

OEB grants Hydro One leave to construct a new transmission line in the regions of Thunder Bay, Rainy River and Kenora

DECISION

On April 16, 2024, the Ontario Energy Board (OEB) issued its [Decision and Order](#) granting Hydro One Networks Inc.'s (Hydro One) application for leave to construct approximately 360 kilometres of electricity transmission line and modify associated facilities in northwest Ontario in the regions of Thunder Bay, Rainy River and Kenora (the Project).

The OEB determined that the Project is in the public interest based on an examination of its impact on consumers with respect to prices and the reliability and quality of electricity service. As part of its review of a project's impact on prices, the OEB typically considers the need for and alternatives to the proposed project. The OEB granted Hydro One's application subject to the OEB's standard conditions of approval for leave to construct applications.

BACKGROUND

The Project was previously known as the "Northwest Bulk Transmission Line" and was identified in the Ontario Government's 2013 and 2017 Long Term Energy Plans¹ to:

- increase electricity supply to the region west of Thunder Bay;
- provide a means for new customers and growing loads to be served with clean and renewable sources that comprise Ontario's supply mix; and
- enhance the potential for development and connection of renewable energy facilities.

Further to a [Ministerial Directive](#) issued in late 2013 under section 28.6 of the *Ontario Energy Board Act, 1998* (OEB Act), Hydro One is required to develop and seek approvals for the Project, with the scope and timing of the Project to accord with the recommendations of the Independent Electricity System Operator (IESO).

In the IESO's *Waasigan Transmission Line Project: Need, Alternatives, and Recommendations Report*² (IESO Report), published in July 2023, the IESO stated that the electricity system today is close to capacity and due to the future development of mining projects there will be an immediate need for additional supply capacity.

INTERVENORS

The intervenors in the proceeding were:

- Gwayakocchigewin Limited Partnership (GLP)
- IESO
- Lac des Mille Lacs First Nation
- Neighbours on the Line (NOTL)

¹ [Long-Term Energy Plan 2013](#), [Long-Term Energy Plan 2017](#)

² Hydro One Networks Inc. Leave to Construct Application – EB-2023-0198 Exhibit B-3-1 Attachment 9

- Northwestern Ontario Metis Community and Region 2 of the Metis Nation of Ontario
- Ontario Power Generation Inc.
- Private citizens

KEY FINDINGS

A summary of the OEB's key findings include:

Project Need (*Section 4.1, pp. 7-8*)

The OEB found that the Project is needed based on the reasons provided in the IESO Report, the Minister's Directive and the IESO's recommendations.

Project Alternatives (*Section 4.2, pp. 8-10*)

The OEB found that the Project is the best technical alternative solution to address the emerging needs in the region based on Hydro One's evidence and the recommendation of the IESO Report. The IESO Report considered several alternatives and concluded that the Project is the recommended alternative as it improves system capability, is technically feasible and is the most cost-effective option when compared to other alternative solutions.

Project Costs: Proposed Route (*Section 4.3.1, pp. 11-13*)

Based on the evidence provided by Hydro One, the OEB found that the selected Project route is preferable to other alternative routes, including those suggested by certain intervenors. The OEB noted that other intervenor considerations affecting the route selection are expected to be addressed through the Environmental Assessment process.

Project Costs: Contingency Costs (*Section 4.3.2, pp. 13-16*)

The OEB accepted the estimated total Project cost of \$1,200.0 million, which includes a contingency budget of \$123.6 million.

While the OEB recognized OEB staff's concerns that the \$123.6 million contingency budget may be excessive, it agreed with Hydro One that certainty and regulatory assurance is needed before construction is commenced so that reasonable capital expenditures may be recovered.

The prudence of the Project cost, including utilization of this contingency budget, may be examined by the OEB in a prudence review at the appropriate future revenue requirement proceeding after the Project is completed.

Project Costs: Overhead Capitalization Methodology (*Section 4.3.3, pp. 16-19*)

The Project follows an Early Contractor Involvement (ECI) delivery model, which engages external engineering firms and engineering, procurement and construction (EPC) contractors. Hydro One proposed this refined overhead capitalization methodology, utilizing a blended overhead rate determined by the project type and the source of costs. Hydro One calculated that by using the refined methodology, it lowers the impact to the Project budget by approximately \$60 million (i.e., not charging the Project for components of Hydro One overhead that are being performed by the ECI-EPC contractor).

Hydro One indicated that by applying this new contracting model to all transmission projects, avoided costs could be significant. The OEB indicated that at the appropriate future proceeding, Hydro One should demonstrate how adopting the ECI-EPC model benefited ratepayers and how overhead functions were reassessed to avoid cost duplication. The OEB encouraged Hydro One and its contractors to find efficiencies in managing capital projects.

The OEB found that Hydro One's proposed overhead capitalization methodology is a rates issue and is, therefore, beyond the scope of a leave to construct proceeding.

Project Costs: *Environmental Mitigation Costs* (Section 4.3.4, pp.19-21)

Some intervenors submitted that the OEB should not approve the leave to construct application until Hydro One has obtained all other applicable approvals, including the Environmental Assessment (EA) approvals.

Under the OEB Act, in applications of this kind, the OEB shall only consider the interests of consumers with respect to prices and the reliability and quality of electricity service when considering whether the project is in the public interest. The OEB determined that none of the environmental mitigation concerns raised are sufficiently relevant to the OEB's consideration of approval.

The OEB noted that the approval of the application is subject to a number of conditions, one of which is that Hydro One obtains all necessary approvals, permits, licences, certificates, agreements and rights required to construct, operate and maintain the Project. This would include all necessary EA approvals.

Project Costs: *Overall Costs* (Section 4.3.5, pp. 21-23)

The OEB found that the Project's estimated cost falls within an acceptable range in the cost per km of comparator transmission line projects recently completed in Ontario and provided by Hydro One in its evidence.

The application stated that the transmission line facilities comprising the Project will become owned by a future limited partnership that will offer a 50% equity stake to nine First Nation partners. Intervenor GLP represented eight of the nine First Nations partners, with the ninth partner being Lac des Mille Lacs First Nation, also an intervenor in the proceeding. Hydro One stated that any limited partnership agreement is not anticipated to impact the cost estimate of the Project.

Impact on Price of Electricity Service (Section 4.4, pp.23-24)

The OEB found that the projected transmission rate impacts that will result from the Project are reasonable.

All Project costs will be included in the network connection pool and no customer contributions in aid of capital will be required because the Project is not driven by any specific customer load application.

The application stated that the Project will increase the load meeting capability of the region and release constraints on transfers into the region. Hydro One estimated that the Project will result in a potential growth of approximately 206 MW and \$13.3 million in annual incremental network revenue over a 25-year evaluation period using 2023 uniform transmission rates.

Impact on Reliability and Quality of Electricity Service (Section 4.5, pp. 24-25)

The OEB had no concerns with the IESO's System Impact Assessment, which concluded that the Project will have no material adverse impact on the reliability of the integrated power system. There were no concerns with Hydro One's Customer Impact Assessment, which concluded that the Project will not have any adverse impacts on reliability and service quality of electricity service.

Land Matters (Section 4.6, pp. 25-26)

The OEB approved the forms of land use agreements that Hydro One has offered or will offer to landowners affected by the routing and construction of the Project and noted that most of these forms have previously been approved by the OEB for similar projects.

Conditions of Approval (Section 4.7, p.27)

Leave to construct was granted and is subject to the standard conditions of approval attached as Schedule B of the Decision. These conditions also apply to any future Hydro One affiliate that would own and maintain the Waasigan transmission line. Hydro One had no concerns with these conditions.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

Contact Us

Media Inquiries

Phone: 416-544-5171

Email: oebmedia@oeb.ca

Consumer Inquiries

416-314-2455/1-877-632-2727

Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued April 16, 2024, which is the official OEB document.