

Common Voice Northwest

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September 19, 2017

RE: IESO Assessment of the East-West Tie Transmission Project

Dear Mr. Farmer

Further to our recent discussion the Common Voice Northwest Energy Task Force (CVNWETF or Energy Task Force) is pleased to provide the IESO with our perspective on the role that the East-West Tie Project will have on the future of Northwestern Ontario.

The Common Voice Northwest Energy Task Force is of the opinion that the proposed East-West Tie Project is essential for the future of Northwestern Ontario. Without it, existing industrial users will be disadvantaged while the number of new users will not proceed as investors look elsewhere for certainty. Our request to the IESO is to recommend to the Government of Ontario that the project should proceed as planned and that the Leave to Construct should be approved by the Ontario Energy Board.

We note that when the Order in Council (OIC) was issued on March 2, 2016 declaring that the East-West Tie Transmission Project "is needed as a priority project" it was clearly stated that "Ontario considers it necessary to expand Ontario's transmission system in order to maintain a reliable and cost-effective supply of electricity in the Province's Northwest, increase operational flexibility, reduce congestion payments and remove a barrier to resource development in the region". It is view of the region that little has changed since the OIC was issued.

We will outline in this letter the reasons why each of the criteria listed in the OIC continue to apply in 2017 and will most certainly apply in 2020 and beyond.

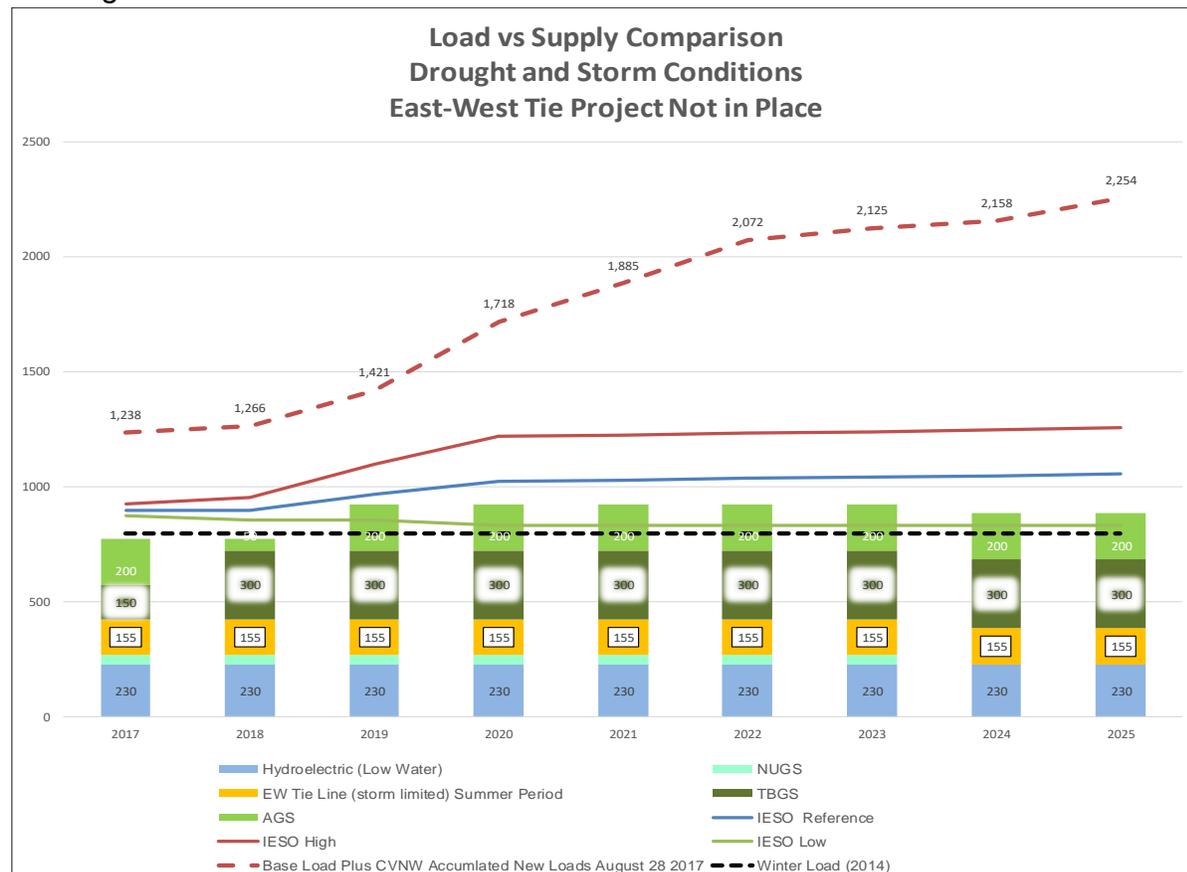
1. Reliability

As the IESO is aware, the Energy Task Force has been monitoring and identifying future load requirements in the Northwest and has regularly been sharing that information with the IESO and the Ministry. The Energy Task Force has also been analysing current supply and projected those needs into the future.

We define reliability as having a consistent, trouble free and adequate supply of electricity when and where it is needed.

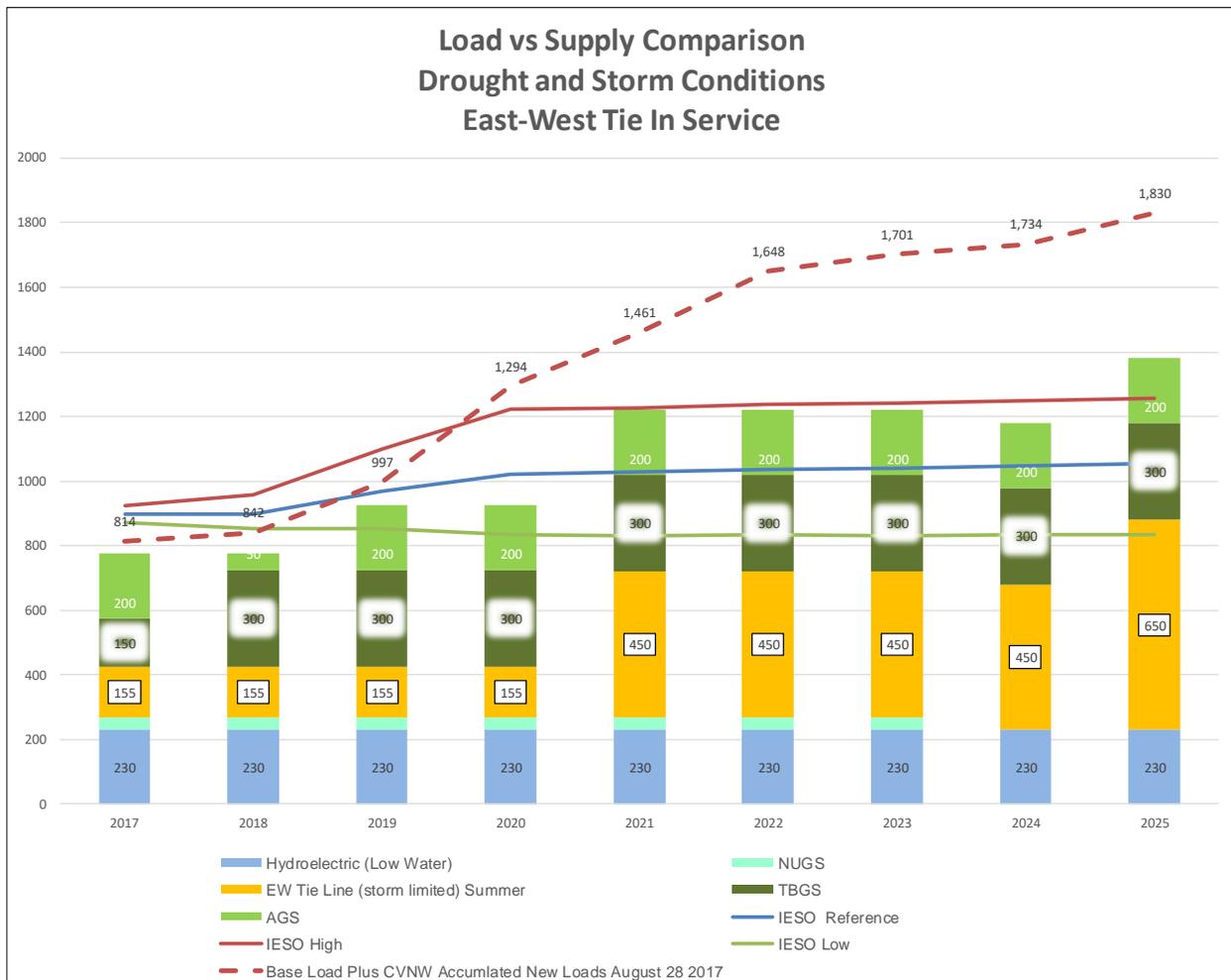
The existing East-West Tie that connects Northwestern Ontario via wires from Thunder Bay to Wawa to the Ontario Grid has a licensed capacity of 350 MW. Unfortunately, it is also located along the North Shore of Lake Superior, an area subject to an increasing number of electrical storms that require one half of the circuits to be taken out of service. That limits the transfer capacity to 155 MW during the summer, clearly affecting the reliability of the service. This combined with the ever-increasing number of droughts being experienced in the Northwest limits the region's ability to have a reliable power supply.

The following chart shows the impact on existing and future load requirements when the existing east-west tie is storm limited:



As the chart above indicates, with only 155 MW available to be brought into the Northwest through the existing East-West Tie during during summer electrical storms and drought conditions the hydroelectric power from the region will not meet even the IESO’s minimum projected demand and both thermal generating stations would be required to run at or near capacity. None of the other projected levels, either by the IESO or CVNW Energy Task Force can be achieved without the East-West Tie Project.

The following chart shows the impact of the East-West Tie Project and the need for it to meet the needs of the region.¹



The chart also provides an indication of the expected growth in the Northwest. The red dashed line is the culmination of the identified mining, forestry and industrial projects that are under planning or development with an indication as to the year(s) they are

¹ The line will initially operate at 450MW. The full 650 MW transfer capability will not be available until the SVC is installed (after a separate additional regulatory application process), currently estimated at 2024 or later (see IESO evidence filed as Attachment 2 to Exhibit B, Tab 4, Schedule 1 of NextBridge’s LTC application).

expected to require electricity from the Ontario Grid. The three solid lines are the various projections the IESO has developed (High, Low and Reference.)

As can be observed, in every projected load requirement, except for the IESO Low, the full enhanced East-West Tie capacity is required² to meet the known needs of the Northwest.

In addition, post 2021, under the IESO scenarios the full capacity of the Thunder Bay Thermal Generation Station will be required with a portion of the output of the Atikokan GS as well. Under the Energy Task Force projections, the full capacity of both Generating Stations will be required as well as additional distributed generation. We estimate that the combination of existing drought on hydraulic generation, the enhanced East-West Tie and the two thermal generating stations will not meet the needs of the region by 2025. As a result the region will require an additional 430 MW of power.

2. Cost Effective Supply

Any discussion of the changes relative to Cost Effective Supply must be done in the context of the Ontario Energy Board's Phase 1 Decision and Order³ of July 12, 2012 which outlines how estimates by the proponents should be prepared. The Order includes the following:

“Regarding cost, the Board acknowledges, as several parties observed, that one of the purposes of the development work itself will be the estimation of construction and operation and maintenance costs, and that therefore applicants for designation will likely not be in a position to provide an accurate estimate of construction and operating and maintenance costs at the time of their application. Nevertheless, the Board finds that it must consider 5 all costs in assessing the merits of the various applications. Providing benefit to ratepayers through economic efficiency is a core objective in the Board's Policy, and the reasonableness of the total costs of the project will be a critical component in achieving that objective. The Board will therefore require that parties include in their applications an estimate of all costs, including those related to: preparation of an application for designation; development; construction; and operation and maintenance of the line.

However, in recognition of the uncertainty inherent in estimating costs of construction and operation and maintenance of the line, the Board will accept these estimates expressed as a range. All the transmitters who have registered

² This assumes that the first full year of the East-West Tie in-service will be 2021.

³ EB-2011-0140 Designation: East-West Tie Line Phase 1 Decision and Order

their interest in the East-West Tie line project have, or have access to, experience in the construction of major infrastructure projects, and the Board expects that they will be able to create a reasonable estimated range for these costs, and provide justification for the cost estimates and width of the range. The Board will also require applicants to provide evidence of their plan to manage the costs of construction and operation and maintenance, and of their track record in estimating construction costs and keeping to those estimates. “

It was clearly the position of the OEB that it was early in the process for any of the possible proponents to provide a final price for the construction of the transmission line and that flexibility was expected. It is appropriate to note that the OEB expected the submitted price to change by the time that leave to construct was requested.

The decision by the Minister of Energy to request the IESO to “update its assessment on the basis of the latest costs” is founded on NextBridge’s recent submission to the Ontario Energy Board in which they indicated that the estimated construction cost of the project is now \$737 Million and the Minister’s concern about “the new cost information”.

NextBridge’s original submission indicated that it expected to be able to build the line for \$396.7Million Million and that included a type of tower that has not been used in the Northwest in the past and a line that went through Pukaskwa National Park. The proposal accepted by the OEB did not include equity positions by area First Nations. Prior to the OEB seeking proposals from companies interested in constructing the line, the Ontario Power Authority estimated that a traditional line would cost in the range of \$600 Million.

When the Energy Task Force met with representatives of NextBridge on their first foray into the region, the Energy Task Force membership questioned the choice of towers as well as the distance between the so-called containment towers⁴. It was the articulated position of the Energy Task Force that the proposed towers would be subject to early failure and the cascading distance would ultimately render the East-West Tie out of service for a considerable period of time. The Energy Task Force noted the extreme weather that is experienced along the full length of the proposed transmission line and the susceptibility of the line to weather related failure.

The Energy Task Force also expressed concern over the lack of First Nation equity positions and warned the developer that the Indigenous communities would have to be accommodated. The Task Force also expressed doubt that the line would be allowed to go through the National Park.

⁴ Designed to limit the extent of cascading in the event of a tower failure

It is clear that NextBridge heard the concerns and responded accordingly, thereby increasing the cost of the project. They and the Northwest should not be penalized for meeting the realities of the region.

In particular, the line is now 50 km greater than the original design resulting in about a 12.5% increase in the amount of steel required – and therefore the cost to construct.

In addition, it has been 5 years since NextBridge submitted their proposal and costing and according to the Bank of Canada Inflation Calculator costs have gone up 7.3%.

When these two increases alone are applied to the original OPA estimate of \$600 million, the price rises to \$720 million. The remaining \$57 million can be accounted for by the economic participation of the 6 First Nations along with the further identification of the geological features and remoteness of some sections of the line.

3. Operational Flexibility

The current limitations on the East-West Tie, both in terms of capacity and the requirement for storm limitation restricts the ability of the grid to respond to the ongoing and future needs of the region.

As noted under 1 Reliability earlier in this letter, the current storm limitations applied to the existing East-West Tie can reduce the capacity of the line to 155 MW in the summer. This limits the flexibility for the system to respond to regular occurring droughts in the region which in turn will force industrial users to cease their operations. This will result in a loss of production and therefore profits for these operators. It also may lead to significant recovery expenses should the operational shut downs be unexpected.

4. Reduction of congestion payments

As the Energy Task Force understands “The region’s significant imbalance between abundant energy supply, modest demand, and insufficient transmission capacity and export opportunities has created surplus supply conditions in the area. This surplus supply has led to persisting gaps between nodal prices in the region – the prices that are intended to reflect the true cost of supplying electricity on a locational basis – and the province-wide uniform MCP. As the Panel has noted many times in the past, this pattern of prices drives inefficient market outcomes and creates gaming opportunities that cause inappropriate transfers of wealth which, in turn, raises the cost of energy for the province as a whole.”⁵

⁵ Congestion Payments in Ontario’s Wholesale Electricity Market: An Argument for Market Reform, December 2016, Page 39

The OEB report⁶ on page 49 reported that “Implementation of the October 2012 market rule change has eliminated the incentive for importers to chase nodal prices in the NW”.

It is the position of the Energy Task Force that there is no further relationship between the East-West Tie and the reduction of congestion payments.

5. Remove a Barrier to Resource Development

The East-West Tie is an essential element to the Northwestern Ontario supply and its future economic wellbeing.

The existing radial lines to Red Lake, Pickle Lake and Greenstone are old, susceptible to interruption and are under capacity for the needs of those areas and the remote communities north of them.

The East-West Tie will ensure the availability of 650 MW of power that will be fed west and north from Thunder Bay and Nipigon. In particular, the Energy Task Force has identified the following additional sub-regional loads that will require servicing:

North of Dryden	174 MW
West of Thunder Bay	258 MW
Greenstone-Marathon	161 MW
Thunder Bay	777 MW
Ring of Fire	70 MW

As noted in the following chart, there are 23 mines working their way through to development and operation

⁶ IBID

Mine	Location	Start Year	Circuit	2017	2018	2019	2020	2021	2022	2023	2024	2025	12YEAR TOTAL	2026 and BEYOND	GRAND TOTAL
Goldcorp Inc. -Cochenour Bruce Channel Deposit	(5) NoD	2018			9								9	5	14
New Gold-Rainy R (3.8 M Oz Gold-9.4 M Oz Silver)(NW of F)	WoTB	2017		61.2									61.2	3	64.2
Harte Gold 319,280 oz @ 10.13 g/T Au(N of White River)	G-M	2018			10								10		10
Treasury Metals (1.14 M. oz Gold)(Dryden)	WoTB	2019				12							12		12
Zenyatta Ventures 1.5 m/t C measured and inferred @4% Ca	G-M	2019				15							15		15
Pure Gold (Madsen Mine)(928,000oz Gold)(Red Lake)	NoD	2019				15							15		15
Greenstone Gold=Premier Gold Mines/Centerra Gold	(4) G-M	2019				46							46		46
First Mining Finance/PC Gold Inc. (1.26 M oz Gold)	NoD	2022				10							10		10
Wesdome-Moss Lake Gold Project (1.1 Million oz Au @ 1.1g)	WoTB	2020				40							40		40
Noront Resources (11 mt @ 2.5% Copper/Nickel) (R)	RoF	2022					20						20		20
Frontier Lithium-Pakeagama Lake Lithium(7.89Mt @ 1.73%	NoD	2022							10				10	10	20
Northern Iron (Griffith Iron Mine) (120 Mt iron)	NoD	unknown											0		0
First Mine Finance-Cameron Lk (997,000oz. Gold) (SE of Ken)	WoTB	2023								15			15	15	30
Yamana/Agnico-Canadian Malarctic Partnership (5.13 M.	WoTB	2023								100			100	100	200
Sibanye-Stillwater Canada Ltd. (91 M t- 1g/t Palladium)	G-M	2025								50			50	0	50
First Mine Finance-Goldlund (2.41 M oz.gold)(S of S Lookou)	WoTB	2023								10			10	0	10
First Mine Finance/Gold Canyon Resources inc.(4.41M oz)	NoD	2022									30		30	0	30
Rio Tinto -Panoramic (10 Mt @2.2 g/t Platinum & Pallad	TB	2024										30	30		
Rockex Mining Corp. (1 Billion t @ 25-30% Fe)(S. of S Ld)	NoD	2024												100	100
Ambershaw Metallics-Bending Lake Iron Corp. (245 M. t @	WoTB	unknown												0	0
Noront Resources (200 Mt Chromite) (Ring of Fire) Black	RoF	2017		30										0	0
Rubicon Minerals Corp. (106,000 oz Gold) (Red Lake)	NoD	?					15							0	0
Avalon Advanced Materials Inc.10 M t 2.1.3% Li O2(N of Kenora)															
TOTAL				91.2	19	138	35		160		30	30	483.2	233	716.2

along with 6 sawmill/pellet manufacturing facilities,

FORESTRY LOADS														12YEAR TOTAL	2026 and BEYOND	GRAND TOTAL
		Zone	2017	2018	2019	2020	2021	2022	2023	2024	2025					
Nakina Sawmill		2018		3.5												
Pellet Manufacturing Facilities (5 locations @3.5 MW ea)		2019			12.25											
FORESTRY LOADS TOTAL			0	3.5	12.25								0	0		

up to 10 Energy East Pump Stations⁷ and the possibility of 4 large industrial facilities being developed in or around the City of Thunder Bay. Electrical power is an essential ingredient to those loads being attracted to this region. Given the current state of the supply in the region, the above noted loads will not be met without the East-West Tie enhancement.

INDUSTRIAL LOADS														
TransCanada Pipeline - 9 locations @ 10 MW each						90.0							90.0	90.0
Chromite Processor in Thunder Bay			347										347.0	347.0
Solar Manufacturing Facility in Thunder Bay				5.0	5.0	50.0	100.0						160.0	160.0
Data Process Centre in Thunder Bay						65.0	65.0		50.0				180.0	180.0
Pharmaceutical Plant								25.0						
TOTAL INDUSTRIAL LOADS			347.0	5.0	5.0	205.0	165.0	25.0	50.0				777.0	777.0

The Northwest has also identified other reasons why the East-West Tie Transmission project should proceed as planned with the in-service date remaining 2020. The next four sections deal with those issues.

⁷ At the time of writing TransCanada Pipelines has asked the NEB to suspend consideration of their application to enable TCP time to re-assess their plans given the new requirements of the NEB regarding Oil Sands Emissions. It is the position of CVNW ETF that a thirty-day hiatus is not an indication that the project is cancelled nor has the proposed time line changed. We would rather err on the side of caution than move the in-service dates to a future year.

6. Equity Participation by First Nations

NextBridge's original (and approved) submission did not include any costs related to First Nation and Metis land acquisition and participation costs by area First Nations even though the route traversed their traditional territories. Subsequently, NextBridge has been successful in negotiations with those First Nations to involve them in the project, both from an equity perspective (20%) as well as employment and contract services.

The following are the First Nations involved formally under the "BLP Group" (and managed by Supercom Industries): Fort William First Nation, Red Rock Indian Band, Pays Plat First Nation, Pic Moberg First Nation, Pic River First Nation and Michipicoten First Nation.

Negotiations are ongoing with the Métis Nation of Ontario (Superior North Shore Metis Council, Greenstone Metis Council and Thunder Bay Metis Council) for a partnership agreement that also contemplates contracting and economic opportunities.

Any decision to cancel the project will undermine the opportunities for economic development for these six communities and further exacerbate their relationships with the Ontario Government

7. Training Programs

Under the leadership of President, Ed Collins, and in collaboration with Confederation College and Anishinabek Employment and Training Services (AETS), Supercom have secured \$9M to train 200 people from the 6 communities for construction of the East-West Tie Project, (to work with/for the awarded construction company for the project). Supercom estimates First Nation employment and required training will reach 658 personnel to be ready for the 2018(November)-2020(November) construction period. Training modules will include: foundational skills, semi-skilled, skilled pre-trades, and employment preparation.

In addition, Supercom has signed 14 joint venture agreements with Thunder Bay and Northwestern Ontario businesses, securing First Nation employment with the partnerships, as well as direct finances, all specifically aligned to the East-West Tie

All of the above are at risk should the East-West Tie Project is delayed or cancelled. Training must start almost immediately if the students are to be ready when construction starts.

8. Economic Development for the Region

The long-standing position of the CVNW Energy Task Force is that the provision of adequate and reliable electrical energy is a cornerstone of the future of Northwestern Ontario. Without an adequate and stable electrical supply, the Northwest will have minimal growth. With the right kind of power, in the right location, at the right time, the Northwest will become a mining power house, not just in Ontario but in North America.

The return to the Provincial treasury will far exceed the cost of constructing the East-West Tie, let alone all of the other transmission and generation improvements that the Energy Task Force has been seeking for nearly 10 years now.

9. Environmental Impacts

Should the Ontario Government choose to cancel the East-West Tie a number of mining developments will turn to diesel fuel, or natural gas, in order to supply their own power. It would appear that the first to take this step is Greenstone Gold Mines (Hardrock Mine) as the Ontario Government has failed to ensure that the transmission facilities to the Municipality of Greenstone and surrounding area, including a number of First Nations, are to be upgraded to meet the needs of the mine and the area. Instead of contributing a major part of the cost of upgrading the line, Greenstone Gold instead will be constructing their own dual cycle natural gas generator solely for their own use; not a regional solution!

Conclusion

The Common Voice Northwest Energy Task Force is of the opinion that the proposed East-West Tie Project is essential for the future of Northwestern Ontario. Without it, existing industrial users will be disadvantaged while the number of new users will not proceed as investors look elsewhere for certainty. Our request to the IESO is to recommend to the Government of Ontario that the project should proceed as planned and that the Leave to Construct should be approved by the Ontario Energy Board.

Yours truly



Jim Squire
Vice President
CVNW

Copy to:

Hon. Michael Gravelle, MPP, Minister of Northern Development and Mines

Hon Bill Mauro, MPP, Minister of Municipal Affairs

Hon Glenn Thibeault, Minister of Energy

Sarah Campbell, MPP

Northwestern Ontario Municipal Association

Northwestern Ontario Associated Chambers of Commerce

Union of Ontario Indians – Northern Superior Region

Nishnawbe Aski Nation

Grand Council Treaty 3

Fort William First Nation

Red Rock Indian Band,

Pays Plat First Nation

Pic Moberg First Nation

Pic River First Nation

Michipicoten First Nation.

Matawa First Nations Management

Wataynikaneyap Power

Hydro One Networks

Ontario Power Generation