**EB-2020-0150**

**Upper Canada Transmission, Inc. (operating as NextBridge Infrastructure LP)**

**Application for approval of electricity transmission revenue requirements for the period from April 1, 2022 to December 31, 2031**

# Consumers Council of Canada (CCC) Compendium

## March 29, 2021

STAFF INTERROGATORY #2

INTERROGATORY

**Reference:** (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.

RESPONSE

a) Expected savings to ratepayers from having a 9 year 9 month IR term instead of 2 5 year terms will be realized in various ways. As discussed in the reference above, avoiding the cost of an additional rate proceeding during the proposed IR term is one avenue of savings. Through similar type cases, NextBridge believes the savings would be between $1 million to $2 million. This was informed by two recent cases of Hydro Ottawa (EB-2019-0261) costs of $2.3 million and ENWIN Utilities (EB2019-0032) costs of $1.1 million. ENWIN Utilities had a similar revenue requirement as NextBridge while Hydro Ottawa's revenue requirement was larger than NextBridge's. An additional proceeding would be amortized into rates for the 2nd IR term under the 5 year IR structure as opposed to the 9 year and 9 month structure NextBridge has proposed. The current revenue requirement for NextBridge's IR term of 9 years and 9 months does not contain amortized rate case expenses.

   As explained in detail in Staff #70, the second way NextBridge's proposal provides savings to ratepayers is through locking in the ROE for the extended IR term of 9 years and 9 months. Current cost of capital parameters are at historic lows and the historic analysis performed on cost of capital in Staff #70 indicate that ratepayers could expect to save in the order of $80 million.

b) The savings to ratepayers of a 9 year and 9 month IR term compared to a 5 year IR term is the following:
   a. Fewer rate proceedings (intervenor costs, consultants, legal expenses, OEB staff and facilitator costs, hearing costs) as explained in (a) above.
   b. As outlined in Staff #70 in detail and mentioned above in (a), locking in the ROE for the extended IR term provides customers an estimated $80 million in savings due to the historically low interest rates.
   c. Ratepayers are protected from large escalations in costs due to NextBridge's use of the Revenue Cap framework which requires a utility to manage costs within the approved funding envelope.
   d. Avoidance of incremental NextBridge partners' staff required to support more frequent regulatory proceedings. NextBridge's proposal contains minimal personnel to operate the East-West Tie line.

c) The savings identified in (b) above are passed on to customers by:
   a. Rate case savings - the Application currently does not have rate case expenses amortized over the IR term. Additional costs would need to be added and amortized over the following term.
   b. Locking in the ROE – the current revenue requirement included in the application is 8.52% over the 9 year and 9 month term. Adding a 2nd IR term would allow use of an updated ROE for the 2nd IR term, which would likely be higher and increase the revenue requirement.
   c. Avoiding cost escalation – costs identified in the Application would need to be managed for the 9 year and 9 month IR term by NextBridge. Adding a 2nd IR term in 5 years would provide an opportunity to update costs to actual inflation rates experienced.
   d. Avoiding incremental staff – NextBridge current application has included minimal employees and NEET support costs to manage the ongoing operations but has not staffed or included staff to handle additional regulatory proceedings.

STAFF INTERROGATORY #4

INTERROGATORY

**Reference:** (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.

RESPONSE

a) The revenue cap proposal is reasonable for NextBridge, because it is consistent with the OEB revenue cap proposal framework. Under the framework, the utility manages its costs within the approved funding envelope. NextBridge expects to still face cost pressures as detailed in part (b) below that could overcome the benefit of a declining rate base. Additionally, NextBridge expects that locking in the ROE for the extended IR term of nine years and nine months to provide large amounts of customer savings as described in Staff #70. Historical analysis shows that savings could be $80 million over the IR term.
b) No, freezing the rates revenue requirement will not allow NextBridge to recover its costs and earn its allowed return on capital. NextBridge forecasts that the incremental cost pressures offset the lower capital costs due to a falling rate base over the rate period. Additionally, the HONI SLA and NEET services are not fixed price contracts;

rather, they are a budgeted estimate of services based off the currently understood required maintenance. The HONI SLA is an activity-based contract, as additional maintenance is needed NextBridge will pay additional fees. The HONI SLA also requires renegotiation and renewal after three years (or five years if the two-year extension is exercised), which is during the IR Term and could reset the rates that HONI/Supercom will charge. As mentioned in Exhibit A, Tab 3, Schedule 1, Page 2 of the Application, and reproduced below, NextBridge will face a number of internal and external challenges over the IR Term including:

- Rising income tax expense as NextBridge's capital cost allowance declines;
- Managing NextBridge's right-of-way vegetation maintenance program, taking into consideration the six-year vegetation cycle and 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 for First Nations Federal Section 28.2 reserve crossing permits may not align with inflation;
- New First Nations Reserve Land that could be added to the land base of the East-West Tie line requiring new Federal agreements and payments;
- Unexpected damage from right-of-way 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 which will flow through the Northeast Power Coordinating Council and IESO.

STAFF INTERROGATORY #12

INTERROGATORY

**Reference:** (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 East-West Tie line 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.

RESPONSE

a) The internal and external challenges that will be managed over the IR Term are expected to be in excess of the test year revenue requirement. However, there will be minimal bill impacts, because NextBridge intends to manage costs and absorb increases that are in excess of the RCI as long as the costs are not associated with an extraordinary event and eligible for Z-factor treatment. NextBridge does not have a budget identified for cost challenges in excess of the test year revenue requirement, as these items are not known and measurable at this time.

b) As Indigenous communities pursue and settle land claims in the East-West Tie line area there is potential that communities may increase their Reserve lands through these settlements with the Federal Government. Through this land claim process, if a parcel of land is added to a community's current Reserve that is on NextBridge's right of way, NextBridge would need to replace its existing rights to that land parcel with a Federal permit under Section 28.2 of the Indian Act. In the event a parcel of land is added to a community's current Reserve that is on NextBridge's right of way, NextBridge, the Federal Government, and the Indigenous community would need to negotiate the terms and conditions of the Federal Section 28.2 permit, which may include capacity funding to cover the cost of negotiations and compensation for any potential impact for the use of the land added to Reserves. Given there is no way to predict which lands, if any, may be subject to future land claim settlements with the Federal Government, it is also not possible to provide an estimate of the potential future costs associated with having to obtain a Federal Section 28.2 permit.

# STAFF INTERROGATORY #26

## INTERROGATORY

**Reference:** (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.

RESPONSE

a) NextBridge does not expect to recognize OM&A efficiencies over the IR term as it is a single new asset. Most of the OM&A is scoped and budgeted minimally which will lead to increases as materials and labour costs increase.

b) All OM&A is contractual but not completely fixed. On the personnel side, NextBridge has already utilized partner employees to provide efficiencies in the budgeted costs. NextBridge does not expect to recognize efficiencies in this area as the East-West Tie line is already benefitting from the structure that allows for shared resources and minimally budgeted costs for this support. For example, NextBridge only bears a fraction of the cost of an accountant in the current structure versus having to employ/pay for a full-time accountant. On the O&M side, while there will be a HONI SLA contract, the contract is activity and time based, it is not a fixed price but can vary based on the amount of support needed. NextBridge has budgeted for the expected amount of services but incremental services will need to be funded with the funding envelope of the Revenue Cap rate structure. Additionally, the contract is for a 3 year term with a potential to extend for 2 years while the IR term is 9 years and 9 months, leaving NextBridge exposed to managing cost increases for the difference in terms. While the Federal Section 28.2 permits required for First Nation Reserve crossings are fixed, most have inflation factors which increase the cost through time.

c) To ensure certainty for the IR Term, NextBridge negotiated contracts with longer terms. For example, the Federal Section 28.2 permits required for First Nation Reserve crossings have durations of 20 years. However, some of the contracts will require renewal during the IR period and the most financially material one is the maintenance service contract with HONI. The maintenance service contract with HONI and Supercom is for three years, with an option to renew for an additional two years. While NextBridge does have an agreement with NEET to supply labour, increases associated increasing labour costs will impact NextBridge since charges are based on actual labour costs.

d) NextBridge's proposed productivity factor of 0% is appropriate because of the length of the IR term and NextBridge's challenge to manage costs over the extended term of 9 year and 9 month term within the funding allowed under the Revenue Cap framework.

e) Other transmitters have had no capital expenditures during the IR Term, whereas East-West Tie line has planned capital expenditures that will increase reliability and decrease long term maintenance of the project. Additionally, NextBridge has offered a longer IR Term which could expose NextBridge to higher inflation

f) Some of the Indigenous Reserve crossing permits will inflate at the City of Toronto's CPI. This is based on the executed contractual agreement with the First Nation and the Federal government. For clarity, NextBridge makes payments to the Federal government in Toronto which is held in trust for the First Nation.

g) Please see tables below for historical comparison. Forecast data was not available for comparison.

| CPI Summary Table (Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted) | | | |
|---|---|---|---|
| **Year** | **Ontario** | **Toronto** | **Difference** |
| 2010 | 2.46% | 2.55% | 0.09% |
| 2011 | 3.09% | 3.00% | -0.09% |
| 2012 | 1.42% | 1.50% | 0.08% |
| 2013 | 0.99% | 1.23% | 0.25% |
| 2014 | 2.36% | 2.51% | 0.16% |
| 2015 | 1.19% | 1.50% | 0.31% |
| 2016 | 1.81% | 2.10% | 0.30% |
| 2017 | 1.70% | 2.06% | 0.36% |
| 2018 | 2.35% | 2.54% | 0.19% |
| 2019 | 1.85% | 2.04% | 0.19% |

# STAFF INTERROGATORY #66

## INTERROGATORY

**Reference:** (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.

## RESPONSE

a) NextBridge did not include an earning sharing mechanism, because:
   a. It is unique as a single asset transmitter and has a unique IR Term of 9 years and 9 months.
   b. There is already an OEB appointed trigger of 300 bps for over earning.
   c. NextBridge will report earnings annually and the OEB will have visibility into any over earnings.
   d. This is a new transmission line – there is exposure for unplanned expenses that may mitigate over earnings.
b) See part a.

# STAFF INTERROGATORY #71

## INTERROGATORY

**Reference:** (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.

RESPONSE

a. Materiality (explanation for all three accounts):

Several variance accounts were needed due to the unique, start-up circumstances of NextBridge including: 1) as a new transmitter, 2) applying a Revenue Cap framework in its first application, 3) not having existing operations or revenues by which to balance the potential financial exposure, and 4) building a large new infrastructure project. The combination of the minimum materiality applied to each account could materially impact the operations of the company. If all three accounts discussed below held the minimum materiality amount, NextBridge would be expensing approximately $835,000 which would materially affect its operations. As reference, NextBridge calculated its materiality consistent with the Filing Requirements for Electricity Transmission Applications, Section 2.1.1. This equates to $55,700,000 x 0.5%, or $278,500.

As NextBridge's Application includes forecasted construction costs, all accounts are symmetrical which means the materiality is applied equally to customers as it is to NextBridge. NextBridge's Application request for recovery of $737.1 is based on substantial evidence of the prudency of those costs, including that approximately 90 percent are known and fixed through executed contracts. NextBridge is also proposing a one-time update to its long-term debt costs such that it allows for a credit to customers if the costs of actual long-term debt decreases or increasing the cost of debt if actual long-term debt is higher than that proposed in the Application.

In the context of a recently settlement, in EB-2019-0261, Decision and Order (Nov. 19, 2020), the OEB accepted deferral accounts prior to knowing the expected balance including OEB's approval of Hydro Ottawa Limited's (Hydro Ottawa) sub-account "1508 – Subset of system access capital additions (net of contributions) revenue requirement differential variance account". Consistent with the Hydro Ottawa, NextBridge is proposing:

- Revenue Differential Variance Account (RDVA)
    - Causation: The RDVA will only be utilized if the in-service date is not March 31, 2022. Amounts included in this deferral account will be distinguished as outside of the base revenue as the application calculated the revenue requirement based on a March 31, 2022 in-service date.

    - Prudence: As determined by the IESO, the NextBridge project is developed to provide the least-cost solution to supply power to Northwestern Ontario and delivering the project in-service is cost effective for customers. While NextBridge currently projects the March 31, 2022 in-service date as achievable, unknown events, such as the ongoing COVID-

19 pandemic, may impact the in-service date. The costs associated with addressing unknown events, such as COVID-19, will be prudently incurred as required to bring the East-West Tie line in-service. Therefore, it is reasonable to establish a revenue tracking account for the potential that either the East-West Tie line is brought into service prior to or after the March 31, 2022 in-service date.

- Construction Cost Variance Account (CCVA)
  - Causation: The rate application is based on forecasted construction costs as the East-West Tie line is not yet in-service. Any amounts included in this variance account will be easily distinguishable as the revenue requirement included in the variance account will be calculated a new rate base than is different from the rate base in the Application. The costs included in this account will include costs necessary to complete the construction of the East-West Tie line.

  - Prudence: While NextBridge's forecasted costs for the East-West Tie line project are $737.1 million, the project is not due to be in-service until March 31, 2022. This account would capture any currently unknown and prudently incurred costs beyond the $737.1 for review and disposition at a later date. As any new and prudently incurred costs will be beyond the $737.1 million. As the NextBridge Application sets forth forecasted construction cost, the final prudently incurred construction costs can be different than what was projected in the Application. This account will contain the revenue requirement difference between the forecasted East-West Tie line construction costs and actual prudently incurred construction costs. NextBridge will identify and track any new costs in a manner that shows they are not included in the $737.1 million forecast.

- Debt Rate Variance Account (DRVA)
  - Causation: The Application is based on the OEB Cost of Capital Parameters and the long-term debt rate used in the application was 3.21%. NextBridge expects the long-term debt rate to be secured on financing closer to the in-service date and the debt rate used to ultimately finance the utility is not yet available. The revenue requirement difference due to the long-term debt rate will be easily distinguishable as the calculations will clearly outline the difference due to the actual cost of long-term debt rate as compared to 3.21% included in the application.

  - Prudence: Securing private debt placement for the project is prudent because it will ensure long-term financial viability of the company. Not securing long-term debt for the project would leave the project exposed to short term interest rate volatility and weaken NextBridge's financial viability.

## STAFF INTERROGATORY #74

### INTERROGATORY

**Reference:** (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, Next Bridge 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.

<u>RESPONSE</u>

a) COVID-related construction costs that are recorded in the CWIP sub-account under Account 2055 are capital costs incurred during construction; while the associated revenue requirement for those costs are to be recorded in the CCVA.
b) This estimate of $1,419,000 is accurate as of this date.
c) The environmental costs are a direct result of the capital construction of the line and were necessary requirements to secure permitting and construction of the line. Due to this, the costs are part of the capital project and the appropriate accounting treatment is as capital.
d) In addition to the costs being capital costs, it is not appropriate to amortize the costs over the IR period because the $1,419,000 is the expected spend of the first year post in-service. To collect that amount over 9 years and 9 months, while it was spent it in the first year of IR period, would leave NextBridge in a position of under collection for the entire IR term. Additionally, there would a loss due to the carrying cost associated with the $1,419,000.
e) Yes, the primary reason for leaving the CCVA open through the IR term is to capture environmental costs associated with remediating construction impacts.
f) Yes, NextBridge would agree to close the CCVA with the approval of a Z-factor account if a material unplanned remediation cost occurred.
g) N/A, (e) is confirmed
h) Yes, the account could result in a debit or credit balance.

## STAFF INTERROGATORY #75

### INTERROGATORY

**Reference:** (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?

### RESPONSE

a) NextBridge proposes to seek initial disposition of the actual cost of long-term debt in the second annual update following in-service. The disposition will include what amount needs to be reflected in NextBridge's revenue requirement to reflect the actual cost of long-term debt for the remaining IR term. After the IR term, the actual cost of long-term debt will be incorporated into the revenue requirement rebasing.

b) Yes, NextBridge would close the account after disposition.

## HONI INTERROGATORY #9

### INTERROGATORY

**Issue List Item:**
#7 – Deferral/Variance Accounts

**Topic:**
Transmission Asymmetrical Capital Account

**References:**
Exhibit H, Tab 1, Schedule 1 – Deferral and Variance Accounts

**Preface:**
Many Utilities in Ontario, including Hydro One, have an OEB-approved asymmetrical capital variance account. The account protects ratepayers from any in-service forecast variance, such that ratepayers are not paying for an asset that was not placed in-service. The asymmetrical nature of the account ensures that if a utility cannot execute the full extent of its capital in-service plan, as forecast in its rebasing rate application, the associated revenue requirement of the assets not in-serviced are returned to ratepayers.

**Questions:**

a) Please provide the rationale for why NextBridge believes that a similar asymmetrical variance account should not apply to NextBridge during the duration of its rate filing period for its newly constructed single line asset facility?
b) If NextBridge does believe that this account should apply, please provide an example calculation assuming that NextBridge under-in-services in 2021 and over-in-services in 2022.

### RESPONSE

a) The NextBridge East-West Tie line is a large infrastructure project, most like Bruce to Milton and the Niagara Reinforcement projects, which recovered their full construction costs and were not subjected to an asymmetrical construction account. Symmetrical accounts are more appropriate for single-asset projects, versus asymmetrical accounts which are reasonable for groups of projects and infrastructure.

b) NextBridge disagrees with the premise of the question. Under-in-services and over-in-services do not apply to the NextBridge East-West Tie line as there is only one in-service date, not multiple projects with multiple in-service dates.

## SEC INTERROGATORY #5

### INTERROGATORY

Question:
[A-3-1, p.16] The Applicant notes that maintenance services will be provided by Hydro One and their partner, Supercom Industries:

a. Please explain the relationship between Hydro One and Supercom.
b. Has the Applicant entered into any preliminary agreement, memorandum of understanding of any other agreements (binding or otherwise) that outlines the relationship between the Applicant, and Hydro One and/or Supercom, with respect to operations and maintenance activities? If so, please provide a copy.
c. When does the Applicant expect to enter into a Service Level Agreement with Hydro One and/or Supercom?
d. Since the Applicant has not entered into a Service Level Agreement with Hydro One and/or Supercom, how has the Applicant forecasted the costs of its Operations & Maintenance budget?

### RESPONSE

a) Supercom Industries LP (Supercom) is a partnership of six First Nations who seek maximum employment and economic benefits for Indigenous communities along the East-West Tie line area. Their focus includes facilitating training programs and the procurement of materials, services, and labour from Indigenous communities. HONI and Supercom will be a Limited Partnership that links the focus areas of Supercom mentioned above with the long-established capacities and resources of HONI.

b) No.

c) NextBridge expects to enter into a service level agreement at the end of Q1 2021.

d) The costs have been set as part of a competitive procurement and just the commercial terms of the agreement are being finalized. Please see the response to Staff #16 and Staff #29.

## ENERGY PROBE INTERROGATORY #23

### INTERROGATORY

**Reference**: Exhibit C, Tab 6, Schedule 1, Page 1, Customer Connection & Cost recovery Agreement.

a) Please provide an update on the status of the Agreement.
b) How can the OEB approve the UCT/NextBridge Revenue Requirement without examining the Costs contained in the Agreement?

### RESPONSE

a) The Customer Connection and Cost Recovery Agreement (CCCRA) is expected to be finalized by September 2021 and will be filed with the OEB in this proceeding at that time.

b) NextBridge is not seeking to recover costs under the CCCRA. As stated in Exhibit C, Tab 6, Schedule 1, Page 1, "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." The costs will be examined in HONI's rate proceedings.