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

BY EMAIL

January 7, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

Re: Upper Canada Transmission, Inc., operating as NextBridge Infrastructure, LP Application for 2022-2031 Transmission Revenue Cap Incentive Rate-Setting Application

OEB Staff Interrogatories

Ontario Energy Board File Number: EB-2020-0150

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to NextBridge Infrastructure, LP (NextBridge).

Please note, NextBridge is responsible for ensuring that all documents it files with the OEB, including responses to OEB staff questions and any other supporting documentation, do not include personal information (as that phrase is defined in the *Freedom of Information and Protection of Privacy Act*), unless filed in accordance with rule 9A of the OEB's *Rules of Practice and Procedure*.

NextBridge is reminded that its responses to interrogatories are due by January 27, 2021.

Yours truly,

Original Signed By

Michael Price
Project Advisor, Generation & Transmission

Encl.

NextBridge
2022-2031 Transmission Revenue Cap Incentive Rate-Setting Application
EB-2020-0150
OEB Staff Interrogatories

1-Staff-1

Ref: (1) Letters of Comment
(2) Filing Requirements, pp. 11 & 13, sections 2.3.2 & 2.3.4

Preamble:
OEB staff notes that NextBridge has not received any letters of comment to date regarding this rate proceeding. However, sections 2.3.2 and 2.3.4 of the Filing Requirements[1] indicate that transmitters are expected to file with the OEB their response to the matters raised in any letters of comment sent to the OEB related to the transmitter's application.

Question(s):

a) Please ensure that any responses to letters of comment or other applicable correspondence that may be received are filed with the OEB. Such correspondence should be filed before the argument (submission) phase of this proceeding.

1-Staff-2

Ref: (1) Exhibit A / Tab 2 / Schedule 3 / p. 3
(2) Exhibit A / Tab 3 / Schedule 1 / p. 4

Preamble:
Reference 2 states that "this Application requests approval of a revenue requirement and the establishment of an RCI for the period starting on, April 1, 2022 through December 31, 2031 determined by using a forward test-year approach and an annual revenue adjustment based on the Board's incentive regulation approach."

NextBridge has proposed this RCI period instead of the minimum 5-year term because the East-West Tie line is a single asset and its rates will not be changing significantly during this term. Implementing a longer IR term will result in fewer proceedings before the Board and in turn greater savings to ratepayers. The IR term is 9 years-and-9 months.

Question(s):

a) Please provide the amount of expected savings to ratepayers. Please detail the assumptions used to determine the amount of expected savings.
b) Please specify the type and amount of savings to NextBridge and ratepayers in a 9 years-and-9 months IR term compared to a 5-year IR-term.
c) Explain if and how these savings will be provided to ratepayers.

[1] Filing Requirements For Electricity Transmission Applications Chapter 2 Revenue Requirement Applications, February 11, 2016

1-Staff-3

Ref: (1) Exhibit A / Tab 2 / Schedule 3 / p. 3
(2) Exhibit A / Tab 3 / Schedule 1 / pp. 5-7
(3) Exhibit E / Tab 1 / Schedule 1

Preamble:
The proposed RCI uses the OEB-approved inflation factor and a 0% productivity factor as outlined in Reference 3. NextBridge's proposed Inflation Factor is an external measurement of industry labour/non-labour weights with a weighted sum of 70% of the annual percentage change in Canada's GDP-IPI and 30% weight of the annual percentage change in the Average Weekly Earnings for workers in Ontario.

Question(s):

a) Please clarify the calculation of the industry-specific inflation factor in the application and the CRA report. Please be certain to detail any assumptions used for the calculation.
b) In some sections of the application, a 2% inflation factor is used for the annual adjustment. Please confirm that the OEB proposed inflation factor for transmitters is being proposed by NextBridge for all years of the application. If not, please explain why.
c) The OEB inflation factor for transmitters has a weighting of 86% of the annual percentage change in Canada's GDP-IPI and a weighting of 14% of the annual percentage change in the Average Weekly Earnings for workers in Ontario. Is NextBridge proposing to use an annual inflation factor with a weighting of 70%/ 30%? Please confirm which weight factor NextBridge is proposing, and if there are any differences from the pre-filed evidence, please update accordingly.

1-Staff-4

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / pp. 5-7

Preamble:
At the above reference, NextBridge provides an overview of its proposed RCI mechanism.

NextBridge's proposal for the revenue cap would apply the I – 0% adjustment to the whole revenue cap, even though it is only actually OM&A expenses, mostly incurred per the service agreement, which are subject to inflation during the period. Further, with limited capital expenditures, the rate base decreases each year, and the capital-related revenue requirement would also decrease. The actual increase on the capital-related revenue requirement, relative to what it would be under cost of service, is greater than inflation.

Question(s):

a) Please provide NextBridge's views on why its revenue cap proposal is reasonable considering its circumstances of limited projected capital expenditure during the nine-year nine-month period and given that OM&A is a smaller proportion of its overall revenue requirement.
b) Please explain whether, given a declining rate base, limited capital expenditures, and operating expenses being a small percentage of the total revenue requirement, a rate freeze (or declining revenue requirement) for the plan period of 2022-2031 would be sufficient to allow NextBridge to recover its allowed costs, including having an opportunity to earn its allowed return on capital,

and to recover costs from Hydro One and SuperCom and NEET for operating services under the service agreements.

1-Staff-5

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 2
(2) Exhibit A / Tab 3 / Schedule 1 / p. 18

Preamble:
Reference 1 states that "the implementation of a new transmission project that was not previously included in transmission rates results in an increase to the average transmission rates in Ontario" and Reference 2 states that "the addition of the East-West Tie line in transmission rates results in an increase of 3.31% in transmission costs since it is a new project that was not previously included in the UTR."

Question(s):
a) Please explain the impact of the project on 2022 and 2023 UTRs.
b) Please explain the impact of the project on ratepayers in 2022 and 2023.
c) UTRs are not normally adjusted during the year as capital projects go into-service. Please explain the impact to NextBridge of not implementing the rates revenue requirement until the year after the East-West Tie is in service?

1-Staff-6

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 17

Preamble:
NextBridge anticipates that the initial financing of the East-West Tie line will occur after the OEB issues its decision and order in this proceeding, since the initial financing will occur in close proximity to the in-service date and NextBridge is requesting either interim or final rates prior to the in-service date. Therefore, NextBridge proposes to use a DRVA to track and conduct a one-time update to the revenue requirements at the first annual update for rates in 2023 to reflect NextBridge's actual long-term cost of debt.

Question(s):
a) Please explain whether NextBridge could update its revenue requirement to reflect actual financing rates for the entire IR Term if the OEB establishes interim rates.
b) Please provide a proposed schedule for maturing and reissuing debt during the IR term.

1-Staff-7

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 21
(2) Exhibit A / Tab 8 / Schedule 3 / p. 3 / Table 4
(3) Exhibit J / Tab 1 / Schedule 1 / p. 3 / Table 4

Preamble:
Table 4 indicates a total bill impact of $0.00 for a typical energy-billed General Service (GS < 50 kW) customer consuming 2,000 kWh per month. In Ref (2) it is stated the inclusion of the East-West Tie line in transmission rates results in an increase in a typical residential customer of 0.32% and an amount, that rounds to zero, in a typical general services energy customer.

Question(s):

a) Tables 4 and 10 indicate an increase of $0.75 per month which is calculated as a 0.22% increase for a typical energy-billed General Service (GS < 50 kW) customer consuming 2,000 kWh per month. Please explain the discrepancy between the $0.00 shown in Tables 4 and 10 and confirm the percentage increase.

1-Staff-8

Ref: (1) Exhibit A / Tab 5 / Schedule 1 / p. 1

Preamble:
The permanent financing for NextBridge is planned as a private placement which will require NextBridge to obtain a credit rating on a standalone basis. NextBridge will file the credit rating with the OEB upon receipt. The expected timing of the receipt of the credit rating is near the expected in-service date of March 31, 2022 for the East-West Tie line. Accordingly, there are no prospectuses or information circulars related to debt financing, as the materials will be developed closer to the financing.

Question(s):

a) What credit rating is NextBridge expecting to receive?
b) What is the expected impact of the credit rating, if any, on the OEB approved Cost of Capital?

1-Staff-9

Ref: (1) Exhibit A / Tab 6 / Schedule 1 / p. 4

Preamble:
UCT holds the designation and the transmission license for the benefit of NextBridge and its limited partners. In connection with the anticipated economic participation by BLP in the East-West Tie line after commercial operation date, NextBridge expects to request the OEB’s permission to transfer the transmission license from UCT to a newly established special purpose vehicle such that the transmission license and all or substantially all of the East-West Tie line assets are held by a single entity.

Question(s):

a) Could NextBridge clearly detail the licence transfer process. For instance, who is the entity that the existing licence will be moving to and who will the new licence be applicable to?
b) Please confirm the date that NextBridge anticipates filing its application for the licence transfer.

1-Staff-10

Ref: (1) Exhibit A / Tab 8 / Schedule 2 / p. 1

Preamble:
NextBridge requests that the OEB's final rate order be made effective April 1, 2022, the day after the anticipated March 31, 2022 in-service date of the East-West Tie line. To address the possibility that the requested rate order cannot be made effective by that time, NextBridge requests an interim order making its proposed transmission revenue requirement effective on an interim basis as of April 1, 2022, and also allowing NextBridge to use the Revenue Differential Variance Account to record any differences in the revenue requirement between an interim order and the final approved decision and order and/or an interim order and the final approved decision and order and the in-service date. Any differences will be tracked and submitted for review and disposition at a future proceeding.

Question(s):
a) Is NextBridge proposing that if the East-West Tie-Line is in service prior to March 31, 2022 that it would receive transmission revenue starting from the earlier date? If yes, is NextBridge requesting use of the RDVA prior to April 1, 2022?
b) Why is NextBridge proposing receiving transmission revenue and recording it to a variance account if it does not meet the March 31, 2022 in-service date?
c) What does NextBridge consider appropriate if the line is not in service by March 31, 2022? Does NextBridge believe that it should start receiving transmission revenue if the line is not in service?

1-Staff-11

Ref: (1) Exhibit A /Tab 2 / Schedule 3 / p. 3

Preamble:
Reference 1 states that:

> OM&A will either be provided under a service level agreement with Hydro One Networks ("HONI" or "Hydro One") or provided by its partners NextEra Energy Transmission, LLC ("NEET") through its partner affiliate agreement ("NEET Agreement") as explained in Exhibit B, Tab 1, Schedule 4. Both agreements are being finalized and will be filed as an update to the Application when available.

Question(s):
a) When does NextBridge anticipate both service agreements will be finalized?
b) Please provide a copy of both service agreements when they are finalized.
c) What will be the duration of each of the agreements?
d) How is NextBridge able to ask for fixed OM&A costs if these two agreements have not yet been completed?
e) If the costs associated with services included in these agreements end up being less than forecast will there be a true-up?

1-Staff-12

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 2

Preamble:
Reference 1 states:

> A number of internal and external challenges will have to be managed over the IR Term. They include:
> - Rising income tax expense as NextBridge's capital cost allowance ('CCA') declines;
> - Managing NextBridge's Right-of-Way ("ROW") vegetation maintenance program, taking into consideration the six-year vegetation cycle and an expected increase in forestry expenses during certain test years with greater work volumes;
> - Potential maintenance and labour cost increases;
> - Bird nest removal and bird excrement-associated damages;
> - Localized extreme weather event(s) (e.g., icing, lightning and fire related damage) and associated remediation;
> - Fixed Consumer Price Index ("CPI") for First Nations reserve crossing permits may not align with inflation;
> - New First Nations Reserve Land that could be added to the land base of the project requiring new Federal agreements and payments;
> - Unexpected damage from ROW users or wildlife (e.g., vandalism, bears eating plastic guy-wire markers or snowmobilers accidentally damaging a tower or guywire); and
> - Potential compliance changes through the North American Electric Reliability Corporation ("NERC") which will flow through the Northeast Power Coordinating Council ("NPCC") and IESO.

Question(s):

a) NextBridge states its incentive rate application, as proposed, will mitigate these challenges, maintain financial performance and ensure that NextBridge's assets are managed efficiently and effectively to foster minimal bill impacts. Please explain and provide a table including the amount that is budgeted annually to meet each of these challenges.

b) Could you please explain why there could be New First Nations Reserve Land added to the land base of the project requiring new Federal agreements and payments? Please also provide the amount of these potential costs.

1-Staff-13

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / p. 2
(2) Exhibit B / Tab 1 / Schedule 4 / p. 13, Paragraph 22
(3) Exhibit B / Tab 1 / Schedule 6 / pp. 2-5
(4) Exhibit F / Tab 2 / Schedule 1 / p. 2
(5) Exhibit F / Tab 4 / Schedule 2 / p. 3
(6) Exhibit F / Tab 5 / Schedule 1

Preamble:
Reference 1 states that “in order to reduce employment and overhead costs, the individuals will be employees of NEET.”

Reference 2 states that “For clarity, two NextBridge field personnel will be employed by NEET to manage and oversee the OM&A of the East-West Tie line.” Throughout the application these employees are referred to consistently as “NextBridge field personnel”.

Reference 1 also states:

> The East-West Tie project has an extensive geographic area, not only from the 450 km of ROW, but also from the access roads that are used to reach the ROW through remote and rugged terrain. The two individuals must be available to reach these areas quickly and will be based in separate areas of the line.

Reference 6 states that “[…] NextBridge has no employees (all personnel used to support NextBridge work for the affiliate partners or through a service agreement with HONI).”

Question(s):

a) Please confirm that when the evidence refers to NextBridge field personnel it is referring to the two NEET employees.
b) Which entity will be accountable for operating and maintaining the transmission assets owned by NextBridge in accordance with all applicable regulatory standards? Which individual(s) will be accountable for these functions? What entity will employ this individual(s)?
c) Please explain how NEET employment of the field personnel reduces employment and overhead costs compared to NextBridge employment.
d) Will the two NextBridge field personnel have the identical job description? If not, please explain the difference between the two employees’ roles and responsibilities.
e) When will the two NextBridge field personnel begin employment?
f) How many hours per week will be the regular schedule of the two NextBridge field personnel?
g) Please explain where the two employees will be located relative to the location of the office and storage yard described in Reference 3. Do the office and storage yard costs described in Table 1 of Reference 3 include all the office and storage location costs, or will additional facilities be required due to the individual base locations of the two NextBridge field personnel?
h) Please describe the major activities of the two NextBridge field personnel. Please indicate the anticipated percentage of time the two NextBridge field personnel will spend on each specific major activity on an annual basis.
i) Please provide the organizational structure of NEET including the reporting relationships of the two NextBridge field personnel and the NextBridge Project Director.
j) What will be the chain of command when responding to an unplanned outage?

1-Staff-14

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / p.10

Question(s):

a) Please confirm that the services described in Reference 1 will be provided by NEET.
b) Are these operating services required to be provided 24/7?
c) Which personnel will be providing these services? Where will these personnel be located?
d) How will the personnel identified in part c), if different from the NextBridge field personnel, coordinate with the two NextBridge field personnel?
e) Please explain what crew is being referred to by “crew dispatching”.
f) Please confirm that the cost for all services described in Reference 1 will be included in the cost of the NEET Agreement.

1-Staff-15

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / p.10-11

Preamble:
Reference 1 states “Maintenance Services (majority provided by HONI/Supercom)”.

Reference 1 also states:

> When contracted by NextBridge under the HONI SLA, HONI will routinely inspect the overhead transmission lines by ground and aerial-based patrols to identify safety and reliability deficiencies. At NextBridge’s direction, HONI will also undertake emergency repairs and responses to restore power or minor corrective work to resolve reliability and safety problems with transmission line assets when necessary.

Question(s):

a) Please describe what maintenance services are not expected to be provided by HONI/Supercom.
b) What is NextBridge’s plan to procure services described in response to a)?
c) Please confirm that costs for all services provide by HONI/Supercom will be included in the cost of the HONI SLA.
d) Please explain how NextBridge has satisfied itself that the arrangement with HONI/Supercom was the most cost-effective approach?
e) Which NextBridge representative(s) will be authorized to direct HONI to undertake emergency repairs and responses as described in Reference 1?

1-Staff-16

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / p. 9
(2) Exhibit F / Tab 2 / Schedule 1 / p. 2

Preamble:
Reference 1 states that “NextBridge will competitively award certain OM&A aspects of the East-West Tie line for routine operation and maintenance to a partnership between HONI and Supercom to be provided under a the [sic] HONI SLA.”

Reference 2 states that "NextBridge has competitively sourced HONI who will conduct the operations and maintenance services on the East-West Tie line pursuant to the HONI SLA […]"

Question(s):

a) Please explain what was meant by "will competitively award"?
b) Has a competitive procurement process for routine operations and maintenance been completed?
c) If the answer to part b) is yes, please provide the scope documentation from the procurement.
d) If the answer to part b) is yes, how many bids were received?
e) If the answer to part b) is yes, was the lowest cost option selected? If not, why not?
f) If the answer to part b) is yes, what firm was successful?

1-Staff-17

Ref: (1) Market Rules for the Ontario Electricity Market, Issue 76.0, Effective Date June 3, 2020 / Chapter 2 / Appendix 2.2 / Section 1.1.4
(2) Market Rules for the Ontario Electricity Market, Issue 76.0, Effective Date June 3, 2020 / Chapter 11
(3) Market Rules for the Ontario Electricity Market, Issue 76.0, Effective Date June 3, 2020 / Chapter 4 / Section 3.3 / Sub-section 3.3.1

Preamble:
Reference 1 states:

> Each transmitter whose transmission system or part thereof forms part of or is connected to the IESO-controlled grid shall, subject to section 1.1.11, provide and maintain the following voice communication facilities for purposes of communicating with the IESO:
>
> 1.1.4.1 one high priority path facility and one normal priority path facility at the dispatch or control center for each such transmission system;
>
> 1.1.4.2 one high priority path facility and one normal priority path facility at the authority center for each such transmission system; […]

Reference 2 includes the following definitions:

> Authority center means, in respect of a facility, an attended location at which indirect operational control of the facility is effected;
>
> Attended means regularly staffed on a twenty-four hours a day, seven days a week basis;

Reference 3 states:

> Each transmitter shall:

[…]

3.3.1.9A follow good utility practice to promptly return transmission facilities and equipment to service after an interruption;

Question(s):

a) Where will the dispatch or control center for the NextBridge transmission system be located?
b) Where will the authority center for the NextBridge transmission system be located?
c) Please describe how NextBridge will return transmission facilities and equipment to service after an interruption, including the chain of events, the time duration of each event, and the personnel involved.
d) What operating agreement(s) does NextBridge expect to have in place prior to the in-service date? What is the schedule to complete such agreement(s)?

1-Staff-18

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / Table 1
(2) Exhibit F / Tab 4 / Schedule 2 / p. 1-2

Question(s):

a) Please provide a revised version of Table 1 from Reference 1.
    a. Please provide a more detailed description of the roles, responsibilities, and interactions between entities and personnel.
    b. Please clarify references to “maintenance service provider”, “HONI crews and other support personnel”, “subject matter experts”, “NEET affiliates”, “system control center”, and “technical staff”.
    c. Please clarify and explain the following two responsibilities:
        - Perform compliance related maintenance according to operating standards, specifications, and procedures to NERC and NPCC
        - Ensure the compliance of maintenance, operating standards, specifications, and procedures to NERC and NPCC.
b) Please demonstrate that the services included in the HONI SLA are consistent with the responsibilities allocated to HONI in the revised Table.
c) Please demonstrate that services included in the NEET Agreement are consistent with the responsibilities allocated to NextBridge field personnel in the revised Table.
d) For the responsibilities allocated to NextBridge field personnel, how will these responsibilities be divided between the two employees?

1-Staff-19

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / Table 1

Preamble:

The responsibility “Provide 24/7 event response and troubleshooting of unplanned outages, and support restoration in coordination with the system control center and technical staff” has been allocated to both NextBridge Field Personnel and HONI.

Question(s):

a) Please explain how this responsibility will be divided efficiently and effectively between NextBridge field personnel and HONI.
b) Which personnel will be responsible for identifying an unplanned outage and initiating response?

1-Staff-20

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / Table 1
(2) Exhibit F / Tab 3 / Schedule 1 / p. 1

Preamble:
In Reference 1, the responsibility “Directs planning, budgeting, and execution of work” has been allocated to NextBridge Field Personnel.

Reference 2 states that “given the proximity of the East-West Tie line to HONI’s existing East-West transmission and station assets, there are meaningful efficiencies inherent in having HONI plan and perform the work on both lines simultaneously.”

Question(s):

a) Please explain how HONI will be able to plan and perform the work on both lines simultaneously in order to realize efficiencies if NextBridge field personnel will be responsible for directing planning, budgeting, and execution of work on the EWT.

1-Staff-21

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / Table 1
(2) Exhibit B / Tab 1 / Schedule 4 / p. 6

Question(s):

a) In addition to being Bulk Electricity System (BES) elements, as defined by NERC standards, are the circuits that make up the EWT Bulk Power System (BPS) elements, as defined by NPCC criteria?

1-Staff-22

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / p.11
(2) Exhibit B / Tab 1 / Schedule 4 / p. 12 / Table 4

Preamble:

Reference 1 states that “In Northwestern Ontario, vegetation maintenance is performed on clearing cycles of six years.”

The description of line clearing in Table 4 states that “NextBridge believes this to be a sound practice to perform all vegetation maintenance on an as needed basis, rather than on a prescriptive cycle.”

Question(s):

a) Please state the total number of square kilometres that must be cleared and maintained as part of the right of way for the project.
b) What is the source of the statement that “in Northwestern Ontario, vegetation maintenance is performed on clearing cycles of six years”?
c) Will NextBridge be using a six-year cycle for vegetation maintenance? If yes, please provide a more detailed explanation of the six-year cycle, including what work is carried out in each of the six years. If no, what alternative cycle or plan will NextBridge be using and why is it more appropriate?
d) If the answer to c) is yes, what year will be the first year of the six-year cycle?
e) If the answer to c) is yes, how does the six-year cycle correspond to the annual line clearing, brush control, condition patrol, and vegetation control activities described in Reference 2, Table 4?
f) What year will annual vegetation management activities, such as those described in Reference 2, Table 4, be initiated?
g) What year(s) was the ROW cleared prior to construction?

1-Staff-23

Ref: (1) Exhibit B / Tab 1 / Schedule 4 / Table 4

Question(s):

a) Please describe and differentiate between the annual helicopter patrol and the detailed aerial patrol maintenance activities described in Reference 1.
b) Will the cost of all the services described in response to a) be included in the cost of the HONI SLA?
c) If the answer to b) is yes, did NextBridge evaluate options for contracting separately for helicopter services? Is contracting with HONI the lowest cost option for helicopter services?
d) If the answer to b) is no, please describe what services described in response to a) will not be included in the cost of the HONI SLA and the process for selecting a service provider.

1-Staff-24

Ref: (1) Exhibit B / Tab 1 / Schedule 5 / p. 4

Question(s):

a) Which NextBridge representative will coordinate with the IESO for transmission planning or connection assessment purposes, if required?

1-Staff-25

Ref: (1) Exhibit B / Schedule 1 / Tab 7 / Attachment 1 / p. 16 / Figure 10
(2) Exhibit F / Schedule 2 / Tab 1 / p. 1
(3) Exhibit F / Schedule 4 / Tab 1 / p. 2 / Table 1

Preamble:
Reference 1 states:

> As part of the 2020 update, CRA was asked to review the Operation, Maintenance, & Administration (OM&A) benchmarking for Bruce to Milton and Niagara Reinforcement rate case filings. On page 233 of Hydro One's Niagara Reinforcement Revenue Cap IR Application they included Summary costs of OM&A for forecast year 2020 added to Figure 10. Bruce to Milton, Niagara & New EWT OM&A Benchmarking. In Hydro One's Bruce to Milton Cost of Service Application, OM&A costs were included for 2014 to 2019. The Bruce to Milton OM&A costs for 2019 can be found in Figure 10.

Footnotes 14, 15 and 16 of Reference 1 state:

> *14 The figure for the Niagara project includes costs associated with the Managing Director's office*
>
> *15 Includes "Incremental expenses" of $800k (CAD)*
>
> *16 The new EWT also includes expenses for Indigenous Participation and Compliance costs. As these are not directly comparable to the other projects, and unique to the EWT, they have been excluded from this total.*

Reference 2 states that "the CRA study concludes that OM&A costs per km for the East-West Tie line remain lower than the benchmarks even under forecasting sensitivity tests."

Question(s):

a) Please confirm that the line described as Admin. & Corporate in Reference 1 represents the same costs for the EWT as those described as Compliance & Administration in Reference 3.
b) Why are the costs described as O&M Expenses, Admin. & Corporate, and Regulatory for the EWT in Reference 1 different from the costs described as Operations and Maintenance, Regulatory, and Compliance & Administration in Table 1 of Reference 3?
c) What year are the costs in the New EWT column of Reference 1 based in (e.g. 2021 dollars or 2022 dollars)?
d) Why are the costs in Figure 10 not compared on an equivalent year basis?
e) Please confirm that the Admin. & Corporate costs for the EWT in Reference 1 include the cost of continuing the Project Director's Office.
f) In Reference 1, why are there no Regulatory costs included for the Niagara or Bruce-Milton projects?
g) What are the "incremental expenses" of $800k described in Footnote 15? Why have these been included in the Bruce-Milton costs?
h) Please describe the "forecasting sensitivity tests" mentioned in Reference 2. Please provide quantitative results of the forecasting sensitivity tests.

1-Staff-26

Ref: (1) Exhibit E / Tab 1 / Schedule 1 / pp. 1-4

Preamble:

Reference 1 states that "NextBridge is proposing an RCI term for a 10-year period. Under the proposed methodology, the revenue requirement for the Test Year t+1 is equal to the revenue requirement in the Test Year t, inflated by the RCI…."

Reference 1 also states that "NextBridge proposes to adopt the OEB's calculation of the RCI "I" parameter…."

Reference 1 also states:

> NextBridge proposes a productivity factor of 0%. NextBridge does not expect to recognize OM&A efficiencies over the IR Term as it is a single new asset and most of the OM&A is contractual and essentially fixed.… Notably, there are Indigenous reserve crossing permits, within OM&A that are expected to inflate annually at the City of Toronto's annual CPI....
>
> Additionally, NextBridge plans to continue capital investments over the IR Term beginning in the Test Year, that have not been included in the revenue requirement and will not be added to rate base during the IR Term....

Question(s):

a) Please explain why it is not possible to recognize OM&A efficiencies over the IR Term.
b) Which OM&A items are not contractual or essentially fixed? Of these items, can cost efficiencies be recognized in NextBridge's view? If so, how? If not, why not?
c) NextBridge notes that OM&A costs are contractual and essentially fixed; does this mean that some contracts can be revised? If so, which contracts?
d) Please explain why a proposed productivity factor of 0% is appropriate in NextBridge's view.
e) Please explain why a proposed inflation adjustment of 100% of the annual OEB approved Inflation factor is appropriate in NextBridge's view when other transmitters have received less than this amount.
f) Please explain why Indigenous reserve crossing permits are expected to inflate at the City of Toronto's annual CPI?
g) Please provide the historical 10 year and forecast 10-year difference for the City of Toronto CPI compared to the Ontario CPI.

1-Staff-27

Ref: (1) Exhibit E / Tab 1 / Schedule 1 / p.3
(2) Exhibit F / Tab 2 / Schedule 1 / p.1

Preamble:

Reference 1 states that "NextBridge proposes a productivity factor of 0%. NextBridge does not expect to recognize OM&A efficiencies over the IR Term as it is a single new asset and most of the OM&A is contractual and essentially fixed."

The OM&A cost that NextBridge is seeking annual cost recovery for is $4.94 million versus $3.005 million annually used for comparative analysis. With all costs in, OEB staff have calculated the average OM&A cost as $10.98k per km ($4.94 million divided by 450 km) instead of $6.68k per km ($3.005 million divided by 450 km) used for comparative analysis.

Question(s):

a) Please confirm if you agree with the OEB staff calculation of annual OM&A costs of $10.98k per km.
b) Please provide a detailed analysis of the reasonableness of NextBridge's $10.98k per km OM&A costs versus the comparator group.
c) Are there any reductions possible in NextBridge's annual OM&A cost that do not impact the performance and reliability of the East-West Tie line? What steps has NextBridge taken to identify such possible reductions?

1-Staff-28

Ref: (1) Exhibit F / Tab 3 / Schedule 1 / Attachment 1

Preamble:
NextBridge's operations, maintenance, and common administrative and corporate services will be provided through agreements with HONI/Supercom and NEET.

Question(s):

a) How is NextBridge ensuring that the OM&A services provided to it are appropriate and cost effective?
b) Sections 2.3.2.1 and 2.3.2.2 of the Affiliate Relationship Code (ARC) state, respectively:

> If a utility intends to enter into an Affiliate Contract for the receipt of a service, product, resource, or use of asset that it currently provides to itself, the utility shall first undertake a business case analysis, unless the Affiliate Contract would have an annual value of less than $100,000 or 0.1% of the utility's utility revenue, whichever is greater.

-and-

> For the purposes of section 2.3.2.1, the business case analysis shall contain (a) description of relevant utility needs on a per-service basis, (b) identification of the options available internally or externally from an affiliate or third party, (c) economic evaluation of all available options including the utility's current fully-allocated cost (which may include a return on the utility's invested capital equal to the approved weighted average cost of capital), (d) explanation of the selection criteria (including any non-price factors to be taken into account), (e) estimate of any benefits to the utility's Ontario ratepayers from

outsourcing, and (f) justification of why any separate items were bundled together when considered for outsourcing.

Please provide a copy of the business case analyses developed by NextBridge that support the HONI/Supercom and NEET agreements.

c) Sections 2.3.3.1 and 2.3.3.2 of the ARC state, respectively:

> Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource or use of asset from an affiliate.

-and-

> A fair and open competitive bidding process shall be used to establish the market price before a utility enters into or renews an Affiliate Contract under which the utility is acquiring a service, product, resource or use of asset from an affiliate.

Please describe how the activities undertaken by NextBridge when establishing its agreements with HONI/Supercom and NEET comply with the above referenced sections of the ARC. If NextBridge believes that Sections 2.3.3.1 and 2.3.3.2 of the ARC do not apply to their circumstance, please discuss/provide the assessment(s) undertaken to arrive at this determination.

d) Section 2.3.4.1 of the ARC states:

> Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost may include a return on the affiliate's invested capital. The return on invested capital shall be no higher than the utility's approved weighted average cost of capital.

If NextBridge believes Section 2.3.4.1 applies to its circumstances, please discuss/provide the assessment(s) undertaken by NextBridge to establish that a competitive market for the services contemplated in the HONI/Supercom and NEET agreements does not exist.

e) Please detail how the HONI/Supercom agreement integrates Hydro One Networks' productivity improvements into NextBridge's maintenance operations, including how efficiencies gained by Hydro One Networks are passed through to NextBridge.

1-Staff-29

Ref: (1) Exhibit F / Tab 4 / Schedule 2 / p. 1

Preamble:

Of the $4.94 million of OM&A costs, $1.27 million are indicated as Operations and Maintenance expenses.

Reference 1 states:

> These OM&A expenses relate to ensuring the safety and reliability of the East-West Tie line. Approximately half of the annual OM&A expenses will be used for routine and cyclical maintenance services and remediation of findings as a result of cyclical maintenance. The maintenance services will be provided by two field personnel from NEET and HONI under the HONI SLA.

Questions:

a) Please provide, in table form, a breakdown of the $1.27 million operations and maintenance expenses including:
   a. Expense for NEET Agreement;
   b. Expense for HONI SLA;
   c. Expense for maintenance services not included in the HONI SLA, including services identified in response to Staff-15a, and Staff-23d.
   d. Expense for maintenance services contract described in response to Staff-35 if separate from contracts identified above;
   e. Other expenses (please describe).

1-Staff-30

Ref: (1) Exhibit F / Tab 4 / Schedule 2 / p. 4

Preamble:
Of the $4.94 million of OM&A costs, $1.67 million are indicated as Compliance and Administration expenses.

Reference 1 states:

> NextBridge has a Project Director, who is employed by NEET…
> Included in these costs is only 75% of the expected cost for the Project Director's labour costs. NextBridge will not seek recovery of the remaining 25% as an efficiency mechanism, thus providing direct efficiency savings to ratepayers.

Question(s):

a) Please breakdown the $1.67 million Compliance and Administration expenses into:
   i) Project Director's Office
   ii) Property Owner Relations
   iii) Non-Indigenous Stakeholder Relations
   iv) Corporate Services
   v) Insurance expenses.
b) Could you please quantify the cost savings associated with not seeking recovery of 25% of the Project Director's labour costs?

c) Please explain the rationale that was used to determine the 75% recovery of the Project Director's labour costs.
d) Please confirm that this plan to recover 75% of the Project Director's labour costs meets the requirements of the Affiliate Relationship Code.

1-Staff-31

Ref: (1) Exhibit F / Tab 4 / Schedule 2 / p. 7

Preamble:
Of the $4.94 million of OM&A costs, $0.89 million are described as Indigenous Participation expenses.

Reference 1 states:

> Indigenous participation costs include annual costs from negotiated project agreements related to the East-West Tie line to support Indigenous participation and engagement that mitigate impacts on Indigenous rights and interests. Also included are management and labour costs to ensure that the provincial commitments made during the negotiation of various agreements are carried out through the operations phase of the project.

Question(s):
a) Please provide a breakdown of the $0.89 million Indigenous Participation expenses.
b) These costs appear to be materially higher than the indigenous participation cost estimates provided in the LTC application, please explain the reason(s) for the increase.
c) How did NextBridge determine these costs to be reasonable?
d) The management and labour costs described in Reference 1 are associated with which staff? Please provide a detailed explanation of what these costs entail.

1-Staff-32

Ref: (1) Exhibit F / Tab 4 / Schedule 2 / p. 7

Preamble:
Of the $4.94 million of OM&A costs, $0.44 million are described as Indigenous Compliance expenses.

Reference 1 states:

> This cost category includes consultation and engagement with, and continued support to, Indigenous communities in the operations phase of the project, including participation in ongoing environmental mitigation strategies (i.e., conditions in the caribou species at risk permit), community support, Indigenous participation in post construction monitoring, management, and labour costs and capacity funding to enable ongoing consultation with NextBridge in order to meet the duty to consult obligations of the Crown.

Question(s):
a) Please provide a breakdown of the $0.44 million Indigenous Compliance expenses.
b) How do the Indigenous Compliance expenses differ from Indigenous Participation expenses?

c) Were these costs previously included in NextBridge's OM&A estimates provided in the LTC application? If not, why not? If yes, in what cost category were these costs included and how do the current costs compare to those estimated in the LTC application.
d) How did NextBridge determine these costs to be reasonable?
e) The management and labour costs described in Reference 1 are associated with which staff? Please provide a detailed explanation of what these costs entail.

1-Staff-33

Ref: (1) Exhibit F / Tab 4 / Schedule 2 / p. 8-9

Preamble:
Of the $4.94 million of OM&A costs, $0.59 million are Land Rights Payments.

Question(s):
a) How did NextBridge determine these costs to be reasonable?
b) Please provide any analysis prepared by or for NextBridge to determine the appropriate quantum including, but not limited to, any analysis of land rights payments made to other First Nations.

1-Staff-34

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 12 / Table 3
(2) Exhibit B / Tab 1 / Schedule 6 / pp. 1-2

Preamble:
NextBridge's proposed overall capital expenditure plan for 2022 to 2031 is $4.28 million as shown in Table 3. NextBridge states it will continue to complete an annual capital investment planning process to continually refine a plan that appropriately reflects operational needs, while minimizing rate impacts by not requesting these annual capital expenditures be added to rate base over the IR Term.

NextBridge's proposal to mitigate the potential for overearning is to not include in the revenue requirement during the currently requested IR Term and not record in a deferral account:

i. any additional OM&A costs above the rates set in this Application; nor
ii. any increased financing costs as a result of maturing and reissuing debt throughout the IR Term.

During the IR Term, the capital expenditures will be depreciated, and that depreciation expense is not being sought for recovery in the current application.

Next Bridge also states:

This provides a benefit to ratepayers since the amount requested in the next rebasing will include a lower net plant balance for these capital expenditures due to depreciation, which will reduce the overall amount requested in the next rebasing after the IR Term expires.

Question(s):

a) Please explain how NextBridge determined what capital expenditures were necessary and satisfied itself that these costs were an appropriate level for a nine year and nine-month IRM term.
b) Please clarify if the Capital Expenditures of $4.28 million less depreciation during the IR term will be included for rebasing in 2032. If yes, please provided the net capital expenditure to be included in 2032.
c) Please detail anticipated OM&A costs above the rates set in the application.
d) Please detail OM&A efficiencies during the term of the application.

1-Staff-35

Ref: (1) Exhibit B / Tab 1 / Schedule 6 / Table 1
(2) Exhibit B / Tab 1 / Schedule 6 / p. 5

Preamble:
Reference 2 states:

> NextBridge expects its two dedicated NextBridge field personnel to require an office where they will conduct day-to-day business, which will also include a small indoor storage area/shop for the storage of UAVs, UTVs and smaller spare equipment. NextBridge expects to purchase an office and associated furniture and office equipment by 2025 in order to reduce, and in some cases eliminate, rent expenses over the course of the life of the East-West Tie line.

Question(s):

a) What office and storage facilities will the two field personnel use prior to NextBridge purchasing an office?
b) What amount of annual rent has NextBridge budgeted for the office and storage facilities described in response to a)? For which years?
c) Is the rent expense for the office and storage facilities described in b) included in the General Plant – Office and Vehicles row of Table 1? If no, please indicate where this expense is included in the application.
d) What amount for purchasing an office is included in the General Plant – Office and Vehicles row of Table 1? In what year(s)?
e) What will be the annual cost for operating and maintaining the office that NextBridge expects to purchase? Please indicate where these expenses are included in the application.

1-Staff-36

Ref: (1) Exhibit B / Tab 1 / Schedule 6 / Table 1
(2) Exhibit B / Tab 1 / Schedule 6 / p. 5

Preamble:
Reference 2 states:

> The use of an initial storage yard will be through the maintenance services contract using existing storage facilities which will have been competitively procured. Once that contract has lapsed, NextBridge is expecting to build and operate its own storage yard in an area determined to be the most convenient along the ROW based on areas where potential environmental impacts may become known. This secure location will allow for 24-hour storage and access of spare towers and equipment, and will be conveniently located in order reduce to [sic] maintenance and transportation time and costs. This storage yard is expected to be purchased and placed into service by 2025 and reduce overall costs of maintenance services in the long-term past 2025.

Question(s):

a) Please clarify the maintenance services contract, existing storage facilities and competitive procurement that are being referenced in Reference 2.
b) In what year will this maintenance services contract expire?
c) In what year will NextBridge build its own storage yard?
d) Will the storage yard that NextBridge expects to build be located on the same site as the office that NextBridge expects to purchase by 2025?
e) What will be the annual cost for operating and maintaining the storage yard that NextBridge expects to build? Please indicate where these expenses are included in the application.
f) What will be the net change in annual operations and maintenance costs once the maintenance services contract lapses, and NextBridge builds its own storage yard?

1-Staff-37

Ref: (1) Exhibit B / Tab 1 / Schedule 6 / Table 1
(2) Exhibit B / Tab 1 / Schedule 6 / p. 6-7
(3) Exhibit F / Tab 4 / Schedule 2 / p. 2

Preamble:
Reference 2 states that “installation of bird deterrent devices is a highly effective and inexpensive solution to potential roosting bird excrement problems. Bird deterrents are routinely recommended to minimize faults to transmission systems.”

Reference 3 includes “potential future reliability projects (i.e., camera and bird deterrent installations)” under the list of examples of services and items which will be arranged by or carried out by NextBridge field personnel.

Question(s):

a) Please describe a bird deterrent device, and where and how one is installed.
b) Is the use of bird deterrents common practice?
c) Please provide a source for the recommendation included in Reference 2 and comment on its applicability to northern Ontario.

d) Please provide a detailed breakdown of the costs in the Reliability-Bird Deterrents, ROW Cameras line of Reference 1, Table 1, including the specific number of devices to be installed each year.
e) Do any of the device installations described in Table 1 necessitate planned outages? If yes, please describe the number, timing and duration of required outages.
f) Is the use of ROW cameras common practice?
g) Which towers will NextBridge place the ROW cameras on? How will these be selected?
h) What is the purpose of the ROW cameras? What are they expected to capture? Are they able to capture useful images at night?
i) Which personnel will be responsible for monitoring ROW cameras? In which location(s)?
j) Are the potential future reliability projects described in Reference 3, the same ones that are included in the capital investment plan in Reference 1? If yes, why are they described as 'potential' projects?
k) What is the potential for ice accretion and salt spray to impact reliability? What mitigation and/or monitoring is planned to address these risks?

1-Staff-38

Ref: (1) Exhibit C / Tab 3 / Schedule 1, p. 1

Preamble:
Reference 1 states:

> As described in NextBridge's capital expenditures spend plan in Exhibit B, NextBridge plans to continue to invest in capital over the IR Term. In service additions of $0.2 million in the Test Year represent increases to rate base as a result of capital work being declared in-service and ready for use within the Test Year. This work will begin in the year 2022 with investments in ROW cameras, with expected additions to be in-service by the end of the Test Year.

Question(s):
a) Please clarify what is driving the in-service additions to total $0.2 million.
b) Please explain why this is added to the Rate Base instead of included in the IR Capital Expenditure plan.

1-Staff-39

Ref: (1) Exhibit G / Tab 1 / Schedule 1 / p.1

Preamble:
Reference 1 states:

> NextBridge will continue to complete an annual capital investment planning process (as outlined in Exhibit B, Tab 1, Schedule 6) to continually refine a plan that appropriately reflects operational needs, while minimizing rate impacts by not requesting these annual

capital expenditures be added to rate base over the IR Term. This is NextBridge's proposal to mitigate any potential for significant earnings due to planned capital expenditures…. Ultimately, this annual review of capital expenditures will be included in NextBridge's annual update filing on an informational basis but will not impact the UTR calculation during the IR Term.

Questions:

a) NextBridge has detailed $4.28 million in capital expenditures during the IR Term. Please clarify if the annual planning process is expected to impact the $4.28 million expenditure.
b) If the annual planning process is above and beyond the $4.28 million could you specify and quantify the expected investments.
c) The annual depreciation expense is $9.26 million. Could you please explain how NextBridge's Capital Investment Plan adequately supports the infrastructure?

1-Staff-40

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 3

Preamble:

NextBridge states that the emergence of health threats associated with Novel Coronavirus 2019 ("COVID-19"), caused unforeseeable delays in current construction activities. As a result of these unavoidable delays, at NextBridge's request the IESO confirmed that there is no unacceptable risk to reliability created if the projected in-service date for the East-West Tie line was shifted to on or before March 31, 2022.

With respect to the COVID-19 pandemic:

Question(s):

a) Please provide a list of any impacts on the 2022 revenue requirement resulting from the COVID-19 pandemic.
b) Please provide details regarding the impact of the COVID-19 pandemic on NextBridge's 2022 cost forecasts and operation of the East-West Tie line.
c) Please explain how the impacts of the COVID-19 pandemic have or have not been included in its cost forecasts. If not, please provide the impacts.
d) Please describe the interplay between the cost forecasts made in the NextBridge's evidence and the impacts of COVID-19 that are dealt with by way of Account 1509.

1-Staff-41

Ref: (1) Exhibit B / Tab 1 / Schedule 1 / p. 3
(2) Exhibit C / Tab 1 / Schedule 1 / Attachment 3 / p. 44
(3) Exhibit A / Tab 2 / Schedule 1 / p. 5

Preamble:

Reference 1 states that “additionally, the flexibility in scheduling and construction planning that the date change affords to NextBridge is potentially avoiding some COVID-19 related costs, for example building all season roads in the caribou zone as outlined in the letter to the IESO.”

In Reference 2, the July 22, 2020 letter from NextBridge to the IESO, NextBridge states:

> Due to winter road restrictions in the OBP [Overall Benefits Permit from the Ministry of Environment, Conservation and Parks] only one winter construction season remains to complete construction on the approximately 80 kilometre transmission line segment in the Lake Superior caribou habitat. To mitigate this schedule risk and ensure an October 28, 2021 in service date, NextBridge is seeking an amendment to this condition which would allow for all season roads to be built in order to extend the construction season.

Reference 3 states that “The Applicant requests that the OEB’s rate orders be effective one day after the East-West Tie line comes into service, which is scheduled to occur on March 31, 2022.”

Question(s):

a) What is the status of the requested amendment?
b) What benefit can be achieved by receiving the requested amendment?
c) Is the amendment required in order to achieve the March 31, 2022 in-service date? If the answer is yes, what would be the latest date on which NextBridge could receive the requested amendment in order to meet the March 31, 2022 in service date and what would be the impact on the in-service date if the amendment was not received?

1-Staff-42

Ref: (1) Exhibit B / Tab 1 / Schedule 1 / p. 4

Preamble:
NextBridge states:

> Now that construction has started again in mid-May 2020 with the support of the surrounding Indigenous and non-Indigenous communities, NextBridge believes, barring other unforeseen circumstances, that it can achieve the March 31, 2022 in-service date. NextBridge will continue to keep the Board informed of developments in this regard, as it has done previously in the quarterly report submitted October 22, 2020.

Question(s):

a) Please identify if there any circumstances, other than those directly associated with COVID-19, that have delayed the in-service date to March 31, 2022. If so, please specify those circumstances and the impact that they have had on the schedule.
b) Please confirm that NextBridge will achieve the March 31, 2022 in-service date.

1-Staff-43

Ref: (1) Exhibit C / Tab 1 / Schedule 1 / Attachment 4 / p.10

Preamble:
Reference 1 states:

> Once the spring thaw period is confirmed for the 2019/2020 winter construction period, the schedule will be re-evaluated to determine the amount of work completed this winter season and establish plans for clearing activities to resume after September 1, 2020. At that time, it will also be possible to analyze the potential impacts to the East-West Tie's cost and schedule resulting from the delay of permit approvals.

Question(s):
a) Could you please advise if there were ever any delays associated with permit approvals?
b) Could you please provide the impact of any permit delays to the project cost and schedule?
c) What actions is, or did, NextBridge undertaking to mitigate the delays and costs?

1-Staff-44

Ref: (1) EB-2017-0182 / Decision and Order / February 11, 2019 / p.7

Preamble:
During the oral hearing of the LTC application, NextBridge stated that if it did not have to accelerate to ensure a December 2020 in-service date, it could bring the construction costs in lower[2].

Reference 1 states that it "should not be taken as accepting the level of costs of the NextBridge-EWT Project for the purposes of recovery from ratepayers. NextBridge will have to demonstrate the prudence of its costs when seeking to recover those costs in the future."

Question(s):
a) The planned in-service date is now March 2022. Despite the change to in-service date, NextBridge has continued to work toward a total cost of $737 million through all its quarterly reports – even prior to the COVID-19 pandemic. Given the planned in-service date was delayed beyond December 2020, does NextBridge currently estimate construction costs lower than the $737 million included in the LTC application?
b) If yes, please provide the updated estimate. If no, please explain why the construction cost estimate is not lower given the later in-service date.

1-Staff-45

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / Page 6-8

Preamble:
In addition to the August 28, 2020 letter from the IESO confirming that an in-service date of March 31, 2022 does not present an unacceptable risk to reliability, a detailed economic overview and consideration

[2] 4 EB-2017-0182/EB-2017-0194/EB-2017-0364 Oral Hearing Transcript, Volume 7, October 12, 2018, p. 50, lines 4-9

of capacity needs associated with the East-West Tie line were studied and provided by the IESO. Those IESO assessments are dated December 15, 2015, June 29, 2018 and December 1, 2017.

Question(s):

a) The IESO provided a detailed economic overview of the East-West Tie compared to non-wires alternatives only. The IESO analysis did not examine the detailed construction costs of the NextBridge proposal. Please confirm.

1-Staff-46

Ref: (1) Exhibit B / Tab 1 / Schedule 5 / Attachment 2 / p. 8

Preamble:
Reference 1 states:

> For this update, the IESO used the updated capital cost estimates for the new line and the station upgrades that the transmitters filed with the OEB on July 31, 2017 in their LTC applications. Based on its filed evidence, NextBridge estimates a cost of $777 million for the E-W Tie line, an increase from the previous planning estimate of $500 million used in the December 2015 Report. NextBridge has stated that the cost increase reflects unbudgeted costs, new scope requirements, other unforeseeable factors such as the delay to the in-service date, and development phase project refinements.

Question(s):

a) Please explain the details and provide the amounts that resulted in the cost estimate increasing by 55 per cent from $500 million to $777 million in 2017.
b) Please explain how the cost estimate has remained the same from 2017 to the time of this application, while the in-service date has changed to March 31, 2022.

1-Staff-47

Ref: (1) Exhibit B / Tab 1 / Schedule 6 / p.1
(2) Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / p. 17
(3) Filing Requirements for Electricity Transmission Applications / Chapter 2 Revenue Requirement Applications / pp. 2-3

Preamble:
Reference 2 states that applicants filing a revenue cap application must include in the Transmission System Plan “a proposal to mitigate the potential for any significant earning by the transmitter above the regulatory net income supported by the approved return on equity, using such tools as a capital variance account or an earnings sharing mechanism”.

Reference 3 states:

> A transmitter seeking approval of revenue requirements under Custom IR or Revenue Cap will be expected to demonstrate that its planning has been sufficiently robust that the utility will be able to manage within the revenue set, given that actual costs and revenues will vary from forecast.

In Reference 1, NextBridge states that:

> NextBridge's proposal to mitigate the potential for overearning is to not include in the revenue requirement during the currently requested IR Term and not record it in a deferral account:
> i. any additional OM&A costs above the rates set in this Application; nor
> ii. any increased financing costs as a result of maturing and reissuing debt throughout the IR Term.

Question(s):

a) Please confirm that NextBridge is expected to manage any additional OM&A costs above the rates set in this application in accordance with the requirement outlined in Reference 3.

1-Staff-48

Ref: (1) Exhibit B / Tab 1 / Schedule 7 / p.2 / Table 1
(2) EB-2017-0182 / OEB Staff Submission / November 1, 2018 / p. 14 / Table 1

Preamble:

In Table 1 of Reference 2 OEB staff compares NextBridge's project cost of $777M to five Hydro One project scenario costs. Scenario 2 indicates a Hydro One total project cost of $682.8M for the route around Pukaskwa National Park.

Question(s):

a) Please provide a revised version of Table 1 of Reference 1 that includes the cost for the proposed Lake Superior Link project that was submitted by Hydro One during the Leave to Construct proceeding (EB-2017-0364).
b) Can NextBridge provide an explanation for differences between its estimate of $777M and the forecast project cost of $682.8M provided by Hydro One in scenario 2 of Reference 2 from the LTC proceeding?

1-Staff-49

Ref: (1) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / p. 5-8
(2) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / p. 9 / Figures 3 and 4
(3) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / p. 18
(4) Exhibit C / Tab 2 / Schedule 2
(5) Exhibit C / Tab 2 / Schedule 4 / p. 1

Preamble:

Page 5 of Reference 1 states that "in general, all historical costs have been escalated to 2022 Canadian dollars ("CAD") using the extrapolated 2017 Handy-Whitman Index for utility construction costs in the United States ("US") Plateau region and the Canadian Price Index ("CPI")."

Page 8 of Reference 1 states that "for comparative purposes, CRA has analyzed the present value of the annual project costs for the New EWT Line so that all benchmark results could be compared in 2022 dollars."

Reference 3 states:

> The estimated average project capital cost per km for the New EWT Line in 2022 CAD is approximately $1.65 M/km which is calculated by discounting annual Construction project costs by the 10-year CAGR for CPI, annual Materials costs by the 10-year CAGR of the Handy-Whitman Plateau Indices, and by discounting Other costs again, by CPI. Construction costs, however, can be very weather-dependent, and harsher weather in Northwestern Ontario compared to the Plateau region may lead our estimates to be conservative.

Question(s):

a) Please explain why Figure 4 refers to "discounted costs". If this Figure contains incorrect calculations, please provide a replacement.
b) Please explain the description of discounting costs in Reference 3 and how this relates to the description of escalating costs in Reference 1.
c) Why does this study extrapolate the 2017 Handy-Whitman Index instead of obtaining the Handy-Whitman Index for years subsequent to 2017 (e.g. 2018, 2019)?
d) Please confirm that the Handy-Whitman Plateau Indices were only used to adjust materials costs and were not used to adjust construction costs.
e) If the Handy-Whitman Plateau Indices were only used to adjust materials costs, how is the difference between weather conditions in the Plateau region and northwestern Ontario relevant? How are materials costs affected by weather conditions?
f) Please explain the comment that "harsher weather in Northwestern Ontario compared to the Plateau region may lead our estimates to be conservative." If a less conservative approach were utilized, would the values in Figure 4 increase or decrease?
g) Please explain the description of "present value of the annual project costs" from page 8, and how this relates to 2022 dollars.
h) Please confirm that the costs shown in Figures 3 and 4 (Reference 2) are in thousands of dollars, such that the total cost shown at the bottom of p. 9 is $740,521,000.
i) Please provide the year(s) that the costs shown in Figure 3 are based in.
j) Please explain why the costs for 2020 to COD are combined into a single column in Figures 3 and 4 instead of separated into costs for individual years.
k) Please explain how the IDC row of expenses were adjusted between Figure 3 and Figure 4, and why Figure 4 has no entry for IDC in the '2020 to COD' column.
l) Which costs shown in Figure 4 equate to the development costs of $31.2 million described in Reference 4.
m) Which costs shown in Figure 4 equate to the construction costs of $737.1 million shown in Reference 5?
n) Which cost categories shown in Reference 5 equate to the materials costs shown in Figure 4?
o) Compare the current project budget to the total cost shown in Figure 3.

1-Staff-50

Ref: (1) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / p. 5
(2) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / p. 10 / Figure 5

Preamble:
Reference 1 states that "on average [the WECC 2014 study by Black and Veatch] found that the base capital cost of a 500 kV double circuit project was 1.99 times more expensive than a 230 kV double circuit project."

Question(s):

a) Please provide the underlying data from the WECC 2014 study by Black and Veatch which resulted in an average of 1.99.
b) In Figure 5, what is the difference between the CAGR column and the Growth column? How were the values in the Growth column determined?
c) In Figure 5, cost is broken down into materials, construction and other segments, which total 100%. How were these percentages determined?
d) In Figure 5, cost is broken down into materials, construction and other segments, which total 100%. Are development costs included in these costs?
e) In Figure 5, the cost is broken down into materials, construction and other, which total 100%. Are IDC costs included in these costs?

1-Staff-51

Ref: (1) Exhibit B / Tab 1 / Schedule 7 / Attachment 1 / pp. 15-16

Preamble:
Footnote 13 on page 15 of Reference 1 states that "the Niagara region has different, and more difficult, terrain than that of Northwestern Ontario, which may lead to lower construction costs compared to Northwestern Ontario."

Question(s):

a) Please explain and/or clarify Footnote 13.
b) Section 2.2.6 on page 15 of Reference 1 states "CRA used the Handy-Whitman Index and the USD/CAD exchange rate in order to calculate material and index cost growth from 2017 to 2022[…]" Please confirm that the costs in Figure 9 were escalated from 2019 to 2022.
c) In Figure 9, cost is broken down into materials and construction, which total 100%. How were these percentages determined?
d) In Figure 9, cost is broken down into materials and construction, which total 100%. Are development costs included in these costs?
e) In Figure 9, the cost is broken down into materials and construction, which total 100%. Are IDC costs included in these costs?

1-Staff-52

Ref: (1) Exhibit C / Tab 2 / Schedule 4 / p. 1
(2) OEB Minimum Technical Requirements for the Reference Option of the E-W Tie Line / November 9, 2011
(3) EB-2017-0182 / NextBridge Argument-in-Chief / October 22, 2018
(4) Exhibit C / Tab 2 / Schedule 4, p. 3, paragraph 9
(5) Exhibit C / Tab 2 / Schedule 4, p. 4, paragraph 11
(6) Exhibit C / Tab 2 / Schedule 4, p.30, paragraph 99
(7) Exhibit C / Tab 6 / Schedule 1

Question(s):

a) Please state what year the construction costs are based in (e.g. 2021 or 2022 dollars).
b) Please confirm that the design and technical specifications of the project comply with the OEB's Technical Requirements outlined in the designation proceeding (Reference 2).
c) At the time of the LTC proceeding, NextBridge argued that the construction cost would fall within the range of $737M +/- 10% (Reference 3). What band of uncertainty exists around the forecast budget of $737.1M at this point in time?
d) Reference 4 states that "[…] most costs are now essentially fixed for the majority of activities." Please identify which costs are fixed and which are not yet fixed. For the costs that are fixed, please indicate whether the fixed cost is consistent with the budgeted amount, and if not, provide the difference and explain any discrepancy. For the costs that are not yet fixed, indicate when NextBridge expect these costs to be finalized.
e) Reference 5 states that "As of the date of this filing, nearly 90% of forecasted construction costs have been contracted […]" Please identify construction costs that have not been contracted. When does NextBridge expect these costs to be finalized?
f) Reference 6 states that "NextBridge has no contingency in the construction costs." Please explain how NextBridge plans to address any future construction budget increases when there is no remaining contingency.
g) Please identify which cost category of the table on Exhibit C, Tab 2, Schedule 4, p. 1 includes the cost of the Capital Cost Recovery Agreement described in Reference 7.

1-Staff-53

Ref: (1) Exhibit C / Tab 2 / Schedule 4 / Page 30
(2) Exhibit C / Tab 1 / Schedule 1 / Page 39

Preamble:
Reference 1 states:

> NextBridge has no remaining contingency in the construction costs. NextBridge's Q4 2019 OEB Quarterly Report and the Response to OEB Request – February 2020 (included in Exhibit C, Tab 1, Schedule 1, Attachment 2 & 4) specifically addresses this allocation of contingency and how it is actively managing the budget in order to contain costs and mitigate risks. Contingency was allocated in a proactive manner with the understanding that known costs (both spent and contracted) would be actively managed to reduce risk and associated cost to the furthest extent

possible. This proactive approach to the allocation of contingency also provided increased transparency of NextBridge's forecast of overall construction costs.

Question(s):

a) Could you please explain, with all the contingency costs allocated, how NextBridge will actively manage and allocate unknown costs?
b) Based on its forecasted risk allocation, does NextBridge foresee it spending all the allocated contingency costs? If so, why?

1-Staff-54

Ref: (1) Exhibit C / Tab 1 / Schedule 1 / p. 2 / Table 1
(2) Exhibit C / Tab 2 / Schedule 1 / p. 1

Preamble:
NextBridge requests that the gross plant for the Test Year consist of the following items which are described in Table 1, assuming an in-service date of March 31, 2022.

Reference 2 states:

> NextBridge's gross assets are made up of costs expected to be incurred to put the East-West Tie line in service: development costs, phase shift costs, construction costs and spare strategy costs. These tables can be found at Exhibit C, Tab 4, Schedule 1. Each of the cost categories are discussed in detail in this Exhibit in Schedules 2, 3, and 4.

The Rate Base Gross Plant is $775.2 million which consists of Construction Costs of $737.1 million, Phase Shifting of $5.3 million, Spare Strategy of $1.2 million and OEB-approved Development Costs of $31.2 million.

Question(s):

a) Please explain the project savings that have occurred due to the $5.3 million of Phase Shifting that occurred in the Designation stage.
b) Please explain the savings to ratepayers due to the $1.2 million Spare Strategy.

1-Staff-55

Ref: (1) Exhibit C / Tab 1 / Schedule 1 / Attachments 1-4

Question(s):

a) Please ensure that all quarterly reports have been filed on the record in this proceeding.

1-Staff-56

Ref: (1) Exhibit C / Tab 2 / Schedule 3 / Page 1

Preamble:

Reference 1 states:

> A total of $5.3 million in costs were deemed eligible for consideration as construction costs in the Decision and Order dated December 20, 2018 (EB-2017-0182). These costs were incurred during the development period and are needed to construct the East-West Tie line. They were spent during the development period because these activities take longer periods of time and by working on them as early as possible it mitigated risk to the project schedule. These costs are included in opening rate base balance.

Question(s):

a) Could you please provide rationale for approval of these costs?

1-Staff-57

Ref: (1) Exhibit C / Tab 2 / Schedule 4

Preamble:
Reference 1 states that "a total of $737.1 million in construction costs is forecasted to complete the East-West Tie line, of which 57% have already been incurred as of October 31, 2020."

Question(s):

a) With 57% of construction costs incurred to date, please clarify if 57% of the construction is complete, and if not, explain why NextBridge currently estimates the project budget of $737.1 million will not be exceeded?

1-Staff-58

Ref: (1) Exhibit C / Tab 6 / Schedule 1 / p. 1

Preamble:
Reference 1 states:

> NextBridge is in the process of entering into a Customer Connection and Cost Recovery Agreement ("CCRA") with HONI.... The engineering and construction cost of the Hydro One work will be included in Hydro One's rate base in accordance with the decision(s) of the Ontario Energy Board in EB-2017-0194. At this time the CCRA and associated terms and conditions are undergoing review between both parties with the intention of reaching a mutually acceptable agreement by the end of Q1 2021. When the agreement is finalized NextBridge and HONI will provide an update to the OEB that includes cost and accounting treatment for the agreement.

Question(s):

a) Please file the Customer Connection and Cost Recovery Agreement when it is finalized and provide information on the cost and accounting treatment.

1-Staff-59

Ref: Exhibit D / Tab 1 / Schedule 1 / p. 1

Preamble:
At the above noted reference, NextBridge states the following:

> Given the nature of the East-West Tie line, it does not lend itself to applying the typical performance measures that might be used to evaluate the performance of other transmitters. The East-West Tie line does not include any terminal breakers or other operable assets, as the demarcation point on each of the circuits is a structure outside of the HONI stations, as noted in Exhibit B, Tab 1, Schedule 2. Also, NextBridge does not have any customer delivery points (or meter assets), which are the basis of interruption-based reliability performance measures like SAIDI and SAIFI. In addition to these operating characteristics, the life-cycle portfolio also detracts from meaningful comparisons. The East-West Tie line is new whereas most other transmitters own a portfolio of assets that traverse the various stages of asset life. Therefore, NextBridge's performance measures do not readily provide meaningful comparisons to those of other transmitters.

Question(s):

a) Please confirm that NextBridge is proposing the tracking and annual reporting of the following performance measures. If there are any measures not included in the listing below, but that should be added, please provide the necessary update(s) to the listing.
   - 0.00 OHSA Recordable Injuries per Year
   - Return on Equity
   - NERC Vegetation Compliance
   - OM&A Cost per Circuit Kilometer
   - Average System Availability

b) For each performance measure provided in response to (a), please indicate how in future proceedings, NextBridge will be able to demonstrate achievement against each measure target. For example, will a single metric to demonstrate performance against the Average System Availability measure be established? For NERC Vegetation Compliance, will NextBridge only provide a single statement indicating its compliance with FAC-003-004, or will NextBridge detail the vegetation prevention-related actions it has undertaken?

c) Please provide the targets for each performance measure provided in response to (a) for the years 2022 to 2031.

1-Staff-60

Ref: Exhibit D / Tab 1 / Schedule 1 / p. 2

Preamble:

In Table 1, NextBridge outlines the “Safety” performance measure to be 0.00 OHSA Recordable Injuries Per Year.

Question(s):

a) Does the 0.00 OHSA metric target pertain solely to Supercom and NEET staff, or would this also include any third-party contractors who may be working on the East-West Tie line?
b) Please more fully describe what specific parameters comprise this “Safety” measure and how NextBridge will monitor its performance.

1-Staff-61

Ref: Exhibit D / Tab 1 / Schedule 1 / pp. 3-4 / Table 2

Preamble:
In the evidence, NextBridge proposes to report on OM&A cost per circuit kilometer as a performance measure. In Table 2, NextBridge provides OM&A benchmarking study results.

Question(s):

a) In terms of its annual reporting for OM&A cost per circuit kilometer, please clarify and explain what specifically NextBridge intends to report as its OM&A cost for this performance measure? For instance, in Table 2, NextBridge provides Total OM&A (which is the sum of OM&A Expenses, Admin. & Corporate, and Regulatory). Would the OM&A value used for OM&A cost per circuit kilometer be Total OM&A, only OM&A Expenses, or something else?
b) Please clarify what specific costs constitute being reported as the following:
    - OM&A Expenses
    - Admin. & Corporate
    - Regulatory
    - Total OM&A
c) Please confirm the circuit length, in kilometres, that NextBridge will commit to use for the OM&A cost per circuit kilometre is 450 km.

1-Staff-62

Ref: Exhibit D / Tab 1 / Schedule 2 / p. 1

Preamble:
At the above noted reference, NextBridge states the following:

> In the absence of T-SAIDI and T-SAIFI metrics, NextBridge will provide additional information, on a best efforts basis, to demonstrate the performance of NextBridge’s transmission circuits. NextBridge will measure interruptions to HONI delivery points caused by NextBridge’s circuits using the two proposed measures. The proposed contribution measures would not be NextBridge’s true T-SAIDI and T-SAIFI measure because NextBridge has no delivery points, but the denominator would be all HONI delivery points.

Question(s):

a) Please explain why NextBridge is only able to provide the above noted information on a best efforts basis.

b) Please confirm the number, and the specific Hydro One delivery points that NextBridge is referring to in the above statement.

c) Please confirm if the reporting on T-SAIDI and T-SAIFI, with respect to HONI delivery points, would be additional performance measures to those listed in Staff-59(a)?

1-Staff-63

Ref: (1) Exhibit F / Tab 11 / Schedule 1 / pp.1-2
(2) EB-2019-0082 / Exhibit F / Tab 6 / Schedule 1 / Attachment 1 / p.14

Preamble:

In Reference 1, NextBridge states that:

> As a new transmitter with a new asset, NextBridge applied the principles for useful life from the Foster Associates Inc. study used in support of HONI's 2020 to 2022 rate application (EB-2019-0082). The study forms the basis of supporting NextBridge's depreciation rates and expenses in this Application, as there is no need to maintain unique NextBridge depreciation rates as the Foster Associates Inc. study is representative; and therefore, another depreciation study is not needed.

NextBridge provides the depreciation rates as follows for the three categories of assets:

Land-Rights – 1.00%

Towers and Fixtures – 1.11%

Overhead Conductors and Devices – 1.54%

In Reference 2, which is the Foster Associates Inc.'s depreciation study, it shows the depreciation rates as below:

	Current			Proposed			
Account Description	Rem. Life	Net Salvage	Accrual Rate	Rem. Life	Net Salvage	Reserve Ratio	Accrual Rate
A	B	C	D	E	F	G	H
INTANGIBLE PLANT							
1610 Computer Software	← 10 Year Amortization →		9.49%	← 10 Year Amortization →			9.49%
Total Intangible Plant			9.49%	3.50		66.80%	9.49%
TRANSMISSION PLANT							
1705D Land - Depreciable	75.60		0.96%	71.60		31.50%	0.96%
1706 Land Rights	74.50		0.96%	70.84		32.31%	0.96%
1708 Buildings and Fixtures	29.81		1.82%	29.96		45.84%	1.81%
1715 Station Equipment	31.16		2.07%	31.40		34.52%	2.09%
1720 Towers and Fixtures	55.36		1.27%	55.00		29.78%	1.28%
1730 Overhead Conductors and Devices	43.16		1.44%	42.45		38.67%	1.44%
1735 Underground Conduit	32.19		1.64%	32.77		45.76%	1.66%
1740 Underground Conductors and Devices	48.99		1.79%	48.25		13.59%	1.79%
1745 Roads and Trails	30.50		1.79%	30.73		44.52%	1.81%
Total Transmission Plant			1.81%	35.72		34.76%	1.83%

OEB staff notes that there are differences between the depreciation rates used by NextBridge and the ones in the Foster Associates Inc's study, which are outlined below:

	Depreciation Rates Proposed by NextBridge	Depreciation Rates in Foster Associates Inc.'s Study
Land rights	1.00%	0.96%
Towers and fixtures	1.11%	1.28%
Overhead conductors and devices	1.54%	1.44%

Question(s):

a) Please confirm the accuracy of the table prepared by OEB staff above.
b) If confirmed, please explain the reasons for the differences or update the relevant schedules as necessary.

1-Staff-64

Ref: (1) Exhibit F / Tab 13 / Schedule 1 / p.3
(2) 2006 Electricity Distribution Rate Handbook, May 11, 2005 / p.64

Preamble:
In Reference 1, NextBridge states that:

> **Ontario Corporate Minimum Tax**
>
> 4. OCMT is designed to impose a minimum tax based on financial statement income calculated without most tax adjustments. The OCMT paid in the year can be applied to reduce taxes payable in a future year(s).[13] The OCMT in the Test Year is calculated as part of NextBridge's detailed calculations of income tax found in Exhibit F, Tab 12, Schedule 1, Attachment 1. NextBridge will use OCMT expense incurred in the Test Year to reduce income tax expenses in the future years during the IR Term when there is a sufficient level of taxable income.

Reference 2 states that:

> The 2006 regulatory tax calculation does not include the Ontario Corporate Minimum Tax. As this tax can be carried forward for ten years, it is expected that a distributor will recover this tax as it becomes taxable.

NextBridge explains in footnote 13 of the Reference 1 that "OCMT has a 20-year carry forward period and it will expire unutilized after 20-year period".

Question(s):

a) Given the requirement for the PILs model provided in Reference 2, please explain the rationale of including the Ontario Minimum Tax in the revenue requirement.

1-Staff-65

Ref: (1) Exhibit G / Tab 1 / Schedule 1 / pp. 1-3

Preamble:
The total Cost of Capital Rate proposed by NextBridge is 5.32% with $41.0 million revenue requirement from April 1, 2022 to December 31, 2022.

The 2021 Cost of Capital Parameters released by the OEB on November 9, 2020 for rates effective January 1, 2021 is 2.85 % for long-term debt, 1.75 % for short term debt and 8.34% for return on equity.

Staff Table – 2021 Cost of Capital Parameters

Test Year 12 Months				
Amount of Deemed			**Cost Rate**	**Return**
Return	**($ Millions)**	**%**	**(%)**	**($ Millions)**
Long-term debt	431.4	56	2.85	12.29
Short-term debt	30.8	4	1.75	0.54
Common Equity	308.2	40	8.34	25.20
Total	770.4		5.00%	38.5

Question(s):

a) Based on the 2021 OEB Cost of Capital Parameters OEB Staff calculates a total cost of capital rate of 5.00% and revenue requirement of $38.5 million for the test year for NextBridge. Please confirm if NextBridge agrees with this calculation.

1-Staff-66

Ref: (1) Exhibit G / Tab 1 / Schedule 1 / pp. 1-3
(2) Staff - 66Table

Preamble:
The total cost of capital rate proposed by NextBridge is 5.32% with $41.0 million revenue requirement from April 1, 2022 to December 31, 2022. NextBridge will continue to complete an annual capital investment planning process to continually refine a plan that appropriately reflects operational needs, while minimizing rate impacts by not requesting these annual capital expenditures be added to rate base over the IR Term. This is NextBridge's proposal to mitigate any potential for significant earnings due to planned capital expenditures.

Based on Table 1 the revenue requirement for capital is $2.5 million lower based on the 2021 OEB Cost of Capital Parameters instead of the 2020 OEB Cost of Capital Parameters.

Question(s):

a) Please explain why NextBridge's proposed rate framework does not include any earning sharing mechanism?

b) Will NextBridge support the inclusion of an Earnings Sharing Mechanism in its rate framework? Please explain.

1-Staff-67

Ref: (1) Exhibit G / Tab 2 / Schedules 1-3

Preamble:
The forecast weighted average long-term debt rate used for the test year 2022 is calculated to be 3.21% (based on 2020 Cost of Capital Parameters released by the OEB on October 31, 2019, for rates effective January 1, 2020). To reflect the actual cost of long-term debt in the revenue requirement, NextBridge proposes a one-time update in 2023 of the cost of long-term debt (refer to the Debt Rate Variance Account explanation in Exhibit 8) after the first 12 months after in-service (April 1, 2022 to March 31, 2023). This update will reflect the actual market rate for project debt financing. This update is expected to occur only once in 2023 during the IR term.

To reflect the actual cost of short-term debt in the revenue requirement, NextBridge proposes a one-time update of the cost of short-term debt that aligns with the update to long term debt in the Debt Rate Variance Account.

The 2021 Cost of Capital Parameters released by the OEB on November 9, 2020 for rates effective January 1, 2021 is 2.85 % for long-term debt, 1.75 % for short term debt and 8.34% for return on equity.

Question(s):

a) Please confirm if the revenue requirement for 2022 will be based on the 2022 Cost of Capital parameters to be issued by the OEB in 2021. If not, why not?
b) What is the current expected long-term debt rate?
c) Do you expect the long-term debt rate to be lower than the OEB approved long-term debt rate?
d) Please confirm if the long-term debt rate will be based on actual annual rates for 2023 to 2031 or will it be a weighted average.
e) Could you please confirm that the issuance of long-term debt will have a maturity after the IR term?

1-Staff-68

Ref: (1) Exhibit G / Tab 2 / Schedule 1 / p. 1
(2) Exhibit G / Tab 2 / Schedule 2 / p. 1

Preamble:
In Reference 1, NextBridge states that:

> NextBridge’s deemed capital structure for rate-making purposes is 60% debt and 40% common equity of utility rate base, where the 60% debt component is comprised of 4% deemed short-term debt and 56% long-term debt. This structure is consistent with the OEB’s report on the “Cost of Capital for Ontario’s Regulated Utilities”, dated December 11, 2009 (EB-2009-0084), and its subsequent Review of the Existing Methodology of the Cost of Capital for Ontario’s Regulated Utilities, dated January 14, 2016.

In Reference 2, NextBridge states that "NextBridge will issue third-party debt to finance the East-West Tie line's long-term debt component of 56%. This financing transaction is estimated to occur in late 2021 or early 2022".

Question(s):

a) Please confirm whether NextBridge, following issuance of its long-term debt, intends to bring, and maintain, its actual debt to equity ratio in line with the OEB's deemed ratio. If not, why not?

1-Staff-69

Ref: (1) Exhibit G, Tab 2, Schedule 3, Page 1

Preamble:
To reflect the actual cost of short-term debt in the revenue requirement, NextBridge proposes a one-time update of the cost of short-term debt that aligns with the update to long term debt in the Debt Rate Variance Account.

Question(s):

a) What is the current expected short-term debt rate?
b) Do you expect the short-term debt rate to be lower than the OEB approved short-term debt rate?
c) Please confirm if the short-term debt rate will be fixed for the duration of the IRM period and whether there will be any interaction with the DRVA.

1-Staff-70

Ref: (1) Exhibit A / Tab 3 / Schedule 1 / p. 17
(2) OEB's webpage for Cost of Capital Parameters Update
(3) Exhibit G / Tab 2 / Schedule 4

Preamble:
NextBridge's application Return on Equity (ROE) of 8.52% is based on the cost of capital parameters released by the OEB on October 31, 2019 for 2020 applications. NextBridge requests that the ROE be fixed at 8.52% for the 10-year IR Term to allow for rate certainty for customers. NextBridge states that fixing an 8.52% ROE for the entire IR Term will eliminate exposing ratepayers to increases in rates due to increasing ROEs prior to the end of the IR Term.

The 2021 Cost of Capital Parameters released by the OEB on November 9, 2020 for rates effective January 1, 2021 is 8.34% for return on equity.

Question(s):

a) Could you please quantify the premium that customers are incurring for rate certainty by fixing the ROE?
b) Please update NextBridge's application to reflect the 2021 OEB Cost of Capital Parameters for ROE.
c) Is there any reason, in NextBridge's view, that it would not be appropriate to adjust the proposed fixed ROE to 8.34% based on the updated Cost of Capital parameters? Please explain.

d) How will NextBridge ensure ratepayers are not adversely impacted if the OEB-approved ROE decreases?
e) If the fixed ROE is greater than the annual OEB-approved transmitter ROE levels after the first 5 years of the IR Term, is NextBridge willing to have an off-ramp so that rates can be adjusted?
f) If the fixed ROE is greater than the annual OEB-approved transmitter ROE levels after the first 5 years of the IR Term, is NextBridge willing to track any incremental revenue in a variance account?

1-Staff-71

Ref: (1) Filing Requirements for Electricity Transmission Applications / Chapter 2 / p.35
(2) Exhibit H / Tab 1 / Schedule 1 / p.1

Preamble:
Reference 1 states that:

> In the event an applicant seeks an accounting order to establish a new deferral or variance account, the following eligibility criteria must be met:
> - Causation - The forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived.
> - Materiality – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter. Otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
> - Prudence - The nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial cost) for ratepayers.

In Reference 2, NextBridge states that it seeks the Board's approval to establish five new deferral/variance accounts:
- Taxes or Payments in Lieu of Taxes Variance Account, existing USofA account 1592
- Revenue Differential Variance Account
- Construction Cost Variance Account
- Debt Rate Variance Account
- Z Factor Treatment (Account 1572)

Question(s):
a) Except for the existing accounts 1592 and 1572, please explain how the eligibility criteria (i.e. causation, materiality and prudence) for the three new variance accounts requested is expected to be satisfied.

1-Staff-72

Ref: (1) Exhibit H / Tab 1 / Schedule 1 / p.1
(2) The OEB's letter dated July 25, 2019 re "Accounting Direction Regarding Bill C-97 and Other Changes in Regulatory or Legislated Tax Rules for Capital Cost Allowance"

Preamble:
In Reference 1, NextBridge requests a deferral account for Taxes or Payments in Lieu of Taxes Variance Account under the existing USofA account 1592. NextBridge proposes the disposition of the account at the end of the IR term through to the next rebasing application. OEB staff understands that the next rebasing application would be for 2032 rates.

In Reference 2, the OEB establishes Account 1592 - PILs and Tax Variances – CCA Changes specifically for the purposes of tracking the impact of changes in CCA rules.

Question(s):

a) Please confirm that the impact of the change in the CCA rules is to be recorded in the sub-account CCA Changes, as established by the OEB in its July 25, 2019 letter.
b) Please confirm that the balance in Account 1592 would likely be a debit balance given that there is only $0.58 million of PILs expense embedded in the revenue requirement in this application. If not, please explain why.

1-Staff-73

Ref: (1) Exhibit H / Tab 1 / Schedule 1 / p.2

In Reference 1, NextBridge requests a Revenue Differential Variance Account and it states that:

> This account will track the revenue impact should there be a difference from the currently planned in-service date. Specifically, the account will record the difference between revenue earned by NextBridge as part of its share of the 2022 UTR revenue based on the forecasted in-service date and the revenue requirement that would have been calculated had rates been established based on the actual achieved in-service date (earlier or later).

NextBridge proposes disposing the account in the application for 2024 rates.

Question(s):

a) Please provide a calculation of the balance in the account under these two scenarios:
   i) The actual in-service date is February 28, 2022 which is one month earlier than the forecasted in-service date of March 31, 2022.
   ii) The actual in-service date is April 30, 2022 which is one month later than the forecasted in-service date of March 31, 2022.

1-Staff-74

Ref: (1) Exhibit H / Tab 1 / Schedule 1 / pp.2-4
(2) Exhibit H / Tab 1 / Schedule 1 / Attachment 3

Preamble:
In Reference 1, NextBridge requests a Construction Cost Variance Account (CCVA) to track any difference in revenue requirement resulting from: difference between forecasted construction costs in this Application and the actual final project construction costs, including interest during construction.
In Reference 1, NextBridge states that "it is appropriate to continue to track the incremental construction work in progress and interest costs related to the COVID-19 emergency in a new subaccount of Account 2055" which it has proposed to the OEB in its letter dated June 11, 2020.

Per the draft accounting order in Reference 2, NextBridge proposes that the CCVA is to be recorded in a sub account under Account 1508 and will include three components as below:

- The difference between the forecasted and actual construction costs
- COVID-19 related capital costs incurred during construction in excess of forecasted construction costs in this Application
- directly related costs associated with construction that extend past the in-service date such as environmental costs that are a result of commitments in the OBP and/or Amended EA for construction monitoring and mitigation programs that are not already accounted for in the construction costs (*i.e.*, environmental mitigation costs of $1 million that were included but occur post in-service date because they were known and quantifiable amounts).

In Reference 1, NextBridge explains why the third component of post-dated environmental costs should be included in the CCVA:

> As these costs are expected to decline each year after in service and are non-recurring, NextBridge proposes that the variance account method is best for customers instead of including in O&MA costs and potentially overstating O&MA costs for the following nine years of the revenue cap index.

NextBridge also provides an example in the table below to show the differences:

Table 1. Example of Cost Treatment Alternatives for Post Construction Environmental Costs

	Dollars					
	ISD[14] + 1 Year	**ISD + 2 Years**	**ISD + 3 Years**	**ISD + 4 Years**	**ISD + 5 Years**	**Total**
O&MA if in Revenue Requirement	Estimate included in construction costs	$972,000	$972,000	$972,000	$972,000	**$3,888,000**
Variance Account (as incurred)	Estimate included in construction costs	$972,000	$198,000	$106,000	$143,000	**$1,419,000**

- After five years post in-service date, the costs are expected to be less than $10,000 annually and are not included in this example, which is for illustrative purposes.

With respect to the disposition of the CCVA, NextBridge states that:

> NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service. This update is expected to be the filed in 2023 for inclusion in 2024 UTR rates. NextBridge seeks to leave the CCVA open for the remainder of the IR Term to account for activities that are a direct result of construction, such as environmental costs associated with the Overall Benefits Permit and Amended EA. The final disposition will take place at the end of the IR Term and in the next rebasing application for NextBridge.

Question(s):

a) Please clarify the relationship between the COVID-related construction costs that are recorded in the sub-account under Account 2055 and the costs to be recorded in the CCVA (a sub-account under Account 1508).
b) Please confirm that the $1,419,000 estimated environmental costs post in-service date is accurate as of this date. If not, please provide a revised number.
c) Please confirm that the nature of the environmental cost after the in-service date is OM&A, and not capital related.
d) If c) is confirmed, would it be more appropriate to amortize the total $1,419,000 over the IR term and include the amortized annual amount of $141,900 into the OM&A cost of the test year which is the approach used in the regulatory costs in a typical transmission/distribution rebasing application? Please provide NextBridge's position on this approach.
e) Please confirm whether the primary reason for NextBridge's proposal to leave the CCVA open and dispose of the account on a final basis at the end of the IR term is to allow for recoveries of environmental costs in excess of the $1,419,000 forecasted.
f) In the event that the CCVA does not include environmental costs (instead these costs are included in the revenue requirement), please confirm whether NextBridge would agree to close the CCVA at the second annual update following the in-service date of operation.
g) If e) is not confirmed, please specify any other costs that could be included in the CCVA post the in-service date of operation.
h) With respect to the difference between the forecasted and actual project costs that is to be recorded in the CCVA, please confirm that this component could result in a debit balance to be collected from the ratepayers or a credit balance to be refunded to the ratepayers.

1-Staff-75

Ref: (1) Exhibit H / Tab 1 / Schedule 1 / p.5

Preamble:

NextBridge requests a Debt Rate Variance Account and states that:

> This account will track the difference in the long-term and short-term debt rate used in the calculation of NextBridge's revenue requirement in this Application and the actual long-term and short-term debt rate secured by NextBridge to finance the project. NextBridge's actual cost of debt is not known and will not be known until closer to in-service date. Once the actual debt rate is known, this account will record the revenue requirement differential from in-service date up until the point where the actual cost of debt is reflected in NextBridge's revenue requirement that is included in the UTR.

NextBridge states that "NextBridge proposes to seek initial disposition of the balance in this account in the second annual update following in-service. This will allow for audited balances and to align with the Construction Cost Variance Account Disposition".

Question(s):

a) Assuming that the actual debt is secured by February 2022, please explain when the actual cost of debt is anticipated to be reflected in NextBridge's revenue requirement?
b) Please clarify whether the account is to be closed after the initial disposition in the second annual update application following the in-service date. If not, why not?