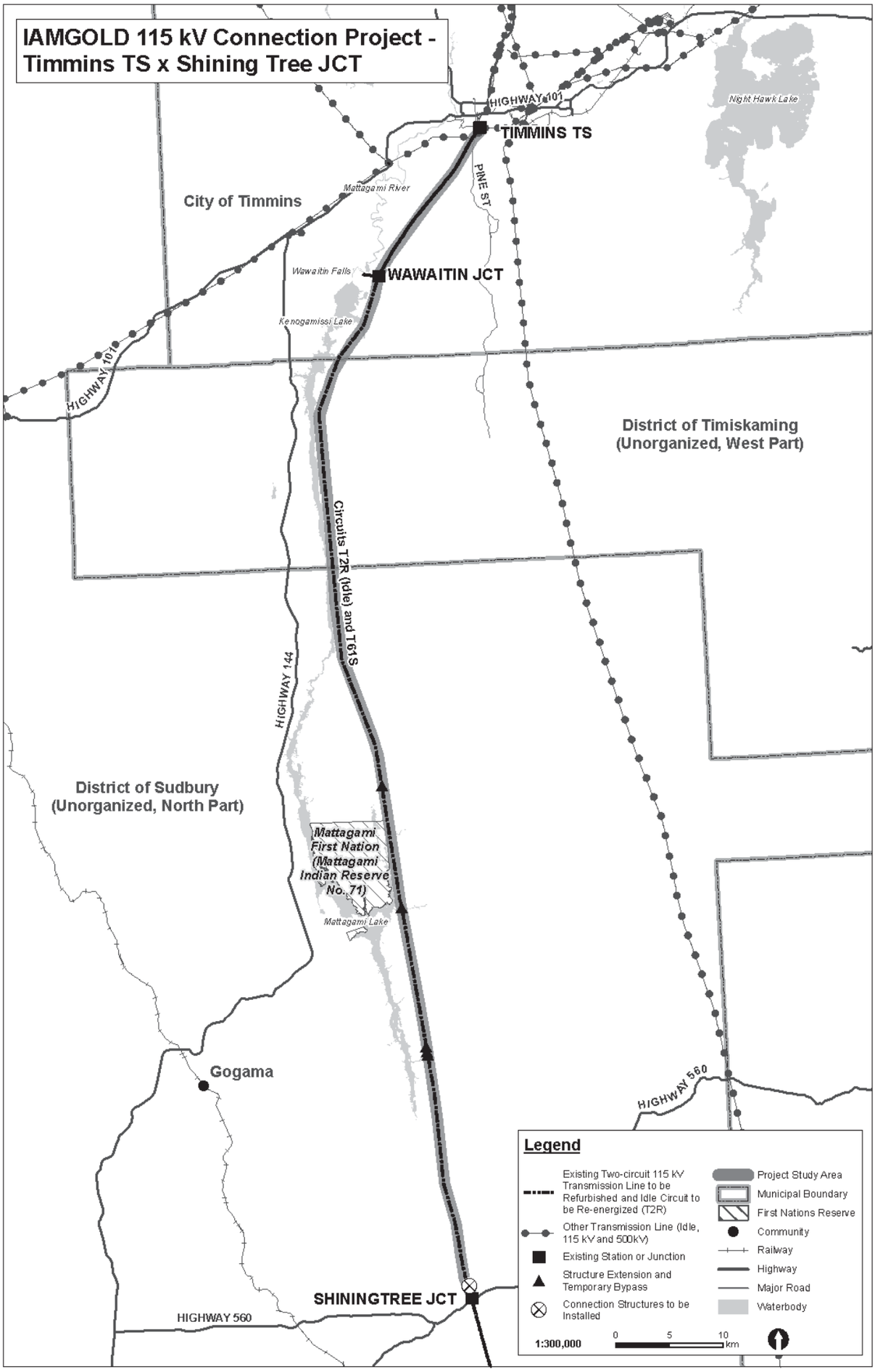
DATED at Toronto March 21, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

SCHEDULE A - MAP



SCHEDULE B – CONDITIONS OF APPROVAL

Application under Section 92 of the OEB Act

Hydro One Networks Inc.

EB-2018-0257

1. Leave pursuant to section 92 of the OEB Act shall be subject to the fulfillment of the requirements of the SIA and CIA and all other necessary approvals, permits, licences and certificates required to construct, operate and maintain the proposed facilities.

2. Unless otherwise ordered by the OEB, authorization for leave to construct shall terminate 18 months from the date of the Decision and Order, unless construction has commenced prior to that date.

3. HONI shall advise the OEB of any proposed material change in the project, including but not limited to changes in: the proposed route, construction schedule and cost, the necessary environmental assessment approvals, and all other approvals, permits, licences, certificates and rights required to construct the proposed facilities.

4. HONI shall designate one of its employees as project manager who will be responsible for the fulfillment of these conditions, and shall provide the employee's name and contact information to the OEB and to all the appropriate landowners as well clearly posted on the construction site.

5. The OEB's designated representative for the purpose of these Conditions of Approval shall be the OEB's Manager of Supply and Infrastructure.