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March 26, 2021

Via RESS & EMAIL

Ms. Christine E. Long
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Upper Canada Transmission, Inc.'s ("NextBridge"), EB-2020-0150,
Presentation for Examination-in-Chief**

Attached is a presentation that the Applicant intends to use in its examination-in-chief.

Yours truly,

A handwritten signature in blue ink, appearing to read "George Vegh".

George Vegh
Counsel

GV/mt

cc. All Parties in EB-2020-0150



NextBridge Infrastructure is comprised
of three established brands in the
energy industry

NextBridge - East West Tie Examination in Chief

March 29, 2021



Agenda

- Introduction to Hearing Witnesses
- Project Overview
- Rate Case Filing
- Cost Prudence
 - Phase Shift
 - Construction
 - OM&A
- Treatment of COVID-19 Costs
- Overview of Variance and Deferral Accounts
- Overview of Transmission System Plan
- Performance Measures

Introduction to Witnesses

Hearing Witnesses

- **Jennifer Tidmarsh** – Project Director, NextBridge
 - Project management; Indigenous consultation & participation; OM&A: regulatory and governance
- **Becky Walding** - Executive Director, Business Management & **Carly Weinstein** – Manager Forecasting and Analysis
 - Rate base, deferral accounts, cost of capital, and calculation of revenue requirements
- **Dan Mayers** – Director, Transmission – Engineering & Construction
 - Engineering and construction, OM&A: transmission maintenance
- **Matt Raffenberg** – Sr. Director Environmental Services
 - Environment and Site Remediation
- **Kara Schwaebe** – Chief Executive Officer, CanACRE
 - Land matters
- **Chris Russo** – Vice President & Energy Practice Leader, Charles River Associates
 - Benchmarking study

Project Overview



The East-West Tie line

The East-West Tie line project has been in development and then construction for a total of 8 years

- IESO determined East-West Tie Line was needed for reliability in Northwestern Ontario
- 450km double-circuit 230 kV transmission line (1,228 structures)
- Construction began in the Fall of 2019
- On track to meet anticipated COD of March 31, 2022
- First ever caribou species at risk overall benefits permit in all of Ontario
- The Environmental Assessment contains 1061 conditions
- Negotiated 191 landowner agreements and all five expropriations have been completed
- Engaged with 18 Indigenous communities to meet Duty to Consult obligations and provide economic participation
- Successful negotiation of three Federal reserve crossing permits has allowed NextBridge to parallel the existing line





☀ 32°NE (T) ● 48°42'31"N, 85°54'25"W ±13ft ▲ 1159ft





Red Rock, ON, Canada

☉ 209°S (T) ☉ 48.929521, -88.401959 ±7 m ▲ 209 m



Rate Case Filing

Custom IR Application – Revenue Cap

- NextBridge requests transmission rates for the IR Term set by a custom incentive rate formula;
 - A revenue requirement determined by using a cost of service, forward looking test year
 - Based off the test year, establish a proposed RCI for revenue requirements starting on April 1, 2022 and ending on December 31, 2031 (i.e., nine months and nine years)
- Under the revenue cap framework, NextBridge will take responsibility for managing OM&A and capital additions without requesting recovery until next rebasing after the 10 year IR term
 - The internal and external cost pressures that will be managed over the IR term are expected to be in excess of the test year revenue requirement
- NextBridge's revenue cap provides the right incentive to maintain and operate the line in a cost-effective manner, which will result in high reliability and operational excellence

Forecasted Test Year

- Forecasted test year opening gross plant of \$774.9 million includes:
 - \$31.2 million in already approved development costs
 - \$5.3 million in phase-shift costs eligible for recovery as construction costs
 - \$737.1 million of construction costs
 - \$1.2 million in spare strategy costs
- NextBridge seeks inclusion in the 2022 UTR for the Network pool

2022 Revenue Requirement		
2022	A=Cost of Service for 12 months	\$55.7 MM
2022	B= Monthly Cost of Service or A/12	\$4.6 MM
2022	C=2022 UTR Amount or B*9	\$41.8 MM

Forecasted Test Year & Rate Base

Gross Plant Summary (\$ Millions)		Transmission Rate Base (\$ Millions)	
Gross Plant	\$ MM	Rate Components	Test Year
Development	\$ 31.2		(April 1, 2022 – March 31, 2023)
Phase Shift	5.3	Average Gross Plant	\$ 775.1
Construction	737.1	Average Accumulated Depreciation	4.6
Spare Strategy	1.2	Average Net Plant	\$ 770.4
Total Opening Gross Plant 4/1/22	\$ 774.9	Cash Working Capital	N/A
Test Year In Service Additions	0.2	Materials and Supply Inventory	N/A
Total Closing Gross Plant 3/31/23	\$ 775.2	Transmission Rate Base	\$ 770.4
Average Gross Plant Test Year	\$ 775.1		

Key Elements of Rate Case Filing

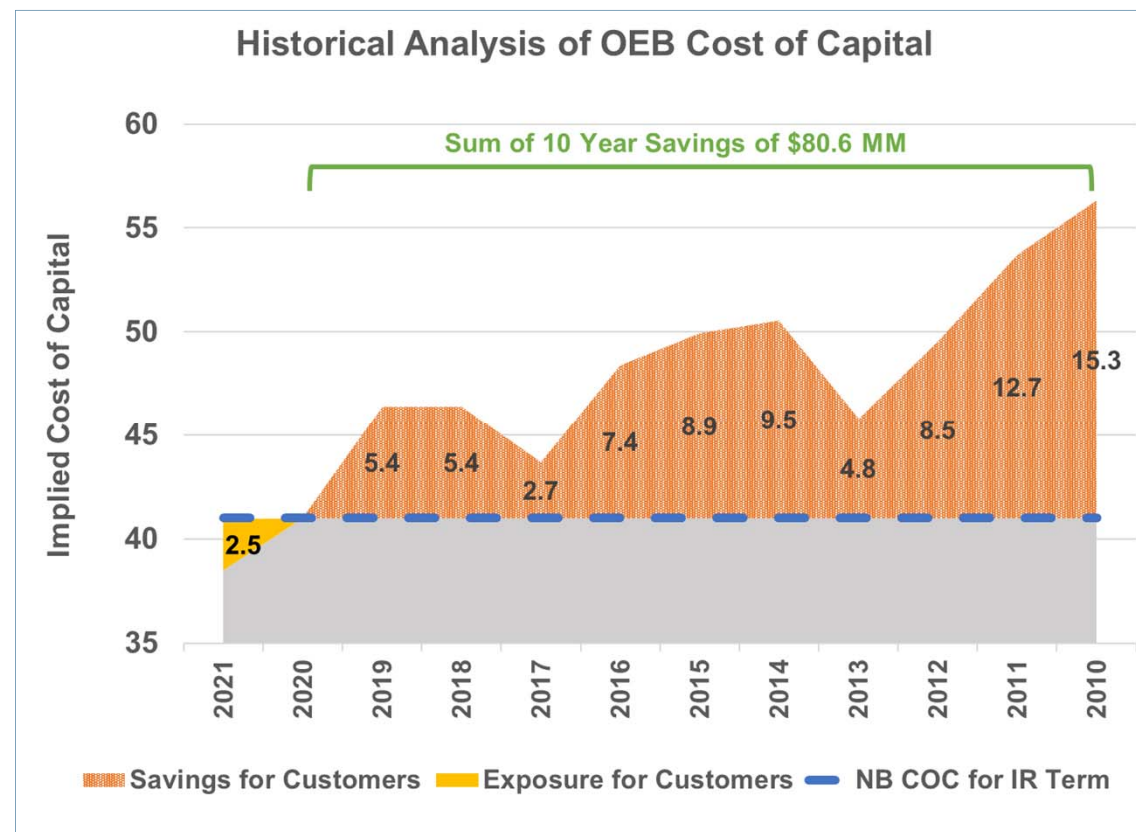
Key Elements	NextBridge Ask
Rate Term	9 Years, 9 Months
ROE	8.52%
Productivity Factor	0%
Inflation	2.0%
Rate Case Trigger	300 bps

Rate Term

- Savings to ratepayers from having a 9 year 9 month IR term will be realized in various ways
 - Locking in the ROE for 9 year 9 month IR term provides customers an estimated \$80 million in savings due to the historically low interest rates
 - Ratepayers are protected from large escalations in costs since NextBridge is required manage costs within the approved funding envelope
 - Avoiding unnecessary and costly rate proceeding during the IR term

Rate Term (cont.)

- NextBridge expects the structure of the proposal to bring significant value to customers over the life of the IR period



Productivity

- NextBridge seeks a productivity factor of 0%
 - NextBridge will manage costs over the extended term of 9 year and 9 month term within the funding allowed under the Revenue Cap framework
 - NextBridge does not expect to recognize OM&A efficiencies over the IR Term
 - OM&A Test-Year cost are intentionally minimal to provide savings to customers, and provide right incentive to NextBridge to manage OM&A cost for the next 10 years; this includes managing increases to material and labour costs any efficiencies experienced would be offset by these increases
- NextBridge's proposal to mitigate the potential for overearning is to not include in the revenue requirement during the IR Term and not record it in a deferral account
 - any additional OM&A costs above the rates set in the Application; nor
 - any increased financing costs as a result of maturing and reissuing debt throughout the IR Term.

Inflation

- NextBridge seeks an inflation rate of 2%
 - The 10 year IR Term could expose NextBridge to higher inflation
 - Inflation may not meet inflation rates from:
 - CPI in Indigenous Agreements
 - Labour costs in the NEET Agreement
 - Insurance
 - Crown land payments to the Ministry of Natural Resources and Forestry and to the Ministry of Transportation
- NextBridge will manage the OM&A budget without passing these increases on to the rate payers

Cost Prudence

Cost Prudence – Phase Shift Costs

- Project savings have been realized by completing the Environmental Assessment, Land Optioning and Indigenous Participation work in the development phase of the project
- For example: Early engagement supported the result of a high percentage (96%) of landowners executing option agreements, which reduced the number of costly expropriations

Cost Category	\$ MM
EA Review Participation	\$ 0.46
Land Optioning Negotiations	1.44
Land Acquisition Negotiations	0.02
Indigenous Economic Participation	3.41
Total	\$ 5.33

Cost Prudence - Construction

Construction Costs

- Costs are forecasted to be on budget when compared to the LTC application budget
- Nearly 90% of forecasted construction costs have been contracted
 - This reduces future volatility in pricing and ensures resource availability due to the contracts having an agreed upon price and negotiated scope of work
- NextBridge has spent 60% of its costs to date to advance construction:
 - Material costs have already been incurred to purchase the towers and wire and ship them to the construction site
 - Land payments to secure access to the right of way to allow for construction
 - Indigenous consultation prior to construction to meet Duty to Consult
 - Work to obtain environmental permits (such as field studies) prior to construction activities beginning.

Cost Prudence – OM&A

OM&A Costs

- NextBridge's OM&A spending on a per asset basis is low in comparison to other transmitters in Ontario (benchmarking study)
- NextBridge has many risks to manage over the IR term without passing these costs to rate payers
 - Rising income tax expense
 - Managing the right of way and access roads through a vegetation maintenance program
 - Localized extreme weather event(s) (e.g., icing, lightning and fire related damage) and associated remediation;
 - New First Nations Reserve Land that could be added to the land base of the project requiring new Federal agreements and payments;
 - Potential compliance changes mandated by the North American Electric Reliability Corporation ("NERC")

Cost Prudence – OM&A

- NextBridge has competitively procured the maintenance services contract for the project and will award it to HONI/Supercom
 - HONI has historical understanding of the area and conditions under which maintenance activities will be conducted
 - Proximity of existing infrastructure allows them to quickly respond to potential unplanned outages
 - This contract is for 3 years with an ability to extend it to 5 years

Cost Category	\$ MM
Operations & Maintenance	\$ 1.27
Regulatory	0.07
Compliance & Administration	1.67
Indigenous Participation	0.89
Indigenous Compliance	0.44
Property Taxes & Rights Payments	0.60
Total OM&A	\$ 4.94

Cost Prudence – OM&A

OM&A Costs – Vegetation Management

- NextBridge will inspect the line on annual basis, as required by North American Electric Reliability Corporation Reliability Standard FAC-003-4
- The annual inspection plan includes aerial inspections of the entire length of the right-of-way, followed by appropriate vegetation remediation measures resulting from the inspections.
- Measures include:
 - Line clearing through trimming and removal of required trees along the edge of the right of way in order to maintain standing and falling clearances to the energized conductor and equipment,
 - Manual and mechanical brush control to manage vegetation growth and ensure adequate standing clearance to overhead conductors
- This plan starts immediately after the in-service date since the right of way is cleared prior to construction at different intervals

Treatment of COVID Costs

Treatment of COVID-19 Costs

- COVID-19 related costs are not part of the revenue requirement proposed in this Application
- NextBridge will track and record COVID-19 costs through the in-service date in Account 2055 (CWIP)
 - These costs are capital costs and part of construction of the line
- Once in-service and the COVID-19 costs for the duration of construction are known, NextBridge will record the revenue requirement associated with these capital COVID-19 costs in the proposed Construction Cost Variance Account (CCVA)
- NextBridge is not using Account 1509 as all costs are capital construction costs
 - NextBridge understands that the deferral Account 1509 is for differences in earnings for transmitters with rates in place
- NextBridge will identify and track any COVID-19 costs in a distinct manner for later disposition

Overview of Deferral and Variance Accounts

Deferral and Variance Accounts

- NextBridge will seek disposition of the following accounts after in-service

Risk	Variance/Deferral Account	Disposition Timing
Construction costs (incl. COVID & IDC)	Construction Costs (CCVA)	Second annual update following in-service, with final disposition at the end of the IR term
Law or tax changes	Taxes or Payments in Lieu of Taxes (Acct. 1592)	End of IR term
Debt rate	Debt Rate (DRVA)	Second annual update following in-service
In-service date vs. UTR inclusion	Revenue Differential (RDVA)	Second annual update following in-service
Unforeseen Events outside of NB control	Z-Factor	Only requested when event occurs

Treatment of Debt Costs

- NextBridge has requested a debt rate variance account (DRVA)
 - NextBridge is foregoing any update on the cost of equity, and will only make a one-time update based on the actual cost of long-term and short-term debt based on actual debt rates received during NextBridge's private placement
 - Private placement is expected to occur close to the in-service date

Construction Cost Variance Account

- NextBridge has requested a construction cost variance account (CCVA)
- This account would capture any currently unknown and prudently incurred costs beyond the \$737.1 MM for review and initial disposition the balance in this account in the second annual update following in-service
- At this time, NextBridge is managing to its construction costs of \$737.1 MM. There may be potential increases, but also potential decreases in the budget that could offset these increases
 - Additionally, this could result in a debit balance to be collected from the ratepayers or a credit balance to be refunded to the ratepayers.
- 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.

Overview of the Transmission System Plan

Transmission System Plan

Strategic Plan

- NextBridge's strategic objectives consist of the following:
 - Foster positive and constructive relationships with Indigenous and non-Indigenous communities;
 - Maintain a reliable, cost-effective transmission system;
 - Protect and sustain the environment for future generations; and,
 - Maintain a commercial culture that increases value for its owners.
- Meeting Customer Needs
 - NextBridge has no delivery points, and, therefore, has no customers that it directly serves.
 - NextBridge, however, has conducted customer outreach since 2013 to keep communities in Northwest Ontario informed on the progress of the East-West Tie line

Transmission System Plan

Asset Management Plan

- NextBridge will undertake a strategic and methodical asset management planning process adhering to relevant national and international standards
- The East-West Tie line, consists of an approximately 450 km of 230 kV double circuit transmission line that dead-ends and interconnects outside of the HONI Lakehead TS, Marathon TS, and Wawa TS
- Since the East-West Tie line is new, all assets are “low risk” on the asset condition assessment
- NextBridge will perform OM&A activities (such as aerial inspections of the overhead lines and regular vegetation management) to ensure assets are well maintained

Asset Type	Quantity
Conductor	892 circuit km
Steel Towers	1228 structures
Insulators	7368 insulators

Transmission System Plan

Capital Expenditure Plan

- *General plant* - includes those items associated with offices, vehicles, tools, and equipment
- *Storage yard* - The use of an initial storage yard will be through the maintenance services contract using existing storage facilities. NextBridge is expecting to build and operate its own storage yard when that contract lapses
- *Reliability* - reliability improvement projects such as bird deterrents and ROW cameras.
- NextBridge will seek prudence for these expenditures as part of its next rebasing that will occur at the end of the IR Term

Expenditure	Cost \$ MM (2022-2031)
General Plant	0.63
Storage Yard	0.3
Reliability	3.35

Transmission System Plan

Benchmarking Study

- Benchmarking study was completed for both construction and OM&A costs by Charles Rivers Associates
- The CRA study concludes that costs per km for the East-West Tie line remain lower than the benchmarks used even under forecasting sensitivity tests

	NextBridge EWT (Designation Proceeding)	New EWT	Bruce to Milton	BC NTL	2014 WECC	AESO Project 1	AESO Project 2	Niagara
Voltage (kV)	230 kV	230 kV	500 kV	287 kV	230 kV	240 kV	240 kV	230 kV
Length (km)	400	450	180	344	450	450	450	76
Costs reported in \$	2012	2017	2012	2014	2014	2013	2013	2019
Total Cost Line Only (\$M)	419	711	327	664	653	1468	1333	119
Line Cost (adjusted to 2022 \$M)	489	741	430	871	866	1748	1590	126
2022 Cost M/km	1.22	1.65	2.39	2.53	1.92	3.89	3.53	1.66

Performance Measures

Performance Measures

- Given the nature of the East-West Tie line (i.e. new single asset, no customer delivery points) typical performance measures are not applicable that might be used to evaluate the performance of other transmitters
- NextBridge is proposing the following measures to best demonstrate its performance and address the performance standards for transmitters

Outcome	Performance Measure
Safety	0.00 OSHA Recordable Injuries Per Year
Financial Performance	Return on Equity
Public Policy Responsiveness	Applicable NERC Reliability Standards, such as FAC-003-4, Vegetation Compliance for NextBridge owned assets
Operational Excellence	OM&A Cost (\$ K) per circuit km
Operational Excellence	Average System Availability (%)